# MOVING FORWARD

# ANNUAL REPORT NIBC BANK N.V. 2016

NIBC

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# AT A GLANCE

## WHO WE ARE

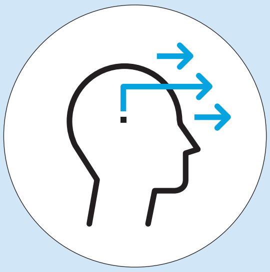
### OUR HERITAGE

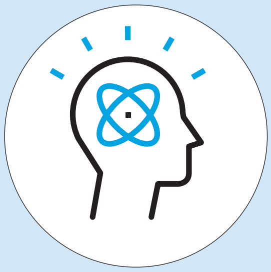
NIBC was founded in 1945 to finance the visionary entrepreneurs who helped rebuild the Netherlands after World War Two. Over time, we evolved from being a long-term lending bank to an enterprising bank offering advisory, financing and co-investing to our clients.

### OUR PURPOSE

**Making a difference**
at decisive moments

### OUR VALUES





**Professional**
Our in-depth sector knowledge, expert financial solutions and agile execution are the foundations of our success.

**Entrepeneurial**
We are a sound, enterprising bank focused on decisive moments in our clients' business and in life.

**Inventive**
We provide bespoke solutions and encourage our people to think creatively to meet clients' financial needs.

### OUR BUSINESS MODEL

CORPORATE BANKING | RETAIL BANKING

TREASURY & ALM

RISK MANAGEMENT/CORPORATE CENTER

## WHAT WE DO

### CORPORATE BANKING

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

### RETAIL BANKING

We offer residential mortgages, online savings and investment brokerage products. The mortgage offering includes value added products like buy-to-let and products tailored for self-employed entrepreneurs.

# OUR STRATEGY

Through our strategy we aim to create a sustainable franchise for the future by focusing on our greatest strengths. Our strategy is based on three pillars:

## FOCUS

We focus on transactions at decisive moments for our corporate and retail clients such as company takeovers, expansion abroad or buying a house. This means we are also firmly focused on the future, and work hard to anticipate trends and the impact they could have on our clients and their needs.

## ENTREPRENEURIAL CULTURE

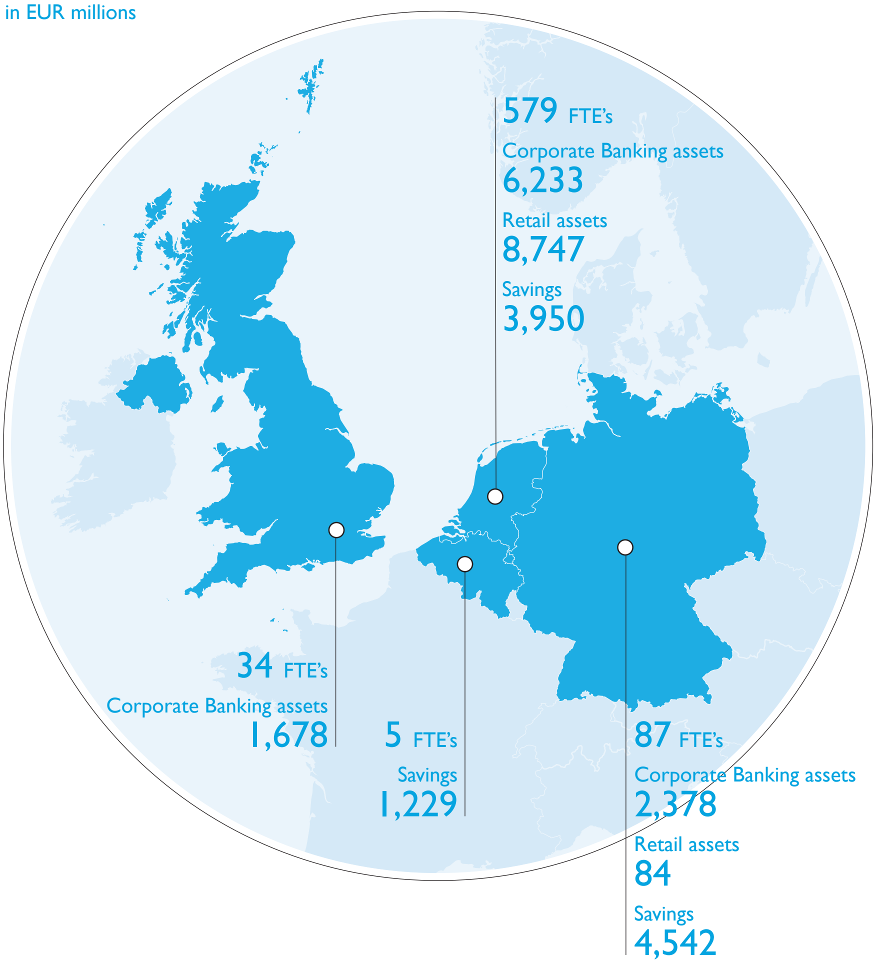
We nurture a culture that is professional, entrepreneurial and inventive, in which employees can develop mostly tailored products and services for our clients. We also cultivate what we call a 'Think YES' mentality, by actively stimulating our people's energy and creativity. It also means we look to develop an in-depth understanding of our clients' business and challenges.

## FLEXIBILITY

We are inventive and future-focused, so we can anticipate and adapt to our fast-changing world and seize on opportunities to meet our clients' needs. Our flexible culture, modest size and short reporting lines keep us close to our clients and to each other, so we can adapt swiftly to new trends.

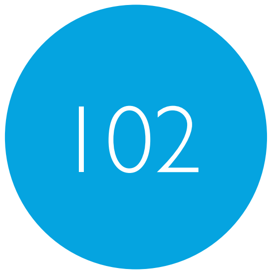
# OUR MARKETS

in EUR millions




## NET PROFIT

in EUR millions




## COMMERCIAL ASSETS

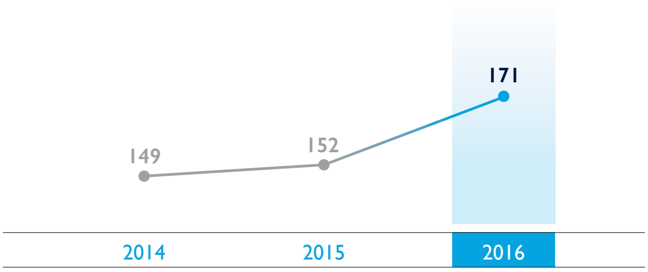
in EUR millions


## RATING

# SUSTAINABILITY

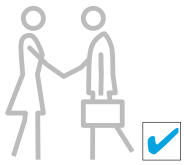
## TRANSPARENCY BENCHMARK

total out of 200 points




## CORPORATE LENDING NPS SCORE

+37%



2015: +40%    2014: +27%

## NIBC DIRECT CUSTOMER SURVEY SCORE

7.6

2015: 7.7    2014: 7.5

## % NEW CORP LOANS SCREENED

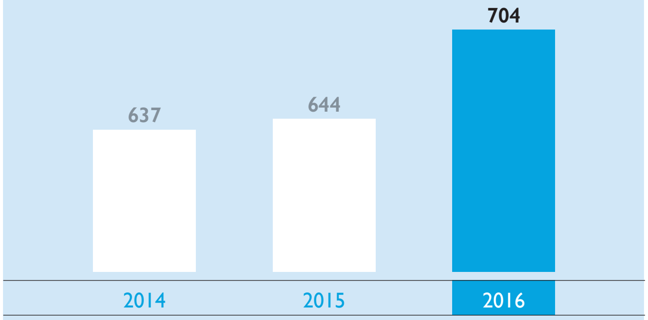
against sustainability framework

100%

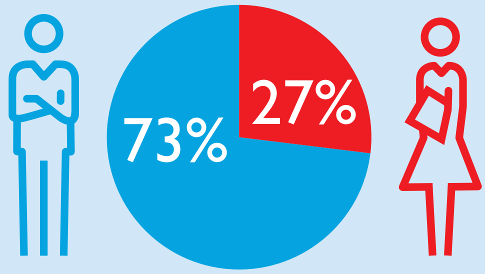
2015: 100%    2014: 100%

## NUMBER OF EMPLOYEES

(FTEs)




## MALE FEMALE RATIO

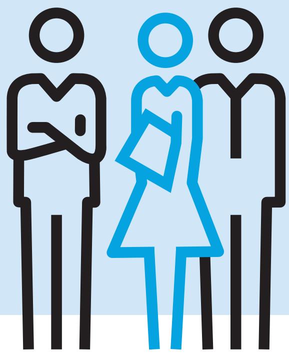



2015: 70/30    2014: 71/29

## EMPLOYEE ENGAGEMENT

80%

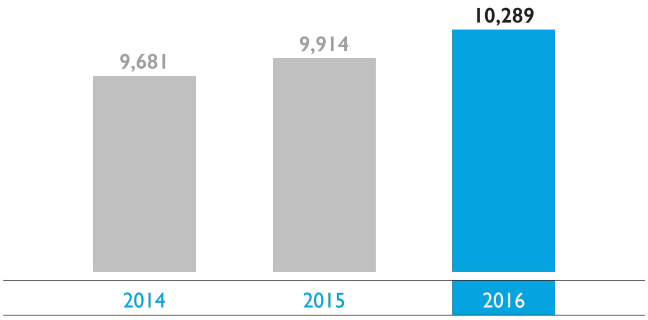
2015: 84%    2014: 85%



# FINANCIAL HIGHLIGHTS

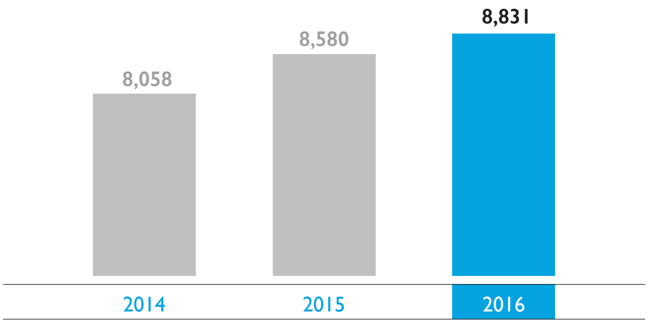
## CORPORATE BANKING ASSETS

in EUR millions



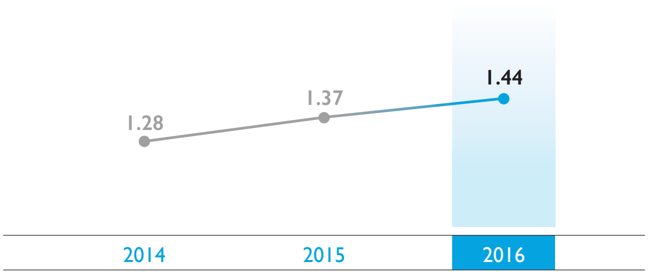

## MORTGAGES

in EUR millions



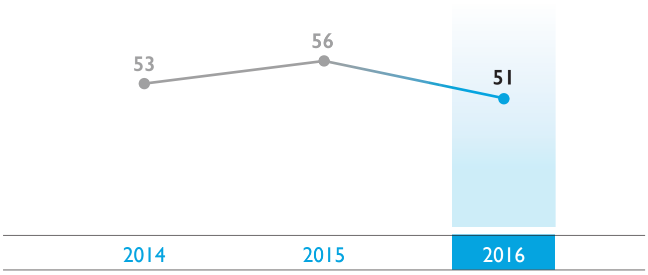

## NET INTEREST MARGIN

in %



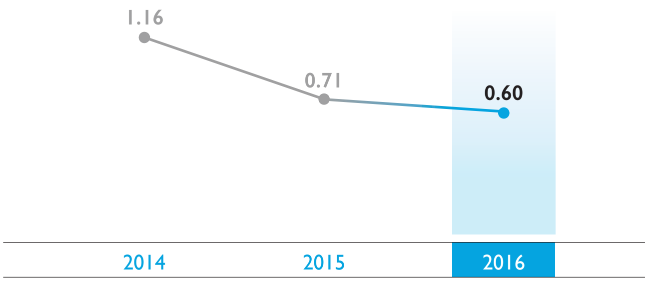

## COST INCOME RATIO

in %



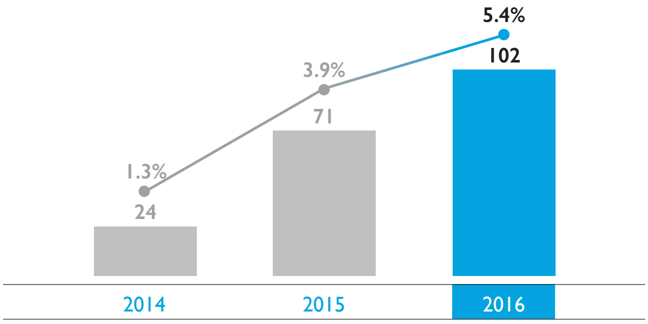

## COST OF RISK

in %



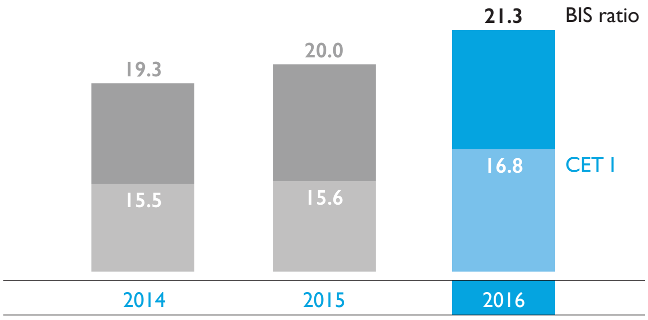

## RETURN ON EQUITY AND PROFIT

in EUR millions



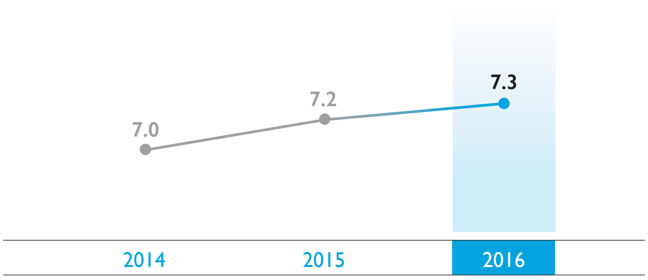

## SOLVENCY RATIOS

in %




## LEVERAGE RATIO

in %



# KEY FIGURES

| in EUR millions | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Earnings** | | | |
| Operating income | 381 | 316 | 295 |
| Operating expenses | 194 | 177 | 155 |
| Net profit attributable to parent shareholder | 102 | 71 | 24 |
| **Net profit before special items** | **104** | **71** | **42** |
| Net interest income | 306 | 286 | 247 |
| Net fee and commission income | 32 | 36 | 27 |
| Net trading income | 12 | (12) | 3 |
| Impairments | 57 | 63 | 93 |
| **Net interest margin**[1] | **1.44%** | **1.37%** | **1.28%** |
| Dividend payout ratio | 25% | 0% | 0% |
| Cost-to-income ratio | 51% | 56% | 53% |
| **Return on equity**[2] | **5.4%** | **3.9%** | **1.3%** |
| | | | |
| **Corporate & retail banking** | | | |
| Corporate banking assets (drawn & undrawn) | | | |
| Infrastructure & Renewables (I&R) | 1,618 | 1,990 | 2,070 |
| Industries & Manufacturing (I&M) | 1,514 | 1,266 | 1,118 |
| Shipping & Intermodal (S&I) | 1,512 | 1,537 | 1,357 |
| Commercial Real Estate (CRE) | 1,375 | 1,293 | 1,321 |
| Telecom, Media, Technology & Services (TMT&S) | 1,257 | 968 | 744 |
| Oil & Gas Services (O&G) | 1,233 | 1,282 | 1,316 |
| Food, Agri, Retail & Health (FAR&H) | 1,149 | 896 | 864 |
| **Total corporate loans (drawn & undrawn)** | **9,658** | **9,232** | **8,789** |
| Lease receivables | 123 | 221 | 361 |
| Investment loans | 246 | 161 | 154 |
| Equity investments | 262 | 300 | 377 |
| **Total corporate banking assets (drawn & undrawn)** | **10,289** | **9,914** | **9,681** |
| Corporate banking assets (drawn & undrawn) per region | | | |
| Netherlands | 3,849 | 3,304 | 2,983 |
| Germany | 2,378 | 2,229 | 2,293 |
| United Kingdom | 1,678 | 1,700 | 1,788 |
| Other | 2,384 | 2,681 | 2,617 |
| **Total corporate banking assets (drawn & undrawn)** | **10,289** | **9,914** | **9,681** |
| Retail banking assets | | | |
| Mortgages - Netherlands | 8,747 | 8,463 | 7,891 |
| Mortgages - Germany | 84 | 117 | 167 |
| **Total retail banking assets** | **8,831** | **8,580** | **8,058** |
| Retail banking savings | | | |
| Netherlands | 3,950 | 4,129 | 3,867 |
| Germany | 4,542 | 4,687 | 3,969 |
| Belgium | 1,229 | 1,200 | 1,121 |
| **Total retail banking savings** | **9,721** | **10,016** | **8,957** |
| | | | |
| **Asset quality** | | | |
| Risk-weighted assets | 10,109 | 10,162 | 9,646 |
| Cost of risk[3] | 0.60% | 0.71% | 1.16% |
| Impairment ratio[4] | 0.34% | 0.39% | 0.63% |

| in EUR millions | 2016 | 2015 | 2014 |
|---|---|---|---|
| NPL ratio[5] | 3.7% | 3.7% | 3.4% |
| Top-20 exposure / Common Equity Tier-1 | 87% | 86% | 104% |
| Exposure corporate loans that display an arrear > 90 days | 0.9% | 0.7% | 0.8% |
| Exposure residential mortgages that display an arrear > 90 days | 0.6% | 0.7% | 1.0% |
| Loan to value Dutch residential mortgages[6] | 85% | 85% | 82% |
| Loan to value BTL mortgages[6] | 56% | 61% | 0% |
| **Solvency information[7]** | | | |
| Shareholder's equity | 1,969 | 1,886 | 1,831 |
| Subordinated liabilities | 398 | 400 | 320 |
| Group capital base | 2,367 | 2,286 | 2,151 |
| Balance sheet total | 23,580 | 23,229 | 23,331 |
| Common Equity Tier-1 ratio | 16.8% | 15.6% | 15.5% |
| Tier-1 ratio | 16.8% | 15.6% | 15.5% |
| BIS ratio | 21.3% | 20.0% | 19.3% |
| Leverage ratio | 7.3% | 7.2% | 7.0% |
| **Funding & liquidity[8]** | | | |
| LCR | 124% | 201% | 128% |
| Nsfr | 112% | 113% | 108% |
| Loan-to-deposit ratio | 148% | 143% | 154% |
| Asset encumbrance ratio[9] | 29% | 29% | 35% |
| Retail savings / total funding | 45% | 48% | 45% |
| Secured funding / total funding | 22% | 24% | 29% |
| ESF / total funding | 6% | 6% | 5% |
| S&P rating & outlook | BBB- / Positive | BBB- / Stable | BBB- / Stable |
| Fitch rating & outlook | BBB- / Positive | BBB- / Stable | BBB- / Stable |
| **Other information** | | | |
| Assets under management for third parties | 1,538 | 1,703 | 1,732 |
| **Non-financial key figures[10]** | | | |
| Client & product responsibility | | | |
| NPS score Corporate Lending clients[11] | +37% | +40% | +27% |
| NIBC Direct customer survey score | 7.6 | 7.7 | 7.5 |
| % of new corporate loans screened against sustainability policy framework | 100% | 100% | 100% |
| Number of new clients with increased sustainibility risk assessment | 28 | 14 | 43 |
| Number of project finance transactions closed in line with Equator Principles | 2 | 6 | 9 |
| Fines or sanctions for non-compliance with laws and regulations[12] | 0 | 1 | 0 |
| **Employees** | | | |
| Total number of FTEs end of year | 704 | 644 | 637 |

| in EUR millions | 2016 | 2015 | 2014 |
|---|---|---|---|
| Absenteeism (trend total)[13] | 2.4% | 2.2% | 2.1% |
| Employee engagement | 80% | 84% | 85% |
| Training expenses per employee (EUR) | 2,070 | 2,540 | 1,759 |
| Male/female ratio | 73%/27% | 70%/30% | 71%/29% |
| Male/female ratio top management | 91%/9% | 90%/10% | 88%/12% |
| Employee turnover (employees started) | 24.3% | 15.2% | 19.7% |
| Employee turnover (employees left) | 14.9% | 15.2% | 13.2% |

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

# LETTER FROM THE CEO

Dear reader,

I am delighted to report another successful year for NIBC. We have expanded our share of the market and our offering, taking further steps to build our franchise among mid-sized corporates and consumer clients, while bringing our enterprising 'Think YES' attitude to niche sectors. Our performance, with growth of the loan portfolio, solid fee income and new products and services for our clients, has proven the success of our client-focused strategy. 2016 has been a year of Moving Forward for NIBC, and that is how we describe this exciting stage in our development and performance, leaving us well positioned to make a difference to our clients at their decisive moments for many years to come.

We have witnessed a remarkable transformation in our company's culture over the past two years, as demonstrated by our 'Think YES' campaign and still it continues to shift. It is equally heartening to see the new breed of talent joining our organisation; people who are curious and highly enterprising, and who greatly add to our wealth of expertise and professionalism. This spirit is the best guarantee of our ability to help clients navigate the challenges and opportunities they face in these uncertain times. The same can be said about our NIBC3, the set of three principles that underpins our approach to the market; Professional, Entrepreneurial and Inventive.

We are immensely proud of what we have accomplished in 2016 as we passed our first intermediate ambition level of EUR 100 million net profit, despite the combined challenges of slow growth across the Eurozone, the persistently low interest rate environment and ongoing geopolitical uncertainties. At the same time, we have increased our solid capital position, maintained our liquidity and further improved our cost income ratio and return on equity. Demonstrating the improvements made, we propose to pay out 25% of the 2016 net profit as dividend to our shareholders, restoring our dividend policy for the coming years.

Corporate Banking assets grew by 4% to EUR 10.3 billion on the back of EUR 3.2 billion of origination. On the retail side, mortgages increased by 3% to EUR 8.8 billion and retail savings displayed a managed outflow of 3%, decreasing from EUR 10 billion to EUR 9.7 billion.

In Corporate Banking, despite the fierce competition and challenging environment, we achieved solid growth through higher demand. As a smaller player in our markets, we have allowed ourselves to focus on sectors in which we have the greatest impact due to our expertise, and where we can offer products and maturities not available elsewhere. This has been a crucial means of differentiating ourselves in a market dominated by pricing pressures. This client-focused approach has led to a favourable net promoter score of +37%.

In June, we propelled ourselves forward with an expanded and highly complementary product suite through the acquisition of SNS Securities that has been renamed 'NIBC Markets'. Corporate Banking now serves the full balance sheet of its corporate clients, making it a truly unique midcap partner that is able to offer a full suite of investment banking services. Just one month later, we also launched BEEQUIP, a new equipment leasing venture focusing on small and medium enterprises in the infrastructure, earthmoving, construction and logistics sectors. In doing so we have become a new entrepreneurial player in this promising market, which has traditionally been dominated by a limited number of competitors.

In Retail Banking we secured our first mandate in 'originate-to-manage', which supports our offering of mortgages with longer maturities to our clients. Furthermore, the buy-to-let

Paulus de Wilt,
Chief Executive Officer
Chairman of the Board

Herman Dijkhuizen,
Chief Financial Officer
Member of the Board

Reinout van Riel,
Chief Risk Officer
Member of the Board

mortgage product we successfully launched in 2015 has continued to display strong growth in 2016, driving up the buy-to-let portfolio by almost EUR 250 million, to total more than EUR 360 million.

This willingness to follow our entrepreneurial instincts has also led us to intensify our focus on the Innovation Lab (Lab), our dedicated workshop for encouraging our people to think beyond their job responsibilities and embrace innovation. In 2016, the Lab organised a series of Inspiration Monday evening sessions to learn more about the latest trends in FinTech and on new ways to make innovation tangible within NIBC. Alongside this, we have sought to develop our leadership skills to make sure our people are working together as a team, and with an integrated approach. These efforts and more are being driven by our top management, which is dedicating its time and leadership to further strengthen the building blocks of our culture.

In 2016 we took further actions to make our operations more effective and agile. This encompasses among others the centralisation of certain functions and the outsourcing of our technical IT environment, which will be fully effectuated in the course of 2017.

The year also brought important changes to our top management team. In August we were pleased to welcome Reinout van Riel as successor of Petra van Hoeken as new Chief Risk Officer. In September Rob ten Heggeler, our Chief Client Officer, announced he would leave NIBC to co-establish a new investment company. Rob has been instrumental in enabling our business to grow, while his sincere commitment to the 'client first' motto has been an example for many, both internally and externally. We are delighted that he will remain closely involved with our clients as Senior Advisor to the Managing Board.

Following his decision, we decided to take this opportunity to revise the top structure of NIBC, so that we continue to safeguard and strengthen the commercial and client-facing roles by the promotion of Saskia Hovers, Michel Kant and Caroline Oosterbaan to executive commercial roles for Corporate Banking Sectors, Retail Banking and Corporate Banking Products as part of the newly formed Executive Committee (ExCo). With these new appointments, we have reinforced NIBC's client focus, which is a pivotal element of our strategy. Next to these appointments, the ExCo will also include the current three Managing Board members.

For 2017, I look forward to intensifying our efforts in the year ahead. I would like to thank our clients and other stakeholders for their continued trust and support. Special recognition also goes to our dedicated employees who have demonstrated their exceptional professionalism, entrepreneurial mind-set and inventiveness at every step of the way. We now have every reason to be optimistic about our future, and to work with confidence, as we make a difference for our clients at their most decisive moments in business and life.

The Hague, 7 March 2017

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

**Supporting growth ambitions of top vegetable grower**

"NIBC fully understood our needs and ambitions and acted very fast and professionally."

**Peter van Dijck**
Owner Van Dijk Groenteproducties

# REPORT OF THE MANAGING BOARD

## VISION AND STRATEGY

NIBC is an enterprising bank that makes a difference for its clients by focusing on their most decisive financial moments in business and in life. We share a 'Think YES' mentality, which shapes everything we do. As a professional, entrepreneurial and inventive financial partner, we look to build long-term relationships that are based on trust, transparency and reliability. We provide advice and debt, mezzanine, equity financing and capital market solutions to entrepreneurial businesses to support their plans and ambitions, and straightforward and transparent products and services for enterprising retail customers. NIBC also bridges the gap between corporate and retail clients and investor clients, matching financing solutions for clients with the most suitable investors. From our offices in The Hague, Frankfurt, Amsterdam, London and Brussels, we service around 600 businesses and nearly 400,000 retail clients.

In 2016, we successfully applied our client-focused approach in select market niches of the dynamic mid-sized segment with a wider service and product offering, to deliver a strong performance with increased top and bottom line earnings. We achieved growth in the corporate loan portfolio and a targeted expansion of our mortgage portfolio, especially in buy-to-let. Furthermore, we closed our first originate-to-manage contract with an institutional investor for mainstream, longer maturity, residential mortgages.

These results reflect that NIBC's strategy has entered a new stage, which we have named 'Moving Forward', and which is characterised by an intensification of our efforts to support our clients' growth through new solutions and ventures. These have been validated in the year by a solid *Net Promotor Score* (**NPS**) of +37%.

On 30 June we completed the acquisition of SNS Securities, which continues within the Corporate Banking business as NIBC Markets. This enables us to serve our core franchise of mid-market corporates in Northwestern Europe with a full suite of investment banking services including *equity capital markets* (**ECM**), *debt capital markets* (**DCM**), private placements, M&A, and equity research. This makes NIBC a full-service, mid-market bank in the Netherlands that is able to advise its clients, invest and provide lending from its balance sheet, and offer counsel and access to capital market solutions.

In January 2017, we announced that, despite their logical position in and their contribution to NIBC Markets, the activities of *NIBC Vermogensbeheerders Services* (**NVS**), *Third Party Execution* (**TPE**) and *Specialised Asset Management* (**SAM**) are no longer part of the strategic priorities of the Bank. Because of the current and expected scale and profitability, increasing regulatory pressures (ao MiFID II and EMIR) and the related deployment of scarce resources, for example for IT investments, it was decided that these services will be discontinued in the first half of 2017. In the best interest of the related employees and clients, options are being explored for transferring the NVS and SAM services to another market player. Within NIBC Markets, NIBC decided to give priority to ECM and DCM, Fixed Income and Equity Sales & Trading and Research. These business units are crucial to NIBC's strategic ambition. They offer NIBC's investor clients and corporate clients primary and secondary sales & trading solutions, and independent equity research.

In July, we launched a new equipment leasing company, BEEQUIP, which focuses on the financing of used equipment for medium and small enterprises in the infrastructure, earthmoving, construction and logistics sectors. We believe there is ample room in this sector for a new entrepreneurial player that differentiates itself by offering speed and flexibility.

In 2016, we initiated a new roadmap for IT excellence, including outsourcing a substantial part of our IT infrastructure to a third party. This is to ensure our systems will support business growth, stimulate innovation, and enable even better risk management in the coming years. It represents a step change in our efforts to professionalise our ICT organisation to make it more efficient and focused on user demands.

A further strengthening of our capital position was evidenced by a Basel III (fully-loaded) CET-1 ratio of 16.8%, and a BIS ratio of 21.3%, which are comfortably above the required SREP-levels as set at NIBC Holding level. Liquidity levels were solid due to our prudent approach to ongoing macroeconomic uncertainties. Our funding diversification also improved, as we maintained our retail savings at a relatively stable level and were active in the wholesale markets. Impairments include the full impact of the *Dutch Central Bank*'s (**DNB**) asset quality review performed on our corporate loan book in the second half of 2016.

## Embedding our corporate values

Our performance is rooted in the strength of our corporate values, which we refer to as the NIBC 3; professional, entrepreneurial and inventive. These values guide our everyday actions and decisions, and differentiate us in the market. As a bank built for entrepreneurs, we are committed to having a 'Think YES' mentality by being flexible, agile and by matching our clients' can-do attitude.

In 2016 we took these values a step further by making them the basis of our annual assessments and hiring. The NIBC3 principles are as follows:

1. **Professional**: Our in-depth sector knowledge, expert financial solutions and agile execution are the foundations of our success.

2. **Entrepreneurial**: We are a sound, enterprising bank focused on decisive moments in our clients' business and in life. Our clients require a bank that can respond quickly and flexibly to their needs.

3. **Inventive**: We provide bespoke solutions and encourage our people to think creatively to meet clients' financial needs.

## Our business model

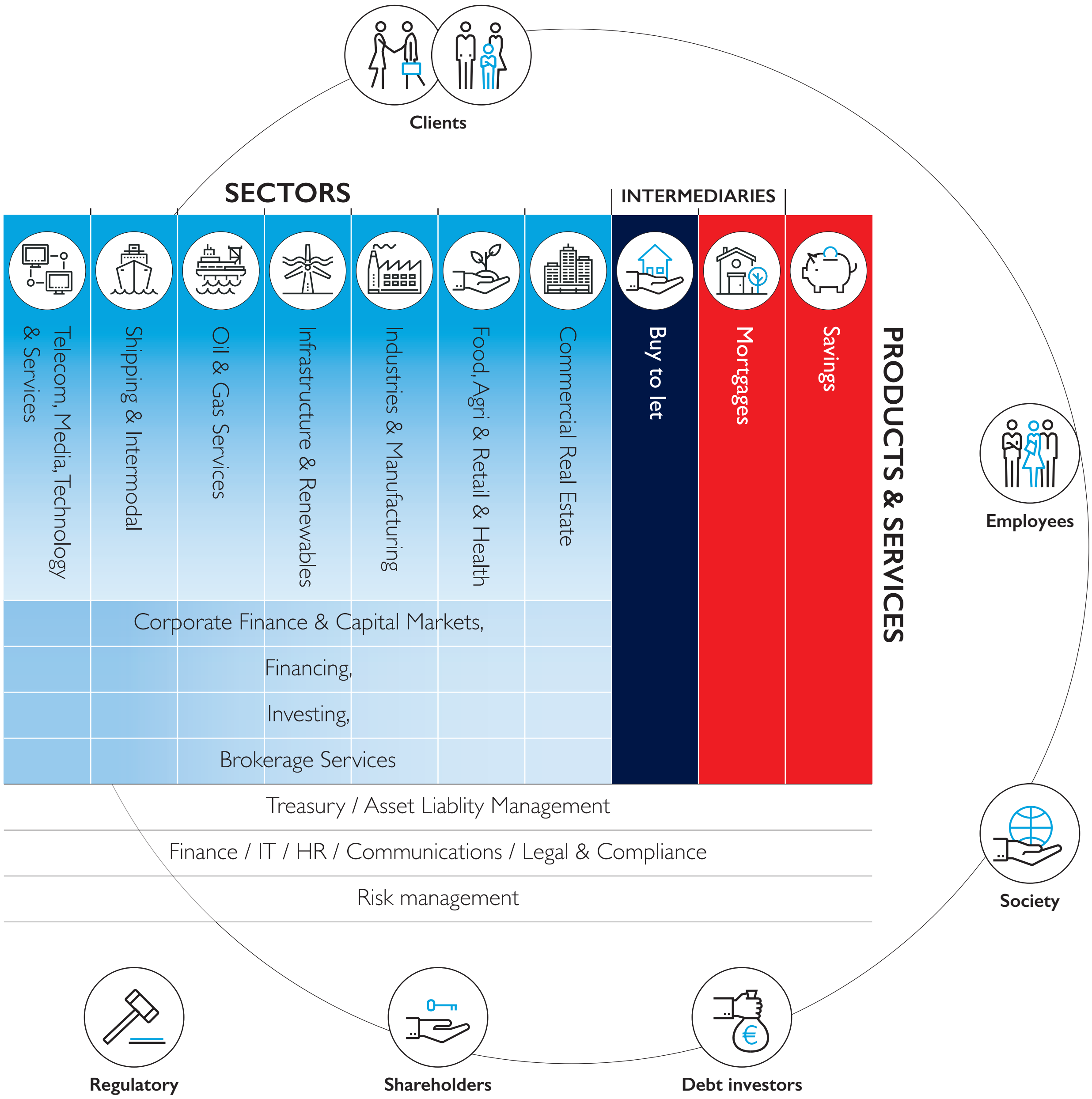
NIBC focuses on Corporate Banking and Retail Banking activities, and has made clear choices not to offer routine daily banking services such as current accounts or payments. In doing so, it is better able to concentrate on its clients' specific needs in its core markets.

Our client teams deliver a wide range of customised products and integrated solutions to clients across our select sectors. Furthermore, to continuously improve our services to clients we have established several advisory bodies in the Netherlands and Germany which bring strategic outside-in insights and advice on new opportunities and avenues for growth in the sectors and fields in which we excel.

Without the distractions, costs and liabilities of a large branch network, we serve our clients in a sharper and more dynamic way. We are also often a reliable partner to universal banks, as syndicate member of a transaction or as advisor to one of the deal parties. We consider our clients to be our most important ambassadors, which is why our NPS of +37% is so vitally important. In our retail franchise we are working with a large group of intermediaries.

We have demonstrated quality and stability of our earning capacity, as well as our ability to diversify our funding profile on the wholesale and retail markets.

**NIBC and its environment**




Through our **Corporate Banking** activities, we provide a wide range of customised products and solutions across select sectors and sub-sectors in which we have strong expertise and market positions among mid-sized businesses. We look to adjust our products based on our clients' individual needs, with highly bespoke and specific solutions in our niches, and by forging genuine long-term partnerships based on transparency and trust.

We offer advice and debt, mezzanine and equity financing solutions to mid-sized companies and entrepreneurs in the Netherlands, Germany and the United Kingdom. We do this either by deploying our own balance sheet or by raising funds in capital markets. With NIBC Markets, we are able to provide a further complementary product suite that includes advice to our clients for capital market transactions.

We serve various niches within the regional sectors: Commercial Real Estate; Food, Agri, Retail & Health; Industries & Manufacturing; Infrastructure & Renewables; and Telecom, Media, Technology & Services. Furthermore, we are active in several niches within two global sectors: Oil & Gas Services and Shipping & Intermodal.

In **Retail Banking** we offer residential mortgages, including buy-to-let mortgages and a new mortgage product for self-employed entrepreneurs that have been in business for more than one year, as well as online retail saving deposits via NIBC Direct in the Netherlands, Germany and Belgium, and brokerage services in Germany. Our retail offering process is mainly outsourced and fully automated, which enables us to deliver products and services in an efficient and cost-effective way. In 2016 we began a dual track strategy for mainstream mortgages that focuses on both origination for our own balance sheet and for those of institutional investors via originate-to-manage contracts.

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

**Risk Management** is the cornerstone of our sustainable growth strategy. Our activities in Corporate and Retail Banking demand that we take well-judged risks in a controlled environment to achieve our business objectives. Our risk management framework, which was further finetuned and rolled out across the business in 2016, provides a structured approach for managing risks as an integral part of our business teams' activities and transaction proposals.

Pivotal to this is that every member of NIBC staff is aware of the role they play in the value chain as part of a sound risk culture. NIBC works with a 'three lines of defence' model, which begins with the responsibility that each employee must take within the risk management framework. Our risk appetite, as determined by the Managing Board, defines the amount and type of risk the organisation is willing to accept.

We measure our performance across six pillars by means of quantitative and qualitative risk appetite statements. This risk appetite framework helps us implement and execute our strategy of sustainable growth, and provides guidance with regards to client interests, product suitability and compliance with laws and regulations. The risk appetite framework is rolled out throughout the organisation and incorporated in policies, procedures, limits and action plans. Key risk/performance indicators and early warning signals are used to monitor and control developments in the relevant areas.

Based on our risk management framework and defined risk appetite, the Risk Management function is able to secure a sound risk/return ratio.

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

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

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

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

**Operations & Facilities** and **Technology** are closely aligned with the business and focus on running the Bank's operational requirements and on change management. Special attention is given to the costs implicit in the ownership and maintenance of the service quality of systems and infrastructure. These departments work closely alongside the business to further improve the clients' experience when doing business with NIBC.

In 2016, we initiated a new roadmap for IT excellence, including outsourcing a substantial part of our IT infrastructure to a third party. This is to ensure our systems will support business growth, stimulate innovation, and enable even better risk management in the coming years. It represents a step change in our efforts to professionalise our ICT organisation to make it more efficient and focused on user demands.

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

**Strategy & Development** plays an active role in challenging the business with regards to new opportunities and important decisions and supporting the Managing Board with respect to strategic challenges.

In 2016, we have started two initiatives that enable us to further develop our organisation and service our clients more efficiently in the years ahead. *Innovation Lab* (**Lab**) and Process Improvement are two separate projects that are run independently from each other, but which are often closely coordinated and share events. Both schemes share the following objectives:

- To raise awareness via numerous campaigns for Fintech and innovation. For example, Inspiration Monday invites external speakers to present to our employees on inspiring topics and ideas;

- To bring about process improvements that help to eradicate redundant steps in processes or to automate manual labour. More than a hundred process improvements were implemented in 2016; and
- To build capabilities across the organisation by offering trainings on agile working methods and the introduction of Lean Six Sigma.

In 2017, the focus will be on the further implementation of ideas, such as the launch and application of the Innovation app, which acts as a funnel for inventive ideas.

## Markets and drivers

In Corporate Banking we mainly serve the dynamic medium-sized company segment in Northwestern Europe, where we have long-standing expertise. This segment includes companies with an annual turnover of between EUR 50 million and EUR 500 million that are often characterised by a common set of management practices and entrepreneurial values that mirror our own. There are an estimated 3,000 businesses within this category based in the Netherlands, while in Germany there are some 11,000 businesses with these same characteristics, as part of that country's *Mittelstand*.

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

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

Within the mid-market, our focus is on the supply chain economies of selected industries, in which our expertise is strongest. These include Commercial Real Estate, Food, Agri, Retail & Health; Industries & Manufacturing; Infrastructure & Renewables and Telecom, Media, Technology & Services in Northwestern Europe and Oil & Gas Services and Shipping & Intermodal globally.

On the retail side, our focus is on a wide group of consumers who actively manage their financial ambitions in mortgages and savings. We offer transparent products against a fair price and based on client needs, including those of entrepreneurs. In savings, we service clients with flexible and fixed term products with the same service levels for all products. In mortgages we focus on first and second time buyers and switchers, in addition to the professional and semi-professional investors with our buy-to-let products and brokerage and investment products. In 2016, we expanded our mortgage portfolio offering with a new product for self employed entrepreneurs.

**Growth drivers**

Growth in demand for our products and services is closely linked to the various stages of the economic cycle and of our respective sectors. During periods of strong growth clients often approach NIBC in the context of major financial decisions, such as mergers & acquisitions, major investments, share listings and other transformational moments. During slower growth periods, we help clients facing difficulties and looking to make strategic adjustments to their operations and balance sheet.

In every case we offer a coordinated multi-product approach combining advice, financing and investment, to provide clear solutions to these complex challenges. Demand is also driven by the need for products and solutions that are not available elsewhere and which we tailor to the individual requirements of the client. This approach is combined with fast decision-making and processing, deep-seated sector expertise, and knowledgeable banking experts.

On the retail side, demand is linked to economic circumstances such as interest rates and consumer confidence. Mortgage demand has developed positively on the back of an improved residential real estate market in the Netherlands. The savings volume is relatively stable despite the historical low interest rates. The latter has resulted in lower switching behavior (more "sticky" savings) of retail savings clients.

Our relatively stable volume of savings is partly the result of the negative pressure on absolute rates. In the current low interest rate environment it is less feasible for banks to pay a significant mark-up on the rates paid by the *European Central Bank* (**ECB**).

**SWOT analysis**

As part of our annual planning cycle, we assess NIBC's position in relation to the opportunities and challenges in its markets by gathering input from a variety of stakeholders. Here we present an overview of our assessment of NIBC's main strengths, weaknesses, opportunities and threats as of year-end 2016.

| STRENGTHS | WEAKNESSES |
|---|---|
| ■ Clear strategic focus and in-depth knowledge of specific market segments. | ■ Impact of NIBC's credit rating on market access in volatile capital markets, although now BBB-; Positive Outlook. |
| ■ Employees who are professional, entrepreneurial, inventive and highly engaged (+80%). | ■ Current profitability and return on equity, although significantly improved. |
| ■ Flexibility to adapt to a changing world and grasp the opportunities this presents. | ■ Limited product suite. |
| ■ Continued client satisfaction with a NPS of +37% for corporate clients and customer satisfaction score of 7.6. | ■ No direct access to USD funding and interdependency on cross currency swaps. |
| ■ Solid financial foundations. | |
| ■ Strong cost/income ratio and strict cost control. | |

| OPPORTUNITIES | THREATS |
|---|---|
| ■ Economic recovery and return of client confidence especially in the Netherlands and Germany. | ■ Exposure to Oil & Gas Services and Shipping & Intermodal in an uncertain environment. Our exposure to these sectors is currently 6% and 8% respectively of our total exposure. |
| ■ We have a strong leverage ratio and capital base. We can seek opportunities as a consequence of the deleveraging in the sector. | ■ Geopolitical situation; Brexit, US political situation and upcoming EU member state elections |
| ■ Need for alternative forms of financing. | ■ Continued low and/or negative interest rate environment. |
| ■ Fast-track growth and focus on German mid-sized market. | ■ More complex regulatory environment and rapidly changing requirements. |
| ■ Clients' need for support in their efforts to adapt to a changing world. | ■ Current uncertainty in the Netherlands with respect to MREL and the treatment of senior unsecured bonds. |
| ■ Reduction of certain large pre-crisis exposures including repricing. | ■ Ongoing discussion regarding the extent of ESF-coverage in Germany |
| ■ New products and services, eg. Beequip, originate-to-manage. | ■ Low risk profile, low returns in our current business positioning. |

## Strategy and objectives

The NIBC strategy is focused on creating value during at clients' most decisive moments. Through this strategy we achieve our objective of developing a sustainable franchise with strong solvency, ample liquidity and profitable growth.

To best serve the interest of all our stakeholders over the long term, our strategy seeks to strike a sustainable balance between risk and return, while managing costs. This is supported by our risk management approach, which ensures responsible banking practices that are in line with regulatory requirements and ethical, environmental and social standards.

The strategy comprises three pillars that give us distinct advantages in our markets: focus, entrepreneurial culture and flexibility. These qualities enable us to work towards long-term customer relationships, and sustainability and profitable growth, while safeguarding our balance sheet.

1. **Focus**
   We focus on transactions at decisive moments for our corporate and retail clients such as company takeovers, expansion abroad or buying a house. This means we are also firmly

focused on the future, and work hard to anticipate trends and the impact they could have on our clients and their needs.

The success of our client focus is reflected in Corporate Banking's NPS, which reflects the value that clients place on our relationship and account management, our agility and sector and client knowledge. In 2016, we continued to achieve a solid NPS of +37% (previously +40%).

2. **Entrepreneurial culture**
   We nurture a culture that is professional, entrepreneurial and inventive, in which employees can develop tailored products and services for our clients. We also cultivate what we call a 'Think YES' mentality, by actively stimulating our people's energy and creativity. To achieve this we look to develop an in-depth understanding of our clients' business and challenges. We further stimulate our entrepreneurial culture through initiatives such as the Lab, which encourages everyone to think beyond their current job responsibilities.

3. **Flexibility**
   We are inventive and future-focused, so we are able to anticipate and adapt to our fast-changing world and seize on opportunities to meet our clients' needs. Our flexible culture, modest size and short reporting lines keep us close to our clients and to each other, so we can adapt swiftly to new trends.

## Targets and performance

The targets for the period 2015 to 2017 were articulated in our Annual Report 2014. These were set based on the outcome of the annual Strategy Day of the Supervisory Board and Managing Board, which was held in June 2014.

In the table below, we have assessed NIBC's performance against these and other relevant targets, and find that overall, we are ahead of plan. During the Strategy Day held in June 2016, we laid the foundations for new targets for the period 2018-2020. These will be finalised in the Strategy Day in June 2017 and we will report on these targets from 2017 onwards. The assessment below is for NIBC Bank excluding the recently-acquired NIBC Markets business, unless stated otherwise.

| | TARGETS | PERFORMANCE |
|---|---|---|
| | Franchise | |
| + | Be a reliable and client-focused bank for both our corporate and retail clients. | Overall reflected by our NPS for Corporate and Retail Banking. |
| + | Maintain a positive NPS (above +20%) in Corporate Banking and high customer satisfaction with NIBC Direct (above 7.5) in Retail Banking and thus retain our position in the top quartile within the financial sector. | Current NPS is +37%, based on the response of 197 clients, while our customer satisfaction survey result for NIBC Direct is 7.6; both well above targets. |
| + | Achieve a medium-term average corporate loan portfolio above EUR 9 billion, drawn and undrawn, and origination levels above EUR 2.5 billion annually, in our home markets. | At year end the drawn and undrawn portfolio amounts to EUR 9.7 billion, with origination at EUR 3.2 billion; both well above targets. |
| +/- | Grow our loan, equity and advisory business. | Net fee and commission income decreased by 11% to EUR 32 million. The 2015 figure included high investment management fees driven by relatively high performance fees. With the acquisition of SNS Securities, we now provide the complete financial life cycle for corporate clients: from advising, structuring, and financing to co-investing and capital markets solutions. |
| +/- | Achieve a medium-term average mortgage portfolio above EUR 9 billion. | Our mortgage portfolio amounted to EUR 8.8 billion, supported by origination of EUR 1.1 billion mainly on the back our buy-to-let portfolio which increased to nearly EUR 0.4 billion. |
| +/- | Introduce two new retail client (mortgage or other) products annually according to customer demand and interest. | The mortgage offering for self-employed individuals was extended to entrepreneurs who have been in business for only one year. We also introduced the possibility for investors to originate under the NIBC Direct label, enabling us to offer attractive rates to clients with longer tenures. |

| | TARGETS | PERFORMANCE |
|---|---|---|
| + | Balance the growth of our retail savings over the three countries where NIBC is active. | Within our appetite with managed outflow.<br><br>NL: EUR 4.0 billion; DE: EUR 4.5 billion; BE: EUR 1.2 billion. |
| | Capital | |
| + | Be a creditworthy partner for all our stakeholders, reflected in ratios such as a *Common Equity Tier-1 ratio* (**CET-1**) above 12% and *leverage ratio* (**LVR**) over 5%, all based on healthy growth of our client portfolios. | All in line with our ambition, CET-1 at year end 2016 at 16.8%, well above the required SREP-level as set for NIBC Holding and LVR at 7.3%. |
| + | Continue to invest in our people and further develop our culture to support NIBC's corporate values: professional, entrepreneurial and inventive.<br><br>In this context, keep client satisfaction and employee engagement levels, as measured by our annual survey, at a minimum of 85% over time. | Employee engagement score was 80%; 4% below previous year but still high. This partly reflects the pressure on the organisation due to many projects and the re-organisation of the IT department. Training costs amounted to approximately EUR 2,100 per employee, which is close to the top quartile of the financial services benchmark. |
| - | Continue to create a more diverse workplace by increasing the number of women in senior management positions, with a medium-term target to increase this above 30%. We are lagging on this target, so have now set it for 2016/2017. | The gender diversity remained flat at 27% female staff, which continues to be below our ambition level. The newly introduced Executive Committee consists of 2 women and 4 men. To address gender imbalances, we have introduced engagements aimed at helping to retain and further develop talented female employees. In 2016, we also launched the NIBC Women's Network. |
| | **Sustainable profitability** | |
| + | The qualitatively and quantitatively sound growth of our corporate and retail portfolios, our private equity portfolios and our fee business will result in further sustainable growth in operating income in the coming years. | Operating income increased 21% to EUR 381 million, driven by the strong growth of the corporate and retail franchises. Net interest income increased 7% to EUR 306 million. |
| + | In addition, we will keep our cost-to-income ratio between 47% and 54% and work to reduce our impairment levels and retain these in line with market developments. | Operating expenses increased +10% to EUR 194 million, driven by EUR 11 million higher regulatory charges and EUR 11 million from the acquisition of SNS Securities. The overall cost-to-income ratio decreased from 56% to 51%. |
| + | All the measures taken should result in sustainable growth of our net profit and restore return to shareholders to the range of 8-10%, with an intermediate net profit goal of EUR 100 million. | We attained our intermediate goal of EUR 100 million net profit, with an improvement of the return on equity from 3.9% to 5.4% including special items. |

| TARGETS | PERFORMANCE |
|---|---|
| **Liquidity / Funding** | |
| + To further improve our *Standard & Poor's* (**S&P**) and Fitch rating from BBB- with a Positive Outlook to BBB flat in the medium term. | In June, Fitch revised NIBC's outlook to Positive, mainly because of structurally improving earnings.<br><br>In October, S&P also revised NIBC's outlook to Positive, mainly as the result of a pro-actively balanced funding profile and a funding mix that is better aligned to our operating model. |
| + Our liquidity is managed within the bandwidth of the LCR and NSFR being above 100%. Our internal appetite is set well above these external targets. The targets for the coming years are for further optimised funding diversification and managing interest rate risk. This will result in building a curve for both our pass-through covered bond and unsecured funding by issuing benchmark transactions.<br><br>The target loan-to-deposit ratio is between160-140% with an asset encumbrance of below 30% at end-2016. | The LCR amounted to 124% and the NSFR to 112%. We issued a EUR 300 million senior unsecured bond in March, followed by an additional tap of EUR 200 million in September. In May we issued our fourth conditional pass-through covered bond, our first with a maturity of 10 years. Retail savings decreased by 3% to EUR 9.7 billion, in a managed outflow.<br><br>The loan to deposit ratio at year end was 148% (2015: 143%) and the asset encumbrance 29% (2015: 29%). |
| **Asset Quality** | |
| + Our business model for the Corporate Bank, with a focus on sub-investment grade clients but with well-structured and secured facilities, can lead to situations where temporary financial concessions are needed. We remain committed to our clients through downturns if we firmly believe in their underlying business and financial performance. We are working to reduce our impairment levels sustainably below 40 basis points. | Our impairment level in 2016 was 34 basis points.<br><br>Our impairments in the income statement decreased by 10% and fully include the impact from the asset quality review on our corporate loan book by our regulator. We still see some challenges in certain markets we are active in, especially Oil & Gas and dry bulk shipping. |
| + We strive to keep our impairments on retail banking assets below our risk appetite level of 15 basis points. | In 2016, we saw impairments at a level of 6 basis points (2015: 11 basis points) on our total mortgage book. This is well within our agreed appetite. |

## Outlook

In the months ahead we will continue to add value to our expanding client base with innovative solutions, speed and reliability that our clients can count on. This includes our newly integrated offering through NIBC Markets, which strengthens our position as the go-to partner for decisive moments. We will increase our attention on promising sectors and sub-sectors where we see good opportunities to add value for clients. Due to market conditions, there are likely to be fewer opportunities in Oil & Gas Services and Shipping & Intermodal, although we will continue to help our clients navigate the challenging environment.

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

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

In January 2017, we announced that, despite their logical position in and their contribution to NIBC Markets, the activities of NIBC Vermogensbeheerders Services, Third Party Execution and Specialised Asset Management are no longer part of the strategic priorities of NIBC. In the best interest of our people and our clients, we are exploring options for transferring the NVS and SAM services to market players.

We expect retail market conditions in 2017 to remain volatile, with consumers willing to be more open towards alternative investment opportunities and consumption. Our approach will be to continue exploring opportunities in underserviced areas of the market with new propositions, while expanding our product portfolio and striking new partnerships. Our focus will also be on removing remaining frictions from our customer journey and to improve the overall experience. This will include a further integration of our multichannel delivery, that will make us more accessible on different devices, based on customer preferences.

# FINANCIAL PERFORMANCE

## Profit & loss

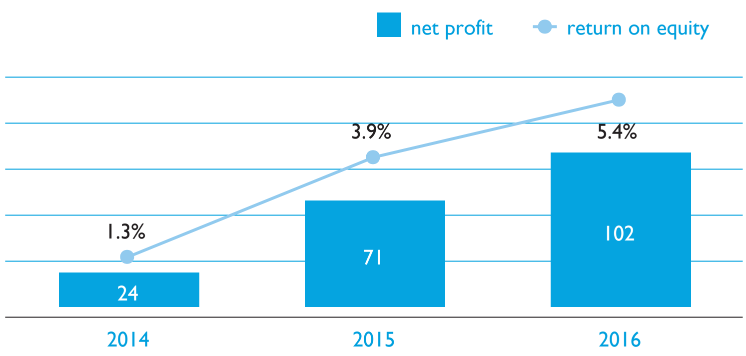
| *in EUR millions* | 2016 | | | 2015 | % |
|---|---|---|---|---|---|
| | NIBC | Markets[1] | Total | | |
| Net interest income | 306 | 0 | 306 | 286 | 7% |
| Net fee and commission income | 28 | 4 | 32 | 36 | -11% |
| Investment Income | 31 | | 31 | 4 | |
| Net trading income | 7 | 5 | 12 | (12) | |
| Other operating income | 0 | | 0 | 1 | |
| Operating income | 372 | 9 | 381 | 316 | *21%* |
| Payroll Expenses | 89 | 7 | 96 | 91 | 5% |
| Other operational expenses | 73 | 4 | 77 | 76 | *1%* |
| Depreciation and amortisation | 7 | | 7 | 6 | *17%* |
| Resolution Levy & DGS | 15 | | 15 | 4 | |
| Operating Expenses | 183 | 11 | 194 | 177 | *10%* |
| Impairments of financial assets | 57 | | 57 | 63 | -10% |
| Profit before tax | 131 | (2) | 129 | 77 | *68%* |
| Tax | 26 | (1) | 25 | 6 | |
| Profit after tax | 105 | (2) | 104 | 71 | *46%* |
| Special items (after tax) | (1) | (1) | (2) | 0 | |
| **Net Profit NIBC Bank** | **104** | **(2)** | **102** | **71** | ***44%*** |

1 Period per 1 July 2016 - 31 December 2016.

*The income statement in the table above differs from that presented in the consolidated financial statements due to the treatment of non-financial companies controlled by NIBC and the treatment of "Special items" in 2016, explained further in this section. This only affects the presentation of the income statement and not the bottom-line net profit figures. See note 1 to the consolidated financial statements for more information and a full reconciliation between the two presentations of the income statement.*

*Small differences are possible in this table due to rounding.*

### Profitability Bank (EUR millions)




Our profitability strongly improved in 2016, with both net profit and return on equity displaying substantial growth to respectively EUR 102 million (+44%) and 5.4% (+38%). This performance was driven by both our Corporate Banking and Retail Banking activities, continuously developing and growing the client franchise in challenging market circumstances. Origination of loans amounted to EUR 3.2 billion leading to net growth of the corporate banking assets by 0.4 billion (+4%). The mortgage portfolio increased by EUR 0.2 billion (+3%) on the back of EUR 1.1 billion of origination. We continued to decrease our average funding rate in 2016 and our solvency and liquidity ratios remained solid, well above the minimum regulatory requirements. Both Fitch and S&P have improved the outlook on our BBB- ratings from 'stable' to 'positive'.

### Key figures

| *in EUR millions* | 2016 | 2015 |
|---|---|---|
| Return on equity | 5.4% | 3.9% |
| Net interest margin | 1.44% | 1.37% |
| Cost/income ratio | 51% | 56% |
| Risk weighted assets | 10,109 | 10,162 |
| Cost of risk | 0.60% | 0.71% |
| Loan to deposit ratio | 148% | 143% |
| Asset encumberance ratio | 29% | 29% |
| Fully loaded solvency ratios | | |
| CET-I ratio | 16.8% | 15.6% |
| BIS ratio | 21.3% | 20.0% |
| Liquidity ratios | | |
| lcr | 124% | 201% |
| nsfr | 112% | 113% |
| Number of FTEs | 704 | 644 |
| Rating | | |
| Standard & Poor's | Bbb- *positive* | Bbb- *stable* |
| Fitch | Bbb- *positive* | Bbb- *stable* |

The following section describes the financial developments and analysis of the performance of NIBC for the financial year 2016.

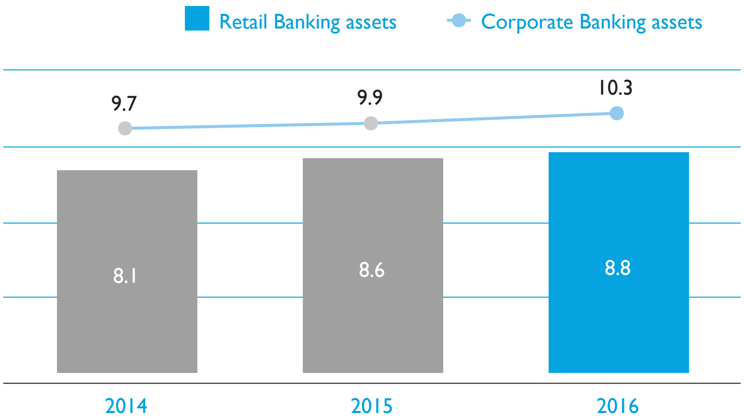
## Operating income

Operating income further increased in 2016 from EUR 316 million to EUR 381 million, an increase of 21% (+18% excluding NIBC Markets). The increase of operating income was mainly driven by the strong underlying growth of the corporate and retail franchises, with operating income from Corporate Banking increasing by 24% and from Retail Banking by 7%.

### Net interest income

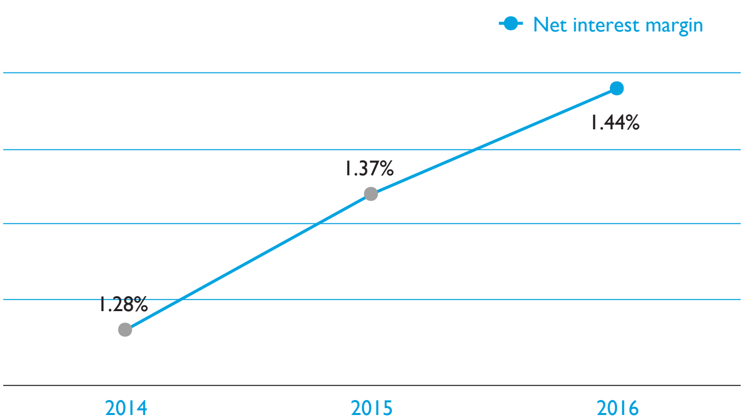
Net interest income continued to increase in 2016 to EUR 306 million from EUR 286 million in 2015, an increase of 7%. The growth of net interest income was driven by the increase of our client business in both Corporate and Retail Banking, in combination with the improvement of our funding profile:

**Corporate and Retail Banking assets (EUR billion)**

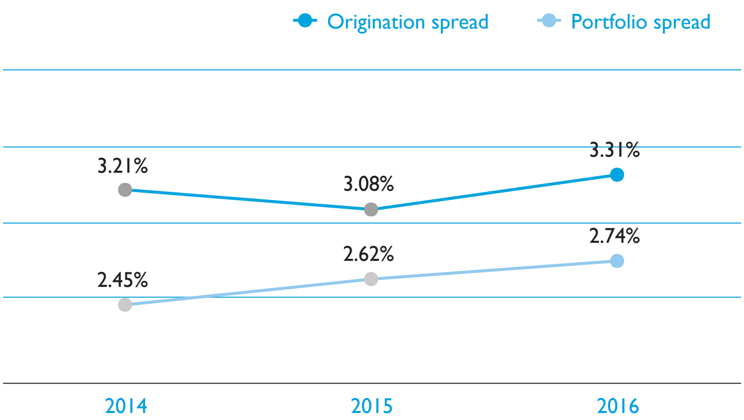



- Our corporate banking assets increased in 2016 by 4% to EUR 10.3 billion from EUR 9.9 billion, driven by loan origination of EUR 3.2 billion, more than compensating re- and prepayments. The positive impact from the portfolio increase on net interest income was further strengthened by a positive development of the origination spreads, leading to an increase of the average portfolio spread by 5% from 262 basis points to 274 basis points in 2016;
- Our mortgage portfolio grew by 3% in 2016 to EUR 8.8 billion from EUR 8.6 billion, driven by origination of EUR 1.1 billion. This includes an increase of our buy-to-let portfolio by nearly EUR 250 million to approximately EUR 360 million; and
- Our funding profile combined with, on average, significant lower funding costs, also contributed to the increase of net interest income in 2016. Our average funding spread above base decreased by 21 basis points in 2016, following a decrease of 8 basis points in 2015.

**Net interest margin**



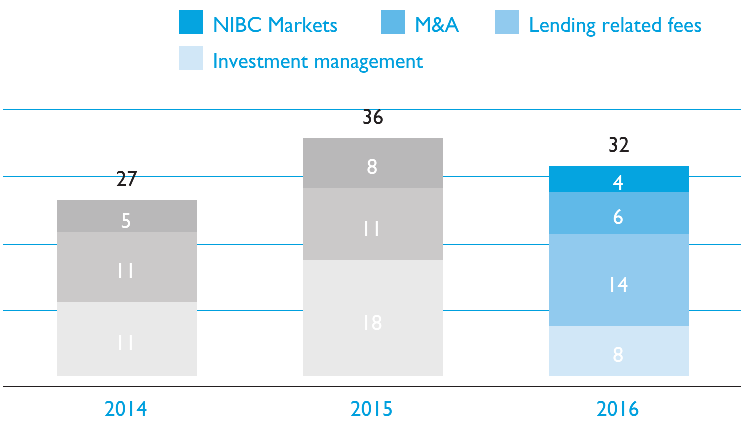
**Spreads corporate loans**




## Net fee and commission income

Net fee and commission income decreased by 11% in 2016, after an increase of 33% in 2015. The 2015 figure included high investment management fees driven by relatively high performance fees. Excluding the investment management fees, net fee and commission income increased by 33% in 2016 from EUR 18 million to EUR 24 million. The 2016 figure includes EUR 4 million from NIBC Markets. The other fees remained relatively stable in 2016 compared to 2015. The fees from M&A/Advisory displayed a decrease of EUR 2 million and the lending related fees, including fees from distribution and structuring displayed an increase by the same amount.

**Net fee and commission income (EUR million)**




## Investment income

Investment income improved from EUR 4 million in 2015 to EUR 31 million in 2016. In 2016 the underlying equity investment portfolio performed well, on the back of a more positive sentiment in the equity markets. The lower level of investment income in 2015 relates to two significant losses on equity investments, including a write-off of EUR 20 million on a non-financial company transferred to 'held for sale' and eventually sold in 2016.

## Net trading income

Net trading income in 2016 amounted to a gain of EUR 12 million, which compares to a loss of EUR 12 million in the previous year. The main reasons behind the improvement of EUR 24 million are the following:

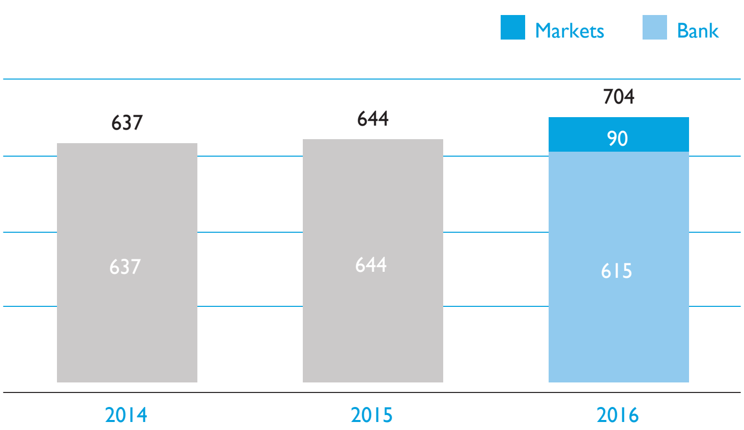
- Until 31 December 2015, own credit related fair value changes relating to the portion of our funding portfolio accounted for at *fair value through profit or loss* (**FVtPL**) were booked in net trading income. As of 1 January 2016, following our early application of 'IFRS 9 - own-credit risk', these fair value changes are accounted for in comprehensive income. The amount in net trading income in 2015 attributable to own credit risk related fair value changes of our funding portfolio is a loss of EUR 17 million;
- The newly acquired NIBC Markets (rebranded from SNS Securities) on 30 June 2016, contributed income of EUR 5 million to net trading income;
- The revaluation (including credit losses) of our mortgage book accounted for at FVtPL amounted to a gain of EUR 9 million compared to a gain of EUR 3 million in 2015; and
- In 2016 no revenues from repurchased funding were realized compared to gains of EUR 3 million in 2015.

## Operating expenses

The increase of EUR 17 million in operating expenses (+10%), from EUR 177 million to EUR 194 million, is driven by EUR 11 million higher regulatory charges, which increased from EUR 4 million to EUR 15 million and EUR 11 million operating expenses from the consolidation of SNS Securities (NIBC Markets) as of 1 July 2016. Excluding these items operating expenses decreased by EUR 5 million in 2016, following lower payroll expenses (EUR 2 million) and lower other operating expenses (EUR 3 million).

Excluding the payroll expenses of NIBC Markets of EUR 7 million in 2016, payroll expenses decreased by EUR 2 million to EUR 89 million in 2016 from EUR 91 million in 2015. This decrease was mainly driven by a decrease of the number of FTEs by 29 to 615 in 2016 (excluding NIBC Markets) from 644 in 2015, predominantly in the support areas. The decrease of FTEs results among others from the outsourcing of the technical IT-environment, further automation and efficiency, the centralisation of certain functions and the sale of a run-off portfolio of the former Gallinat AG (making the FTEs managing this portfolio redundant). In the commercial areas the number of FTEs displayed a slight increase.

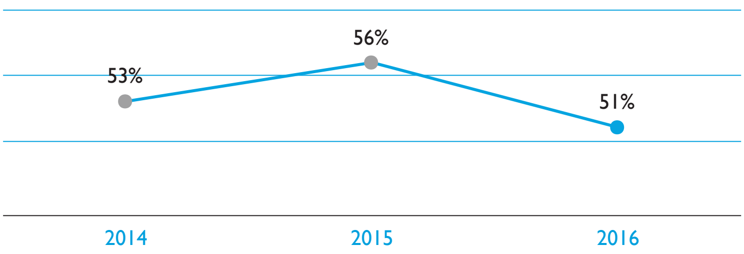
**FTE development**




Excluding the other operating expenses in 2016 of NIBC Markets of EUR 4 million, other operating expenses decreased by EUR 3 million to EUR 73 million in 2016 from EUR 76 million in 2015. The decrease is mainly driven by lower expenses on external servicers in Retail Banking and lower expenses for external advisors.

Our cost/income ratio improved from 56% in 2015 to 51% in 2016. In 2016 this ratio excludes EUR 14 million of revenues and EUR 9 million of operating expenses included in the income statement in the line-item 'Special items' explained later in this section. Including the special items the cost/income ratio would still amount to 51%.

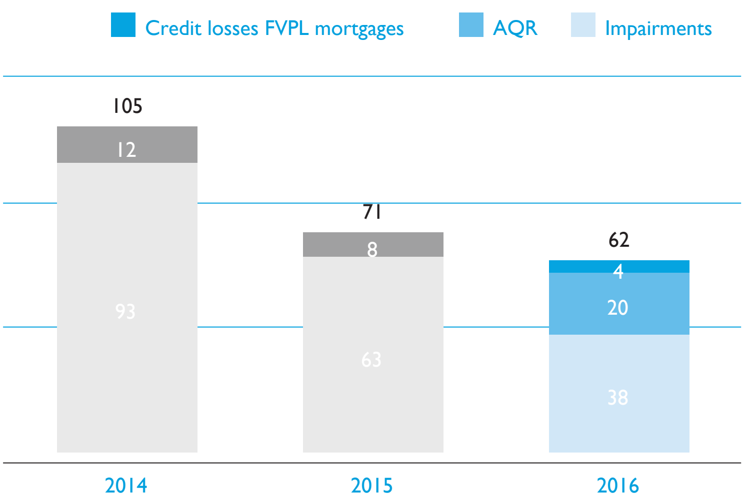
**Cost/income ratio**




## Impairments on financial assets

Impairments decreased by 10% to EUR 57 million in 2016 from EUR 63 million in 2015. The impairment level for 2016 still reflects the fragile and volatile economic environment, especially in Oil & Gas and the dry bulk shipping subsector. Furthermore we adjusted the calculation of the *Incurred but not reported* (**IBNR**) provision, resulting in an additional charge of EUR 5 million. The 2016 impairments on financial assets also include the results of an asset quality review on the corporate loan book, conducted by the regulator during the second half of the year. The *Asset Quality Review* (**AQR**) led to additional impairments in 2016 of EUR 20 million.

**Impairments of financial assets**




## Tax

Tax in 2016 amounts to EUR 25 million, implying an effective tax rate of 19% of the profit before tax and before special items. The effective tax rate lies below the Dutch corporate tax rate of 25%. This mainly relates to the impact of income not subject to tax, predominately from equity investments and investments in associates. Income from these investments is tax exempt under Dutch tax law if NIBC has a stake of more than 5%.

Including special items the effective tax rate is 15%. This additional decrease of the effective tax rate mainly results from the negative goodwill on the acquisition of SNS Securities being tax exempt.

## Net profit before special items

NIBC's net profit before special items increased by 46% from EUR 71 million in 2015 to EUR 104 million in 2016. This substantial improvement, driven by growth of our operating income, mainly reflects the strong foundations of our client income, displayed in 2016 by an increase of net interest income and investment income and by solid net fee income. The increase of operating income more than compensated the increase of operating expenses from higher regulatory charges and the consolidation of NIBC Markets, leading to a further improvement of our cost income ratio from 56% to 51%.

## Special items

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

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

## Balance sheet

| *in EUR millions* | 31 December 2016 | 31 December 2015 | *in EUR millions* | 31 December 2016 | 31 December 2015 |
|---|---|---|---|---|---|
| Cash and Banks | 2,346 | 2,491 | Retail funding | 9,721 | 10,016 |
| Loans | 8,380 | 7,790 | Funding from securitised mortgages | 1,337 | 2,062 |
| Lease receivables | 123 | 212 | Covered bonds | 2,028 | 1,513 |
| Residential mortgages | 9,020 | 8,767 | ESF | 1,230 | 1,127 |
| Debt investments | 1,375 | 1,377 | All other senior funding | 4,650 | 3,735 |
| Equity investments | 252 | 277 | Tier-1 & subordinated funding | 398 | 400 |
| Derivatives | 1,817 | 2,151 | Derivatives | 2,006 | 2,350 |
| All other assets | 267 | 165 | All other liabilities | 241 | 139 |
| | | | Total liabilities | 21,611 | 21,343 |
| | | | Shareholder's equity | 1,969 | 1,886 |
| **Total assets** | **23,580** | **23,229** | **Total liabilities and shareholder's equity** | **23,580** | **23,229** |

### Assets

Both residential mortgages and the corporate loan book displayed healthy growth in 2016, reflecting the trust of our clients in NIBC.

Total drawn loans grew by 7% from EUR 7.8 billion last year to EUR 8.4 billion in 2016.

The credit quality of the non-defaulted part of the corporate loan portfolio improved slightly in 2016. Our defaulted and non-performing exposures increased, mainly driven by the Oil & Gas and dry bulk shipping (sub)sectors. Excluding these exposures our defaulted and non-performing exposures decreased. Almost all of our corporate loans are collateralized in some form. As a result our *loss-given-defaults* (**LGD**) are concentrated in those LGD-categories that correspond to recoveries in the range of 80%-90%.

Our mortgage portfolio (netted with the related savings from savings endowment policies) grew in 2016 by 3% to EUR 8.8 billion from EUR 8.6 billion, supported by origination of EUR 1.1 billion. NIBC's mortgage portfolio consists of two parts: mortgages originated since 2013 and those originated before the crisis:

- Since the crisis, we have made significant choices regarding our business model and mortgages originated since 2013 - a key part of our retail franchise - are held to maturity and accounted for at amortised cost; and
- The mortgages originated before the crisis are valued at FVtPL. This valuation method was chosen when IFRS was first adopted, reflecting the 'originate to distribute' business model NIBC had at that time. As since the crisis we have made other choices regarding our business model for mortgages, these mortgages, although still accounted for at FVtPL, are in practice now also held to maturity. At year-end 2016, a EUR 101 million (2015: EUR 96 million) positive revaluation before tax on the outstanding mortgages and related hedges was accounted for in our balance sheet.

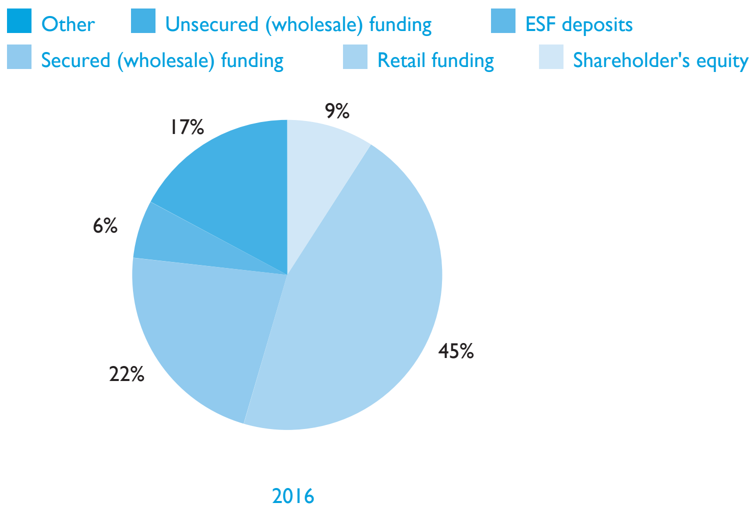
### Funding & liquidity

As was the case in the previous two years, 2016 was marked by growth of our asset base. This development continued to fuel our funding needs and enabled further funding diversification. Diversification of funding has been a key part of our strategy since early 2008, when we started to build our retail savings franchise. We continued to diversify our funding sources in 2016. Overall, our funding mix shows a healthy balance between wholesale and retail:

- Retail savings decreased by 3% to EUR 9.7 billion, displaying a managed outflow of less than EUR 0.3 billion. The share of our retail savings in term deposits decreased to 44% (2015: 55%), in line with our target of around 40% term deposits;
- With respect to wholesale funding we issued a total of EUR 2.6 billion in 2016:
  - We issued a EUR 300 million senior unsecured bond in March 2016, followed by an additional tap of EUR 200 million in September 2016. The initial transaction had a maturity of 3.5 years, paying interest of 2.45% above the swap rate, with the tap paying 1.42% above the swap rate;
  - In May 2016 we issued our fourth conditional pass-through covered bond. The transaction, backed by a pool of Dutch residential mortgages, met strong demand in both the primary and secondary markets. The transaction size was EUR 500 million, had a maturity of 10 years and was priced 0.29% above the swap rate;
  - In June, July and December 2016 we participated in TLTRO-issuance totaling EUR 0.9 billion at maturities of 2 to 4 years; and
  - Additionally during 2016 we raised EUR 0.7 billion in privately placed senior funding in various currencies and maturities.

- Institutional deposits attracted in Germany under the *Einlagensicherungsfonds* (**ESF**) increased in 2016 by 9% to more than EUR 1.2 billion, following an increase of 14% in 2015. Our current limit under the ESF amounts to EUR 1.7 billion.

**Funding composition**




Our healthy funding and liquidity position in 2016 is further evidenced by the following ratios:

- Our Liquidity Coverage Ratio of 124% (versus 201% at year-end 2015) and Net Stable Funding Ratio of 112% (113% at year-end 2015);
- Our asset encumbrance ratio of 29% (2015: 29%), which meets our ambition to maintain this ratio below 30%; and
- Our loan-to-deposit ratio of 148% (2015: 143%), which is in line with our ambition to maintain this ratio at a level between 140% -160%.

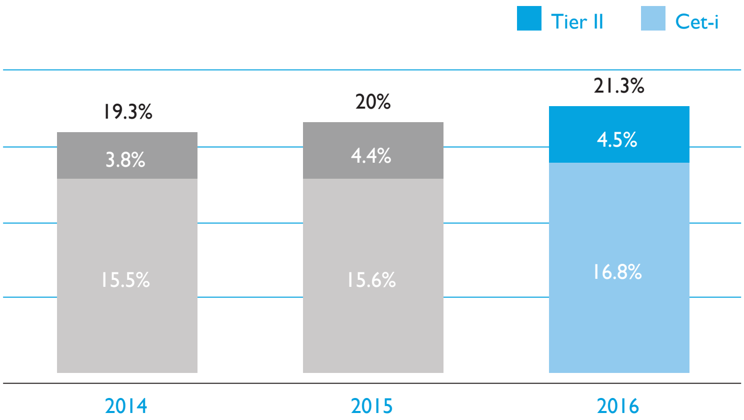
Part of the unsecured funding portfolio is classified at FVtPL. As of 1 January 2016, following our early application of 'IFRS 9 - own-credit risk', the fair value changes related to own credit are accounted for as comprehensive income directly to shareholder's equity. At year-end 2016 a debit of EUR 136 million (2015: EUR 153 million debit) on the unsecured funding portfolio at FVtPL is accounted for in our balance sheet due to credit spread movements.

## Solvency

NIBC's solvency ratios were maintained at a solid level in 2016, with the fully loaded CET-1 ratio increasing from 15.6% in 2015 to 16.8% in 2016 and the fully loaded BIS ratio increasing from 20.0% in 2015 to 21.3% in 2016. These levels are comfortably above the required SREP-level set by our regulator DNB for NIBC Holding. Any extrapolation effects from the AQR performed by our regulator have not yet been taken into account.

The leverage ratio of NIBC increased to an even more comfortable level of 7.3% at year-end 2016 (2015: 7.2%).

**Solvency ratios**




## Rating

In June 2016 Fitch revised NIBC's outlook to positive and affirmed NIBC's Long-term Issuer Default Rating at 'BBB-' and *Viability Rating* (**VR**) at 'BBB-'. The outlook was revised to positive, "mainly because of structurally improving earnings, which now provide a more acceptable buffer against potential unexpected losses in the loan book."

In October 2016, S&P revised NIBC's outlook to positive and affirmed NIBC's 'BBB-/A-3' long- and short-term counterparty credit ratings. The revised outlook was announced, "mainly as the result of our efforts to pro-actively balance our funding profile over the past five years and that the current funding mix is better aligned with our operating model."

## Challenges

- To continue to optimise NIBC's funding profile by increasing our access to the wholesale funding markets, building curves for secured and unsecured funding;
- To keep our cost/income ratio between 47-54%;
- To reduce our impairment levels sustainably below 40 basis points;
- To increase our net profit to such a level that our return on equity will improve to above 8%, by both improving operating income and maintaining stringent cost control;
- To further optimize our capital structure in view of the ongoing discussion regarding regulatory demands for both going (SREP) and gone (MREL) concern; and
- To further improve our S&P and Fitch rating from BBB- with positive outlook to BBB flat in the medium term.

## Dividend pay-out

The Managing Board has proposed a dividend pay-out of EUR 25 million, or EUR 0.40 per share. This dividend amounts to a pay-out ratio of 25% of the net profit for the year 2016. The calculation of the maximum distributable amount, as set out in article 2.2.1 of the Regulation '*specific provisions CRDIV and CRR*' of De Nederlandsche Bank N.V. of 9 December 2013, containing requirements to the maximum distributable amount and the calculation thereof, provides us with enough head room to pay out this dividend.

## CORPORATE BANKING

NIBC Corporate Banking provides a unique combination of advice with bespoke debt, mezzanine and equity financing and capital market solutions. Meeting the specific needs of our clients is our value proposition. Our focus is on mid-sized, often family-owned, companies and entrepreneurs in the Netherlands, Germany and the UK. Our broad range of tailor-made products and services, is part of a client-centric approach based on trust, transparency and sustainable long-term relationships. In 2016, we delivered a strong performance, with EUR 3.2 billion in new origination, taking the total volume of Corporate Banking assets to EUR 10.3 billion (2015: EUR 9.9 billion). Fee income amounted to EUR 32 million. Our clients continue to value our solutions, which was again reflected in our NPS of +37% (2015: +40%).

### Product offering

Our offering comprises solutions in corporate lending, asset and project finance, leveraged finance and structured finance, as well as mergers & acquisitions and debt & equity advisory. In June, we broadened our offering through NIBC Markets to include debt and equity capital markets and brokerage services. The inclusion of this offering makes NIBC a full-service, mid-market bank in the Netherlands that is able to advise its clients, and invest in and lend to clients from its own balance sheet, as well as advise its clients on capital market transactions

NIBC's focus is on mid-market corporates across seven sectors in which we have deep-seated knowledge and strong positions that enable us to provide clear solutions for our clients' complex business challenges. The sectors are: *Commercial Real Estate* (**CRE**), *Food, Agri, Retail & Health* (**FAR&H**); *Industries & Manufacturing* (**I&M**); *Infrastructure & Renewables* (**I&R**), *Telecom, Media, Technology & Services* (**TMT&S**); *Oil & Gas Services* (**O&G**); and *Shipping & Intermodal* (**S&I**). Of these, two are global (O&G and S&I), while five are locally-operating, well-diversified industries. From our London office, we focus on leveraged finance in I&R, FAR&H and TMT&S.

### Approach and strategy in the market

NIBC Corporate Banking distinguishes itself in the market through its strong, longstanding relationships with its clients, and by looking to add value on a transactional basis. As a mid-sized player in today's crowded financing market we understand the need to focus on areas where we can truly be of value to our clients.

We therefore provide bespoke solutions that are often unavailable elsewhere, and aim to think and act like entrepreneurs. An example that sets us apart is our capability to combine senior debt with mezzanine funding. Similarly, we look to anticipate the emerging product needs of the sectors and subsectors we specialise in, and have the ability to develop flexible solutions for our clients.

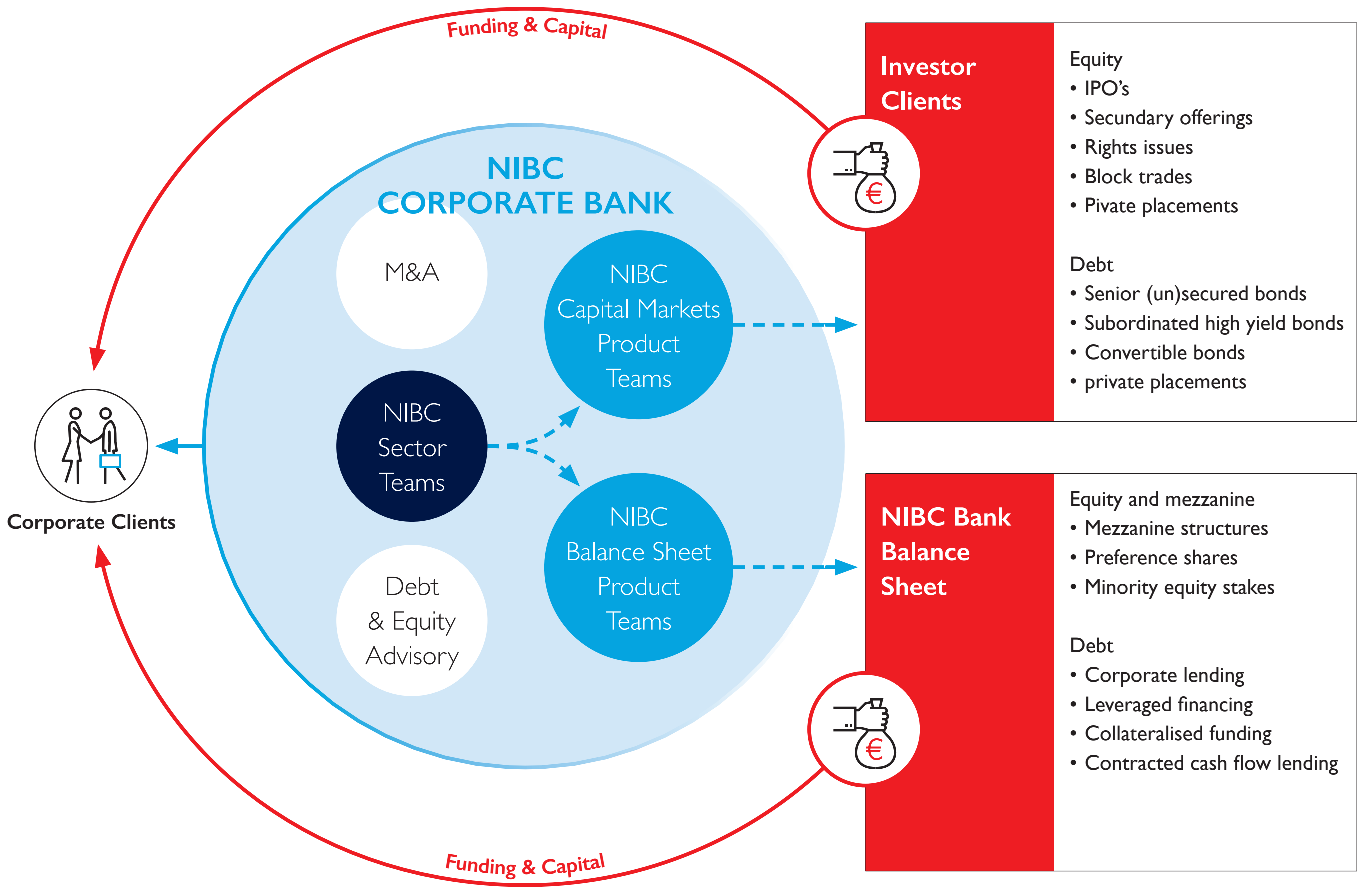
Combined with these existing services, the acquisition of NIBC Markets gives us a good offering in the Dutch mid-cap market at a time when capital markets are becoming increasingly important to our clients. NIBC Markets extends the life cycle of our client relationships, and can significantly strengthen our franchise in the years to come.

In addition to our longstanding relationships with clients, we have continued to deepen our understanding of the dynamics in our markets by working closely with members of the

Advisory Board who provide strategic insights and advice on new opportunities and avenues for growth. They are highly experienced experts in their respective fields whom we meet with regularly to discuss strategy, trends and other issues.

The effectiveness of our approach is appreciated by our corporate clients, as evidenced in our solid NPS of +37% (2015: +40%) in the Netherlands, Germany and the United Kingdom based on the response of 197 clients to our survey. Although our NPS score is among the highest in the sector, it has declined slightly and we take all signals from clients seriously. Looking ahead, we see improvement possibilities and potential benefits for clients in simplifying documentation and through product development. This year's NPS survey responses indicate that clients value NIBC's responsiveness and sector knowledge compared to our peers.

## Business model Corporate Banking




## Developments and performance

In 2016, Corporate Banking experienced solid gross growth sustained by higher demand across most sectors, even as competition in its markets intensified with the widespread availability of liquidity. At the same time, macro-economic and geopolitical uncertainties such as Brexit, the US elections and continued slow growth in the Eurozone have created a challenging environment for many of our clients, particularly large global operators. Against this backdrop, we supported clients with fast-moving and bespoke services.

Following the acquisition of NIBC Markets on 30 June, we launched a '100 clients in 100 days' campaign to introduce our our broader offering to our clients.

We have been able to grow our client franchise in 2016, providing solutions to both new and existing clients, meeting increasing demand for financing and investments, resulting in newly originated loans totalling EUR 3.2 billion (a 10% increase compared to 2015). This resulted in an increase of our corporate banking portfolio, which reached EUR 10.3 billion (drawn and undrawn exposures), a 4% rise compared to the previous year (2015: EUR 9.9 billion).

Our well diversified corporate banking exposure of EUR 10.3 billion at 31 December 2016, consists of:

- EUR 9.7 billion corporate loans;
- EUR 0.1 billion lease receivables;
- EUR 0.2 billion investment loans; and
- EUR 0.3 billion equity investments.

The corporate loan book developed in line with our ambitions, and improved its risk profile of the performing loan portfolio due to both new origination and repayments of several larger exposures. The average expected loss on the performing loan portfolio improved from 38 bps to 35 bps. The non-performing loan portfolio increased driven by the O&G and dry bulk shipping (sub)sectors. Excluding these sectors the non-performing loan portfolio decreased.

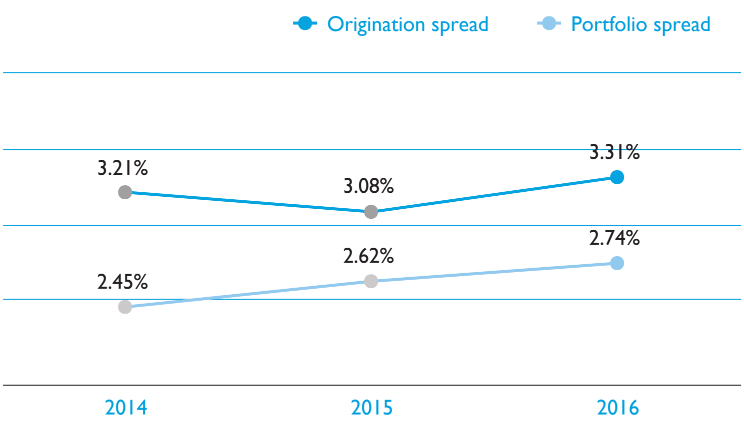
## Income statement Corporate Banking

| in EUR millions | 2016 excl Markets | 2016 Markets[1] | Total 2016 | 2015 |
|---|---|---|---|---|
| Net interest income | 162 | 0 | 162 | 149 |
| Net fee and commission income | 28 | 4 | 32 | 36 |
| Investment Income | 33 | | 33 | 3 |
| Net trading income | 12 | 5 | 16 | 7 |
| Other operating income | 0 | | 0 | 0 |
| **Operating income** | **235** | **9** | **244** | **197** |
| Payroll Expenses | 64 | 7 | 71 | 64 |
| Other operational expenses | 39 | 4 | 42 | 35 |
| Depreciation and amortisation | 5 | | 5 | 4 |
| Resolution Levy & DGS | 0 | | 0 | 0 |
| **Operating Expenses** | **107** | **11** | **118** | **104** |
| Impairments of financial assets | 57 | | 57 | 60 |
| **Profit before tax** | **72** | **(2)** | **69** | **33** |
| Tax | 12 | (1) | 12 | (1) |
| **Profit after tax** | **60** | **(2)** | **58** | **34** |
| Special items (after tax) | (18) | (1) | (18) | 0 |
| **Net Profit Corporate Banking** | **43** | **(2)** | **39** | **34** |

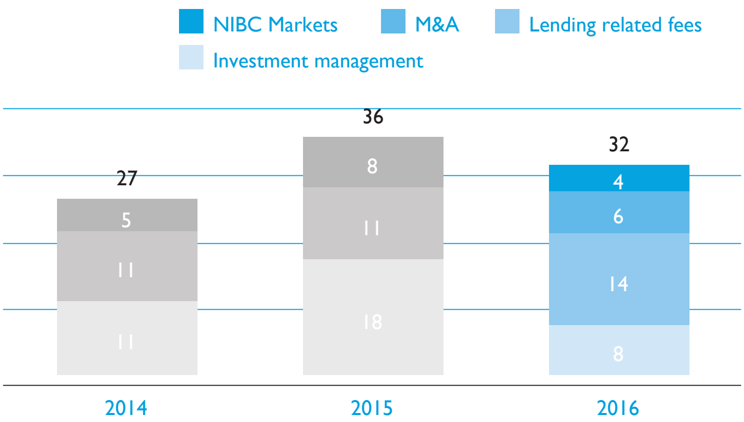
1 Period 1 July 2016 - 31 December 2016

With respect to our financial performance, operating income from Corporate Banking improved in 2016 by 24% to EUR 244 million, mainly driven by increased net interest income and investment income. On the back of the development of our corporate loan book, net interest income increased by 9%, also driven by an improved average spread on the portfolio and lower cost of funds. Higher investment income reflects an underlying equity investment portfolio that performed well, on the back of a more positive sentiment in the equity markets.

**Spreads corporate loans**




**Net fee and commission income (EUR million)**




Net fee income was lower than last year by 11% to EUR 32 million (2015: EUR 36 million), mainly due to reduced investment management income, of which in 2015 the performance fees were relatively high. The other fees remained stable in 2016 compared to 2015, with higher lending fees (including distribution and structuring) and lower M&A and advisory fees. The improvement of net trading income from EUR 7 million to EUR 16 million in 2016 mainly relates to the revenues from NIBC Markets, which contributed for EUR 5 million to net trading income.

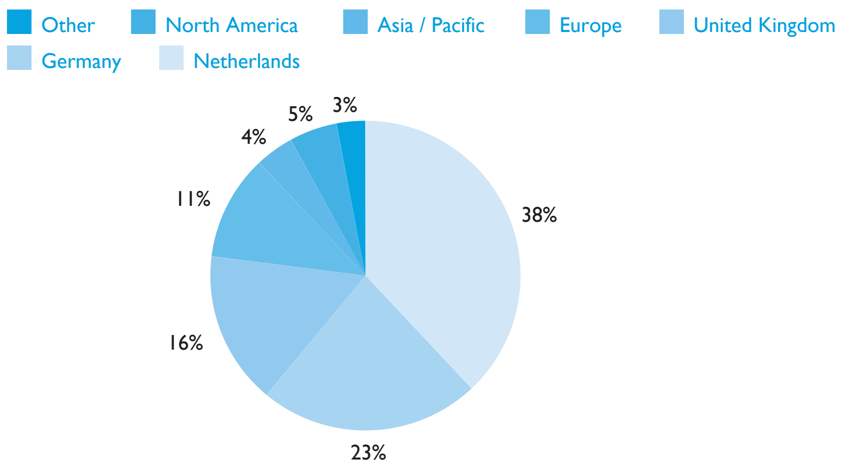
Operating expenses increased by 13% to EUR 118 million, of which EUR 11 million relates to NIBC Markets. Excluding NIBC Markets operating expenses increased by 3%.

Impairments decreased by 5% to EUR 57 million in 2016. The impairment level for 2016 still reflects the fragile and volatile economic environment, especially in O&G and the dry bulk shipping subsector. The 2016 impairments on financial assets also include the results of the AQR on the corporate loan book, conducted by the regulator during the second half of the year, leading to EUR 20 million additional impairments compared to our own impairment process.

Corporate Banking's net profit improved by 15% to EUR 39 million in 2016.

**Corporate assets per region**

**2016: EUR 10.3 bln**

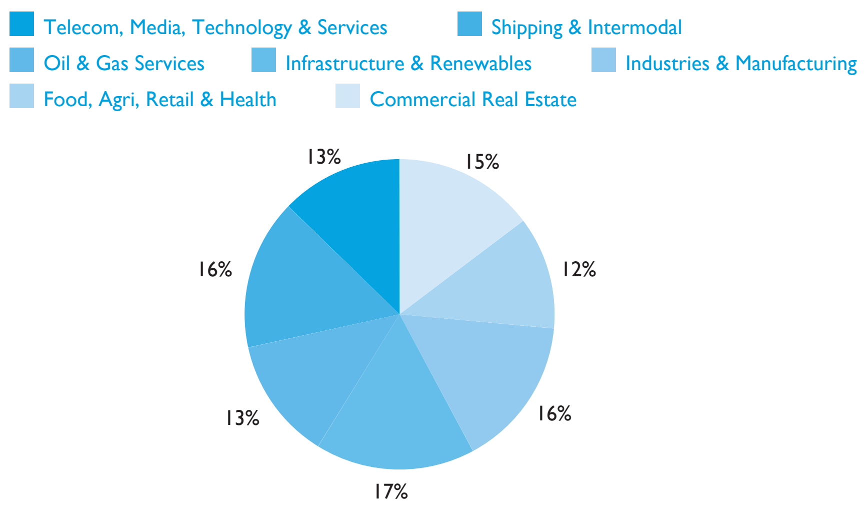



Our operations in Germany have continued to perform well as we have increased our share of the market against larger and more established local players and generated new clients and transactions. This success is the result of our sector and sub-sector approach to mid-sized family-owned businesses combined with our product expertise. The origination level in Germany reached EUR 751 million by the end of the year, compared to EUR 588 million in 2015. The growth was strongest in the sectors FAR&H and TMT&S.

In the Netherlands, origination levels were at EUR 2.5 billion, compared to EUR 2.3 billion in 2015. Especially the corporate lending sectors and Commercial Real Estate displayed relatively high origination.

**Corporate loan portfolio per sector**

**2016: EUR 9.7 bln**



On a sector level, the majority of the trends observed in 2015 continued into 2016:

- Clients have remained under pressure in the Oil & Gas Services and Shipping & Intermodal, particularly dry bulk shipping. Our O&G and S&I portfolios remained relatively stable in 2016 at respectively EUR 1.2 and EUR 1.5 billion, mainly reflecting (p)repayments being compensated by an increase of the USD exchange rate;
- Positively, levels picked up in our three corporate sectors I&M, FAR&H and TMT&S, which displayed a combined portfolio increase of 25% to EUR 3.9 billion. We are continuing to diversify our portfolio and further sharpening our focus on promising sub-sectors such as healthcare, telecom, data centres, Fintech and business software;
- CRE performed well for the second year running as we continued to grow our market share. This portfolio increased by 10% to EUR 1.4 billion. We have the ambition to grow this side of our business in a controlled way, taking on a higher number of smaller deals for a larger number of clients; and
- The I&R portfolio decreased by 19% in 2016 to EUR 1.6 billion, reflecting the impact of the decrease of the GBP exchange rate, relatively high (p)repayments as well as our efforts to decrease that part of the old portfolio that generates insufficient returns.

Launched in July, the new leasing venture BEEQUIP saw significant volumes in its first year, totalling EUR 124 million. The leasing of new and used equipment is a good fit with our I&M client base and our aim is to gradually broaden the scope of its activities into smaller ticket financing and to offer our clients the possibility to lease their assets. The parent company of BEEQUIP is NIBC Holding N.V.

At the end of 2016 we succeeded in both increasing a managed account mandate for a European institutional investor from EUR 50 million to EUR 150 million as well as expanding the scope of the transaction to leveraged finance loans.

## Client deals

In 2016, Corporate Banking secured mandates for a large number of high-profile deals across its markets, demonstrating its ability to provide tailor-made solutions swiftly, and at decisive moments for its clients. These included the following examples:

**BillFront** uses its unique data-driven risk management technology to provide invoice-financing to fast-growing digital advertising companies, app developers and publishers. Its innovative platform connects directly to its customers' invoicing systems and offers flexible credit lines against future receivables, thereby freeing up large chunks of working capital. The London and Berlin-based firm has looked to secure new funding to meet fast-growing demand and continue investing in the development of its proprietary technology. NIBC acted as lead arranger and lender for a tailor-made structured financing solution in the USD 35 million financing round in November 2016 to support BillFront at this decisive moment in its development.

**Van Dijck Groenteproducties** is the largest Dutch open ground vegetable cultivator and is known as the main supplier to supermarket chain Lidl, delivering award-winning local produce. The company runs over 1,000 hectares of agricultural fields and five hectares of greenhouses, and operates its own washing, sorting, packaging and transportation facilities. In 2015 Peter van Dijck decided to invest in the construction of a high-tech greenhouse for vegetable cultivation on water, anticipating the growing demand for healthy food. NIBC was able to offer a tailor-made solution to fully finance this groundbreaking investment by a combination of mezzanine and senior lending. Our flexible solution created a solid basis for the healthy further growth of Van Dijck. The greenhouse investment proved to be a large success for Van Dijck in 2016 and resulted in the decision to expand its greenhouse capacity. As a result of the solid capital structure with our mezzanine solution, this additional investment will be financed by senior lending from NIBC and another bank.

With more than 70 hotels, **Fletcher** is the largest and most popular hotel chain in the Netherlands. In late 2015, the company's founder Chris Luken, decided to sell the company in a competitive process. NIBC teamed up with Fletcher's management as equity provider to realise a management buy out and become the new shareholders of the Company. Together with a sector expert and management as co-investors we have been successful in winning the competitive process and acquired the entire outstanding share capital. NIBC also provided key knowledge and support to arrange a senior bank syndicate composed of three other financial institutions. Since the buyout in May 2016 we actively support Fletcher in its buy & build strategy, resulting in 10 acquisitions so far.


**Partnering for Fletcher Hotels buy out**

"Little will change for staff, our guests and the company because management is very familiar with the company and the current strategy will continue to be execute"

**Rob Hermans**
CEO, Fletcher Hotels

# RETAIL BANKING

Our Retail Banking business offers our nearly 400,000 clients a distinct range of quality mortgage, savings and brokerage products via NIBC Direct in The Netherlands, Germany and Belgium. We help our retail clients realise their financial goals by offering products that are accessible, easy to understand and fairly priced. Retail Banking delivered strong results in 2016 as it continued to grow buy to let and to expand its successful offering, including a new mortgage product for the self-employed. At the same time, we took important steps to be ready for the years to come, investing in a new online platform with which we can further enhance our customers' experience. The mortgage portfolio grew by 3% to EUR 8.8 billion (2015: EUR 8.6 billion), while savings displayed a managed outflow of EUR 0.3 billion to EUR 9.7 billion.

## Product offering

NIBC has a distinct positioning among retail clients in its markets, with highly transparent, straightforward and fair products and services.

### Mortgages

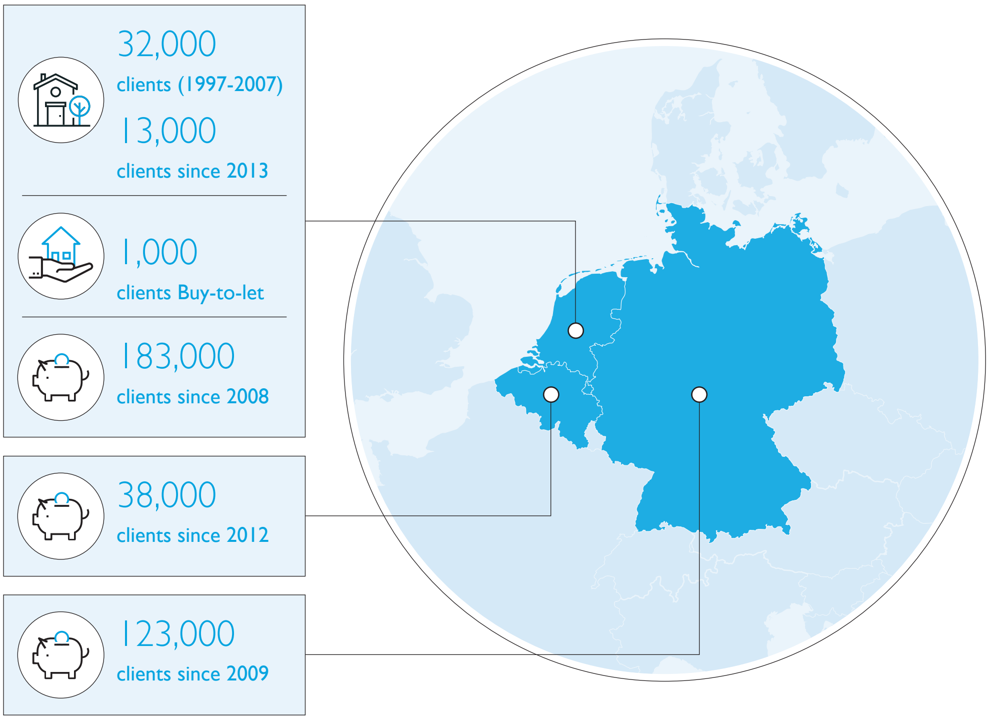
NIBC Direct mortgages are sold through partnerships with mortgage providers across the Netherlands, allowing our customers to receive the right advice from independent professionals with specialist knowledge. In addition to our mainstream mortgages, we have a diversified offering that taps emerging opportunities in underserviced segments, such as buy-to-let mortgages, mortgages for self-employed and the negative equity mortgage.

We have been a first mover in our markets, offering borrowers interest rates that are automatically reduced once certain loan-to-value thresholds are reached through repayments. We have developed new processes to help our clients better manage their finances, such as a dedicated mortgage portal that provides an extensive overview of their mortgage at any time. We also look to help clients find solutions in the event of financial distress by determining on an individual basis the need for and possibility of forbearance measures, and the conditions that should apply.

### Retail savings

Under the brand name NIBC Direct, we offer a range of fairly priced savings products in the Netherlands, Germany and Belgium. These range from fully flexible, on-demand deposits, to term deposits. These award-winning products are known for their straightforward client-centric features and absence of complicated terms and conditions.

NIBC Direct's savings policy is recognised as being highly customer-centric. For example, in the event of a downward adjustment of the term deposit rates, clients are given the option to open a term deposit at the old (higher) rate. Our volume of Dutch, German and Belgian savings has grown and remained resilient since launching in 2008, despite high levels of competition and the persistently low interest rate environment.




## Approach and strategy in the market

Our market approach is aimed primarily at consumers who actively manage their financial ambitions. Consumers are entrepreneurial, demanding and look for clarity about their financial position and possibilities. Our strategy is to be a niche player that provides an enhanced digital customer experience.

This requires us to be a client-focused and entrepreneurial bank that brings a 'Think YES' attitude to every engagement. We also aim to be as clear as possible on what we can offer in our products, services and pricing, so that clients know what to expect at decisive moments.

Our offering is largely outsourced and fully automated, which enables us to be efficient and cost-effective. Unencumbered by the costs and distractions of a physical bank network, we are able to spend more time and resources on adding value for our clients. After bringing our client service centre in-house in 2015 to have a closer communication channel with our clients, we have focused on improving our website so that that the majority of customers' queries can be answered online, thereby freeing up our service centre to attend to more complex questions.

## Developments and performance

Conditions in our markets have continued to be driven by major economic factors, namely; low interest rates; modest economic growth; uncertainty created by geopolitical developments; disintermediation; a strengthening housing market; greater competition among financial services providers; and digitalisation. Against this background, our client-focused strategy has been to continue targeting niche segments of the market with clear and transparent products, and on delivering an increasingly seamless customer journey.

The transition in 2016 of our business platform, allows our products to be connected with third parties and greatly facilitates the roll out of new mobile applications. This investment provides the basis for a better customer experience overall, a smoother on-boarding process and better accessibility to products.

These and other efforts were validated in the year by our customer satisfaction levels. The NIBC Direct Customer Survey Score was 7.6 in 2016, which is in line with the high level of 7.7 in 2015.

With respect to our financial performance, operating income from Retail Banking improved in 2016 by 7% to EUR 114 million, mainly driven by an increase of the mortgage portfolio, lower funding costs and a decrease of credit losses on the white label portfolio. Operating expenses increased by 19%, fully driven by regulatory charges relating to the Dutch deposit guarantee scheme, which were charged for the first time in 2016. Excluding these regulatory charges operating expenses decreased by 2%. Retail Banking's net profit decreased by 2% to EUR 42 million. Excluding the regulatory charges net profit increased by 15%.

## Mortgages

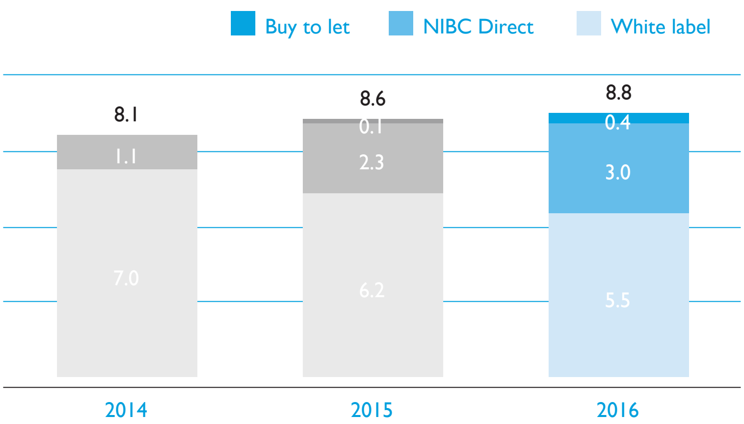
Mortgage origination volumes reached EUR 1.1 billion in 2016 (2015: EUR 1.3 billion). After normal prepayments and repayments, our total mortgage portfolio (including white label products) increased by 3% to EUR 8.8 billion in 2016 (2015: EUR 8.6 billion).

### Income statement Retail Banking

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Net interest income | 117 | 114 |
| Net fee and commission income | 0 | 0 |
| Investment Income | 0 | 0 |
| Net trading income | (4) | (8) |
| Other operating income | 0 | 0 |
| **Operating income** | **114** | **107** |
| Payroll Expenses | 16 | 16 |
| Other operational expenses | 29 | 31 |
| Depreciation and amortisation | 2 | 1 |
| Resolution Levy & DGS | 10 | 0 |
| **Operating Expenses** | **57** | **48** |
| Impairments of financial assets | 1 | 1 |
| **Profit before tax** | **56** | **58** |
| Tax | 14 | 15 |
| **Profit after tax** | **42** | **43** |
| Special items (after tax) | 0 | 0 |
| **Net Profit Retail Banking** | **42** | **43** |

This performance was due to favourable market conditions and to our ability to offset falling prices driven by increased standardisation by being a niche player in underserviced segments. We launched several new products and services in the year, including a unique product for self-employed individuals that have been operating for less than three years, and refinancing solutions for those in negative equity and with remaining debt, whether they are selling their property or not.

**Mortgage portfolio development (EUR billion)**



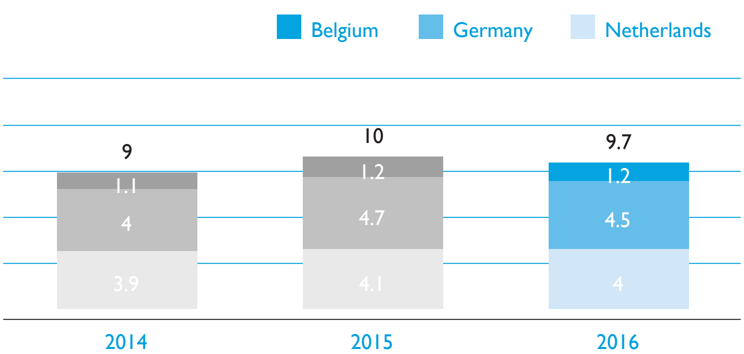

We have continued to focus on more profitable segments outside the crowded *National Mortgage Guarantee* (**NHG**) market, further expanding our network, and intensifying our relationship and activities with existing distribution partners. Our buy-to-let product launched in the previous year saw robust growth in 2016, becoming an important part of the overall mortgage offering. This is due to the increasing numbers of professional and semi-professional investors that are investing in rented residential real estate. We have also seen a significant shift from short-term fixed interest rate deals, towards longer terms of up to 20 and 30 years that we have been able to originate, partly together with our partners.

In the year, we also closed our first mandate to originate for institutional investors under the NIBC Direct label. This enables us offer attractive rates to our clients while remaining the lender of record for the clients, who will not experience any difference. We are highly experienced in originating, servicing and managing Dutch residential mortgage portfolios. We can leverage our knowledge, distribution and network, organisational and IT infrastructure, and support functions for use by third party investors, while offering end customers the strengths and benefits of the NIBC Direct brand.

## Savings

Our total volume of savings decreased by 3% to EUR 9.7 billion in 2016. Our successful efforts to increase the share of on-demand deposits with flexible rates (which have proven their stickiness) versus more expensive fixed-term savings, have led to a controlled net outflow of almost EUR 300 million in the year.

**Retail savings development (EUR billion)**



Customers of our savings business in the Netherlands and Belgium benefited from more digitalised processes and the transfer of our business to a cloud-based platform. The new platform future-proofs our business by enabling us to remove inefficiencies, streamline our delivery, improve accessibility and create more opportunities for the use of mobile applications.

In Germany, NIBC Direct won awards from FMH Finanzberatung on behalf of the news channel n-tv for its combination of rate and service quality in on-demand accounts and various term deposit categories. Additionally, NIBC Direct in the Netherlands won the 'Website of the year' award by the Dutch Marketing Authority for the second time running, due to its simplicity and strong client-focused approach.

### Brokerage

Our German brokerage business saw a volatile year, but one in which assets under management increased by 15%, going from EUR 130 million in 2015, to EUR 150 million in 2016. The number of accounts increased by 7% to 6,200 as clients seemed more reluctant to transfer assets from other banks than in previous years.

Due to sustained low interest rates, German customers are increasingly investing in equities as an alternative to savings. The dynamics in the capital markets have been driven by events such as Brexit and turbulences in EU markets that include the Italian banking crisis. In response, the business has continued to modify its pricing model and further optimised its cost base.

In late 2016, NIBC Direct was recognised by *FMH Finanzberatung* on behalf of *Handelsblatt* as 'TOP Online Broker' for both wealthy investors in traditional custodies and for active smaller ticket investors. This award greatly adds to the positioning of the NIBC Direct franchise in the German market.

**Buy-out backing for mortgage customer**

The Hague-based entrepreneur Mr. Arnold, owner of popular beach club restaurant La Cantina, was able to buy his partner's 50% stake by means of a buy-to-let mortgage based on a second property. This inventive solution allowed Mr. Arnold to continue moving forward on his plans.

## OUR PEOPLE

NIBC strives to make a difference at decisive moments for its clients. Consequently, the development of employees' capabilities and commitment levels are pivotal for that ambition. We therefore look to foster a culture in which our people can fulfil their personal and professional potential by working together to nurture our core values of profesionalism, entrepeneurship and inventiveness. Our client-focused business model depends on this cooperation and on encouraging individuals to take full responsibility towards our clients and NIBC.

In 2016, we completed the roll out of NIBC3, our redefined corporate values: professional, entrepreneurial and inventive. These values have underpinned our ongoing 'Think YES' campaign, which we launched in 2015 and which best sums up NIBC and the way we act. They not only define us in terms of our products and services, but are the basis for our new Performance Management Framework, as agreed by the *Employees' Council* (**the Council**), and our approach to recruitment and selection.

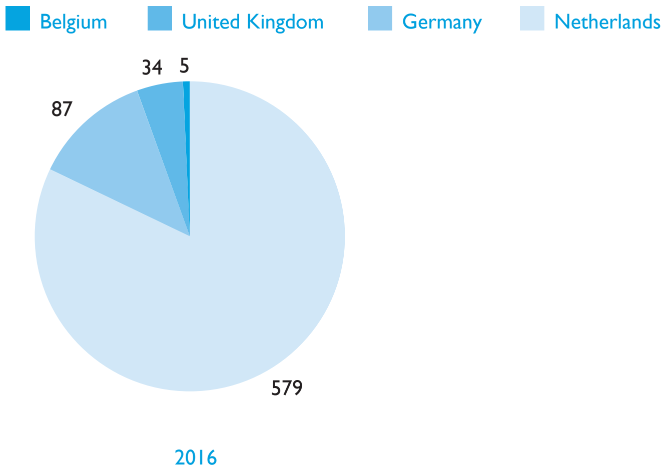
By evaluating ourselves and each other according to how professional, entrepreneurial and inventive we are, we are linking our external promise with our internal culture and capacity for delivery. We are proud that these values are now in place within the Framework, and that they are being applied consistently throughout the organisation at all levels and in both our front and back offices.

The values, which are being widely promoted internally, will be used for annual and mid-year performance appraisals. These will involve a reduced number of questions that are mainly focused on what went well and what can still be improved. With the new NIBC values in place for appraisals, our discussions are much more focused on output, and lead to more meaningful conversations.

### Employee base

In 2016, our total headcount increased to 733 employees, from 664 in 2015. This mainly reflects the acquisition of SNS Securities in June, adding 95 new employees. We ensured that all employee benefits were harmonised by the time the acquisition was finally closed. As part of the ongoing integration process, we are looking to align our talent around core activities in the months ahead.

**FTE's by country**




Absenteeism remained low at 2.4% in 2016, a modest increase from 2015 (2.2%). This is due to longer illnesses of several employees. Frequency remained low and reduced to 0.9% from 1.1% in 2015.

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| Absenteeism | 2.1% | 2.2% | 2.4% |
| Traning expenses per empolyee (EUR) | 1,759 | 2,540 | 2,070 |
| Male/female ratio top management | 88%/12% | 90%/10% | 91%/9% |
| Employee turnover (employees started) | 19.7% | 15.2% | 24.3% |
| Employee turnover (employees left) | 13.2% | 15.2% | 14.9% |

## Employee engagement

Our aim is to lead by example by continuously improving and safeguarding our levels of employee engagement. We believe that our continued good NPS from clients is a result of having people that are more engaged than the average in our industry. Employee engagement is viewed as an indicator for commitment and dedication for people to deliver results. The employee engagement survey is therefore an important measurement of our people's commitment and pride in the company.

In 2016, our annual Employee Engagement Survey, which is conducted anonymously by a third party, showed that the overall sustainable engagement is high with a score of 80%. This is slightly below the Global Financial Services and also 4 points lower than 2015 transitional results, and reflects input provided by parts of the Bank that are undergoing major organisational changes.

An area of attention for NIBC in the years ahead is the personal development of those who have been part the organisation for between four and six years. We have found this set to be comparatively less engaged than others, and are currently finalising the development of a new programme that specifically focuses on these talented employees, which has been launched early 2017.

## Development and recruitment

We invest in the development of our people's skills, capabilities and knowledge and in our ability to attract and retain the best people. To compete effectively in our industry, we know we must develop ourselves at a faster pace and to a higher standard than many of our larger peers. As a mid-sized bank, we also know that we have a different, and in some ways, more compelling offer for employees; one in which they will have greater responsibilities, influence and impact from the start.

In this regard, our 'Think YES' campaigns have been successful at positioning NIBC in a distinctive way across our highly competitive labour market. Competition is not only tougher within the financial services industry as a whole; the banking sector is also perceived as a less attractive proposition than it was some years ago.

Launched in 2015, NIBC Academy, our virtual centre for continuous training and learning, is now fully operational and enabling us to offer development in a more customised and effective way. It ran a total of 60 courses in the year, based on a modular approach for specific areas and is linked to the NIBC strategy and its way of working. The Academy's approach is to empower employees to take responsibility for their learning, through a range of channels, including on-demand online workshops, short trainings, team sessions and class room courses. Staff can also create their own learning initiatives for particular purposes for both commercial and non-commercial staff.

The NIBC Introduction Program has been regularly organised to enhance the onboarding of new employees. Next to presentations on the strategy of the Bank and on various parts of organisation, special attention is paid to the importance of our business values, the NIBC3. All new employees are informed of the Bankers' Oath, and are required to take this Oath and sign it.

In the year, we spent approximately EUR 2,100 per employee on training and educational programmes, which is close to the top quartile when benchmarked with financial services and close to the top decile versus general industries. It is also broadly in line with previous years. These investments not only increase the professional capabilities and competences of our people, but also help us to distinguish our Employee Value Proposition.

One of our most popular trainings continues to be Deal Team Dynamics, an in-house training programme for deal team members who are mainly linked to Corporate Banking, Operations and Risk Management. The training is conducted by personnel from the business and from HR, to ensure a good approach for everyday practice.

To build on our basic financial and lending skills we again have offered professional training courses such as Financial & Cashflow Analysis and a Fitch Credit Course.

We are also supporting new ways of working through a high number of IT and application-related courses that are available to all personnel.

Our Management Development Program and 'Influencing with Impact' training courses have continued to help us develop employees' personal and management skills.

Following its re-launch in 2014, the Talent Programme for young bankers has been designed to appeal to a new generation of bankers, and provides a much broader industry perspective than ever before. The Programme was developed by a multidisciplinary team in coordination with the Rotterdam School of Management, Erasmus University and VDS Training Consultants, using the latest educational techniques. A total of 17 participants completed the Talent Programme in 2016.

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

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

For example, in the year, we pioneered a get-a-job-in-a-day initiative, which was originally part of the 'Think YES' Challenge project within our Talent Program. The group that developed the winning Gamifying Recruitment proposal was allowed to execute it in collaboration with the Campus Recruitment Team. This provided an ideal employer branding event to distinguish NIBC from other financial employers, and was an agile and inventive way of attracting and selecting young graduates. It was predominantly run through social media and involved a buddy system through which candidates could easily access our analysts to learn about NIBC, as well as a game/case study and multiple interviews, all in one day. This hugely successful event enabled us to fill three vacancies that same day and a fourth one later on.

Now a decade old, Young NIBC, our dedicated platform for enabling younger NIBC staff to socialise with each other and network, held an event in the UK that allowed our youngest talent to meet our clients there, and learn more about their needs. These younger colleagues were also introduced to financial reporting in at a 'Behind the numbers' presentation day. Together with Young Financial The Hague, Young NIBC has also continued organising an annual event in the style of the Dutch television programme 'College tour', during which an important public figure is invited to share his or her views on trending topics and life lessons. In 2016, the guest speaker was Rijkman Groenink, the former CEO of ABN AMRO.

## Banking on trust

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

During the year, we finalised the Trust & Integrity e-learning component of the Banking on Trust programme, which included a module on IT integrity that was completed by all employees. Furthermore, we began developing a new Compliance & Integrity awareness programme that is based on our revised Code of Conduct, and reflects the most up-to-date standards in our industry. This dedicated programme has continued to raise employees' awareness about our Compliance & Integrity policy framework for dealing with integrity-related matters. Compliance & Integrity training is also obligatory for all new employees when they join NIBC.

## Promoting diversity

We believe that diversity is critical to our ability to succeed and achieve sustainable success. As such we are committed to creating a stimulating work environment for people from all backgrounds and an environment that is open to different ways of thinking. In 2016, we continued to pay close attention to all elements of our diversity goals.

The gender diversity for our organisation was 27% female staff (2015: 30%), which continues to be below our ambition level. A slight decrease in diversity to 9% for senior management is also reported. Gender diversity across these dimensions improved when acquisitions are excluded. Diversity across age segments showed balance. 15% of employees were under 30 years of age and 24% of employees were age 50 or older.

We are not yet satisfied with the diversity levels in our organisation and have taken steps to increase diversity across the company through our recruitment processes. In view of the many ongoing projects and transformations, there is more volatility in the sector as a whole, at NIBC, and for individual employees. Although the people agenda is pivotal for the future success of NIBC we also acknowledge this dilemma and the need to balance this with the pressure resulting from permanent changes within the business. Diversity in general and the male-female balance specifically, are also explicitly taken into account in our talent programmes and performance management.

To address gender imbalances specifically, we have introduced engagements aimed at helping to retain and further develop talented female employees. In 2016, we launched the NIBC Female Network, the purpose of which is to gain deeper insights into differences in behavior between genders and a better understanding of how to recognise these. In terms of recruitment and selection we have focused on attracting female candidates. We have also created a new Diversity Committee which is tasked with researching our current behaviours and recommending ways to achieve a more inclusive environment at NIBC.

A key focus area has been on increasing diversity among senior managers, and it is our objective that at least one third of our Supervisory Board and Managing Board members are women. NIBC is aware that it continues to fall short of this goal, despite its efforts, with just two female members of the Supervisory Board out of a total of nine. It is worth noting that NIBC's new Executive Committee, which became effective on 1 January 2017, meets this objective. Overall, just 9% of our most senior positions (Director level or higher) are held by women, following the inclusion of NIBC Markets in 2016.

We will feature this topic as a high-priority discussion in the quarterly meetings of our Executive Committee, in order to remain focused and mindful of new opportunities. In the case of a vacancy in the Managing Board and the Supervisory Board, the regular policy is applied in which we ask the executive search to shortlist at least 50% female candidates.

## Pensions and benefits

The revisions to our employee benefits that were undertaken in 2014 and 2015 have allowed us to operate a more modern set of benefits, which are more flexible and better aligned to the realities of our business. One of the most important aspects of this has been the switch to a discretionary approach to compensation and benefits, which takes into account a range of considerations, including KPIs and country-wide benchmarks. This has enabled us to continue rewarding our talented staff well and to retain them.

Similarly, our revised pension plan is a collective-defined contribution scheme for salaries up to EUR 100,519 and is applicable for all employees. For the employer, the main benefit is that pension costs become predictable.

## Health and safety

We recognise that a healthy workforce is good for the business in the long term. We therefore look at a range of programmes and initiatives that help to enhance our people's wellbeing.

We have also continued to favour the creation of a stronger work-life balance and to incorporate ways of being more flexible in how we work. The upgrades and refurbishments to our office spaces in 2015 have supported this aim.

Again in 2016, we offered preventative medical measures such as flu vaccinations for our staff, which a total of 61 people made use of in the year (2015: 65).

In 2016 the legally required Risk Assessment and Evaluation of the working conditions was conducted by a certified third party. The conclusion was that NIBC in general is well in control regarding the safety, health and wellbeing of its employees. Some attention points have been addressed in an action plan.

## Employees' council

NIBC's Employees' Council represents the interests of all staff based in the Netherlands. It currently has 11 members from all departments and levels across the Bank. During 2016, three members left the Council and it welcomed three new members. As the voice of employees, the Council regularly meets with the members of the Managing Board and HR 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 became senior management's direct interlocutor in this important area. This led to revisions in our employee benefit scheme in 2016.

The Council advised on six subjects, including the appointment of Reinout van Riel as Managing Board member, the acquisition of SNS Securities, and the formation of the Executive Committee. Furthermore, the Council agreed to the renewal of the Social Protocol, which includes the procedures and arrangements regarding resignation of employees due to reorganisations, and the changes made to the performance management system based on the newly redefined corporate values.

Given the challenges facing the banking sector and NIBC, the Council remains focused on the employability of NIBC's employees and on its competitive position as an attractive employer.

**Financing P&I's next growth stage after buy out**

"In NIBC, cultivating and maintaining strong and long-term relationships with our corporate and sponsor clients is highly important to how we do business. This transaction is great example of this where, going back a number of years, we have assisted P&I through multiple financing transactions and are very happy to be supporting the business again through its next exciting phase under Permira ownership."

**Izmar Kaler**
Associate Director NIBC

# SUSTAINABILITY

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

We want to ensure that the services we provide are responsible and sustainable, and that the businesses we finance also operate in a sustainable manner. 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.

We therefore take responsibility for our operations and look to have long-term relationships with our clients. It is also why we continuously increase our focus on trust and integrity, reduce our environmental footprint, invest in the professional and personal development of our people, and support high-value community involvement.

## How we manage it

Our day-to-day business decisions and interactions with clients are guided by established principles and policies set out in our Code of Conduct, Business Principles, Corporate Values, and Compliance Framework and Sustainability Framework. Since 2010, we have steadily developed our Sustainability agenda in close consultation with our stakeholders. Our aim has been to draw from our numerous activities and commitments in the areas of trust and integrity, people, environment and society, to develop a comprehensive and consistent approach to sustainability at NIBC.

Stakeholder engagement has been at the heart of this effort, and has helped us better define our priorities and continually sharpen our approach. Over the years we have improved and developed the focus of our sustainability efforts. Increasingly, in consultation with our stakeholders, we have become better at defining themes and areas in which we can have the greatest impact and add the most value. We also aim to stay abreast of sustainability developments taking place in the world around us, to find out how best to serve our clients, and to be good corporate citizens in the communities in which we operate.

Our governance revolves around a system of checks and balances that ensures stakeholders are also part of our decision-making processes. The NIBC Sustainability agenda is overseen by a dedicated sustainability team but is primarily managed by and embedded in each business unit. Processes, roles and responsibilities are defined to manage sustainability, for example, in client business, human resource management or our carbon footprint. This is an integral part of how we do business and is reflected in our Code of Conduct.

In addition, NIBC has a dedicated Senior Sustainability Officer who is responsible for catalysing sustainability and corporate social responsibility within the organisation.

### Sustainability team

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

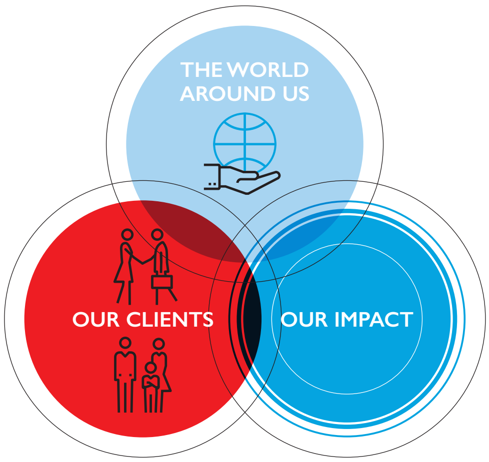
## Business units
NIBC's Sustainability agenda is aligned to our business strategy, and different departments are responsible for managing sustainability as part of their activities. For example, business teams apply the Sustainability Framework in their client interactions, Facilities & Services manages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

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

## Reporting
The NIBC Annual Report 2016 has been drafted in accordance with the *Global Reporting Initiative* (**GRI**) Standards. A summary of the materiality assessment can be found on the NIBC Annual Report website. The corporate responsibility assurance report can be found in the 'Other Information' section within this Report; we have received external reasonable assurance with regard to specific non-financial key performance indicators. This is evaluated annually.

We participate in the Transparency benchmark, an annual research carried out by the Ministry of Economic Affairs on the content and quality of annual reports of Dutch companies. Each year, they expect companies to improve their level of transparency. As a result, the required criteria is more strictly interpreted compared to prior years. In 2016, NIBC scored 171 of 200 possible points, improving from 152 points in 2015.

In the years ahead, our ambition is to continue to focus on transparency, since stakeholders have indicated that this aspect is highly important to them. This may lead us to consider reporting on a wider range of non-financial issues, which might include new indicators such as the energy rating of our mortgage portfolio, and the emissions footprint related to our financings and investments.



### The world around us
In a rapidly changing world, we strive to be a trustworthy, transparent and sustainable bank. We act with integrity to inspire our clients' trust and adhere to the letter and spirit of all applicable laws. We also recognise that trustworthiness is a key cultural element in how we act and the values we display in our daily work. That is why we continuously work to earn, maintain and strengthen the trust of our clients, employees and other stakeholders.

We also have longstanding principles and policies for sustainability. These are the formal basis for our culture of integrity and trust, and are regularly updated to improve business practices following our transparent approach. In 2016, we updated four of our policy documents: human rights, shipping, infrastructure and weapons. These were reviewed in order to make them less complex and more understandable for commercial employees and external stakeholders. We took these steps in response to specific feedback from stakeholders. In 2017, we will be revising additional policies.

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

NIBC views sustainability as an opportunity to build even closer client relationships, strengthen and grow their businesses, and work together to address environmental and societal challenges in their own operations and in their value chains. We include sustainability factors in our client and supplier assessment and risk management process to ensure better informed decision-making, and that our client interaction does not harm society or the environment.

### Sustainable shipping
NIBC is one of three Dutch banks that are founding members of the Responsible Ship Recycling Standards, a new initiative that aims to promote more responsible practices in the industry, particularly regarding environmental and human rights issues. Tested over the course of 2016, the Standards support the use of inventories for hazardous materials (green passports) and ensure responsible ship recycling at end of life. So far, NIBC shipping clients have embraced this approach despite the considerable stress the sector is under at present.

This initiative is the first of its kind in the sector, and is a prime example of how NIBC and its clients can work together to embrace UN sustainable development goals, and create a meaningful environmental and social impact in the value chain. In the period ahead, we will look to attract more shipping financiers and shipping companies and further develop this standardised approach. Our hope is that over time, these standards will become common business practice for financings in the sector and might be adopted for asset-based financings in other sectors.

## Our impact
Corporate responsibility means we act in a responsible, sensitive and sustainable manner with regards to how we impact the world around us. Our impact on society and the environment are strong areas of focus, starting with our own employees.

We invest significantly in developing our people personally and professionally, and providing a stimulating work environment that values diversity and treats everyone with respect. Our employees receive training on environmental & social risks, sustainability developments and NIBC's Sustainability Framework. In the areas of labour standards and human rights, we adhere to national employment legislation and comply with best practices and standards. To find out more about our human resources agenda please refer to the Our People chapter in this Report.

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

In terms of environmental impact, NIBC is carbon neutral with regards to its direct emissions. Since 2010, we have measured our direct emissions, realised substantial reductions and compensated for any remaining direct emissions. We manage our direct impact on the environment through an environmental sustainability programme. NIBC Markets will be integrated into this program during 2017. We include measures such as reducing our carbon footprint, stimulating a paperless working environment, using responsibly-sourced materials and further increasing energy efficiency. Through awareness programmes, we also encourage our employees to take their environmental responsibilities seriously.

For more information about our environmental footprint and sustainable activities and performance in 2016 please visit our corporate website.

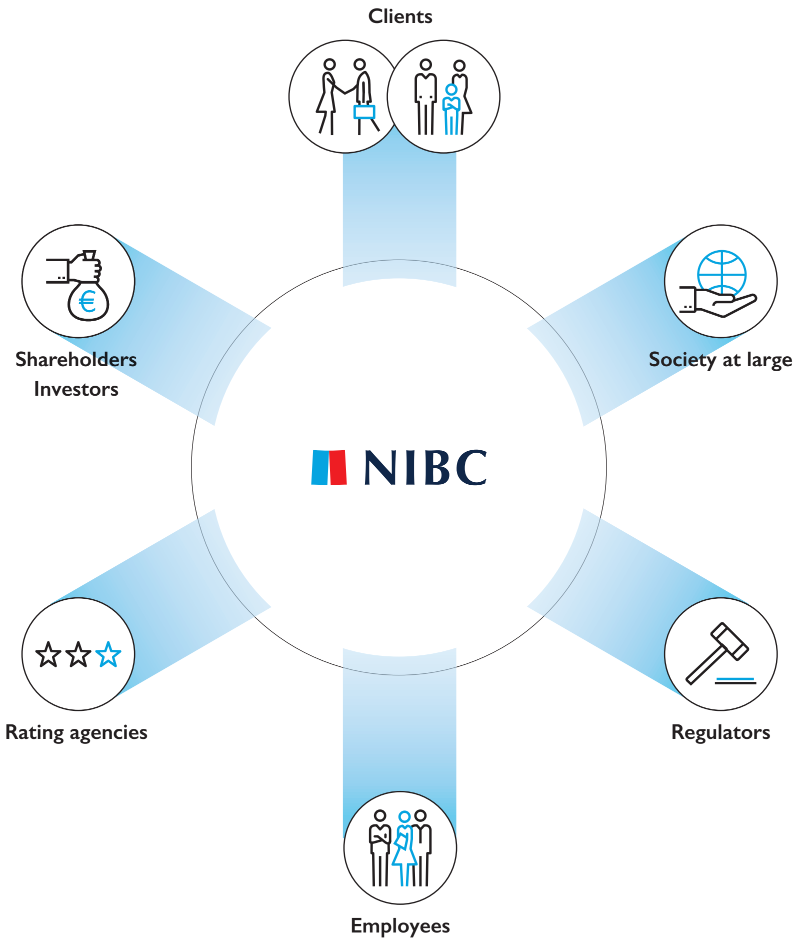
### NIBC NGO Boulevard

In 2015, we launched the NIBC NGO Boulevard, an initiative to allow our offices and facilities to be used to support good causes. There are currently three civil society organisations operating from NIBC's office headquarters in The Hague. Our aim is to bolster their efforts by providing them with modern office space and facilities to work in, while helping them to reduce their overheads. At the same time, NGO Boulevard is helping bring the unique perspectives of NGOs into our organisation and to inspire our employees through daily interactions.

## STAKEHOLDER ENGAGEMENT

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

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

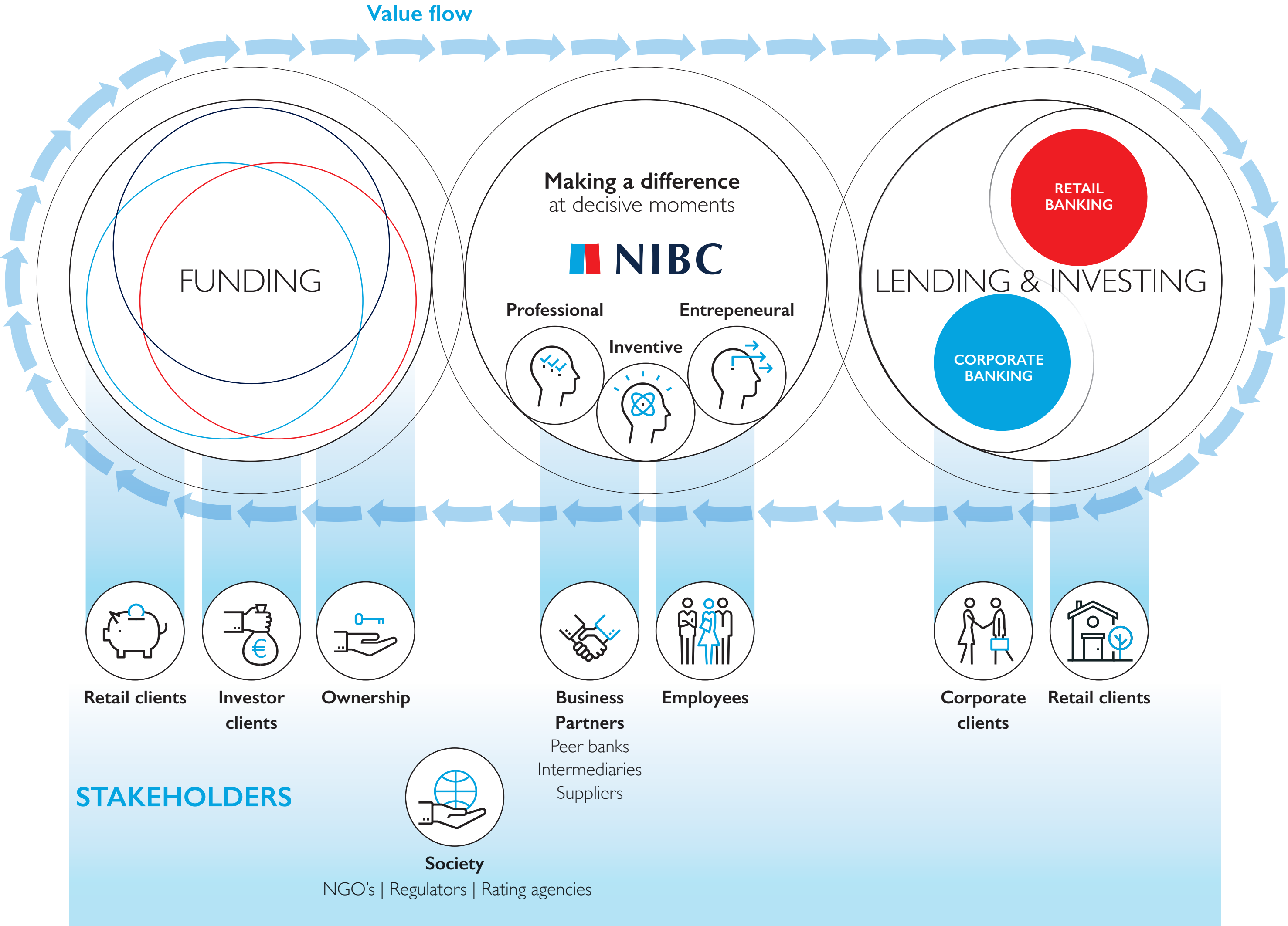



## Management and materiality

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

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

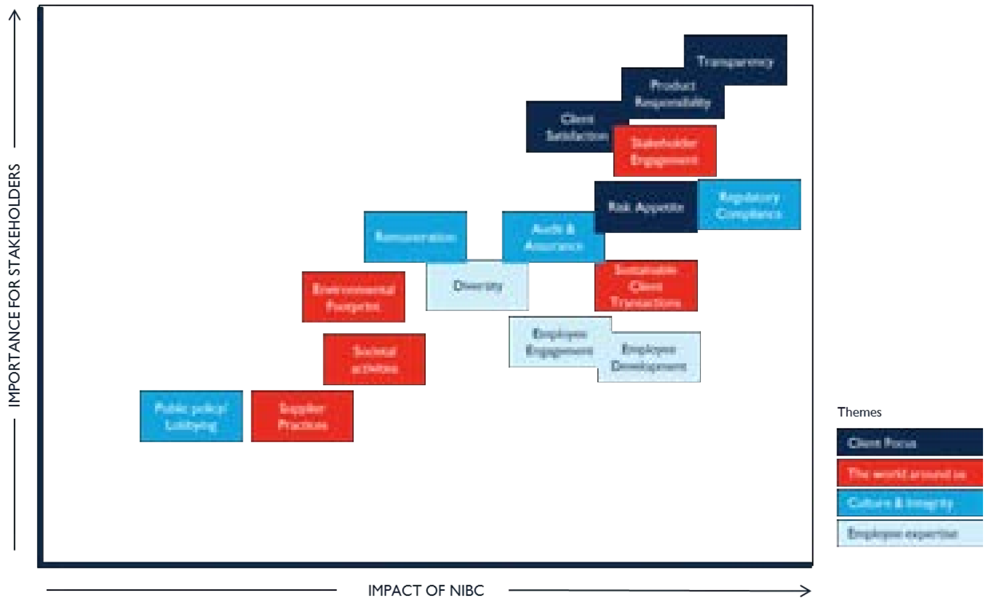
We've encapsulated the results into a "value flow" diagram which provides clarity into our value creation model. While a simplified view, it reflects our client-first business agenda, our business principles which will enable our future financial and non-financial performance. This value flow is a tool for an ongoing dialogue with our stakeholders.




## Materiality analysis 2016

In 2016, our stakeholder consultation was performed across nine stakeholder groups representing our clients, investors, regulators, civil society and employees. The location of each topic within the graph represents the result of their feedback.

The four most important aspects for stakeholders were transparency, product responsibility, client satisfaction, and stakeholder engagement.




Stakeholders indicated that transparency and product responsibility remain paramount and are the foundation for stakeholders' trust in NIBC. Our award-winning online platform and clear terms and conditions in retail banking were appreciated by clients. Stakeholders appreciated NIBC's agility and sector expertise in corporate banking.

Discussions revealed that client satisfaction was seen by stakeholders as an aspect which says something about our franchise and builds confidence in our approach. Importantly this aspect is seen as one that reduces earnings volatility and contributes to future profitability.

Regulatory compliance and audit were seen as important aspects which help to underpin integrity. Stakeholders viewed employee engagement as a strong indicator of commitment and dedication towards clients and NIBC's Business Principles.

Diversity aspects rose in importance to stakeholders, reflecting increasing public awareness. Sustainable client transactions and investments also grew in importance to stakeholders compared to past years. NIBC has embraced sustainability in its financings and investments for clients in renewable energy, social infrastructure (I&R), real estate (CRE), agriculture (FAR&H), and shipping (S&I).

## Engagements in 2016

Throughout 2016, we engaged with a wide range of stakeholders through dedicated consultations to ensure that feedback was being shared effectively with management and across our business.

## Clients

Our goal is to build a sustainable banking franchise by forging long-term relationships with our clients and delivering clear and sustainable solutions. As part of our duty of care towards our clients, we gather feedback from clients and customers at every opportunity. Our main client groups include:

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

For corporate clients, we measure satisfaction levels through formal channels, such as NPS surveys directly after deals are closed, informally through post-transaction reviews, and through input provided by our Advisory Board. The Advisory Board is dedicated to helping us understand the context in which our corporate clients operate, and enhancing our insights into their needs, so that we serve them better. Its members meet three times a year, and comprise seasoned professionals with strong track records, reputations and relevant networks.

In their NPS survey feedback, corporate clients responded that they continue to value our speed, our quality of advice and deep sector and financial knowledge. Our NPS survey score for the year was +37%. NPS is based on client responses to the question: 'How likely are you to recommend our company/ product/ service to your friends and colleagues?'.

In the year, our retail customers across all countries demonstrated good satisfaction levels. Our NIBC Direct Customer Survey score was 7.6 in 2016 compared to 7.7 in 2015.

Similarly, there has also been external recognition of NIBC Direct's website in the Netherlands, which won the 'Website of the year' award from the Dutch Marketing Authority for the second time running, due to its simplicity and strong client-focused approach.

## Employees

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

Engagement is vital in these efforts, which we accomplish through several channels. Some of these are meetings between employees and members of our Managing Board. For example, all Board Members meet regularly with employees on an informal basis during which employees can raise any topics, concerns or other comments. Regular Town Hall sessions led by Board members, are also held every two months, to cover topics such as financial results and strategy updates. As part of our Analyst Programme, young trainees are offered the opportunity to present inventive and challenging business cases to the Managing Board.

NIBC's Innovation Lab hosted several events for employees including 'Inspiration Mondays' to increase awareness of Fintech and other new innovations and trends which might impact our clients, local communities, and NIBC. Employees also engaged with several start-up incubators, acting as coaches and mentors to young entrepreneurs during the year.

For more information about our engagement with employees in the year, please refer to the Our People chapter in this Annual Report.

## Regulators

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

Governments are responsible for the framework in which public and private financial services organisations operate; creating legislation and regulations, and influencing the way we operate. To contribute towards the ongoing development of our sector we engage proactively with the appropriate representatives.

Our primary regulating entity is the Dutch Central Bank. In 2016, we had regular contact and maintained an open and ongoing dialogue with the DNB, most notably, in areas such as risk management, capital and liquidity, asset quality, and relevant developments in Europe. Furthermore, several meetings were held with both the *National Resolution Authority* (**NRA**) and the *Single Resolution Board* (**SRB**) to discuss the resolution strategy and impact of 'gone concern'.

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

Furthermore, NIBC proactively communicates with tax authorities, evidenced by its ongoing agreement on horizontal supervision with the Dutch tax authorities. We consider tax in our decision-making with regards to transactions, clients and investments. Our aim is to avoid possible instances of tax base erosion and profit-shifting activities.

NIBC operates a Tax Control Framework that is reviewed periodically and kept in line with all relevant developments in rules and regulations, changes within the organisation and societal demands. One of the principles of the policy is that we do not engage in transactions without economic substance or which are exclusively aimed at safekeeping or realising tax benefits for ourselves or for clients. Furthermore, our position in tax matters must be supported by internal analysis and/or external opinions. To the extent possible, we obtain advance tax rulings from the relevant tax authorities. In this way we are committed to adhere to the letter and spirit of applicable tax regulations.

## Society at large

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

In March, we supported the annual *Week van het Geld* (Money Week), an initiative whereby sponsors provide fun lessons about money management to primary school children. During the week, NIBC employees gave lessons in classrooms at various schools as part of the Bank in the Classroom programme, based on the 'Cash Quiz' game developed by the Dutch Banking Association.

NIBC employees were active in a wide range of other volunteering and sustainability initiatives. Employees coached young entrepreneurs from local and national start up incubators. Staff in The Hague supported the children of *Stichting Vitalis* through fundraising as well as a year-end holiday initiative. Similarly, in Frankfurt, our people supported *Mädchenbüro*, an intercultural institution for teenage girls and *Johanniter*, a non-profit association that provides support services to the homeless.

In December, NIBC signed the IMVO/SER covenant with the Dutch financial sector. The initiative aims to improve human rights practices related to project and corporate financings. This platform will be supported by greater dialogue and knowledge-sharing on issues with civil society organisations, authorities, clients, and financial sector peers.

**Driving growth by fintech innovator in the digital media industry**

"Having talked to a lot of different banks, we were especially astonished by NIBC's ability to quickly understand our target-markets, as well as their very pragmatic and always results-oriented approach along the whole structuring process."

**Christopher Vogt**
Co-Founder and Managing Director of BillFront

# REPORT OF THE SUPERVISORY BOARD

NIBC delivered a strong performance in 2016 by continuing to apply its focused approach to select market niches in the dynamic mid-sized segment. It significantly strengthened its franchise and expanded its offering to clients. In Corporate Banking, total assets increased by 4%, while in Retail Banking, it continued to expand its successful offering with new products, while migrating its business to a cloud-based platform that will enable further growth in the future. NIBC also improved its solid capital position while maintaining its liquidity position at a solid level and made steady progress towards improving its profitability, displaying an increase of its return on equity from 3.9% to 5.4% in 2016.

It achieved these results despite ongoing challenges in the macro-economic environment, with slow growth across the Eurozone and a low interest-rate environment that has impacted the entire banking industry. Uncertainties in the market also intensified following the UK Brexit referendum, and the presidential election in the US.

As a relatively small player in its main markets, NIBC remains well positioned to increase its share by concentrating its resources in select areas and carving out niche areas via sustainable bespoke solutions. The corporate side of the business primarily achieves this by leveraging its expertise in key sectors and sub sectors where it can add the greatest value through its custom-made solutions. In the consumer part of the Bank, efforts are focused on creating distinct products in the market that are fairly priced and transparent, while enhancing customers' digital experience.

The acquisition of SNS Securities in June, was an important step that will enable NIBC to provide corporate customers with debt and equity capital market solutions. The move is both understood and greatly appreciated by our clients, and will give NIBC an offering that, in combination with its existing product suite of financing, co-investment and advising activities, is key to play a pivotal role within the Dutch mid-cap market. It truly positions NIBC as the go-to partner for decisive financial moments. We have also launched our new leasing activities via BEEQUIP.

In each of these areas of strategic progress, NIBC has invested to make its systems as agile as possible and to align the needs of its front and back offices. This has also been the case with risk management, where we were pleased to announce the appointment of our new *Chief Risk Officer* (**CRO**) Reinout van Riel in August, following the departure of his predecessor and member of the Managing Board, Petra van Hoeken on 15 March 2016. Reinout brings a wealth of experience to this role and will continue the important task of developing and calibrating our Risk Management Framework in the months ahead. Our goal is to have optimal risk-reward propositions at the core of our business.

Another announcement in the year was the departure of Rob ten Heggeler, Chief Client Officer and member of the Managing Board of NIBC, who has left to co-establish an investment company. The Supervisory Board is sad to see Rob leave and wishes him every success in the future. He joined NIBC seven years ago at a time our Bank was going through a difficult period. It is in no small part a result of his tremendous commitment and perseverance that Corporate Banking has become the solid operating division it is today, and one that is well positioned for the future. We thank Rob for his hard work and look forward to working closely with him in his new part-time role as Senior Advisor to the Managing Board.

Following Rob's departure, NIBC has taken the opportunity to amend its top structure and to safeguard and strengthen the commercial and client-facing roles at executive level by appointing Saskia Hovers, Michel Kant and Caroline Oosterbaan to executive commercial roles for Corporate Banking Sectors, Retail Banking and Corporate Banking Products. As of 1 January 2017, they became members of a newly formed *Executive Committee* (**ExCo**), together with the three Managing Board members. With these appointments, NIBC further strengthens its client focus as a pivotal element of its strategy.

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

Throughout the year, NIBC's Supervisory Board has performed its vital duties towards the company's stakeholders, and had satisfactory access to all necessary information and company personnel. We would like to extend our thanks to all our stakeholders who have helped to make 2016 such a success, most notably, our highly professional, entrepreneurial and inventive employees.

## COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board consists of nine members. Five members are independent members that meet the independence criteria laid out in the Dutch Corporate Governance Code. The other four are representatives of our shareholders.

### As per 31/12/2016

| Name | Year of birth | Nationality | Member since | End of term | Committee memberships[1] |
|---|---|---|---|---|---|
| Mr. W.M. van den Goorbergh (Chairman)[2] | 1948 | Dutch | 2005 | 2018 | AC, RNC, RPCC, RPTC |
| Mr. D.R. Morgan | 1947 | Australian | 2010 | 2018 | RNC, RPCC |
| Mr. M.J. Christner | 1972 | German | 2011 | 2019 | AC |
| Mr. J.C. Flowers | 1957 | American | 2012 | 2020 | - |
| Mr. A. de Jong[2] | 1954 | Dutch | 2005 | 2017 | RPCC, RPTC |
| Ms. S.A. Rocker | 1954 | American | 2009 | 2017 | RNC |
| Mr. D.M. Sluimers[2] | 1953 | Dutch | 2016 | 2020 | AC, RNC |
| Ms K.M.C.Z. Steel[2] | 1946 | Belgian | 2014 | 2018 | AC, RPCC, RPTC |
| Mr. A.H.A. Veenhof[2] | 1945 | Dutch | 2006 | 2018 | RPTC, RNC |

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

The Supervisory Board comprises two female and seven male members of diverse nationalities. For a detailed explanation of our compliance with the Dutch Corporate Governance Code, please see our website.

As per 1 January 2016, Dick Sluimers was appointed as independent member to NIBC's Supervisory Board and as chairman of the Audit Committee. Mr Flowers was reappointed in August for four years.

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

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

The Supervisory Board is generally satisfied with its current composition and that of its Committees, but would also welcome greater diversity in terms of gender, age and skills. In the case of a vacancy, the regular policy is applied in which the Executive Search team is asked to also provide a shortlist of female candidates, although final selection is ultimately based on the suitability for a specific position.

**Meetings of the Supervisory Board**

The Supervisory Board met on six occasions in 2016. This included three regular two-day meetings in March, August and November and two regular one-day meetings in June and December. An additional one-day meeting in June was held at which the Supervisory Board and the Managing Board discussed the Bank's current and future strategy. Five members of the Supervisory Board participated in all meetings in 2016, while four members were absent from one meeting.

During the regular meetings, the Supervisory Board conducted extensive discussions relating to NIBC's corporate and retail banking business, risk management, strategic initiatives and financial performance. The interim 2016 results and the budget for 2017 were also discussed, as were quarterly results, the acquisition of SNS Securities which continues within the corporate banking business as NIBC Markets, the establishment of the new equipment leasing company, BEEQUIP, and changes to be made to the leadership governance structure.

The Supervisory Board also continued its programme for lifelong, participating in a session on capital markets solutions and a session with the Boston Consulting Group that gave an external view on value drivers and cost management within NIBC.

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. Most of the discussions and decisions of the Supervisory Board were prepared in the committees referred to below, at which at least two members of the

Supervisory Board were present. The members of the Managing Board attended all meetings of the Supervisory Board. Additionally, three members of the Supervisory Board attended two consultation meetings between the Managing Board and the Council.

**Meetings of the committees of the Supervisory Board**
The Supervisory Board is supported by four committees consisting of members of the Supervisory Board.

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

In 2016, the AC extensively reviewed NIBC's quarterly financial highlights, half-yearly and annual financial reports and related press releases, and discussed the draft reports of the external auditor, including its Board Report, before the report was discussed in the Supervisory Board meeting.

The Committee discussed NIBC's financial performance in depth, including the development of the Bank's net interest income combined with low interest rates, business growth and the development of spreads and cost/income ratios. Furthermore, the Committee reviewed NIBC's liquidity and its funding profile, including senior unsecured issuance and Covered Bonds issuance, and the development of related liquidity and solvency ratios.

For 2016, NIBC appointed new independent external auditors, following the decision made by the Annual General Meeting in 2015. The AC took note of the transition work of the new external auditor and conducted an exit valuation of the former external auditor. The AC also approved the annual audit plan of the newly appointed external auditor.

Specific topics discussed with the auditors dealt with loan loss provisioning, gains less losses, acquisition of SNS Securities, NIBC's change agenda, IFRS9 and fraud risk.

The Committee informed itself of the state and developments of NIBC's Information Technology, and more specifically the IT Forward Program. The Program envisages further professionalising NIBC's IT organisation including increased use of 3rd sourcing parties.

The Committee also considered the closing of the acquisition of SNS Securities, renamed to NIBC Markets, mid 2016 and subsequent integration of activities and alignment of policies and procedures.

The AC took note of and discussed NIBC's consultations with the DNB, and considered the (preliminary) results of the Supervisory Review and Evaluation Process and of on-site examinations conducted by the DNB, including AQR on the Bank's corporate loan portfolio.

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

The external auditors, by mutual agreement, were represented at all meetings of the AC in 2016. The external auditor had one meeting with the AC without the members of the Managing Board present. The Committee met four times in 2016 in the presence of members of the Managing Board.

**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. It also evaluates the performance of the other Supervisory Board committees, and assesses the performance of the members of the Managing Board and the Supervisory Board.

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 RNC oversees the remuneration of 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.

The RNC held 5 regular meetings and 3 additional conference calls in 2016 in the presence of the head of Human Resources and, in appropriate cases, of the CEO. Additionally, a delegation of the RNC attended a meeting of the control functions. During 2016, the RNC discussed the regular subjects regarding remuneration, risk- and audit assessments and variable income as well as the various nominations for the Supervisory Board committees. Furthermore the RNC discussed the Self Assessment on the Supervisory Board effectiveness and the vacancies in the Managing Board and in the Vorstand of NIBC AG.

## Remuneration management

The RNC reviewed the Remuneration Policy this year, taking into account relevant legislation and Guidelines (amongst others the EBA guidelines on sound remuneration policies). Next to legislation, the Committee has taken the market circumstances and developments into consideration. On one hand, the positioning of NIBC in the relevant labour markets was monitored by means of benchmark surveys. On the other hand, attention was paid to broader developments in the market, as the Committee is well aware of the public attention to the subject of 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 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 RNC also determined the obligatory disclosures on the Identified Staff and on the remuneration policy.

The Supervisory Board remuneration has been stable for years. A review of the Supervisory Board remuneration showed that recently some Dutch banks adjusted their remuneration for the Supervisory Board. Based on the comparison with other financial institutions also NIBC has decided to amend the remuneration of the Supervisory Board per 1 January 2017.

## Succession management

Succession Management has been discussed extensively in the RNC in the light of the two vacancies in the Managing Board that emerged during 2016. With regard to these events the potential of possible internal candidates, both from the specific line of business as from the broader organization, were taken into consideration. In this respect the RNC also discussed the organizational set-up of top management of NIBC. On its proposal the Supervisory Board decided to install an Executive Committee as of 1 January. This consists of the current three Managing Board members and three non statutory members representing the commercial activities of the Bank.

The Committee's Chairman has continued to hold regular holds talks with senior managers to gain a deeper understanding of their professional development and of internal developments taking place within the Bank.

### Risk Policy & Compliance Committee

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

During 2016, the RPCC extensively discussed NIBC's assets, liquidity and funding, stress tests and risk profile. A topic that was on the agenda of throughout 2016 was NIBC's updated risk appetite framework and the forward looking nature thereof. The RPCC discussed NIBC's long-term objectives, including the attainment and retention of a BBB credit rating, appraised developments in the six defined pillars of risk appetite (franchise, solvency, profitability, liquidity, funding and asset quality). Specific attention was devoted to the evaluation & review of the newly introduced stress testing framework. The reviews of both the risk appetite framework and the risk management framework were completed.

Besides risk appetite and the quarterly reporting on the subject 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 and event risk reports, economic capital reports, liquidity risk reports and risks of the macroeconomic environment, such as the very low interest rate environment, the availability of FX-funding, the tail risk of long term (> 15 years) mortgages, decreased oil prices and the impact of Brexit.

On the non-financial risk side, the RPCC reviewed NIBC's franchise as reflected in the experience of its customers, the views of the rating agencies and its operational risk profile and in-control environment, including specific risks such as information security, new product approvals and significant changes within the organisation (including certain IT-related initiatives), as well as compliance and regulatory risk. The committee also evaluated how risk awareness is embedded in NIBC's organisation, e.g. through the lessons learnt program developed by the restructuring & distressed assets team, as well as its own functioning. In addition, it regularly reviewed and discussed market and regulatory developments and their impact on NIBC, such as the AQR, the resolution plan and changing solvency requirements.

The RPCC met four times in 2016 in the presence of members of the Managing Board.

**Related Party Transactions Committee**

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

The Managing Board has informed the RPTC of its intention to advise JC Flowers & Co UK LLP on a buy side transaction. On 24 August the RPTC gave its approval to this potential transaction and reported their decision to the Supervisory Board in the meeting of 30 August 2016.

**Financial statements**

The consolidated financial statements have been drawn up by the Managing Board and audited by Ernst & Young Accountants LLP, who issued an unqualified opinion dated 7 March 2017. The Supervisory Board recommends that shareholders adopt the 2016 Financial Statements at the Annual General Meeting of Shareholders on March 31st, 2017. 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 2016.

The Hague, 7 March 2017
Supervisory Board

Mr. W.M. van den Goorbergh, Chairman
Mr. D.R. Morgan, Vice-Chairman
Mr. M.J. Christner
Mr. J.C. Flowers
Mr. A. de Jong
Ms. S.A. Rocker
Mr. D.M. Sluimers
Ms. K.M.C.Z. Steel
Mr. A.H.A. Veenhof

# REMUNERATION REPORT

The Supervisory Board reviewed and amended NIBC's remuneration policy in 2016. The review took account of all relevant laws, regulations and guidelines: the Dutch Corporate Governance Code; the Dutch Banking Code; the *DNB Principles on Sound Remuneration Policies* (**DNB principles**), EBA Guidelines on Sound Remuneration; and CRDIV and the Dutch remuneration legislation for Financial Services Companies Wbfo.

NIBC's remuneration policy and Managing Board remuneration for 2016 are outlined below. 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.

## MANAGING BOARD REMUNERATION IN 2016

To avoid unnecessary duplication, we refer to note 55 of the consolidated financial statements for all relevant tables. These can be considered an integral part of this Remuneration Report.

### Remuneration principles

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

### Peer group composition

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 (Euronext) listed companies. The composition of this peer group reflects the labour market in which NIBC competes for talent. As such, it is an objective measure outside NIBC's control.

### Market positioning

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

### Base salaries

In 2016, the base salary for the CEO was set at EUR 800,000 gross per year (775,000 in 2015), while the base salary for members of the Managing Board was set at EUR 550,000 gross per year (500,000 in 2015). Base salaries are payable in 12 equal monthly instalments. The Supervisory Board reviews the level of base salaries against the market each year and may decide to adjust it.

### Variable compensation

The variable income component in 2016 is at target 15% of base salary (with a maximum of 20% of base salary).

Over 2016 the following incentive compensation of base salary were granted: the CEO 17%, the Chief Client Officer 17%, the Chief Financial Officer 17% and the CRO 17%.

For the CEO and other members of the Managing Board, the variable compensation is delivered in a pre-defined mix (same as for other Identified Staff): 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 that require Identified Staff to receive 50% of all variable compensation in the form of equity or equity-linked instruments and for 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 law.

## 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 2016, the pension plan consisted of a) a *collective defined-benefit pension arrangement* (**CDC arrangement**) up to a pensionable salary of EUR 101,519 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 is 67. There are no contractual early retirement provisions.

The Members of the NIBC Managing Board, including the CEO, participate in the same pension scheme as employees. NIBC pays a standard flat-rate contribution of 26% into the pension fund for the CDC arrangement. As all employees, they are required to make a personal contribution of 4.0% of their pensionable salary in the CDC arrangement.

## Other key benefits

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

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

## Employment contracts

The CEO and members of the Managing Board all have indefinite employment contracts, which are fully compliant with the Dutch Corporate Governance Code. Their appointment to the Managing Board is for a maximum term of four years. The term can be renewed. Any severance payment is limited to 12 months' base salary.

### Amendments to Managing Board remuneration in 2017

After a thorough review of Managing Board remuneration and amendments in 2016 in 2017 no amendments are proposed

### 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 (published in the course of May 2017).

## 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 variable compensation and the specific forms in which variable compensation may be awarded. The 2016 compensation ratio (total compensation costs as percentage of operating income) was 25.3%.

## Variable compensation
All employees with a function contract are eligible for variable compensation. Whether or not they actually receive it is wholly discretionary and depends on the overall financial and non-financial performance of the Bank, of their respective business unit, their personal performance and the relevant market levels of remuneration.

All employees 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 Business Principles, 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. In 2016, the average variable compensation awarded to eligible employees was approximately 17%; below the 20% cap of the Wbfo. The maximum awarded to any individual, including risk-takers, was 50% of fixed salary.

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 are subject to disciplinary action.

## Pay mix
Variable compensation, if any, is delivered in various components: (I) cash; (II) deferred cash; (III) vested PSUs; (IV) unvested PSUs. The variable compensation is a combination of cash, deferred cash and 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 40% of both the cash and equity component to be deferred.

### Special situations
Only in exceptional cases and only in the first year of employment can the Managing Board offer sign-on or guaranteed minimum bonuses to new employees and retention bonuses to existing employees. In the unlikely event that these amount to more than 100% of the base salary of the individual employee concerned, procedures will be followed in accordance with the regulations and the maximum ratios between fixed and variable remuneration will be respected. This has not occured in 2016.

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, the Bank'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 RNC and Supervisory Board about these arrangements.

**Supervisory Board Remuneration 2016**

Remuneration for the Supervisory Board remained unchanged in 2016. The Chairman and members of the Supervisory Board are entitled to an annual gross basic fee totalling EUR 60,000 for the Chairman, EUR 50,000 for the Vice-Chairman and EUR 40,000 for members. In addition to the annual basic fee, the Chairman and members of the Supervisory Board are entitled to further fees for membership of one or more committees amounting to EUR 15,000 for the AC, EUR 11,500 for the RPCC and EUR 10,000 for the RNC. The Chairman and members of the Supervisory Board are further entitled to reimbursement of genuine business expenses incurred in fulfilling their duties.

**Amendments to the Supervisory Board remuneration in 2017**

The Supervisory Board remuneration has been stable for years. A review of the Supervisory Board Remuneration showed that recently some Dutch banks adjusted their remuneration for the Supervisory Board. Based on the comparison with other financial institutions, NIBC will propose to the Annual General Meeting of Shareholders to amend the remuneration of the Supervisory Board per 1 January 2017 as described below. The Chairman of the Supervisory Board will be entitled to an annual fee of EUR 75,000 (currently EUR 60,000), the Vice-Chairman of the Supervisory Board will be entitled to an annual fee of EUR 60,000 (currently EUR 50,000) and a member of the Supervisory Board will be entitled to an annual fee of EUR 50,000 (currently EUR 40,000).

All chairmen of committees (AC, RPCC and RNC) wil, as of 1 January 2017, be entitled to an annual fee of EUR 15,000 (currently: no distinction in fee between chairmen and members). The members of the AC and RPCC will be entitled to an annual fee of EUR 10,000, and a member of the RNC to an annual fee of EUR 7,500 (currently AC: EUR 15,000; RPCC: EUR 11,500; RNC: EUR 10,000).

**Remuneration governance**

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

The Supervisory Board discussed Identified Staff, the performance and remuneration of control functions, as well as the employees with the highest proposed variable compensation. Scenario analyses were conducted by Risk Management to assess the possible outcomes of the variable remuneration components on an individual and collective basis.

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 latest laws, regulations and guidelines. The Supervisory Board continues to believe in prudent management of remuneration whilst recognising that NIBC operates in a competitive marketplace 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 (WBFO)**
The total amount of variable income granted in 2016, with respect to the performance over 2015, amounts to EUR 6.4 million. This grant consists of (direct and deferred) cash and (vested and unvested) share based instruments. In 2016 one employee was awarded a total compensation of more than EUR 1.0 million (in 2015: one employee).

# CORPORATE GOVERNANCE

At NIBC, we endeavour to maintain a sound, transparent and efficient governance system that is broadly aligned to best practices in our industry. The 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.

This chapter contains some highlights of our governance structure in 2016. To the extent applicable, NIBC also adheres to international governance standards such as the EBA Guidelines on Internal Governance.

## MANAGING BOARD

The Managing Board is responsible for the day-today operations of the business and for our longterm value creating strategy. The Board also ensures we comply with relevant legislation and regulatory requirements. In 2016 NIBC had four Managing Board members. With the departure of Mr. Ten Heggeler per 31 December 2016, the Managing Board consists of three members in 2017. The three members of the Managing Board 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 2016, see the following table:

| Name | Year of birth | Nationality | Member since | End of term[1] |
|---|---|---|---|---|
| Mr. P.A.M. de Wilt (Chairman, CEO) | 1964 | Dutch | 2014 | 2018 |
| Mr. H.H.J. Dijkhuizen (Chief Financial Officer) | 1960 | Dutch | 2013 | 2017 |
| Mr. R.H.J.L. ten Heggeler[2] (Chief Client Officer) | 1963 | Dutch | 2009 | 2017 |
| Mr. R.D.J. van Riel (Chief Risk Officer) | 1970 | Dutch | 2016 | 2020 |

1 These are the dates until which the appointment as statutory director runs. They do not refer to the expiry of employment contracts
2 Resigned as per 31 December 2016

In the case of a vacancy in the Managing Board, the regular policy is applied in which we ask the Executive Search to also shortlist female candidates. However, the selection will primarily be based on the fit for the specific position. Going forward, NIBC will continue to strive to find a good balance in the gender diversity of the Managing Board and enhance the chance of the appointments of female candidates. As per 1 January 2017 an Executive Committee was formed consisting of the three Managing Board members and three non-statutory members representing commercial roles. The Executive Committee consists of two female members and four male members.

The Supervisory Board decided on 7 June 2016, based on the profile and total composition of the Managing Board, to appoint Reinout van Riel as member of the Managing Board and CRO of NIBC Bank N.V. for a period of four years as from 15 August 2016. Both the shareholder and the Employees' Council gave a positive advice in relation to this appointment and the Dutch Central Bank granted approval for the appointment on 11 July 2016.

NIBC Bank Deutschland AG is a full subsidiary of NIBC Bank N.V. At 31 December 2016 the Vorstand of the AG comprised Mr. T.A. Rasser and Mr. J.B. Spanjersberg. Mr. M. Bunscak is appointed CEO of the AG as per 1 February 2017. Members of the Supervisory Board (Aufsichtsrat) of the AG are Mr. H.H.J. Dijkhuizen, Ms. S.M. Hovers and Mr. P. Zippro.

The Managing Board, which meets weekly, represents and balances the interests of all stakeholders. In 2016 there were no transactions in which the members of the Managing Board had a conflict of interest. More information about the Managing Board and the Executive Committee, including short biographies, can be found on our website.

The *Engagement Committee* (**EC**) ensures a transparent, ethical and accurate decision-making process with regard to NIBC's engagement of clients. The EC serves as forum where all potential transactions and engagements of the Corporate Banking division of NIBC are checked against potential conflicts of interest as well as potential integrity risks. The EC comprises of the CRO, a member of the Executive Committee representing Corporate Banking and the head of Compliance.

## SUPERVISORY BOARD

The Supervisory Board oversees management performance and advises the Managing Board. On 31 December 2016, the Supervisory Board consisted of nine people with extensive and international expertise in fields such as banking and finance, corporate governance and corporate management. As per 1 January 2016 Mr. D.M. Sluimers was appointed as new member of the Supervisory Board and chairman of the Audit Committee. In August 2016 during an Extraordinary General Meeting of shareholders, the shareholders decided to reappoint Mr Flowers as per 29 October 2016 (his end of term) for another four years. For more information about our Supervisory Board, please see the Report of the Supervisory Board or visit our website.

## DUTCH CORPORATE GOVERNANCE CODE

NIBC voluntarily supports and applies the principles of the Dutch Corporate Governance Code. NIBC partly deviates from best practices and principles as laid out in the Code. The main deviation is that we do not comply with best practice provision III.2.1, which provides that the members of a supervisory board should be independent, except for one member. At this point, the Dutch Corporate Governance Code deviates from the policy of the DNB that came into force in 2012. It is the policy of the DNB that at least 50% of the members of a supervisory board should be formally independent members according to the criteria of provision III.2.1. of the Dutch Corporate Governance Code. Based on this new policy, we assessed the independence of the members of our Supervisory Board. Five out of nine members qualify as formally independent.

Our website contains a detailed overview of NIBC's compliance with the principles of the Dutch Corporate Governance Code, including reasons for the above and other minor deviations, as well as the full text of the Code.

## DUTCH BANKING CODE

The Banking Code is self-regulation, but had been decreed a legislative code by the Ministry of Finance. As per 1 January 2015 a new Dutch Banking Code came into force as 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.

The NIBC3 principles - professional, entrepreneurial and inventive - 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 alue 'professional'. In 2016 we took these values a step further by making them the basis of our annual assessments and hiring.

NIBC has implemented all procedural and operational measures required under the Banking Code. We have aligned our remuneration policies for staff and for the Managing Board with the Banking Code. Since 2010, we have had a programme of lifelong learning and held regular training sessions for the Managing Board and the Supervisory Board.

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

# RISK MANAGEMENT

Our business of providing advice and debt, mezzanine and equity financing solutions for businesses and entrepreneurs, and straightforward, transparent products and services for enterprising retail customers, requires us to take well-judged risks. We mainly pursue credit and investment risk; lowering to an acceptable level our interest rate, currency, liquidity, and operational risks while ensuring our solid capital and liquidity positions. These are integral aspects of our business as a corporate and retail bank. 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.

We believe that effective risk management is at the core of our sustainable growth strategy, and is therefore fully integrated into our planning and control cycle and our day-to-day business activities. As risk management is not purely a sequential process, this also implies that choices must be made by people on a daily basis and that everyone understands the role they have to play in the value chain.

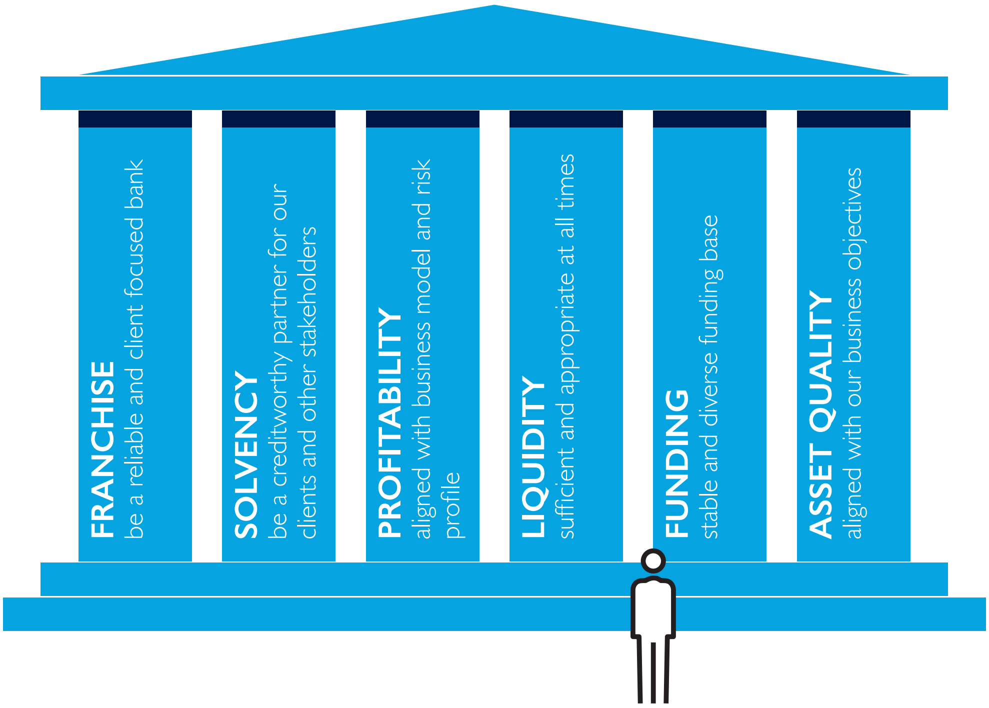
Our business actively supports mid-cap companies and new ventures at their most decisive moments, so it is vital that we have the room to be inventive in our approach. Although it is the nature of our business to allow for exceptions and try new structures in order to service our clients efficiently, we always benchmark potential transactions against our risk appetite framework.

NIBC has the advantage of its small scale, and the close proximity and collaboration there is between colleagues and 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 as we comply with evolving regulatory requirements.

## RISK APPETITE

Risk appetite defines the amount and type of risk an organisation is willing to accept in pursuit of its business objectives. In order to achieve our long- term objectives, including the attainment and retention of our target BBB credit rating, we have defined six pillars, which together form NIBC's risk appetite framework.

Figure 1: NIBC's Risk Appetite framework in 6 pillars




Our performance is measured across these pillars by means of quantitative and qualitative risk appetite statements. This framework helps us to implement and execute our strategy of sustainable growth, as it helps to steer us with regards to client interest, product suitability and compliance with laws and regulations.

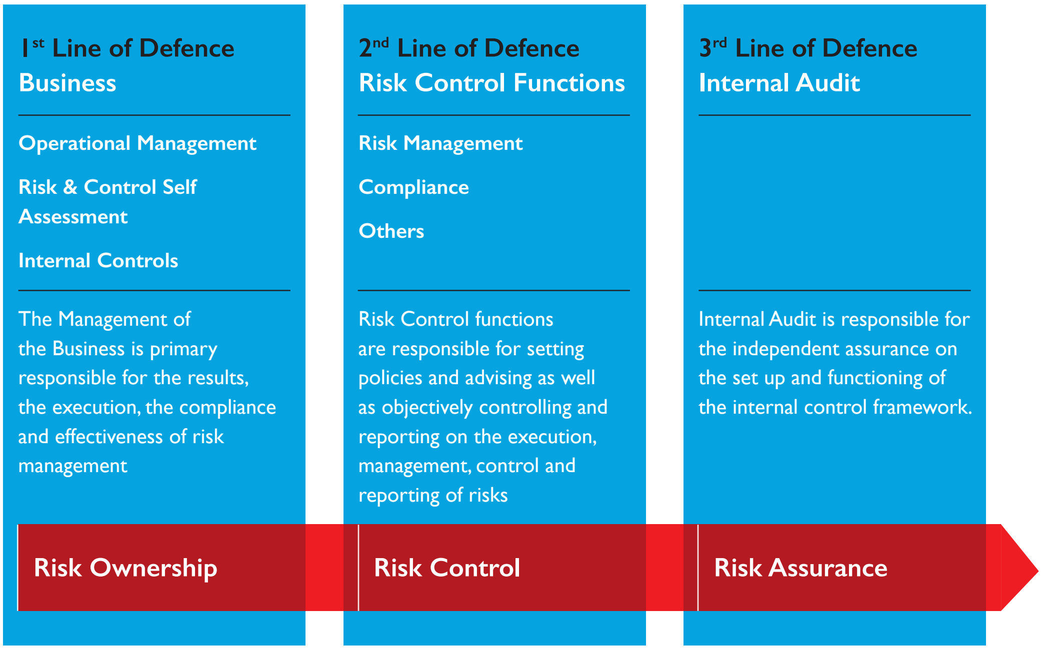
NIBC's risk appetite framework is rolled out throughout the organisation and incorporated in our policies, procedures, limits and action plans. Key risk/performance indicators and early warning signals are used to monitor and control developments in these areas.

In determining risk appetite we pay close attention to the budget setting and capital planning process. NIBC's forward-looking risk profile, based on budgets and (stressed) scenario forecasts, is the basis of setting the risk appetite. We have designed a comprehensive set of selected stress scenarios (including externally provided inputs) in order to capture all significant risks contained in NIBC's positions.

## RISK GOVERNANCE

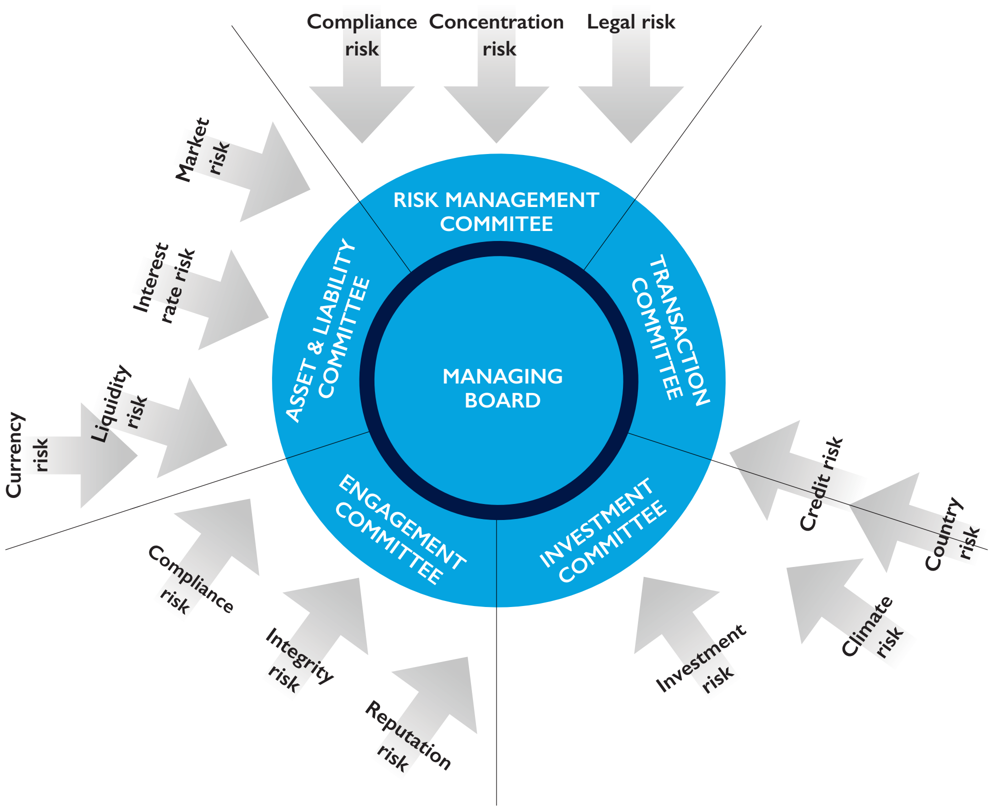
NIBC uses the 'three lines of defence' governance model, which provides a structure to clearly assign the risk management activities and responsibilities throughout the organisation. This model supports risk awareness, and promotes dialogue across functions on goals, risks and controls. It is pivotal to this model that every member of the NIBC staff takes accountability for his or her actions as part of our sound risk culture.

## Figure 2 Three lines of defence




To support effective risk management, the *Managing Board* **(MB)** has delegated decision-making authority regarding the various risk areas to a number of committees, as displayed in the figure below.

## Figure 3 Risk responsibility areas



Besides members of the MB, each committee also comprises of employees of the Bank with expertise in the specific risk area.

- The *Risk Management Committee* (**RMC**) approves risk policies and methodologies, sets portfolio, sub-portfolio and concentration limits, governs model validation and approves new product approval requests;
- The *Asset & Liability Committee* (**ALCO**) sets and monitor economic capital and market risk limits, oversees liquidity management and manages the interest rate and currency risks of the banking book;
- The *Transaction Committee* (**TC**) is responsible for decision-making on senior debt transactions, impairments and write offs and lending and underwriting strategies;
- The *Investment Committee* (**IC**) is responsible for decision-making on equity, mezzanine and subordinated debt transactions and impairments and revaluations; and
- The *Engagement Committee* (**EC**) is responsible for decision-making with regard to client engagement and conflicts of interest.

## KEY DEVELOPMENTS 2016

The current economic climate, with its macroeconomic uncertainties, geopolitical changes and low-interest rate environment, is a challenging one for the industry. Notwithstanding, NIBC has continued to take important steps in terms of its risk management and the execution of its strategy, which included the following key developments in 2016:

- **Ongoing attention to sector developments and portfolio management in certain sectors**
  Headwinds in the O&G and dry bulk shipping (sub)sectors included slower demand and currency effects. These continued trends led to additional portfolio management and risk management attention to proactively address the situation with our clients and, where necessary, take pre-emptive measures. These measures included a detailed review of all of our exposures and clients in the O&G and dry bulk shipping (sub)sectors. Taking a conservative approach, this exercise led to transferring more files totaling EUR 0.2 billion of exposure to our "watchlist". Both (sub) sectors displayed an increase in 2016 of non-performing loans and impaired loans. As we actively seek to resolve the credit issues with these clients, the forborne exposures in these (sub)sectors also increased in 2016.

  In 2016 we continued our efforts to restructure and/or transfer legacy exposures in the CRE sector, which should lead to a reduction of these exposures in 2017.

- **Risk profile**
  NIBC's risk profile of the performing portfolio improved in 2016, displaying a decrease of the expected loss to 35 basis points. This development was mainly driven by healthy origination in good credit quality transactions. Excluding the O&G and dry bulk shipping (sub)sectors discussed above, most of the credit risk metrics (non-performing exposure, defaulted exposure and forborne exposure) of the corporate loan portfolio improved in 2016. In the second half of 2016, the DNB performed an asset quality review on our corporate loan portfolio. The outcome of this review, leading to an additional impairment amount of EUR 20 million, is fully included in the 2016 results.

  In line with a further improving Dutch housing market and economic recovery, the residential mortgage portfolio displayed an improved credit quality in 2016. During the year, both the amount in arrears, as well as the amount of realised losses, decreased compared to the previous year.

- **Product development**
  We require elements such as client interest, product knowledge, operational handling, compliance with our risk appetite and profitability to be successfully addressed before a new product can be implemented.

  In 2016 we attracted our first originate to manage mandate to manage a portfolio of mainstream residential mortgages for an institutional investor.

  An equipment leasing product was added to our product pallet in 2016 via the establishment of the new venture BEEQUIP. This venture focuses on financing/leasing transactions for used equipment, mainly for small and medium enterprises in the sectors infrastructure, earth-moving, construction and logistics sectors.

  In addition, the growth of new products in our Retail Banking business, such as is the case with our buy-to-let mortgage and the mortgage for self-employed, fits within our risk appetite.

- **Improving risk awareness and strengthening of risk management processes**
  Risk awareness is a continuous focus at NIBC, with training and knowledge-sharing sessions during the year on the various aspects of risk management, such as risk appetite, credit skills, information security, data privacy, operational risk and legal and regulatory developments. We continued to strengthen NIBC's risk management practice, further embedding the risk appetite framework with an increased focus on operational, compliance, legal and integrity risks. The regulatory affairs function was upgraded, bringing more coordination in the attention for the regulatory environment. In Retail Banking, the risk management function was strengthened, in line with the growth of the buy-to-let portfolio and the roll-out of the originate-to-manage business. An additional focus area is the update of our economic capital framework, where we are improving the alignment to the minimum regulatory capital requirements from the annual *Supervisory Review and Evaluation Process* (**SREP**) by the regulator.

- **Change management**
  During 2016 an important focus area was facilitating change in the organisation. Steps were taken to integrate NIBC Markets into its new parent, including the integration of the risk function. This integration continues into 2017 and is expected to be finalised within the year. The new venture BEEQUIP also required embedding in our risk management framework and in other support functions. Ongoing projects relate to amongst others IFRS 9, MiFID II, Anacredit and the transition (outsourcing) of the technical IT environment.

## OVERVIEW OF RISK TYPES

Within its risk management framework, NIBC distinguishes the following key risk categories: credit risk, investment risk, interest rate risk, market risk, liquidity risk and operational risk. Pursuing two main risks (credit and investment risk) while managing the other risk types is in line with the business strategy, where the risk appetite helps NIBC to be in control and to achieve its targets in a sustainable and controller way. One additional element being key to enable business activities is to ensure the Bank's capital adequacy.

Table 1 displays a breakdown of NIBC's positions (both drawn and undrawn), together with the main types of risk present in these portfolios. This section discusses these risk categories and the way NIBC manages them.

Notes 56-59 and 60 to the consolidated financial statements contain more detailed information on NIBC's portfolios, the various risk types and the risk management procedures. Additional information on capital adequacy and risk management can be found in NIBC's Pillar 3 report which is published on our website.

## Table 1 Overview of main risk types

| in EUR millions | Main risk types | 31 December 2016 | 31 December 2015 |
|---|---|---|---|
| Corporate/ investment loans | | 9,904 | 9,393 |
| Corporate loans | Credit risk | 9,658 | 9,232 |
| Investment loans | Credit risk | 246 | 161 |
| Lease receivables | Credit risk | 123 | 221 |
| Residential mortgages | Credit risk | 8,831 | 8,580 |
| Equity investments | Investment risk | 262 | 300 |
| Debt investments | | 1,232 | 1,296 |
| Debt from financial institutions and corporate entities | Credit risk / Market risk | 459 | 482 |
| Securitisations | Credit risk / Market risk | 773 | 814 |
| Cash management | Credit risk | 1,371 | 1,382 |
| Derivatives[1] | Credit risk / Market risk | 1,817 | 2,174 |
| Funding | Liquidity Risk | 21,466 | 20,549 |
| Capital (Incl. Tier-2 as per Basel III) | Capital Adequacy Risk | 2,155 | 2,025 |

1 Positive replacement values

## CREDIT RISK

NIBC defines credit risk as the current or potential threat to the company's earnings and capital as a result of a counterparty's failure to make required payments related to financial obligations on time or to comply with other conditions of the agreement. Credit risk at NIBC is present in corporate loans and investment loans, lease receivables, residential mortgages, debt investments, cash management and derivatives.

Within the corporate banking activities, credit risk is governed by the TC and the IC. Both committees review and approve transaction proposals and monitor usage of the various portfolio and concentration limits. For retail banking activities, which are based on program lending instead of individual credit review by a committee, credit risk is governed by the RMC. The RMC determines the underwriting criteria, within which Retail Banking can originate retail mortgages and buy-to-let mortgages.

Table 2 provides a breakdown of the credit exposures of NIBC.

## Table 2 Overview of credit risk exposures

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Corporate Loans portfolio | | |
| Infrastructure & Renewables | 1,618 | 1,990 |
| Industries & Manufacturing | 1,514 | 1,266 |
| Shipping & Intermodal | 1,512 | 1,537 |
| Commercial Real Estate | 1,375 | 1,293 |
| Telecom, Media, Technology & Services | 1,257 | 968 |
| Oil & Gas Services | 1,233 | 1,282 |
| Food, Agri, Retail & Health | 1,149 | 896 |
| **Total Corporate loan exposures** | **9,658** | **9,232** |
| Investment Loans portfolio | | |
| Infrastructure & Renewables | 19 | 4 |
| Industries & Manufacturing | 6 | 17 |
| Shipping & Intermodal | | |
| Commercial Real Estate | 20 | |
| Telecom, Media, Technology & Services | 69 | 82 |
| Oil & Gas Services | 16 | 16 |
| Food, Agri, Retail & Health | 116 | 42 |
| **Total Investment loan exposures** | **246** | **161** |
| Consumer Loans portfolio | | |
| Retail mortgages - The Netherlands | 8,747 | 8,463 |
| Retail mortgages - Germany | 84 | 117 |
| **Total Consumer loan exposures** | **8,831** | **8,580** |
| Debt Investment portfolio | | |
| Financial institutions & Corporate credits | 459 | 482 |
| Securitisations | 773 | 814 |
| **Total Debt investment exposures** | **1,232** | **1,296** |
| Lease receivables exposure | 123 | 221 |
| Derivatives | 1,817 | 2,174 |
| Cash Management | 1,371 | 1,382 |
| **Total at 31 december** | **23,278** | **23,045** |

## DEVELOPMENT OF CREDIT QUALITY

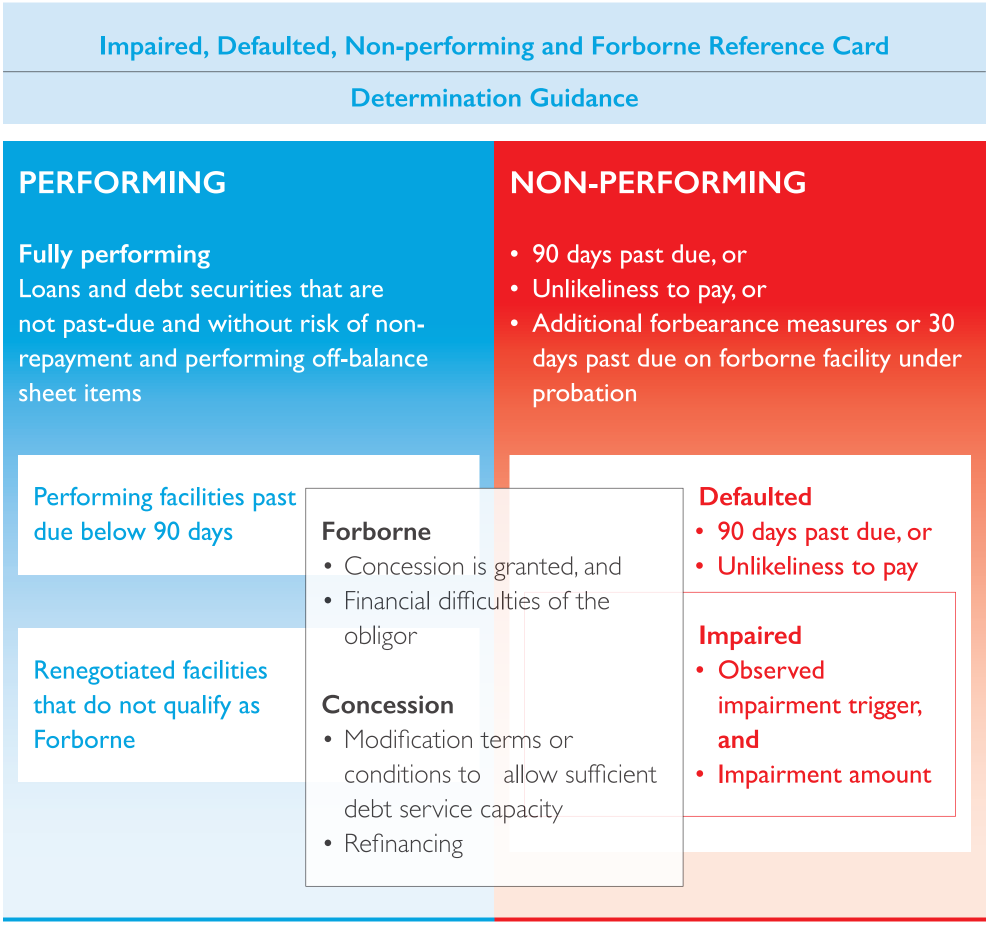
Risk Management monitors credit quality on an ongoing basis, enabling NIBC to take prompt and proactive action, if needed. To identify potentially problematic exposures, we use the following measures:

- 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 impaired if the TC decides on an impairment amount for that facility;
- Non-performing exposure: defined by the *European Banking Authority* (**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; and

- Forborne exposure: defined by the EBA. A client is considered to be forborne if the client is facing financial difficulties and NIBC grants a concession to the obligor.

The framework and the relationship between the different measures are illustrated in Figure 4.

### Figure 4 Credit quality framework




The credit quality measures support NIBC in identifying exposures that require extra attention of portfolio management and risk management. Early warning signals help us to act quickly and work with our clients to resolve issues early. In these situations, NIBC using various measures to avoid further deterioration and focus on resolving the issues.

Table 3 provides an overview of the exposures that are classified within one or more of the credit quality measures. It should be noted that the exposures reported under the various measures are partially overlapping.

### Table 3 Overview of credit quality measures Total portfolio (Corporate Loans and Dutch Residential Mortgages)

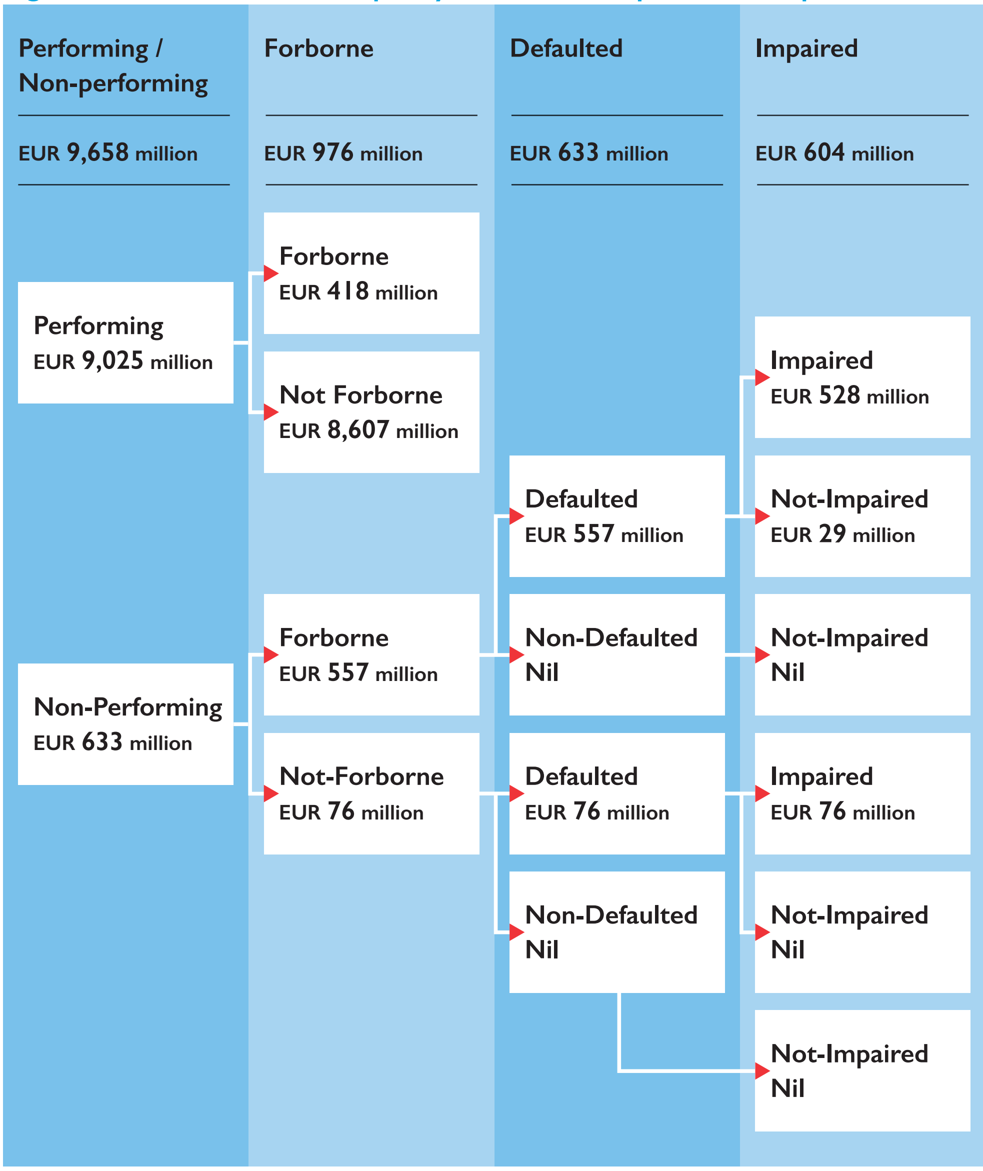
| in EUR millions | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Exposure | in % | Exposure | in % |
| Defaulted exposure | 682 | 3.7 | 641 | 3.6 |
| Impaired exposure | 604 | 3.3 | 503 | 2.8 |
| Non-performing exposure | 682 | 3.7 | 656 | 3.7 |
| Forborne exposure | 1,014 | 5.5 | 795 | 4.5 |

In general, the credit quality of the non-defaulted part of the Corporate Loan Portfolio remained stable in 2016. Severe adverse market circumstances affected our clients in the Oil & Gas sector and the dry bulk shipping subsector. Emphasis during the year was on ensuring adequate quality of existing and newly originated transactions. This was enforced by sound and proactive portfolio management and increased sector emphasis.

In terms of *counterparty credit rating* (**CCR**) distribution, the credit quality of the total portfolio is concentrated in the 5 and 6 categories in NIBC's internal rating scale (corresponding to the BB and B categories in external rating agencies' scales). The concentration of NIBC's corporate loan exposure in sub-investment grade is counterbalanced by the fact that almost all loans are collateralised in some form. Loans can be collateralised by mortgages on vessels and real estate, by lease and other receivables, by pledges on machinery and equipment, or by third-party guarantees and other similar agreements. As a result, NIBC's LGDs are concentrated in those LGD categories that correspond to recoveries in the range of 80% to 90%.

Figure 5 provides the numerical overview of the relationship between these measures for the Corporate Loan portfolio.

Figure 5 Overview of credit quality measures Corporate Loan portfolio




In line with a further improving Dutch housing market and economic recovery, the mortgage portfolio has shown an improvement in credit quality in 2016. During the year, the amount in arrears decreased further and realised losses in the portfolio further reduced. The forborne exposure as per 31 December 2016 equals EUR 38 million. The reported forborne exposure per 31 December 2015 equalled EUR 27 million.

During 2016, acceptance criteria were further adjusted, to bring these in line with the new and mostly stricter regulation. The maximum NHG guaranteed loan amount remained at EUR 245 thousand and the maximum loan-to-value for owner occupied mortgages was lowered to 102%.

Note 56 to the financial statements provides more detailed information on the development of impairments and write-offs as well as more details on forborne exposure.

## INTEREST RATE RISK IN THE BANKING BOOK

NIBC defines interest rate risk in the Banking book as the risk of losses from interest rate sensitive positions in non-trading activities due to movements in interest rates. IRRBB is measured and monitored both from an economic value perspective and from an earnings perspective.

The Banking book consists of all interest sensitive positions excluding the Trading book.

Note 57 to the consolidated financial statements provides more information on Interest rate risk in the Banking book.

## MARKET RISK

NIBC defines market risk as the risk of:

- Losses in the Trading book arising from adverse movements in market rates and;
- Losses in the Banking book from NIBC's credit spread risk position and equity positions (exclusively non-tradable equities) and;
- Losses in both the banking and trading book from adverse movements in currencies in relation to the Euro.

The predominant market risk drivers for NIBC are interest rate risk and credit spread risk.

On 30 June 2016, NIBC Markets (formerly SNS Securities) was acquired by NIBC. 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.

In the Trading book, excluding NIBC Markets, 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. The limits for the Trading book are moderate. Trading book limits are monitored on a daily basis and reported to ALCO on a biweekly basis.

The overall market risk in NIBC's trading book is limited, as is also exhibited by the amount of Basel II/Pillar I regulatory capital required for this activity, which only comprises 2% of the total regulatory capital. This is in line with the 2015 figures.

NIBC is subject to credit spread risk mainly with respect to the part of the Mortgage portfolio accounted for at FVPL. Credit spread risk is also present in the Liquidity portfolio, the Collateral portfolio, the Structured Credits portfolio and in the Trading book of NIBC Markets. The Liquidity portfolio, Collateral portfolio and Structured Credits portfolio are part of the Banking book and consist mainly of investments in financial institutions and securitisations. In the Trading book of NIBC Markets the bond positions in financial institutions, sovereigns and corporates are also subject to credit spread risk.

NIBC does not actively take currency positions. Currency positions that exceed small facilitating limits are hedged. NIBC's overall open foreign currency position was EUR 18 million at year-end 2016. This currency position is the position prior to hedging, which is done on a monthly basis.

Note 58 to the consolidated financial statements provides more information on Market risk.

## INVESTMENT RISK

Investment risk relating to NIBC's equity investments is the risk that the value of the investment will deteriorate.

Our investment risk relates to positions in private equity, infrastructure equity and real estate equity investments. These equity investments can be broken down into direct and indirect investments. Indirect investments are those made through *funds* **(NIBC Funds)**. Direct investments are all other investments and consist of private and listed common equity investments, preference shares, warrants and interests in funds managed by NIBC or by third parties over which NIBC does not exercise control.

The investment process is based on the following principles:

- Ensuring investment risk exposures are authorised independently from the business originators;
- Performing systematic risk analysis of the investment, with a view to identifying, measuring, and evaluating all risks; and
- Embedding the principles of Know Your Customer, sustainability and customer due diligence as integral parts of the overall investment process.

### Management of investment exposures

Direct equity investments must be approved by the IC. By contrast, indirect investment transactions are approved by the investment committees of the NIBC Funds, subject to the investment guidelines stipulated in the agreements between the manager of the NIBC Fund and investors.

NIBC's equity investments generally have low liquidity. Because the size of the investment portfolio is limited, we assess concentration risk for each individual new asset. We also take into account market, sector and geographical exposure profiles.

All investment exposures are reviewed on a quarterly basis. The investment manager drafts a review document and prepares a valuation of the investment in accordance with the International Private Equity and Venture Capital Valuation Guidelines, to the extent that these are consistent with IAS 39. The International Private Equity and Venture Capital Valuation Guidelines lay out recommendations, intended to represent current best practice on the valuation of private equity investments. All valuations are approved by the IC.

In each quarterly review, where applicable the exit strategy of the investment is updated. Divestment proposals for direct investments are submitted for approval to the IC. Divestment proposals for indirect investments are submitted for approval to the investment committee of the NIBC Fund.

### Composition of investment exposure

Tables 4 and 5 show the total amounts and the breakdown of the Equity Investments portfolio in industry sectors and regions. NIBC's off-balance commitments amounted to EUR 19 million at 31 December 2016 (31 December 2015: EUR 16 million).

### Table 4 Breakdown of equity investments per sector

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Infrastructure & Renewables | 116 | 109 |
| Industries & Manufacturing | 14 | 27 |
| Shipping & Intermodal | - | - |
| Commercial Real Estate | 19 | 11 |
| Telecom, Media, Technology & Services | 101 | 110 |
| Oil & Gas Services | - | - |
| Food, Agri, Retail & Health | 13 | 43 |
| **Total at 31 december** | **262** | **300** |

### Table 5 Breakdown of equity investments per region

| in EUR millions | 2016 | 2015 |
|---|---|---|
| The Netherlands | 200 | 225 |
| Germany | - | - |
| United Kingdom | 15 | 13 |
| Rest of Europe | 6 | 28 |
| North America | 42 | 34 |
| **Total at 31 december** | **262** | **300** |

## LIQUIDITY RISK

Liquidity risk represents a company's inability to fund its assets and meet its obligations as they become due, at an acceptable cost.

NIBC strives to maintain a comfortable liquidity position at all times. NIBC has developed a comprehensive liquidity management framework, within which we manage a sound liquidity position during both normal and adverse conditions such that we can continue adding value to our clients in decisive moments. We manage the maturity profile of our liabilities in relation to our asset base and we maintain liquidity buffers which enable us to meet current and potential requirements at a consolidated, parent and subsidiary level.

The liquidity management framework is reviewed annually. In the recent years, several new regulatory requirements have influenced these liquidity policies. NIBC aims to be an early adopter of such requirements, enabling us to proactively translate these changes into relevant liquidity actions.

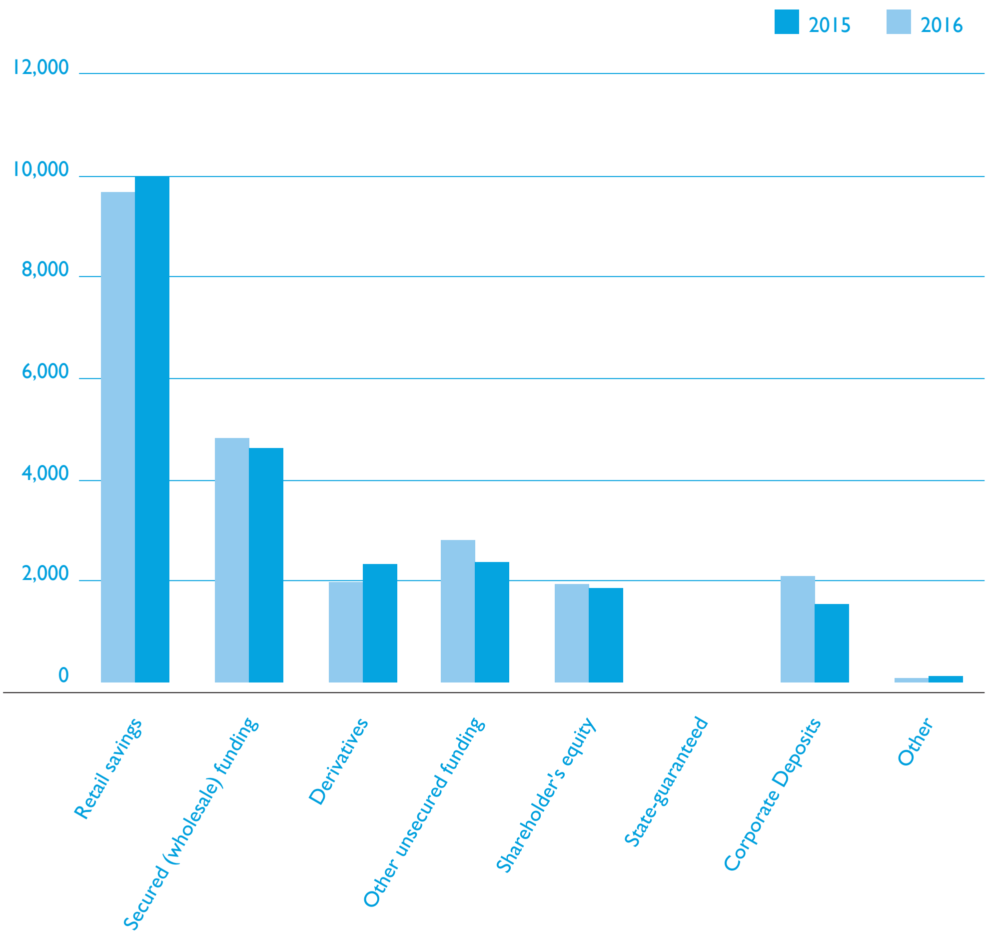
The liquidity positions are managed by the ALCO. Using frequently updated projections from the business units and maturity profiles of the different portfolios, liquidity forecasts and stress tests are performed and reported to ALCO on a bi-weekly basis.

### Funding

NIBC further improved its diversified funding base in 2016. A structured transaction was redeemed (DMBS XVI of approximately EUR 500 million). NIBC attracted new funding by employing various instruments. In 2016, NIBC issued a new senior unsecured bond (a total of EUR 500 million, tenor 3.5 years), a new conditional pass-through covered bond (EUR 500 million), senior unsecured private placements of nearly EUR 700 million and increased the TLTRO participation by EUR 700 million. Our retail savings decreased marginally to 9.7 billion, whereas the ESF funding portfolio increased to 1.2 billion. Overall, NIBC has strengthened its position in the various funding markets and continues to improve the composition and efficiency of its funding mix.

An overview of the Funding portfolio at 31 December 2016 and 31 December 2015 is shown in figure 6. The funding overview is based on total balance sheet amounts.

**Figure 6 Breakdown of shareholder's equity and total liabilities, 31 December 2016 (EUR 23.6 billion) and 31 December 2015 (EUR 23.3 billion)**




Note 59 to the consolidated financial statements provides more information on liquidity risk.

## OPERATIONAL RISK

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

NIBC strives for a 'no surprises' operating environment, managing operational risk across all our business lines, banking activities and countries in a transparent and consistent way. Key is that every NIBC business unit and international office (first line) has an operational risk management 'champion'. These employees assess their department's activities for potential operational risks, monitor the control mechanisms in place to mitigate these, coordinate ways of resolving loss-making events and promote awareness for operational risks within their departments. Since the scheme was launched in 2012, this has created a valuable network of experts that shares its knowledge and expertise across the Bank.

The central ORM function monitors and controls operational risk on group level, develops policies and processes and provides methodology and tools. The tools enable an assessment whether the operational risk profile of the Bank fits within the operational risk appetite. They provide an integrated view of the operational *risk and control self-assessments* (**RCSA**) performed bottom-up by all BUs and countries, action planning, and event and loss registration and support the constant process of evaluating and reducing operational risk, and planning mitigation measures. Furthermore, the department also co-ordinates the development of forward-looking scenario analysis (hypothetical external or internal scenarios with which it is ensured that a plan exists in case these events occur) and supports business continuity and information security.

In 2016, NIBC continued enhancing its forward-looking, proactive attitude and its structured approach to managing operational risk across all three lines of defence. This also entails the analysis of new products and services that NIBC plans to launch for its customers. The central element in the *New Product Approval Process* (**NPAP**) is the client's interest; i.e. determining how the product is suitable for its clients and how NIBC will ensure it can offer the product to its clients in a responsible and sustainable manner. Furthermore, the NPAP assesses the operational capacity of all internal stakeholders that need to co-operate for launching an efficient and effective product. In addition to the NPAP, NIBC has implemented a *Significant Change Approval Process* (**SCAP**). This process is used to assess the impact of material adjustments in internal processes. These adjustments are reviewed for impact on operational risk.

Operational risk in all its facets – including compliance and regulation, legal risk, dealing with integrity, change management and technology risk, reputation and conduct risk – is a key part of a Bank's overall risk management practice. Doing more business generally implies more risk, which is not a bad thing, but must be properly understood and managed. As such, NIBC's risk appetite framework includes specific risk appetite statements for operational risk, as well as other non-financial risks, such as legal and compliance/conduct risks.

As part of the annual cycle, NIBC uses the operational risk management process as a basis for the in control statement of the Managing Board as included in this annual report.

## CAPITAL ADEQUACY

### Regulatory capital

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

As in previous years, NIBC is solidly capitalised at 31 December 2016, displayed by our solid regulatory ratios. The fully-loaded Common Equity Tier-1 ratio stood at 16.8% (Common Equity Tier-1 ratio 31 December 2015: 15.6%); the Tier-1 ratio at 16.8% (31 December 2015: 15.6%); and the Total Capital / BIS ratio at 21.3% (31 December 2015: 20%). These are well above the minimum capital requirements imposed by the CRR/CRD IV, which require a minimum Tier-1 ratio of 6% and a minimum Total Capital / BIS ratio of 8%, excluding capital buffers.

The ratios increased compared to 2015 because of increase in the Common Equity Tier 1 capital and slight decrease in *Risk Weighted Assets* (**RWA**). Of the total capital requirement, 92% relates to credit risk, 5% to operational risk, 2% to market risk and 1% credit value adjustment. Table 6 shows the summary of capital ratios and RWA for NIBC.

### Table 6 NIBC (fully loaded) capital ratios, CRR/CRD IV

| | 31 December 2016[1] | 31 December 2015[1] |
|---|---|---|
| CAPITAL RATIOS (in %) | | |
| Common Equity Tier-1 ratio | 16.8% | 15.6% |
| Tier-1 ratio | 16.8% | 15.6% |
| Total Capital / BIS ratio | 21.3% | 20.0% |
| **RISK WEIGHTED ASSETS (in EUR Millions)** | | |
| Credit risk | 9,299 | 9,415 |
| Market risk | 203 | 137 |
| Operational risk | 482 | 448 |
| Credit Value Adjustment | 125 | 163 |
| **Total rwa** | **10,109** | **10,162** |

1 Based on CRR/CRD IV standards, including the net profit for the year and taking into account the proposed dividend payment.

### Economic capital

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

During 2016, EC remained relatively stable and ranged between EUR 983 million and EUR 1,104 million. The average EC in 2016 was EUR 1,025 million, compared to EUR 986 million in 2015. Portfolio growth (including NIBC Markets) is one of the main reasons for the increase. These figures differ from the economic capital usage displayed in note 1 "Segment Report" to the consolidated financial accounts. In the Segment Report we increased the economic capital usage levels with a surcharge, ensuring more alignment to the minimum regulatory (SREP) requirements, which are set at NIBC Holding level.

Note 60 to the consolidated financial statements provides more information on capital management.

# 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 responsibility for the implementation of risk management and control systems. The management and control systems aim to ensure reliable financial reporting and to control downside risk to the operational and financial objectives of NIBC.

## RISK MANAGEMENT AND CONTROL

The Managing Board relies on the risk management and control framework and is supported by business unit management. The business unit managers provide a bi-annual In Control Statement to the Managing Board, based on a risk and control self-assessment. The results of the self-assessments have been shared with the Supervisory Board.

The internal risk management and control systems based on a risk identification process combined with an established set of detective, preventative and repressive control measures provide reasonable assurance that the financial reporting does not contain errors of material importance and that the internal risk management and control systems regarding the financial reporting risks worked properly in the year under review.

In view of the above, the Managing Board of NIBC believes it is in compliance with the requirements of best practice II.1.4 and best practice II.1.5 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 consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of NIBC and its consolidated group companies;
- The annual report 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; and
- The annual report describes the material risks which NIBC faces.

**The Hague, 7 March 2017**

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


**Green deal for pioneering gas tanker specialist**

"The added value of NIBC is that they think along as peers with their client. It is due to this that they have come with a solution that is somewhat different than the usual standard financing. They have helped us in our ambition to secure the future for this company."

**Anthony Veder**
CEO Anthony Veder


NO SMOKING
SAFETY FIRST
ANTHONY VEDER
LNG

# CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED INCOME STATEMENT

## for the year ended 31 December

| in EUR millions | note | 2016 | 2015 |
|---|---|---|---|
| Interest and similar income | | 547 | 564 |
| Interest expense and similar charges | | 241 | 278 |
| **Net interest income** | 2 | **306** | **286** |
| Fee and commission income | | 32 | 37 |
| Fee and commission expense | | - | 1 |
| **Net fee and commission income** | 3 | **32** | **36** |
| Investment income | 4 | 23 | 24 |
| Net trading income | 5 | 12 | (11) |
| Other operating income | 6 | 22 | 17 |
| **Operating income** | | **395** | **352** |
| Personnel expenses and share-based payments | 7 | 101 | 97 |
| Other operating expenses | 8 | 80 | 82 |
| Depreciation and amortisation | 9 | 7 | 8 |
| Regulatory charges and levies | 10 | 15 | 4 |
| **Operating expenses** | | **203** | **191** |
| Impairments of financial assets | 11 | 70 | 63 |
| Impairments of non-financial assets | 11 | 2 | 20 |
| **Total expenses** | | **275** | **274** |
| **Profit before tax** | | **120** | **78** |
| Tax | 12 | 18 | 7 |
| **Profit after tax** | | **102** | **71** |
| Result attributable to non-controlling interests | | - | - |
| **Net profit attributable to parent shareholder** | | **102** | **71** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## for the year ended 31 December

| in EUR millions | 2016 Before tax | 2016 Tax charge/ (credit) | 2016 After tax | 2015 Before tax | 2015 Tax charge/ (credit) | 2015 After tax |
|---|---|---|---|---|---|---|
| **Profit for the period** | **120** | **18** | **102** | **78** | **7** | **71** |
| **Other comprehensive income** | | | | | | |
| **Items that will not be reclassified to profit or loss** | | | | | | |
| Revaluation of property, plant and equipment | - | - | - | - | - | - |
| Revaluation of own credit risk | (16) | (4) | (12) | - | - | - |
| **Items that may be reclassified subsequently to profit or loss** | | | | | | |
| Net result on hedging instruments | (8) | (2) | (6) | (16) | (4) | (12) |
| **Available-for-sale financial assets:** | | | | | | |
| Revaluation of loans and receivables | 4 | 1 | 3 | - | - | - |
| Revaluation of equity investments | (4) | (1) | (3) | 2 | - | 2 |
| Revaluation of debt investments | (1) | - | (1) | (7) | (2) | (5) |
| **Total other comprehensive income** | **(25)** | **(6)** | **(19)** | **(21)** | **(6)** | **(15)** |
| **Total comprehensive income** | **95** | **12** | **83** | **57** | **1** | **56** |
| **Total comprehensive income attributable to** | | | | | | |
| Parent shareholder | 95 | 12 | 83 | 57 | 1 | 56 |
| Non-controlling interests | - | - | - | - | - | - |
| **Total comprehensive income** | **95** | **12** | **83** | **57** | **1** | **56** |

# CONSOLIDATED BALANCE SHEET

## at 31 December

| in EUR millions | note | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| **Financial assets at amortised cost** | | | |
| Cash and balances with central banks | 13 | 918 | 746 |
| Due from other banks | 14 | 1,428 | 1,745 |
| Loans and receivables | | | |
| Loans | 15 | 8,269 | 7,668 |
| Residential mortgages own book | 16 | 3,346 | 2,390 |
| Debt investments | 17 | 287 | 294 |
| **Financial assets available-for-sale** | | | |
| Loans | 18 | 24 | 18 |
| Equity investments | 19 | 41 | 48 |
| Debt investments | 20 | 1,028 | 1,064 |
| **Financial assets at fair value through profit or loss (including trading)** | | | |
| Loans | 21 | 210 | 316 |
| Residential mortgages own book | 22 | 4,124 | 4,111 |
| Securitised residential mortgages | 23 | 1,550 | 2,266 |
| Equity investments (including investments in associates) | 24 | 204 | 222 |
| Debt investments | 25 | 60 | 19 |
| Derivative financial assets | 26 | 1,817 | 2,151 |
| **Other** | | | |
| Investments in associates (equity method) | 27 | 7 | 7 |
| Intangible assets | 28 | - | - |
| Property, plant and equipment | 29 | 44 | 49 |
| Deferred tax | 30 | - | - |
| Other assets | 31 | 223 | 44 |
| Assets held for sale | 32 | - | 71 |
| **Total assets** | | **23,580** | **23,229** |

## at 31 December

| in EUR millions | note | 2016 | 2015 |
|---|---|---|---|
| **Liabilities and equity** | | | |
| **Financial liabilities at amortised cost** | | | |
| Due to other banks | 33 | 1,290 | 829 |
| Deposits from customers | 34 | 11,827 | 11,773 |
| Own debt securities in issue | 35 | 3,855 | 3,050 |
| Debt securities in issue related to securitised mortgages and lease receivables | 36 | 1,337 | 2,062 |
| **Financial liabilities at fair value through profit or loss (including trading)** | | | |
| Own debt securities in issue | 37 | 37 | 36 |
| Debt securities in issue structured | 38 | 620 | 704 |
| Derivative financial liabilities | 26 | 2,006 | 2,350 |
| **Other** | | | |
| Other liabilities | 39 | 235 | 92 |
| Deferred tax | 30 | 3 | 1 |
| Employee benefits | 40 | 3 | 4 |
| Liabilities held for sale | 32 | - | 42 |
| **Subordinated liabilities** | | | |
| Amortised cost | 41 | 122 | 120 |
| Fair value through profit or loss | 42 | 276 | 280 |
| **Total liabilities** | | **21,611** | **21,343** |
| **Shareholder's equity** | | | |
| Share capital | 43 | 80 | 80 |
| Other reserves | 43 | 394 | 298 |
| Retained earnings | | 1,393 | 1,437 |
| Net profit attributable to parent shareholder | | 102 | 71 |
| Interim and final dividend paid | | - | - |
| **Total parent shareholder's equity** | | **1,969** | **1,886** |
| Non-controlling interests | | - | - |
| **Total shareholder's equity** | | **1,969** | **1,886** |
| **Total liabilities and shareholder's equity** | | **23,580** | **23,229** |

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

| in EUR millions | Attributable to parent shareholder: Share capital | Other reserves[1] | Retained earnings | Net profit | Distribution charged to net profit | Total | Non-controlling interests | Total shareholder's equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **80** | **318** | **1,409** | **24** | **-** | **1,831** | **-** | **1,831** |
| Transfer of net profit 2014 to retained earnings | - | - | 24 | (24) | - | - | - | - |
| Total comprehensive income for the period ended 31 December 2015 | - | (15) | - | 71 | - | 56 | - | 56 |
| Transfer of realised depreciation revalued property, plant and equipment | - | (5) | 5 | - | - | - | - | - |
| Other | - | - | (1) | - | - | (1) | - | (1) |
| **Balance at 31 December 2015** | **80** | **298** | **1,437** | **71** | **-** | **1,886** | **-** | **1,886** |

1 Other reserves include share premium, hedging reserve and revaluation reserves.

| in EUR millions | Attributable to parent shareholder: Share capital | Other reserves[1] | Retained earnings | Net profit | Distribution charged to net profit | Total | Non-controlling interests | Total shareholder's equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | **80** | **298** | **1,437** | **71** | **-** | **1,886** | **-** | **1,886** |
| Impact of application IFRS 9 Own credit risk at 1 January 2016 | - | 115 | (115) | - | - | - | - | - |
| **Restated balance at 1 january 2016** | **80** | **413** | **1,322** | **71** | **-** | **1,886** | **-** | **1,886** |
| Transfer of net profit 2015 to retained earnings | - | - | 71 | (71) | - | - | - | - |
| Total comprehensive income for the period ended 31 December 2016 | - | (19) | - | 102 | - | 83 | - | 83 |
| **Balance at 31 December 2016** | **80** | **394** | **1,393** | **102** | **-** | **1,969** | **-** | **1,969** |

1 Other reserves include share premium, hedging reserve and revaluation reserves.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## for the year ended 31 December

| in EUR millions | note | 2016 | 2015 |
|---|---|---|---|
| **Operating activities** | | | |
| Net profit for the year | | 102 | 71 |
| **Adjustments for non-cash items** | | | |
| Depreciation, amortisation and impairment losses | 10/11 | 78 | 91 |
| Changes in employee benefits | 40 | (1) | - |
| Share in result of associates | 27 | - | (1) |
| **Changes in operating assets and liabilities** | | | |
| Derivative financial instruments | 26 | (10) | (167) |
| Operating assets[1] | | (787) | (450) |
| Operating liabilities (including deposits from customers)[2] | | 599 | 1,032 |
| **Cash flows from operating activities** | | **(19)** | **576** |
| **Investing activities** | | | |
| Acquisition of property, plant and equipment | 29 | (2) | (13) |
| Net (proceeds/repayments) of financial assets | 4 | (22) | (22) |
| **Cash flows from investing activities** | | **(24)** | **(35)** |
| **Financing activities** | | | |
| Proceeds from the issuance of own debt securities | 35/37 | 1,324 | 1,100 |
| Repayment of issued own debt securities | 35/37 | (518) | (113) |
| Proceeds from the issuance of subordinated liabilities | 41/42 | 2 | 94 |
| Repayment of issued subordinated liabilities | 41/42 | (4) | (14) |
| Proceeds from the issuance of debt securities structured | 38 | 63 | 109 |
| Repayment of issued debt securities structured | 38 | (147) | (228) |
| Repayment of issued debt securities related to securitised mortgages and lease receivables | 36 | (725) | (1,286) |
| **Cash flows from financing activities** | | **(5)** | **(338)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(48)** | **203** |
| **Cash and cash equivalents at 1 january** | | **1,223** | **1,020** |
| Net changes in cash and cash equivalents | | (48) | 203 |
| **Cash and cash equivalents at 31 december** | | **1,175** | **1,223** |
| **Reconciliation of cash and cash equivalents:** | | | |
| Cash and balances with central banks (maturity three months or less) | 13 | 777 | 613 |
| Due from other banks (maturity three months or less) | 14 | 398 | 610 |
| | | **1,175** | **1,223** |
| **Supplementary disclosure of operating cash flow information:** | | | |
| Interest paid | | 264 | 289 |
| Interest received | | 536 | 566 |

1 Includes all assets excluding derivatives, intangible assets and current taks.
2 Includes all liabilities excluding derivatives.

# ACCOUNTING POLICIES

## Authorisation of consolidated financial statements

The consolidated financial statements of *NIBC Bank N.V.* (**NIBC**) for the year ended 31 December 2016 were authorised for issue by the Managing Board of NIBC on 7 March 2017. NIBC, together with its subsidiaries (NIBC or the group), is incorporated and domiciled in the Netherlands, and is a wholly-owned subsidiary of *NIBC Holding N.V.* (**NIBC Holding**). The principal activities of NIBC are described in the Report of the Managing Board of this Annual Report.

## Summary of significant accounting policies

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

### Statement of compliance

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

### Basis of preparation

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

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

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

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

### Changes in accounting policies in 2016

#### Changes in IFRS-EU

The following new and/or amended standards became effective in 2016. Note that only the new and/or amended standards that are relevant for NIBC are discussed below.

- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception

This narrow scope project involves a number of amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) to address issues that have arisen in relation to the exemption from consolidation for investment entities. These amendments do not have any impact on NIBC.

- Annual Improvements: 2012-2014 Cycle

This cycle of improvements contains amendments to four standards of which two are relevant for NIBC. These are IFRS 7 Financial Instruments: Disclosures: 'Continuing Involvement' for Servicing Contracts and Offsetting Disclosures in Condensed Interim Financial Statements, IAS 34 Interim Financial Reporting: Disclosure of Information 'Elsewhere in the Interim Financial Report'. These amendments do not have any impact on NIBC.

- Amendments to IAS 1: Disclosure Initiative

This amendment is part of the Disclosure Initiative of the IASB. A portfolio of projects with the objective to improve the effectiveness of disclosures in financial statements. The amendments to IAS 1 are a further clarification of concepts such as aggregation, materiality, and understandability and comparability of information. These amendments do not have any impact on NIBC.

- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. These amendments do not have any impact to NIBC.

- Amendments to IAS 27: Equity Method in Separate Financial Statements

The objective of this amendment is to include the option to use the equity method of accounting in separate financial statements. Since NIBC values participating interests in group companies at net asset value in accordance with Book 2, title 9 of the Dutch Civil Code option 3 in the statutory financial statements, this amendment has no impact.

- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. These amendments do not have any impact on NIBC as there has been no interest acquired in a joint operation during the period.

**Other changes**

Early application of IFRS 9 - Own credit requirements

NIBC early applied the own credit requirements introduced by IFRS 9 in isolation, without applying the other requirements of IFRS 9. The own credit requirements involves that changes in the fair value of the financial liabilities designated as at FVTPL that is attributable to changes in credit risk are recognised in *Other Comprehensive Income* (**OCI**). As NIBC does not hedge changes in own credit arising on financial liabilities designated at fair value, presenting own credit within OCI does not create or increase an accounting mismatch in the income statement. Early application of the own credit requirements provides more relevant information in the annual report as effects of changes in credit risk on certain market-to-market liabilities are presented in OCI instead of the income statement. The positive impact of early application of the own credit requirements on net trading income within the consolidated income statement for the year 2016 amounts to EUR 12.5 million net of tax. Changes in own credit presented in prior periods have not been restated and remain within Net trading income.

### Change in presentation of consolidated income statement

In 2016, NIBC changed the presentation of the consolidated income statement by combining three line items 'dividend income', 'gains less losses from financial assets' and 'share in results of associates' in to line item 'investment income'. Where relevant, the comparative figures and related notes are adjusted accordingly.

### Change in segment reporting

NIBC changed its single operating segment ('NIBC Bank') to three reporting segments: Corporate Banking, Retail Banking and Treasury & Group Functions. This change has been implemented mainly to improve transparency in reporting of the segments. The new presentation has no effect on the overall historical group results or financial position of NIBC. The segment information presented in 2015 has been adjusted to reflect the new reportable operating segments in 2016.

## Upcoming changes after 2016

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

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

- IFRS 9 'Financial Instruments'

### Introduction

As from 1 January 2018, the current IFRS standard for financial instruments (IAS 39) will be replaced by IFRS 9. Changes contain three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting. In 2015, NIBC has set up a multidisciplinary implementation team with members from Finance, Risk Management, IT and Operations departments to prepare for IFRS 9 application. The project is sponsored by the CFO and the CRO.

The project has three work streams: 1. Classification and measurement, 2. Impairments and 3. Reporting. The initial assessment and analysis stage has been completed at the end of 2016. Currently, the design phase is finalised. In the course of 2017, new processes and systems will be implemented to be ready for initial application per January 2018. Simultaneously, work stream Reporting will set up a parallel process to provide IFRS 9 based figures in the second half of 2017.

### Classification and measurement of financial instruments

Financial assets, except equity instruments and financial derivatives, are classified and measured in accordance with the business models of NIBC as well as by the type of contractual cash flows of the underlying financial assets. Both elements determine whether they will be measured at *Amortised Cost* (**AC**), *Fair Value with adjustments processed through Other Comprehensive Income* (**FVOCI**) or *Fair Value through Profit or Loss account* (**FVtPL**). In many cases, the classification and measurement will be in line with IAS 39. However, there will be (some) deviations, especially where the tests (*Solely Payments of Principal and Interest test)* – (**SPPI**) fail, even though the business model is still 'Hold to Collect'.

There are limited changes in the processing of financial liabilities with exception of designated liabilities at fair value, where the fair value changes related to changes in NIBC's own credit risk have to be processed via *Other Comprehensive Income* (**OCI**) (i.e. IFRS 9 Own credit requirements). NIBC early applied the IFRS 9 Own credit requirements in isolation from the rest of the IFRS 9 standard as from 1 January 2016, see section 'Other changes' in the Accounting policies for further information.

Having completed its initial assessment, NIBC expects that application of IFRS 9 has the following consequences for the classification and measurement of financial assets and liabilities:

- The outcome of the business model analysis shows that NIBC mainly manages "Hold to Collect" portfolios. The "Hold to Collect and Sell" business model is also applicable, mostly for assets held for liquidity management purposes;
- For some asset classes, mainly related to NIBC's mezzanine and equity portfolios, the SPPI-test fails, leading to FVOCI or FVtPL classification, even though the business model is "Hold to Collect"; and
- In case of the residential mortgages (own book and securitised), a potential reclassification to AC at initial application of IFRS 9 (in line with NIBC's "Hold to Collect" business model) could have a significant negative impact on NIBC's equity. At initial application, the difference between the fair value and the carrying value under AC will be recognised in retained earnings. As the fair value of the mortgage books also includes the fair value effects of changes in interest rates, fully offset by hedging derivatives, this may create a relatively large temporary deviation in equity: as the hedging derivatives remain classified as FVtPL, no adjustment can be made under IFRS 9 for these positions. Hence, the full fair value effect of changed interest rates will be recognised in retained earnings one-sided in addition to the fair value effect of changed credit spreads.

In general, this implies that:

- The majority of financial assets classified at AC under IAS 39 remain to be classified at AC under IFRS 9;
- The majority of the debt investments classified as available for sale under IAS 39 is expected to be measured at FVOCI; and
- The FVtPL classification will be applied to trading assets and liabilities, financial derivatives and assets that do not meet the SPPI test.

NIBC is in the process of evaluating how the new IFRS 9 classification and measurement rules will impact NIBC's financial position and regulatory capital. Based on the analysis to date, NIBC anticipates a modest impact on equity and regulatory capital, except for the potential voluntary (as NIBC is also allowed to continue current FVtPL designation under IFRS 9) reclassification effect of residential mortgages designated at FVtPL to AC by revoking the previous fair value designation. The magnitude of the effect of a potential reclassification of residential mortgages classified at FVtPL to AC will depend, amongst others, on market circumstances at the moment of initial application, as interest rates have a material impact on the fair value of the portfolio.

**Hedge accounting**

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 even when other elements of IFRS 9 become mandatory on 1 January 2018. NIBC has not yet decided to continue to apply hedge accounting under IAS 39.

### Impairment of financial assets

**Overview**

The new IFRS 9 impairment requirements replace the IAS 39 criteria for the recognition of credit losses, i.e., it is no longer necessary for a credit event to have occurred before credit losses are recognised. Moreover, IFRS 9 requires NIBC to recognise credit losses before the actual credit event occurs. As a consequence, NIBC expects its recognised provisions to increase. The introduction of the new impairment model presented in IFRS 9 will have a significant impact on NIBC due to the following developments:

- Single impairment model for AC and FVOCI assets;
- A new 'three-stage' model for impairments based on significant deterioration of credit risk from the moment of initial recognition; and
- Incorporation of forward-looking information, move from an 'incurred loss' model to an 'expected loss' model.

**Single impairment model**

Under IFRS 9, a single set of impairment requirements applies to all financial assets in scope. Under IAS 39, there were different models for assets at AC, available-for-sale assets (debt instruments) and available-for-sale assets (equity instruments).

NIBC will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVtPL. Additionally, IFRS 9 requires NIBC to include loan commitments and financial guarantee contracts in the scope of the impairment model.

**'Three-stage' model**

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

1. 12-month ECLs (Stage 1), which applies to all items (from initial recognition) as long as there is no significant deterioration in credit quality; and
2. Lifetime ECLs, which applies when a significant increase in credit risk has occurred on an individual or collective basis (Stage 2) or when there is an objective evidence of

impairment as a result of one or more events that occurred before or after the initial recognition of the financial asset.

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

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

NIBC expects to use both the quantitative element and the qualitative element to determine significant increases in credit risk, as the assessment can be based on a mixture of quantitative and qualitative information. In certain circumstances, qualitative and non-statistical quantitative information may be sufficient to determine that a financial asset has met the criterion for the recognition of lifetime ECLs. That is, the information does not need to flow through a statistical model or credit ratings process in order to determine whether there has been a significant increase in the credit risk of the financial asset.

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

**Incorporation of forward looking information**
Estimating ECL requires, amongst others, consideration of multiple forward-looking scenarios, whereby the final ECL is an average of the ECLs calculated under the different scenarios. In line with market developments, NIBC plans to use three scenarios: base, downturn and benign; updated semi-annually.

NIBC will develop a model that will translate the forecasted developments of macro-economic factors into portfolio-specific point-in-time PD and *Loss Given Default* (**LGD**) changes and consequently into ECL developments. In doing so, it is NIBC's intention to leverage on the current stress testing methodology and apply it on IFRS 9 compliant scenarios.

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

### Capital management
NIBC is in the process of evaluating how the full implementation of IFRS 9 will impact NIBC's ongoing regulatory capital structure. Based on the analysis to date, subject to further analysis, NIBC anticipates a negative effect on its regulatory capital. The magnitude of the effect will mainly depend on the decisions regarding the residential mortgages portfolios, market developments and potential transitional provisions for these (temporary) effects.

- IFRS 15 'Revenue from Contracts with Customers'

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

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

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

- IFRS 16 'Leases'

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

- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendment is effective from 1 January 2017. NIBC is currently evaluating the impact.

- Amendments to IAS 7: Disclosure Initiative

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). These amendments are effective for annual periods beginning on or after 1 January 2017. Application of the amendments will result in additional disclosures provided by NIBC.

- Clarifications to IFRS 15 Revenue from Contracts with Customers

The IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition. The amendments have an effective date of 1 January 2018, which is the effective date of IFRS 15. NIBC does not expect IFRS 15 to have a significant impact on the consolidated financial statements.

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

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

- Annual Improvements to IFRS Standards 2014-2016 Cycle

This cycle of improvements contains amendments to three standards of which two are relevant for NIBC. These are IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Venture which are effective for annual periods beginning on or after 1 January 2017 and 1 January 2018 respectively. NIBC is assessing the potential effect of the amendments on its consolidated financial statements .

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

- Amendments to IAS 40: Transfers of Investment property

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

## Basis of consolidation

The consolidated financial statements are comprised of the financial statements of NIBC and its subsidiaries as at and for the years ended 31 December 2016 and 2015.

### 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; and
- 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; and
- 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 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'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.

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.

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.

## 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 segment see note 1.

## Foreign currency translation

### Functional and presentation currency

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

### Transactions and balances

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

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

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

### Group companies

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

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

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

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

## Recognition of financial instruments

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

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

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

## Derecognition of financial assets and liabilities

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

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

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

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

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

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

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

## Classification of financial instruments

Financial assets are classified as:

- Loans and receivables at amortised cost;
- Available for sale financial instruments; or
- Financial instruments at fair value through profit or loss and held for trading, including derivative instruments that are not designated for hedge accounting relationships.

Financial liabilities are classified as:

- Financial instruments at amortised cost; or
- Financial instruments at fair value through profit or loss, including derivative instruments that are not designated for hedge accounting relationships.

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

## Loans and receivables at amortised cost

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

(a) those that NIBC intends to sell immediately or in the short term, which are classified as held for trading;

(b) those that NIBC upon initial recognition designates at fair value through profit or loss;

(c) those that NIBC upon initial recognition designates at available for sale; and

(d) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

The main classes of loans and receivables at amortised cost at 31 December 2016 include corporate lending (excluding commercial real estate and leverage loan warehouses, secondary loan trading and distressed asset trading), residential mortgages at own book and investments in the EU Corporate Credits and EU Structured Credits portfolio that were reclassified in 2008.

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

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

The main classes of financial instruments designated as available for sale assets at 31 December 2016 inclsude:
- Equity investments;
- Certain debt investments that do not meet the definition of loans and receivables; and
- EU most subordinated notes.

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

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

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

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

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

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

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

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

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

The fair value designation, once made, is irrevocable.

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

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

## Financial liabilities

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

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

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

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

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

**Own credit requirements IFRS 9 (early adopted in isolation as from 1 January 2016)**
Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the NIBC's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

## Reclassification

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

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

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

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

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

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

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

**Reclassification of financial assets (as of 1 July 2008)**

As of 1 July 2008, the effective date of the amendments to IAS 39 and IFRS 7, the following financial assets were reclassified:

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

The amendments to IFRS 7 regarding reclassifications require disclosure of the impact of the reclassification of each category of financial assets on the financial position and performance of NIBC. The information provided as of the reclassification date relates only to financial assets remaining on the balance sheet as of the reporting date 31 December 2016.

**Changes to the classification of financial assets**

NIBC made the following changes:

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

**Changes to the classification of financial liabilities**

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

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

## Fair value estimation

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

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

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

### Determination of fair value of financial instruments

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

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

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

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

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

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

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

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

## Recognition of day one profit or loss

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

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

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

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

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

### Assets for which fair value approximates carrying amount

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

### Fixed-rate financial instruments

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

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

## Offsetting

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

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

## Collateral

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

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

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

## Derivative financial instruments and hedging

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

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

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

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

## Hedge accounting

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

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

NIBC discontinues hedge accounting prospectively when:

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

**Fair value hedge**

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

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

Portfolio fair value hedge

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

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

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

### Micro fair value hedge

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

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

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

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

**Cash flow hedge**

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

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

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

**Hedge effectiveness testing**

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

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

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

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

## Sale and repurchase agreements

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

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

## Impairment

### General

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

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

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

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

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

**Financial assets reported at amortised cost**

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

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

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

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

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

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

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

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

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

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

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

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

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

Reversals of impairment losses are subject to contrasting treatments depending on the nature of the instrument concerned:

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

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

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

**Renegotiated loans**

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

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

## Intangible assets

**Goodwill**

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

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

**Trademarks and licences**

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

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

**Customer relationships**

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

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

## Tangible assets

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

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

Increases in the carrying amount arising from revaluation of land and buildings are credited to other reserves in shareholder's equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in other comprehensive income; all other decreases are charged to the income statement. Each year, the difference between depreciation based on the re-valued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:
- Buildings 30 - 50 years
- Machinery 4 - 10 years
- Furniture, fittings and equipment 3 - 10 years
- Assets under operating leases 1 - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating income. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

## Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date.

### A group company is the lessee

#### Operational lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to income statement on a straight-line basis over the period of the lease. Properties leased out under operating leases are included in investment properties.

#### Financial lease

Leases of assets where the group has substantially all risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are measured subsequently at their fair value.

The leases entered into by the group are primarily operational leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease. When an operational lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

### A group company is the lessor

When assets are held subject to a financial lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. When assets are held subject to an operating lease, the assets are included in Assets held under operating leases under Property, plant and equipment.

## Financial guarantees

In the ordinary course of business, the group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the income statement in impairments of financial assets. The premium received is recognised in the income statement in fee and commission income on a straight line basis over the life of the guarantee.

## Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks and net credit balances on current accounts with other banks.

Cash balances are measured at face value while bank balances are measured at cost.

## Non-current assets (or disposal groups) held for sale and discontinued operations
Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (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.

In May 2015 NIBC obtained control over Vijlma B.V. The acquisition of Vijlma B.V. meets the criteria of an acquisition under IFRS 3. As Vijlma B.V. is acquired exclusively with a view to resale, IFRS 5 allows the acquisition of Vijlma B.V. to be presented as a disposal group classified as held for sale, hence allowing a short-cut method of consolidation which NIBC has applied. Consequently no purchase price allocation has been performed mid 2015, including disclosures in line with IFRS 3.

## 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; and
- The amount has been reliably estimated.

The group does not recognise provisions for projected future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be remote.

Provisions are measured at the present value of the expected required expenditure to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Provisions are presented under other liabilities.

Contingent liabilities, if applicable, are not recognised in the financial statements but are disclosed, unless they are remote.

## Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## Employee benefits

### Pension benefits

NIBC operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to NIBC by the employees and is recorded as an expense under personnel expenses and share-based payments. Unpaid contributions are recorded as a liability. NIBC does not operate a defined benefit plan.

### Termination benefits

NIBC recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

**Share-based compensation**
NIBC operates both equity-settled and cash-settled share-based compensation plans.

Equity-settled transactions
The group operates a number of equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (shares or options) of the group. The fair value of the employee services received in exchange for the grant of the shares or options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares or options granted:
- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions; and
- Excluding the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of shares or options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, NIBC revises its estimates of the number of shares or options that are expected to vest based on the non-market vesting conditions. NIBC recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied. Similarly, awards of equity instruments with non-vesting conditions are treated as vesting if all vesting conditions that are not market conditions are met, irrespective of whether the non-vesting conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised in personnel expenses is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either NIBC or the counterparty are not met.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Cash-settled transactions
For the cash-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of share-based compensation is recognised as a liability. The liability is re-measured at each reporting date up to and including the settlement date with changes in fair value recognised in the income statement in personnel expenses. The social security contributions payable in connection with the grant of the share options are

considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

**Profit-sharing and bonus plans**
A liability is recognised for cash-settled bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to our shareholder after certain adjustments. NIBC recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## Income tax

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholder's equity (other comprehensive income), in which case it is recognised in shareholder's equity (other comprehensive income).

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates (and laws) enacted or substantially enacted by the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when NIBC intends to settle on a net basis and a legal right of offset exists.

Deferred income tax is provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NIBC's principal temporary differences arise from the revaluation of certain financial assets and liabilities including derivative contracts, the depreciation of property and tax losses carried forward and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to the fair value remeasurement of available for sale investments and cash flow hedges, which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the income statement when the deferred gain or loss is recognised in the income statement.

## Shareholder's equity

### Share capital
Shares are classified as equity when there is not a contractual obligation to transfer cash or other financial assets.

### Share issue costs
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
Dividends on ordinary shares are recognised as a liability in the period that the obligation for payment has been established, being in the period in which they are approved by the shareholder.

## Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the group and when specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

### Interest income and expense
Interest income and interest expense are recognised in the income statement for all interest-bearing instruments, including those classified as held for trading or designated at fair value through profit or loss.

For all interest-bearing financial instruments, interest income or interest expense is recognised using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability (on an amortised cost basis). The calculation includes all contractual terms of the financial instrument (for example, prepayment options) but not future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets is impaired, interest income is subsequently recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Any increase in estimated future cash flows of financial assets reclassified to loans and receivables at amortised cost on 1 July 2008 will result in a prospective adjustment to the effective interest rates.

**Fee and commission income and expense**
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Loan syndication fees are recognised as revenue when the syndication has been completed and NIBC has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

Asset management fees related to investment funds are recognised pro rata over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

**Investment income**
Investment income includes the following income items:

Gains less losses from financial assets
Realised gains or losses from debt investments and equity investments as available for sale previously recognised in other comprehensive income, and gains or losses from associates and equity investments at fair value through profit or loss and impairment losses on equity investments are recognised in the income statement as gains less losses from financial assets.

Dividend income
Dividends are recognised in the income statement when NIBC's right to receive payment is established.

Share in result of associates (equity method)
Share in result of associates includes gains and losses related to investments in associates (equity method).

**Net trading income**
Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities measured at fair value through profit or loss as well as realised gains and losses on financial assets and financial liabilities excluding those presented under investment income; gains less losses from financial assets. Net trading income includes related foreign exchange gains and losses.

## Statement of cash flows
The statement of cash flows, based on the indirect method of calculation, gives details of the source of cash and cash equivalents that became available during the year and the application

of these cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operating activities, including banking activities, investment activities and financing activities. Movements in loans and receivables and inter-bank deposits are included in the cash flow from operating activities. Investing activities are comprised of acquisitions, sales and redemptions in respect of financial investments, as well as investments in and sales of subsidiaries and associates, property, plant and equipment. The issuing of shares and the borrowing and repayment of long-term funds are treated as financing activities. Movements due to currency translation differences as well as the effects of the consolidation of acquisitions, where of material significance, are eliminated from the cash flow figures.

### Fiduciary activities

NIBC acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements as they are not assets of the group.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

NIBC makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and judgements are principally made in the following areas:

- Fair value of certain financial instruments;
- Impairment of corporate loans;
- Impairment of debt investments classified at amortised cost;
- Impairment of debt investments classified as available for sale; and
- Impairment of equity investments classified as available for sale.

### Fair value of certain financial instruments

The fair value of financial instruments is determined based on quoted market prices in an active market or, where no active market exists, by using valuation techniques. In cases where valuation techniques are used, the fair values are estimated from market observable data, if available, or by using models. Where market-observable inputs are not available, they are estimated based on appropriate assumptions.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those who prepared them. All models are reviewed prior to use and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent possible, models use only observable data; however, in areas such as applicable credit spreads (both own credit spread and counterparty credit spreads), volatilities and correlations may require management to estimate inputs.

Changes in assumptions could affect the reported fair value of financial instruments. For the identification of assumptions used in the determination of fair value of financial instruments and for estimated sensitivity information for level 3 financial instruments, except for own liabilities and residential mortgages designated at fair value through profit or loss, see note 44.

#### Own liabilities designated at fair value through profit or loss

At 31 December 2016, the fair value of these liabilities was estimated to be EUR 933 million (31 December 2015: EUR 1,020 million). This portfolio is designated at fair value through profit or loss and is reported on the face of the balance sheet under the following headings:

- Financial liabilities at fair value through profit or loss: Own debt securities in issue;
- Financial liabilities at fair value through profit or loss: Debt securities in issue structured; and
- Financial liabilities at fair value through profit or loss: Subordinated liabilities.

The portion of fair value changes on these liabilities designated at fair value through profit or loss during 2016 attributable to the movement in credit spreads as reported in notes 37, 38 and 42 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 and secondary prices for its traded debt.

The valuation of all the above classes of financial liabilities designated at fair value through profit or loss is sensitive to the estimated credit spread used to discount future expected cash flows. A 10 basis point change in the weighted average credit spread used to discount future expected cash flows would increase or decrease the fair value of these own financial liabilities at 31 December 2016 by EUR 4.0 million (31 December 2015: EUR 5.0 million).

### Residential mortgages

NIBC determines the fair value of residential mortgages (both those it holds in part of its own warehouse and those it has securitised) by using a valuation model developed by NIBC. This model discounts expected cash flows (after expected prepayments) to present value using inter-bank zero-coupon rates, adjusted for a spread that principally takes into account the costs and the risks of the assets. Subsequently NIBC calculates two discount spreads, one via the top-down approach (i.e. retail spread), and one via the bottom-up approach (i.e. securitisation spread).

The top-down approach derives a discount spread by taking into account the mortgage rates of newly originated loans in the consumer market. The offered mortgage rate is determined by collecting mortgage rates from other professional lenders sorted by product, loan-to-value class and the fixed-rate period. The discount spread is derived by comparing the offered mortgage rate to the market interest rates taking into account various upfront costs embedded in the offered mortgage rate. Where deemed necessary, surcharges are added to reflect the illiquidity of certain sub-portfolios.

Via the bottom-up approach a price is derived by determining the various components that market participants would take into account when pricing the asset. This includes funding-related costs, servicing costs and a compensation for prepayment and credit risks. Funding-related costs are derived by assuming that the acquiring party will fund the acquired portfolio by securitising the assets via a *residential mortgage backed security* (hereafter: "**RMBS**"). NIBC therefore collects quotes from publicly issued RMBS's solely including Dutch residential mortgages, over a certain period before the measurement date. Various transaction costs related to issuing and maintaining an RMBS are added to the observed primary rates. Where deemed necessary, surcharges are added to reflect the illiquidity of certain sub-portfolios. Any additional arbitrage opportunities that may exist (i.e. the difference between the bottom-up approach versus the top down approach) are assumed to be only applicable to the first call date of the RMBS-transaction.

In the consumer market there is currently limited trading activity in mortgage portfolios. Therefore NIBC currently considers the discount spread determined via the bottom-up approach as the best approximation of the fair value of its residential mortgage portfolio. The use of RMBS spreads provides the best estimate of the spread that would be inherent in a transaction at the reporting date motivated by normal business considerations.

The determination of the applicable discount spread (including a spread for prepayment risk) and prepayment rates requires NIBC to apply judgement. A ten basis point shift in either direction of the discount spread across the mortgage portfolio would have had either a positive or a negative impact as of 31 December 2016 of approximately EUR 16 million (31 December 2015: EUR 18 million) on the fair value of the mortgages. A 1% point shift in the assumption NIBC makes about expected prepayments would have had an impact as of 31 December 2016 of approximately EUR 13 million (31 December 2015: EUR 13.0 million) on the fair value of the mortgages.

### Valuation of corporate derivatives (credit valuation adjustment and debit valuation adjustment)

*Credit Valuation Adjustments & Debit Valuation Adjustments* (**CVAs and DVAs**) are incorporated into derivative valuations to reflect the risk of default of respectively the counterparty and NIBC. In essence, CVA represents an estimate of the discounted expected loss on an *Over The Counter* (**OTC**) derivative during the lifetime of a contract. DVA represents the estimate of the discounted expected loss from the counterparty's perspective. Both CVA and DVAs are applied to all OTC derivative contracts, except those that benefit from a strong collateral agreement where cash collateral is regularly exchanged, mitigating credit risk.

### Fair value of equity investments

The group estimates the fair value of its equity investments using valuation models, and it applies the valuation principles set forth by the International Private Equity and Venture Capital Valuation Guidelines to the extent that these are consistent with IAS 39.

On 31 December 2016, the fair value of this portfolio was estimated to be EUR 245 million (31 December 2015: EUR 270 million). This portfolio is reported as equity investments (including investments in associates) at fair value through profit or loss (31 December 2016: EUR 204 million; 31 December 2015: EUR 222 million) and as equity investments at available for sale (31 December 2016: EUR 41 million; 31 December 2015: EUR 49 million).

For the determination of the fair value of equity investments and for estimated sensitivity to key assumptions in the valuation, see note 44.

## Impairment of corporate loans

NIBC assesses whether there is an indication of impairment of corporate loans classified as loans and receivables at amortised cost on an individual basis on at least a quarterly basis. NIBC considers a range of factors that have a bearing on the expected future cash flows that it expects to receive from the loan, including the business prospects of the borrower and its industry sector, the realisable value of collateral held, the level of subordination relative to other lenders and creditors, and the likely cost and likely duration of any recovery process. Subjective judgements are made in the process including, the determination of expected future cash flows and their timing and the market value of collateral. Furthermore, NIBC's judgements change with time as new information becomes available, or as recovery strategies evolve, resulting in frequent revisions to individual impairments, on a case-by-case basis. NIBC regularly reviews the methodology and assumptions used for estimating both the amount and timing of future cash flows, to reduce any differences between loss estimates and actual loss experience.

If, as at 31 December 2016, for each of NIBC's impaired corporate loans, the net present value of the estimated cash flows had been 5% lower or higher than estimated, NIBC would have recognised an additional impairment loss or gain of EUR 18.4 million (31 December 2015: EUR 14.4 million).

## Impairment of debt investments classified at amortised cost

NIBC assesses whether there is an indication of impairment on debt investments classified at amortised cost on an individual basis on at least a quarterly basis. NIBC considers a range of factors that have a bearing on the expected future cash flows that it expects to receive from the debt investment including rating downgrades and delinquencies and/or defaults in the underlying asset pools. Adjustments are also made to reflect such elements as deteriorating liquidity and increased refinancing risk.

If, as at 31 December 2016, for each of NIBC's impaired debt investments, the net present value of the estimated cash flows had been 5% lower or higher than estimated, NIBC would have recognised an additional impairment loss or gain of EUR 0.8 million (31 December 2015: EUR 0.9 million).

## Impairment of debt investments classified as available for sale

NIBC assesses whether there is an indication of impairment on debt investments classified as available for sale on an individual basis on at least a quarterly basis. This requires similar judgement as applied to debt investments at amortised cost.

The level of the impairment loss that NIBC recognises in the consolidated income statement is equivalent to the cumulative loss that had been recognised directly in the revaluation reserve of other comprehensive income plus any additional impairment loss (if applicable). If, as at 31 December 2016, for each of NIBC's impaired debt investments, the fair value had been 5% lower or higher, NIBC would have recognised an additional impairment loss or gain of EUR 0.1 million (31 December 2015: EUR 0.1 million).

## Impairment of equity investments classified as available for sale

NIBC determines an impairment loss on the available for sale equity investments held in the Investment portfolio of the venture capital organisation when there has been a 'significant' or 'prolonged' decline in fair value below original cost. NIBC exercises judgement in determining what is 'significant' or 'prolonged' by evaluating, among other factors, whether the decline is outside the normal range of volatility in the asset's price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the company whose securities are held by NIBC, a decline in industry or sector performance, adverse changes in technology or problems with operational or financing cash flows.

The level of the impairment loss that NIBC recognises in the consolidated income statement is the cumulative loss that had been recognised directly in the revaluation reserve of other comprehensive income. If NIBC had deemed all of the declines in fair value of equity investments below cost as 'significant' or 'prolonged', the effect would have been a EUR 0.4 million (2015: EUR 0.1 million) reduction in the profit before tax (investment income) in 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Segment report

Segment information is presented in these consolidated financial statements on the same basis as used for internal management reporting within NIBC Bank. Segment reporting puts forth a presentation of the segment results based on management reporting methods and a reconciliation between the results of the operating segments and the consolidated financial statements. The Managing Board is the Group's chief operating decision-maker. This year, NIBC changed its single operating segment ('NIBC Bank') to three reporting segments: Corporate Banking, Retail Banking and Treasury and Group Functions. This change has been implemented mainly to improve transparency in reporting of the segments. The comparative figures have been adjusted accordingly. The new format of presentation has no effect on the overall historical group results or financial position of the bank.

### Operating segments

Taking into account the changes, the operating segments are as follows:

**Corporate Banking**

Corporate Banking provides advice and debt, mezzanine and equity financing solutions to mid-sized companies and entrepreneurs in the Netherlands, Germany and the UK. Sectors in which we are active include Food, Agriculture, Retail & Health, Commercial Real Estate, Industries & Manufacturing, Infrastructure & Renewables, Telecom, Media, Technology & Services. Furthermore, we are active in two global sectors in which we have longstanding expertise: Oil & Gas Services and Shipping & Intermodal. The recently acquired SNS Securities (renamed to NIBC Markets) is included in this segment.

**Retail Banking**

Retail Banking offers savings products and mortgages to consumers who are seeking to actively manage their financial ambitions. 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 are comprised of 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 Banking and Retail Banking.

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 Banking and Retail Banking as they are managed on a group basis. These financial assets and liabilities are held within the segment Treasury and Group Functions and mainly comprise cash, debt investments, derivative assets and liabilities as well as majority of the bank's funding. As the assets of Corporate Banking and Retail Banking are largely funded internally with transfer pricing, majority of the bank's external funding is held within Treasury and Group Functions.

Inter-segment income and expenses are eliminated on consolidation level.

### Reconciliation with consolidated income statement

The accounting policies of the segments are the same as those described in our Accounting Policies section, with the exception of the following two adjustments.

1. Special items: The gains and losses that do not arise in the ordinary course of business have been excluded as 'special items.' In 2016, these include the badwill from acquisition of NIBC Markets of EUR 22 million, a EUR 18 million credit loss on resolving pre-crisis retail exposure and EUR 6 million one-off expenses relating to the outsourcing of our technical IT-environment and to the alignment of the NIBC Markets franchise to our business model as well as the further development of this franchise. There were no special items reported in 2015; and
2. For non-financial companies over which NIBC has control IFRS requires to consolidate these entities. The investments in these entities are non-strategic and the activities of these entities are non-financial. Therefore, in the income statement of the Internal Management Report, only the share of NIBC in the net result of these entities is included in the line-item 'Investment income'. These differences are present only in 2015 as the only remaining investment was exited towards the end of that year.

NIBC operates in four geographical locations namely the Netherlands, Germany, the UK and Belgium. The income and expenses incurred at each location are provided.

The following table presents the Segment report comprising of a summary of our internal management report and the reconciliation to the consolidated results under IFRS for the years ended 31 December 2016 and 31 December 2015.

| in EUR millions | Corporate Banking | Retail Banking | Treasury & Group functions | Internal management report | Reconciliation | Total (consolidated financial statements) |
|---|---|---|---|---|---|---|
| | For the year ended 31 December 2016 | | | | | |
| Net interest income | 162 | 117 | 27 | 306 | - | 306 |
| Net fee and commission income | 32 | 0 | (1) | 32 | - | 32 |
| Investment income | 33 | - | (2) | 31 | (8) | 23 |
| Net trading income | 16 | (4) | (1) | 12 | - | 12 |
| Other operating income | 0 | 0 | 1 | 0 | 22 | 22 |
| **Operating income** | **244** | **114** | **24** | **381** | **14** | **395** |
| Regulatory charges and levies | - | 10 | 5 | 15 | - | 15 |
| Other operating expenses | 118 | 47 | 15 | 180 | 9 | 188 |
| **Operating expenses** | **118** | **57** | **20** | **194** | **9** | **203** |
| Impairments of financial assets | 57 | 1 | 0 | 57 | 14 | 72 |
| **Profit before tax** | **69** | **56** | **4** | **129** | **(9)** | **120** |
| Tax | 12 | 14 | 0 | 25 | (7) | 18 |
| **Profit after tax** | **58** | **42** | **4** | **104** | **(2)** | **102** |
| Result attributable to non-controlling interests | 0 | 0 | 0 | 0 | - | 0 |
| **Net profit before special items** | **58** | **42** | **4** | **104** | **(2)** | **102** |
| Special items net of tax | (18) | - | 16 | (2) | | |
| **Net profit attributable to parent shareholder** | **39** | **42** | **20** | **102** | | |
| Total FTEs | 508 | 122 | 74 | 704 | - | 704 |
| EC Usage | 1,084 | 334 | 107 | 1,525 | - | 1,525 |
| Available capital start of the year | | | | 1,886 | - | 1,886 |
| ROE (SBU based on EC Usage) | 5.3% | 12.7% | 3.8% | 6.8% | | 6.7% |
| ROE (on available capital) | | | | 5.5% | | 5.4% |
| Cost Income ratio | 48% | 50% | | 51% | | 51% |

| in EUR millions | The Netherlands | Germany | United Kingdom | Belgium | Total |
|---|---|---|---|---|---|
| | For the year ended 31 December 2016 | | | | |
| Operating income | 320 | 48 | 21 | 6 | 395 |
| Operating expenses | 156 | 31 | 12 | 4 | 203 |
| Impairments & other | 71 | 1 | 0 | - | 72 |
| **Result before tax** | **93** | **15** | **9** | **2** | **120** |
| Tax | 11 | 5 | 2 | 1 | 18 |
| **Net profit** | **82** | **11** | **7** | **2** | **102** |
| FTEs | 579 | 87 | 34 | 5 | 704 |

| | For the year ended 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| in EUR millions | Corporate Banking | Retail Banking | Treasury & Group functions | Internal mana-gement report | Recon-ciliation | Total (consoli-dated financial statements) |
| Net interest income | 149 | 114 | 22 | 286 | - | 286 |
| Net fee and commission income | 36 | - | - | 36 | - | 36 |
| Investment income | 3 | - | 1 | 4 | 20 | 24 |
| Net trading income | 7 | (8) | (11) | (12) | - | (11) |
| Other operating income | - | - | 1 | 1 | 15 | 17 |
| **Operating income** | **197** | **107** | **13** | **316** | **36** | **352** |
| Regulatory charges and levies | - | - | 4 | 4 | - | 4 |
| Other operating expenses | 104 | 48 | 21 | 172 | 15 | 187 |
| **Operating expenses** | **104** | **48** | **25** | **177** | **15** | **191** |
| Impairments of financial assets | 60 | 1 | 2 | 63 | | 63 |
| Impairments of non-financial assets | - | - | - | - | 20 | 20 |
| **Profit before tax** | **33** | **58** | **(14)** | **77** | **1** | **78** |
| Tax | 0 | 15 | (8) | 6 | 1 | 7 |
| **Profit after tax** | **34** | **44** | **(7)** | **71** | **0** | **71** |
| Result attributable to non-controlling interests | 0 | 0 | - | 0 | - | 0 |
| **Net profit before special items** | **34** | **43** | **(7)** | **71** | **0** | **71** |
| Special items net of tax | | | 0 | | | |
| **Net profit attributable to parent shareholder** | **34** | **43** | **(7)** | **71** | | |
| Total FTEs | 451 | 119 | 74 | 644 | - | 644 |
| EC Usage | 1,099 | 292 | 87 | 1,479 | - | 1,479 |
| Available capital start of the year | | | | 1,831 | - | 1,831 |
| ROE (SBU based on EC Usage) | 3.0% | 14.9% | -7.8% | 4.7% | | 4.7% |
| ROE (on available capital) | | | | 3.9% | | 3.9% |
| Cost Income ratio | 53% | 45% | | 56% | | 54% |

| in EUR millions | The Netherlands | Germany | United Kingdom | Belgium | Total |
|---|---|---|---|---|---|
| | For the year ended 31 December 2015 | | | | |
| Operating income | 271 | 61 | 14 | 6 | 352 |
| Operating expenses | 144 | 33 | 11 | 4 | 191 |
| Impairments & other | 81 | 1 | 0 | - | 83 |
| **Result before tax** | **46** | **27** | **3** | **2** | **78** |
| Tax | 7 | (2) | 1 | 1 | 7 |
| **Net profit** | **39** | **29** | **2** | **1** | **71** |
| FTEs | 499 | 102 | 36 | 7 | 644 |

## 2. Net interest income

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Interest and similar income** | | |
| Interest income from assets designated at fair value through profit or loss | 156 | 161 |
| Interest income from other assets | 391 | 403 |
| | **547** | **564** |
| **Interest expense and similar charges** | | |
| Interest expense from liabilities designated at fair value through profit or loss | 18 | 17 |
| Interest expense from other liabilities | 223 | 261 |
| | **241** | **278** |
| | **306** | **286** |

Interest income from debt and other fixed-income instruments designated as held for trading or designated at fair value through profit or loss is recognised in interest and similar income at the effective interest rate.

For the year ended 31 December 2016, interest income included a negative charge on accrued interest on impaired financial assets of EUR 1 million (2015: EUR 5 million positive).

Interest income includes negative interest from liabilities for an amount of EUR 40 million (2015: EUR 35 million).

For the year ended 31 December 2016, interest expense related to deposits from customers amounted to EUR 166 million (2015: EUR 196 million).

Interest expense includes negative interest from financial assets for an amount of EUR 38 million (2015: EUR 29 million).

## 3. Net fee and commission income

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Fee and commission income** | | |
| Agency and underwriting fees | 4 | 5 |
| Investment management fees | 8 | 17 |
| Advisory fees | 6 | 8 |
| Brokerage fees | 5 | 1 |
| Other fees | 9 | 6 |
| | **32** | **37** |
| **Fee and commission expense** | | |
| Other non-interest related | - | 1 |
| | **-** | **1** |
| | **32** | **36** |

## 4. Investment income

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Gains less losses** | | |
| ***Equity investments*** | | |
| **Gains less losses from equity investments (available-for-sale)** | | |
| Net gain/(losses) on disposal | 1 | 6 |
| Impairment losses equity investments | - | (5) |
| **Gains less losses from equity investments (fair value through profit or loss)** | | |
| Gains less losses from associates | 29 | 38 |
| Gains less losses from other equity investments | (6) | (18) |
| ***Debt investments*** | | |
| Gains less losses from debt investments (available-for-sale) | (2) | 1 |
| | **22** | **22** |
| **Dividend income (available-for-sale)** | - | 1 |
| **Share in result of associates** | 1 | 1 |
| | **23** | **24** |

## 5. Net trading income

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Debt securities (designated at fair value through profit or loss) | (5) | (14) |
| Debt investments (designated at fair value through profit or loss) | - | (1) |
| Residential mortgages own book and securitised residential mortgages | 9 | 3 |
| Loans (designated at fair value through profit or loss) | 10 | (1) |
| Assets and liabilities held for trading | 2 | 6 |
| Other interest rate instruments | (16) | (3) |
| Foreign exchange | (1) | 1 |
| Other trading income: | - | - |
| Fair value hedges of interest rate risk | 9 | (2) |
| Cash flow hedges of interest rate risk | (2) | (6) |
| Other net trading income | 6 | 6 |
| | **12** | **(11)** |

## 6. Other operating income

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Badwill (negative goodwill) | 22 | - |
| Other | - | 17 |
| | **22** | **17** |

Badwill (negative goodwill) for an amount of EUR 22 million is recognised following the acquisition of SNS Securities N.V. on 30 June 2016. For further details note 51.

## 7. Personnel expenses and share-based payments

| in EUR millions | 2016 | 2015 |
| --- | --- | --- |
| Salaries | 74 | 64 |
| Variable compensation | | |
| Cash bonuses | 5 | 6 |
| Share-based and deferred bonuses including expenses relating to previous years' grants | 2 | 2 |
| Pension and other post-retirement charges: | | |
| Defined-contribution plan | 11 | 11 |
| Other post-retirement charges/(releases) including own contributions of employees | (1) | (1) |
| Social security charges | 7 | 7 |
| Other staff expenses | 2 | 2 |
| Staff cost of non-financial companies included in the consolidation | - | 6 |
| | **101** | **97** |

The increase in salaries in 2016 can be explained by an increase in the average number of *Full-Time Equivalents* (**FTEs**), mainly driven by the acquisition of NIBC Markets N.V. on 30 June 2016.

**Announced internal reorganisations in 2016**
A new operating model for the IT-department was developed in 2016. After a positive advice of the Work Council it was decided to outsource some of the IT-tasks to an external supplier. Because a number of IT activities will not be carried out by NIBC anymore 36 employees within the IT department will become redundant in due course.

In addition, following the acquisition of NIBC Markets mid 2016 an evaluation of the staff base was started. Consequently the workforce was reduced with 5 FTEs in 2016.

As a result of the internal reorganisations a one-off personnel expense to an amount of approximately EUR 5.4 million is recognised in 2016.

The number of FTEs (excluding the non-financial companies included in the consolidation) increased from 644 at 31 December 2015 to 704 at 31 December 2016. The number of FTEs employed outside of the Netherlands decreased from 145 at 31 December 2015 to 125 at 31 December 2016.

At 31 December 2016, no FTEs (31 December 2015: 83 FTEs) were employed at the non-financial companies included in the consolidation.

The variable compensation in cash charged to the income statement decreased in 2016, partly due to a release of the higher reserved amount in 2015 than granted. The total amount of variable income granted in 2016, with respect to the performance over 2015, amounts to EUR 6.4 million. This grant consists of (direct and deferred) cash and (vested and unvested) share based instruments. In 2016 one employee was awarded a total compensation of more than EUR 1 million (2015: one employee).

Information on the pension charges is included in note 40 Employee benefits.

Information on the remuneration of the members of the Managing Board and Supervisory Board can be found in note 55.

## Remuneration of Statutory Board and Supervisory Board

### Key management personnel compensation (Statutory Board)

| in EUR | 2016 | 2015 |
|---|---|---|
| **The breakdown of the total remuneration of the statutory board is as follows:**[1] | | |
| Cash compensation (base salary) | 2,243,750 | 2,275,000 |
| Cash compensation (sign-on payment)[2] | 51,625 | - |
| Short-term incentive compensation (cash bonus) | 108,588 | 116,025 |
| Short-term incentive compensation (phantom share units) | 108,588 | 116,034 |
| Vesting of prior years short-term deferred share awards compensation | 93,210 | 126,389 |
| Vesting of 2009-2014 co-investment related deferred share awards compensation | 174,382 | 503,002 |
| Pension costs | 442,419 | 429,665 |
| Other remuneration elements | 228,596 | 235,988 |
| | **3,451,158** | **3,802,103** |

1 Statutory Board is equal to Managing Board. The amounts included in the remuneration tables include current and former Statutory Board members, the latter defined as members in 2015/2016.
2 The sign-on relates to a one-off compensation to the new CRO for leaving an attractive position with his previous employer. The sign-on is delivered in a pre-defined mix: 30% in cash, 20% in deferred cash, 30% in Phantom Share Units and 20% in unvested Phantom Share Units.

As at 31 December 2016, current and former members of the Statutory Board held 144,252 *Common Depositary Receipts* (**CDRs**) (31 December 2015: 202,143), 104,288 Conditional *Common Depositary Receipts* (**CCDRs**) (31 December 2015: 79,488) and 43,138 *Conditional Restricted Depositary Receipts* (**CRDRs**) (31 December 2015: 72,123).

### Key management personnel compensation (Supervisory Board)

| in EUR | 2016 | 2015 |
|---|---|---|
| **Total remuneration of the supervisory board is as follows:** | | |
| Annual fixed fees, committee fees | 544,333 | 497,250 |
| | **544,333** | **497,250** |

### Components of variable compensation - NIBC Choice

NIBC Choice is NIBC Holding's share-based and deferred compensation plan and governs all variable compensation components in the form of equity, equity-related and deferred cash compensation. In addition to this, variable compensation can consist of a discretionary short-term cash bonus. NIBC Choice is only open to management and employees and includes conditions relating to termination of employment or certain corporate events, such as restructurings, affecting the rights that would otherwise accrue to them.

The following table gives an overview of the different NIBC Choice instruments and their main characteristics:

| NIBC Choice instrument | Share based | Equity/Cash-settled | Vesting conditions |
|---|---|---|---|
| Common Depositary Receipt (CDR) | Yes | Equity-settled | None |
| Restricted Depositary Receipt (RDR) (until 14/12/2015) | Yes | Equity-settled | 3 years pro rata vesting |
| Conditional Common Depositary Receipt (CCDR) | Yes | Equity-settled | None |
| Conditional Restricted Depositary Receipt (CRDR) | Yes | Equity-settled | 4 years pro rata vesting |
| Phantom Share Unit (PSU) | Yes | Cash-settled | None |
| Restricted Phantom Share Unit (RPSU) | Yes | Cash-settled | 3 years pro rata vesting |
| Deferred cash | No | Cash-settled | 3 years pro rata vesting |

**Depositary receipts**

The *Depositary Receipts* (**DRs**), consisting of CDRs and RDRs, are issued by *Stichting Administratiekantoor NIBC Holding* (**the Foundation**) in accordance with its relevant conditions of administration (administratievoorwaarden).

The Foundation issues a DR for each ordinary share it holds in NIBC Holding. The Foundation exercises the voting rights in respect of each of these ordinary shares at its own discretion, while the holder of a DR is entitled to the dividends and other distributions declared payable in respect of the underlying ordinary share. Holders of DRs cannot exercise voting rights or request a power of attorney from the Foundation to vote in respect of our ordinary shares.

Under the conditions of administration, the holders of DRs have pre-emption rights similar to other shareholders of NIBC Holding, subject to the Foundation having been given pre-emptive rights. Consequently, when given these pre-emptive rights, the Foundation will exercise the pre-emption rights attached to the ordinary shares underlying the DRs if these holders so elect.

In 2009 a co-investment programme was introduced for Statutory Board members. Under this programme Statutory Board members were granted matching shares (CRDRs), subject to a four-year vesting period, on a net after-tax basis representing a 1:1 match to their personal investment in CDRs at that time. These matching shares will become fully unconditional and vest immediately upon change of control of NIBC Holding. NIBC has the discretion to offer new members of the Statutory Board the opportunity to participate in this co-investment programme under the same conditions, except for the ability to earn performance shares as this feature is presumed no longer to be in line with the DNB Principles.

In 2009, a *Long-Term Incentive plan* (**LTI**) was introduced for the Statutory Board members and selected senior management. The LTI is forward-looking and will be granted annually. Its main objective is to provide an incentive to achieve a balanced mix of pre-agreed long-term financial and non-financial performance conditions. The LTI is subject to three-year cliff vesting and an additional retention period of two years and will be delivered in the form of CRDRs but, at the discretion of the Supervisory Board, may be delivered in another form. On every vesting date, the applicable tranche of CRDRs converts automatically into CCDRs if the vesting conditions are met.

Since 2012 the Supervisory Board was not permitted to grant LTI to Statutory Board members as long as NIBC had not yet repaid all outstanding state guaranteed funding. As of 1 January 2015 the long-term incentive arrangement (40% to 70% of base salary) was revoked by the Supervisory Board and replaced by a short-term variable income component at target of 15% of base salary (with a maximum of 20%).The variable compensation is delivered in a pre-defined mix: 30% in cash, 20% in deferred cash, 30% in Phantom Share Units and 20% in Restricted Phantom Share Units.

### Phantom Share Units

In 2010, a new equity-linked reward instrument was introduced as part of the *Short-Term Incentive* (**STI**) plan for the Statutory Board members and selected senior management. The short-term compensation in share-related awards consists of *Phantom Share Units* (**PSUs**) and/or *Restricted Phantom Share Units* (**RPSUs**). RPSU awards are subject to a three-year vesting with one third vesting each year on 1 April. All PSUs, whether vested or restricted are subject to a one-year retention period as measured from the date of vesting. For the Statutory Board the retention period of the equity-linked instruments is five years. The RPSU and PSU has similar characteristics as the CRDR, such as eligibility for dividend and a value which is tied to movements in the net asset value of NIBC Holding, however RPSUs are not eligible for dividend. This short-term compensation can be converted into cash immediately after the retention period and therefore is recognised as cash-settled.

## Share plans

### Common Depositary Receipts

At year-end 2016, 2,083,116 (2015: 2,083,116) CDRs were in issue to employees. Of these, 2,261 (or 0.1%) were considered cash-settled (2015: 2,261 and 0.1%); the remaining 99.9% were considered equity-settled. If an employee is entitled to demand cash settlement at fair value, the CDRs are considered cash-settled (rather than equity-settled).

In 2015, a fully discretionary offer was made to current and former employees to sell a maximum of 15% of their CDR holdings. This was mainly to reduce administrative and handling cost by reducing the number of small holders of CDRs (those with up to 1,000 CDRs were allowed to sell their entire holding). Current Statutory Board members were not eligible for this offer.

| | Depositary Receipt awards (in numbers) | | Fair value at balance sheet date (in EUR) | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Balance at 1 January** | **2,083,120** | **2,391,683** | | |
| Exercised | - | 48,414 | | |
| CDRs repaid | - | (356,977) | | |
| **Balance at 31 December** | **2,083,120** | **2,083,120** | **7.96** | **8.84** |
| **Of which relates to investment from own funds at 31 December** | **904,359** | **904,359** | | |

**Conditional Common Depositary Receipts**

At year-end 2016, 104,288 (2015: 79,488) of the total 268,812 of CCDRs had been issued to current and former Statutory Board members. All CCDRs are considered equity-settled in both 2016 and 2015.

| | Conditional Common Depositary Receipt awards (in numbers) | | Weighted average fair value at grant date (in EUR) | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Changes in conditional common depositary receipts:** | | | | |
| **Balance at 1 January** | **244,012** | **225,563** | **9.18** | **9.25** |
| Vesting of one-off matching shares awarded in 2012 and 2014 on investment from own funds | 18,449 | 18,449 | 8.37 | 8.37 |
| Vesting of cancellation LTI arrangement in 2014 | 6,351 | - | 8.60 | - |
| **Balance at 31 December** | **268,812** | **244,012** | **9.11** | **9.18** |

The fair market value per CCDR is calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expected dividends. The fair value at balance sheet date was EUR 7.96.

**Conditional Restricted Depositary Receipts**

At year-end 2016, 43,138 CRDRs (2015: 72,123) were in issue to Statutory Board members related to their personal co-investment in 2012, 2013 and 2014 in NIBC Holding CDRs, with a weighted average remaining vesting period of 0.8 years (2015: 1.1 years). These CRDRs are subject to four-year vesting with one quarter vesting each year on 1 January, for the first time on 1 January 2013 (2012 investment), 1 January 2015 (2013 and early 2014 investment) and 1 January 2016 (end of 2014 investment) provided that the holder is still employed by NIBC on the vesting date. These CRDRs will become fully unconditional and vest immediately upon change of control of NIBC Holding.

All CRDRs are considered equity-settled in both 2016 and 2015.

| | Conditional Restricted Depositary Receipt awards (in numbers) | | Weighted average fair value at grant date (in EUR) | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Changes in conditional restricted depositary receipts:** | | | | |
| **Balance at 1 January** | **72,123** | **90,572** | **8.42** | **8.41** |
| Forfeited | (4,185) | - | 8.60 | - |
| Vested into conditional CDRs | (24,800) | (18,449) | 8.43 | 8.37 |
| **Balance at 31 December** | **43,138** | **72,123** | **8.39** | **8.42** |

The fair market value per CRDR is calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expected dividends. The fair value at balance sheet date was EUR 7.96.

**Phantom Share Units**

As at year-end 2016, 225,013 (2015: 208,010) PSUs had been issued to employees. The total outstanding position is considered cash-settled.

| | Phantom Share Units (in numbers) | | Weighted average fair value at grant date (in EUR) | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Changes in phantom share units:** | | | | |
| **Balance at 1 January** | **208,010** | **191,365** | **8.63** | **8.63** |
| Granted | 97,387 | 84,928 | 7.96 | 8.84 |
| Vesting of RPSUs | 42,783 | 69,015 | 8.43 | 8.53 |
| Exercised | (123,168) | (137,298) | 8.56 | 8.64 |
| **Balance at 31 December** | **225,012** | **208,010** | **8.34** | **8.63** |

The fair market value per PSU is calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expected dividends. The fair value at balance sheet date was EUR 7.96.

**Restricted Phantom Share Units**

As at year end 2016, 165,747 (2015: 146,791) RPSUs had been issued to employees. The total outstanding position is considered cash-settled.

| | Restricted Phantom Share Units (in numbers) | | Weighted average fair value at grant date (in EUR) | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Changes in restricted phantom share units:** | | | | |
| **Balance at 1 january** | **146,791** | **159,526** | **8.63** | **8.49** |
| Granted | 74,729 | 64,779 | 7.96 | 8.84 |
| Vesting of RPSUs | (42,783) | (69,015) | 8.43 | 8.53 |
| Forfeited | (12,990) | (8,499) | 8.66 | 8.48 |
| **Balance at 31 December** | **165,747** | **146,791** | **8.38** | **8.63** |

The fair market value per RPSU is calculated based on price-to-book ratios observed in the market at grant date based on net asset value. The fair value at reporting date was EUR 7.96.

With respect to all instruments relating to NIBC Choice (CDRs, RDRs, CCDRs, CRDRs, PSUs, RPSUs and deferred cash), an amount of EUR 2 million was expensed through personnel expenses in 2016 (2015: EUR 2 million), of which EUR 2 million (2015: EUR 1 million) refers to cash-settled instruments (deferred cash and vested PSUs) and 0 million (2015: 1 million) to equity-settled instruments.

With respect to the cash-settled instruments (PSUs, RPSUs and deferred cash), the amount expensed during the vesting period through the income statement is based on the number of instruments originally granted outstanding at balance sheet date, their fair value at balance sheet date, the vesting period and estimates of the number of instruments that will forfeit during the remaining vesting period. The liability in the balance sheet with respect to cash-settled instruments is EUR 3 million (2015: EUR 3 million).

With respect to the equity-settled instruments (CDRs, RDRs, CCDRs and CRDRs), the amount expensed during the vesting period through the income statement is based on the number of instruments granted outstanding at balance sheet date, their fair value at grant date, the vesting period and estimates of the number of instruments that will forfeit during the remaining vesting period. The liability in the balance sheet relating to the cumulative expenses with respect to equity-settled instruments is EUR 4 million (2015: EUR 3 million).

The current account with NIBC Holding includes EUR 29 million payable (2015: EUR 29 million) relating to NIBC Choice. This is a result of recharges from NIBC Holding to its subsidiaries with respect to NIBC Choice (equity-settled instruments). The recharge is accounted for upon vesting of the granted equity settled NIBC Choice instruments. This amount payable is more than offset by a receivable in the current account position with NIBC Holding for the capital contribution of EUR 51 million (2015: EUR 51 million) in relation to the share-based payments programme granted by NIBC Holding. The difference between both amounts relates to share-based expenses for which the after payroll tax amounts were paid to the Foundation with subsequent delivery of RDRs by the Foundation to the employees.

## 8. Other operating expenses

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Other operating expenses | 78 | 74 |
| Other operating expenses of non-financial companies included in the consolidation | - | 6 |
| Fees of external independent auditor | 2 | 2 |
| | **80** | **82** |

The presentation of servicing expenses relating to residential mortgages and retail savings to an amount of EUR 18 million was changed from net interest income to other operating expenses in 2015. The revised presentation of servicing costs in other operating expenses is considered to be more in line with market practice in the financial industry.

### Audit fees 2016

| in EUR thousands | Accountants | Other network | Other audit firms | Total |
|---|---|---|---|---|
| **Fees of the external independent auditors:** | | | | |
| Audit of financial statements | 1,165 | 254 | - | 1,419 |
| Other audit-related services | 303 | - | 186 | 489 |
| Other non-audit related services | 15 | - | 128 | 143 |
| Tax services | - | - | 22 | 22 |
| | **1,483** | **254** | **336** | **2,073** |

## Audit fees 2015

| in EUR thousands | Accountants | Other network | Other audit firms | Total |
|---|---|---|---|---|
| **Fees of the external independent auditors:** | | | | |
| Audit of financial statements | 1,254 | 269 | 43 | 1,566 |
| Other audit-related services | 441 | 24 | 278 | 743 |
| Other non-audit related services | - | - | 34 | 34 |
| Tax services | - | - | 50 | 50 |
| | **1,695** | **293** | **405** | **2,393** |

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 2016 and 2015 annual reports, regardless of whether the work was performed during the financial year.

## 9. Depreciation and amortisation

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Property, plant and equipment | 7 | 6 |
| Intangible assets | - | 2 |
| | **7** | **8** |
| **Amortisation of intangible assets can be categorised as follows:** | | |
| Trademarks and licenses | - | 1 |
| Customer relationships | - | 1 |
| Other intangibles | - | - |
| | **-** | **2** |

## 10. Regulatory charges and levies

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Resolution levy | 4 | 3 |
| Deposit Guarantee Scheme | 11 | 1 |
| | **15** | **4** |

# 11. Impairments of financial and non-financial assets

## Financial assets

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Impairments** | | |
| Loans classified at amortised cost | 78 | 72 |
| Debt investments classified at amortised cost | 6 | 16 |
| Debt investments classified available-for-sale | - | 1 |
| Residential mortgages own book classified at amortised cost | 1 | - |
| | **85** | **89** |
| **Reversals of impairments** | | |
| Loans classified at amortised cost | (16) | (25) |
| Debt investments classified at amortised cost | - | (1) |
| Debt investments classified available-for-sale | - | - |
| Residential mortgages own book classified at amortised cost | - | - |
| | **(16)** | **(26)** |
| Other | 1 | - |
| | **70** | **63** |

## Non-financial assets

Impairment of non-financial assets in 2016 (EUR 2 million) and 2015 (EUR 20 million) is related to intangible assets of NIBC's non-financial company *Olympia Nederland Holding B.V.* (**Olympia**). Olympia was classified as Disposal group held for sale as per 31 December 2015 and sold in June 2016. See note 28 Intangible assets and note 32 Disposal group held for sale.

# 12. Tax

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Current tax | 30 | 11 |
| Deferred tax | (12) | (4) |
| | **18** | **7** |

Further information on deferred tax is presented in note 30. The actual tax charge on NIBC's profit before tax differs from the theoretical amount that would arise using the basic tax rate, as follows:

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Tax reconciliation:** | | |
| **Profit before tax** | **120** | **78** |
| Tax calculated at the nominal Dutch corporate tax rate of 25.0% (2015: 25.0%) | 30 | 19 |
| Impact of income not subject to tax | (13) | (7) |
| Result final tax assessment previous years | - | (5) |
| Effect of different tax rates other countries | 1 | - |
| | **18** | **7** |

The impact of income not subject to tax mainly relates to income from equity investments and investments in associates, in which NIBC has a stake of more than 5%, being income that is tax exempt under Dutch tax law. NIBC Bank N.V. is part of the fiscal entity with NIBC Holding N.V.

The effective tax rate for the year ended December 2016 was 15.3% (2015: 9.2%).

The current tax expense related to non-financial companies included in the consolidation is nil (2015: EUR 1 million).

NIBC Holding N.V. is the parent company of NIBC Bank N.V., NIBC Investments N.V. and NIBC Investment Management N.V., which are all part of the same fiscal entity.

## 13. Cash and balances with central banks (amortised cost)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Cash and balances with central banks (amortised cost) | 918 | 746 |
| | **918** | **746** |
| **Cash and balances with central banks can be categorised as follows:** | | |
| Receivable on demand | 777 | 613 |
| Not receivable on demand | 141 | 133 |
| | **918** | **746** |
| **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 | 7 |
| Longer than five years | - | - |
| Assets with central banks due to mandatory reserve deposits | 133 | 126 |
| | **141** | **133** |

Cash and balances with central banks included EUR 707 million on the current account balance held with Dutch Central Bank (2015: EUR 532 million).

Balances held with central banks are interest-bearing.

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature of the underlying assets.

## 14. Due from other banks (amortised cost)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Current accounts | 398 | 610 |
| Deposits with other banks | 1,030 | 1,135 |
| | **1,428** | **1,745** |
| **Due from other banks can be categorised as follows:** | | |
| Receivable on demand | 402 | 610 |
| Cash collateral placements posted under CSA agreements | 1,026 | 1,128 |
| Not receivable on demand | - | 7 |
| | **1,428** | **1,745** |
| **Legal maturity analysis of due from other 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 | - | 3 |
| Longer than five years | - | 4 |
| | **-** | **7** |

There were no subordinated loans outstanding due from other banks in 2016 and 2015.

No impairments were recorded in 2016 and 2015 on the amounts due from other banks at amortised cost.

An amount of EUR 1,026 million (2015: EUR 1,128 million) related to cash collateral given to third parties and was not freely available to NIBC.

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.

## 15. Loans (amortised cost)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Loans | 8,269 | 7,668 |
| | **8,269** | **7,668** |
| **Legal maturity analysis of loans:** | | |
| Three months or less | 453 | 323 |
| Longer than three months but not longer than one year | 940 | 695 |
| Longer than one year but not longer than five years | 4,714 | 4,255 |
| Longer than five years | 2,162 | 2,395 |
| | **8,269** | **7,668** |
| **Movement schedule of loans:** | | |
| **Balance at 1 January** | **7,668** | **7,226** |
| Additions | 3,601 | 2,185 |
| Disposals | (2,914) | (2,045) |
| Other (including exchange rate differences) | (86) | 302 |
| **Balance at 31 December** | **8,269** | **7,668** |
| **Movement schedule of impairment losses on loans:** | | |
| **Balance at 1 January** | **172** | **170** |
| Additional allowances | 78 | 72 |
| Write-offs / disposals | (30) | (50) |
| Amounts released | (16) | (25) |
| Unwinding of discount adjustment | (9) | (5) |
| Other (including exchange rate differences) | 9 | 10 |
| **Balance at 31 December** | **204** | **172** |

On 1 July 2008 following the IAS 39 amendments, an amount of EUR 79 million of the impairments related to the available-for-sale loans was reclassified as loans at amortised cost. The corresponding total amount of loans in the available-for-sale category net of impairments has been reclassified to the loans at amortised cost category as at 1 July 2008. The remaining cumulative impairments at 31 December 2016, related to the available-for-sale loans reclassified to the loans at amortised cost category on 1 July 2008, amounted to EUR 16 million (2015: EUR 15 million).

The maximum credit risk exposure including undrawn credit facilities arising on loans at amortised cost amounted to EUR 9,627 million (2015: EUR 9,240 million).

The total amount of subordinated loans in this item amounted to EUR 150 million in 2016 (2015: EUR 148 million).

As per 31 December 2016, EUR 42 million (2015: EUR 20 million) was guaranteed by the Dutch State.

## 16. Residential mortgages own book (amortised cost)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Residential mortgages own book | 3,346 | 2,390 |
| | **3,346** | **2,390** |
| **Legal maturity analysis of residential mortgages own book:** | | |
| Three months or less | - | - |
| Longer than three months but not longer than one year | - | - |
| Longer than one year but not longer than five years | 2 | 1 |
| Longer than five years | 3,344 | 2,389 |
| | **3,346** | **2,390** |
| **Movement schedule of residential mortgages own book:** | | |
| **Balance at 1 January** | **2,390** | **1,078** |
| Additions | 1,093 | 1,368 |
| Disposals | (137) | (56) |
| Other (including exchange rate differences) | - | - |
| **Balance at 31 December** | **3,346** | **2,390** |

The maximum credit exposure including committed but undrawn facilities was EUR 4,261 million at 31 December 2016 (31 December 2015: EUR 2,791 million).

The total impairments on residential mortgages own book at amortised cost at 31 December 2016 were EUR 2 million (2015: EUR 1 million).

## 17. Debt investments (amortised cost)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Debt investments | 287 | 294 |
| | **287** | **294** |
| **Debt investments analysed by listing:** | | |
| Listed | 237 | 266 |
| Unlisted | 50 | 28 |
| | **287** | **294** |
| **Legal maturity analysis of debt investments:** | | |
| Three months or less | - | - |
| Longer than three months but not longer than one year | 50 | 20 |
| Longer than one year but not longer than five years | 129 | 146 |
| Longer than five years | 108 | 128 |
| | **287** | **294** |
| **Movement schedule of debt investments:** | | |
| **Balance at 1 January** | **294** | **359** |
| Additions | 86 | 8 |
| Disposals | (84) | (65) |
| Impairments | (6) | (13) |
| Exchange differences and amortisation | (3) | 5 |
| **Balance at 31 December** | **287** | **294** |
| **Movement schedule of impairment losses on debt investments:** | | |
| **Balance at 1 January** | **39** | **26** |
| Additional allowances | 6 | 16 |
| Write-offs | - | (2) |
| Amounts released | - | (1) |
| Other (including exchange rate differences) | (2) | - |
| **Balance at 31 December** | **43** | **39** |

## 18. Loans on group companies (available-for-sale)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Loans on group companies | 24 | 18 |
| | **24** | **18** |
| **Legal maturity analysis of loans on group companies:** | | |
| Three months or less | - | - |
| Longer than three months but not longer than one year | 24 | - |
| Longer than one year but not longer than five years | - | 18 |
| Longer than five years | - | - |
| | **24** | **18** |
| **Movement schedule of loans on group companies:** | | |
| **Balance at 1 January** | **18** | **-** |
| Additions | 2 | 18 |
| Disposals | - | - |
| Changes in fair value | 4 | - |
| Other (including exchange rate differences) | - | - |
| **Balance at 31 December** | **24** | **18** |

In 2016 and 2015, there were no additional impairments.

## 19. Equity investments (available-for-sale)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Equity investments | 41 | 48 |
| | **41** | **48** |
| **Movement schedule of equity investments:** | | |
| **Balance at 1 January** | **48** | **53** |
| Additions | - | - |
| Disposals (sales and/or capital repayments) | (3) | (12) |
| Changes in fair value | (4) | 4 |
| Other (including exchange rate differences) | - | 3 |
| **Balance at 31 December** | **41** | **48** |
| **Movement schedule of impairment losses on equity investments:** | | |
| **Balance at 1 January** | **70** | **65** |
| Additional allowances | - | 5 |
| Write-offs | - | (5) |
| Other (including exchange rate differences) | 1 | 5 |
| **Balance at 31 December** | **71** | **70** |

## 20. Debt investments (available-for-sale)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Debt investments | 1,028 | 1,064 |
| | **1,028** | **1,064** |

All debt investments are non-government, except for EUR 55 million.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Debt investments analysed by listing:** | | |
| Listed | 1,025 | 911 |
| Unlisted | 3 | 153 |
| | **1,028** | **1,064** |
| **Legal maturity analysis of debt investments:** | | |
| Three months or less | 34 | 21 |
| Longer than three months but not longer than one year | 54 | 79 |
| Longer than one year but not longer than five years | 230 | 272 |
| Longer than five years | 710 | 692 |
| | **1,028** | **1,064** |
| **Movement schedule of debt investments:** | | |
| **Balance at 1 January** | **1,064** | **945** |
| Additions | 442 | 680 |
| Disposals | (479) | (574) |
| Changes in fair value | (1) | (5) |
| Exchange rate differences | 2 | 18 |
| **Balance at 31 December** | **1,028** | **1,064** |
| **Movement schedule of impairment losses on debt investments:** | | |
| **Balance at 1 January** | **18** | **18** |
| Additional allowances | - | - |
| Write-offs | (7) | - |
| **Balance at 31 December** | **11** | **18** |

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes and exchange rate differences is compensated by results on financial derivatives.

# 21. Loans (designated at fair value through profit or loss)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Loans | 210 | 316 |
| | **210** | **316** |
| **Legal maturity analysis of loans:** | | |
| Three months or less | 1 | - |
| Longer than three months but not longer than one year | - | - |
| Longer than one year but not longer than five years | 65 | 63 |
| Longer than five years | 144 | 253 |
| | **210** | **316** |
| **Movement schedule of loans:** | | |
| **Balance at 1 January** | **316** | **374** |
| Additions | 8 | - |
| Disposals | (100) | (70) |
| Changes in fair value | 10 | 1 |
| Other (including exchange rate differences) | (24) | 11 |
| **Balance at 31 December** | **210** | **316** |

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated by results on financial derivatives.

Interest income from loans is recognised in interest and similar income based on the effective interest rate. Fair value movements excluding interest income are recognised in net trading income.

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to a loss of EUR 9 million (2015: EUR 21 million) and the change for the current year is a gain of EUR 12 million.

The portion of fair value changes in 2016 included in the balance sheet amount (designated at fair value through profit or loss) as at 31 December 2016 relating to the movement in credit spreads amounted to EUR 3 million (2015: nil).

The maximum credit risk exposure including undrawn credit facilities amounted to EUR 211 million (2015: EUR 316 million).

## 22. Residential mortgages own book (designated at fair value through profit or loss)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Residential mortgages own book | 4,124 | 4,111 |
| | **4,124** | **4,111** |
| **Legal maturity analysis of residential mortgages own book:** | | |
| Three months or less | 9 | 11 |
| Longer than three months but not longer than one year | 17 | 7 |
| Longer than one year but not longer than five years | 104 | 106 |
| Longer than five years | 3,994 | 3,987 |
| | **4,124** | **4,111** |
| **Movement schedule of residential mortgages own book:** | | |
| **Balance at 1 January** | **4,111** | **3,441** |
| Additions (including transfers from consolidated SPEs) | 466 | 1,010 |
| Disposals (sale and/or redemption, including replenishment of consolidated SPEs) | (471) | (370) |
| Changes in fair value | 18 | 30 |
| **Balance at 31 December** | **4,124** | **4,111** |

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated with results on financial derivatives.

The cumulative change in fair value is disclosed in note 23 Securitised residential mortgages.

Interest income from residential mortgages own book is recognised in interest and similar income based on the effective interest rate. Fair value movements excluding interest are recognised in net trading income.

The maximum credit exposure including committed but undrawn facilities was EUR 4,125 million (2015: EUR 4,112 million).

## 23. Securitised residential mortgages (designated at fair value through profit or loss)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Securitised residential mortgages | 1,550 | 2,266 |
| | **1,550** | **2,266** |
| **Legal maturity analysis of securitised residential mortgages:** | | |
| Three months or less | 1 | 2 |
| Longer than three months but not longer than one year | 1 | 3 |
| Longer than one year but not longer than five years | 19 | 32 |
| Longer than five years | 1,529 | 2,229 |
| | **1,550** | **2,266** |
| **Movement schedule of securitised residential mortgages:** | | |
| **Balance at 1 January** | **2,266** | **3,720** |
| Additions | - | - |
| Disposals (sale and/or redemption including transfers to own book) | (666) | (1,333) |
| Changes in fair value | (50) | (121) |
| **Balance at 31 December** | **1,550** | **2,266** |

At 31 December 2016 the carrying amounts for residential mortgages own book (designated at fair value through profit or loss) and securitised residential mortgages include a total revaluation adjustment of EUR 423 million debit (2015: EUR 455 million debit) related to both interest rates and credit spreads. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated by results on financial derivatives.

The portion of fair value changes in 2016 included in the balance sheet amount relating to the movement in credit spreads on residential mortgages own book (see note 22) and securitised residential mortgages amounted to EUR 35 million debit at 31 December 2016 (2015: EUR 22 million debit), being an increase in the carrying amount.

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to a gain of EUR 98 million (2015: EUR 95 million) and the change for the current year is a gain of EUR 3 million.

Interest income from securitised residential mortgages is recognised in interest and similar income at the effective interest rate. Fair value movements (excluding interest) are recognised in net trading income.

At 31 December 2016, securitised residential mortgages in the amount of EUR 1,550 million (2015: EUR 2,266 million) were pledged as collateral for NIBC's own liabilities (see note 49).

The maximum credit exposure was EUR 1,550 at 31 December 2016 (31 December 2015: EUR 2,266 million).

The aggregate difference yet to be recognised in the income statement between transaction prices at initial recognition and the fair value determined by a valuation model on both residential mortgages own book (see note 22) and securitised residential mortgages at 31 December 2016 amounted to a liability of EUR 14 million (2015: EUR 16 million).

Securitised residential mortgages are recognised on NIBC's balance sheet based on the risks and rewards NIBC retains in the *special purpose entities* (**SPEs**) issuing the mortgage-backed notes. Risks and rewards can be retained by NIBC by retaining issued notes, providing overcollateralisation to the SPEs or implementing reserve accounts in the SPEs. At the balance sheet date, NIBC retained EUR 135 million (31 December 2015: EUR 187 million) of notes issued by the SPEs and reserve accounts amounted to EUR 11 million (31 December 2015: EUR 15 million).

## 24. Equity investments (designated at fair value through profit or loss, including investments in associates)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Investments in associates | 185 | 172 |
| Other equity investments | 17 | 50 |
| Long position in listed and actively traded equities | 2 | - |
| | **204** | **222** |
| **Movement schedule of investments in associates:** | | |
| **Balance at 1 January** | **172** | **225** |
| Additions | 31 | 9 |
| Disposals | (38) | (103) |
| Changes in fair value | 20 | 41 |
| **Balance at 31 December** | **185** | **172** |

At the end of 2016 and 2015, all investments in associates were unlisted.

Other disclosure requirements for associates are presented in note 53 Principal subsidiaries and associates.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Movement schedule of other equity investments:** | | |
| **Balance at 1 January** | **50** | **51** |
| Additions | 10 | 18 |
| Disposals | (37) | (2) |
| Changes in fair value | (6) | (18) |
| Other (including exchange rate differences) | - | 1 |
| **Balance at 31 December** | **17** | **50** |

At the end of 2016 and 2015, other equity investments were unlisted.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Movement schedule of long position in listed and actively traded equities:** | | |
| **Balance at 1 January** | **-** | **-** |
| Additions | 6 | - |
| Disposals | (4) | - |
| Other (including exchange rate differences) | - | - |
| **Balance at 31 December** | **2** | **-** |

## 25. Debt investments at fair value through profit or loss (including trading)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Held for trading | 60 | 12 |
| Designated at fair value through profit or loss | - | 7 |
| | **60** | **19** |
| **Legal maturity analysis of debt investments designated at fair value through profit or loss:** | | |
| 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 | - | 7 |
| | **-** | **7** |
| **Movement schedule of debt investments designated at fair value through profit or loss:** | | |
| **Balance at 1 January** | **7** | **6** |
| Additions | - | - |
| Disposals (sale and/or redemption including transfers to own book) | (7) | (1) |
| Changes in fair value | - | 1 |
| Exchange rate differences | - | 1 |
| **Balance at 31 December** | **-** | **7** |

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated by results on financial derivatives.

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in credit risk amounts to nil and the change for the current year is also nil (2015: EUR 1 million).

Interest income from debt investments is recognised in interest and similar income at the effective interest rate until the date of reclassification. Fair value movements excluding interest have been recognised in net trading income.

## 26. Derivative financial instruments

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Derivative financial assets** | | |
| Derivative financial assets used for hedge accounting | 177 | 168 |
| Derivative financial assets - other | 1,640 | 1,983 |
| | **1,817** | **2,151** |
| **Derivative financial liabilities** | | |
| Derivative financial liabilities used for hedge accounting | 89 | 45 |
| Derivative financial liabilities - other | 1,917 | 2,305 |
| | **2,006** | **2,350** |

Derivative financial assets and liabilities used for hedge accounting are derivatives designated in hedge accounting relationships as defined in IAS 39.

The derivatives financial assets and liabilities in the category 'other' are classified as held for trading according to IAS 39.

The derivatives in this category consist of:
- Interest rate swaps to hedge the interest rate risk of the mortgage portfolio;
- Interest rate swaps to transform fixed rate funding into floating rate funding;
- FX and cross-currency swaps to fund the non-euro loans to customers or to transform non-euro funding into euros;
- Client-driven derivative transactions and hedges resulting from this activity; and
- Limited money market trading.

Economically all these derivatives, with the exception of the limited money market trading, are used to hedge interest rate or FX risk. The limited money market trading is controlled by a small facilitating VaR limit of EUR 2.25 million. For further details see note 58 Market Risk (Key risk statistics Trading portfolio, excluding NIBC Markets).

## Derivative financial instruments used for hedge accounting at 31 December 2016

| in EUR millions | Notional amount with remaining life of: Less than three months | Between three months and one year | More than one year | Total | Assets | Liabilities |
|---|---|---|---|---|---|---|
| **Derivatives accounted for as fair value hedges of interest rate risk** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps | - | 10 | 7,996 | 8,006 | 121 | 87 |
| Interest currency rate swaps | - | - | 18 | 18 | 6 | - |
| | **-** | **10** | **8,014** | **8,024** | **127** | **87** |
| **Derivatives accounted for as cash flow hedges of interest rate risk** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps | 25 | 225 | 1,852 | 2,102 | 50 | 2 |
| | **25** | **225** | **1,852** | **2,102** | **50** | **2** |
| **Total derivatives used for hedge accounting** | **25** | **235** | **9,866** | **10,126** | **177** | **89** |

## Derivative financial instruments used for hedge accounting at 31 December 2015

| 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 | 20 | 4,898 | 2,115 | 7,033 | 120 | 44 |
| Interest currency rate swaps | - | - | 17 | 17 | 6 | - |
| | **20** | **4,898** | **2,132** | **7,050** | **126** | **44** |
| **Derivatives accounted for as cash flow hedges of interest rate risk** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps | 25 | 1,142 | 976 | 2,143 | 42 | 1 |
| | **25** | **1,142** | **976** | **2,143** | **42** | **1** |
| **Total derivatives used for hedge accounting** | **45** | **6,040** | **3,108** | **9,193** | **168** | **45** |

## Derivative financial instruments - other at 31 December 2016

| in EUR millions | Notional amount with remaining life of: Less than three months | Between three months and one year | More than one year | Total | Assets | Liabilities |
|---|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps[1] | 6,170 | 10,617 | 24,097 | 40,884 | 1,443 | 1,784 |
| Interest rate options (purchase) | - | 60 | 714 | 774 | 2 | - |
| Interest rate options (sale) | - | 30 | 782 | 812 | - | 2 |
| | **6,170** | **10,707** | **25,593** | **42,470** | **1,445** | **1,786** |
| **Currency derivatives** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest currency rate swaps | 277 | 760 | 1,809 | 2,846 | 148 | 88 |
| Currency/cross-currency swaps | 451 | - | - | 451 | 4 | - |
| | **728** | **760** | **1,809** | **3,297** | **152** | **88** |
| **Other derivatives (including credit derivatives)** | | | | | | |
| ***OTC products:*** | | | | | | |
| Credit default swaps (guarantees given) | - | 10 | 4 | 14 | - | 1 |
| Credit default swaps (guarantees received) | - | 10 | - | 10 | - | - |
| Other swaps | 27 | - | 23 | 50 | 43 | 42 |
| | **27** | **20** | **27** | **74** | **43** | **43** |
| **Total derivatives - other** | **6,925** | **11,487** | **27,429** | **45,841** | **1,640** | **1,917** |

## Derivative financial instruments - other at 31 December 2015

| 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] | 3,483 | 35,548 | 13,920 | 52,951 | 1,864 | 2,199 |
| Interest rate options (purchase) | - | 414 | 45 | 459 | 2 | - |
| Interest rate options (sale) | - | 641 | 54 | 695 | - | 2 |
| | **3,483** | **36,603** | **14,019** | **54,105** | **1,866** | **2,201** |
| **Currency derivatives** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest currency rate swaps | 207 | 2,776 | 32 | 3,015 | 75 | 55 |
| Currency/cross-currency swaps | 203 | - | - | 203 | 6 | 1 |
| | **410** | **2,776** | **32** | **3,218** | **81** | **56** |
| **Other derivatives (including credit derivatives)** | | | | | | |
| ***OTC products:*** | | | | | | |
| Credit default swaps (guarantees given) | 14 | - | - | 14 | - | 1 |
| Credit default swaps (guarantees received) | 10 | - | - | 10 | - | - |
| Other swaps | 28 | - | 25 | 53 | 36 | 47 |
| | **52** | **-** | **25** | **77** | **36** | **48** |
| **Total derivatives - other** | **3,945** | **39,379** | **14,076** | **57,400** | **1,983** | **2,305** |

1 The relatively significant notional amount of these derivatives can largely be explained by past market practice, when it used to be more beneficial to hedge interest rate risk by entering into a new swap position rather than to unwind existing swaps.

### Fair value hedges of interest rate risk

The following table discloses the fair value of the swaps designated in fair value hedging relationships:

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Fair value pay - fixed swaps (hedging assets) \| assets | 6 | 3 |
| Fair value pay - fixed swaps (hedging assets) \| liabilities | (80) | (34) |
| | **(74)** | **(31)** |
| Fair value pay - floating swaps (hedging liabilities) \| assets | 121 | 123 |
| Fair value pay - floating swaps (hedging liabilities) \| liabilities | (7) | (10) |
| | **114** | **113** |

### Cash flow hedges of interest rate risk

The following table discloses the fair value of the swaps designated in cash flow hedging relationships:

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Fair value receive - fixed swaps \| assets | 50 | 42 |
| Fair value receive - fixed swaps \| liabilities | (2) | (1) |
| | **48** | **41** |
| Fair value receive - floating swaps \| assets | - | - |
| Fair value receive - floating swaps \| liabilities | - | - |
| | **-** | **-** |

**Sum of fair value and cash flow hedges of interest rate risk**

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Fair value pay swaps \| assets | 127 | 126 |
| Fair value receive swaps \| assets | 50 | 42 |
| | **177** | **168** |
| Fair value pay swaps \| liabilities | (87) | (44) |
| Fair value receive swaps \| liabilities | (2) | (1) |
| | **(89)** | **(45)** |

The average remaining maturity (in which the related cash flows are expected to enter into the determination of profit or loss) is five years (2015: four years).

## Hedging activities

**Portfolio fair value hedge of plain vanilla funding**

According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate plain vanilla funding activities above certain limits prescribed by the *Asset & Liability Committee* (**ALCO**). Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the fixed rate plain vanilla funding and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2016 was EUR 18 million debit (2015: EUR 18 million debit). The gains on the hedging instruments were nil (2015: loss of EUR 3 million). The gains on the hedged items attributable to the hedged risk were nil (2015: gain of EUR 3 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

**Portfolio fair value hedge of fixed rate retail deposits**

According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate retail deposit activities above certain limits prescribed by the ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the retail deposits with a contractual duration longer than two years and the corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2016 was EUR 33 million debit (2015: EUR 49 million debit). The losses on the hedging instruments were EUR 6 million (2015: loss of EUR 14 million). The gains on the hedged items attributable to the hedged risk were EUR 7 million (2015: gain of EUR 14 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

**Portfolio fair value hedge of fixed rate mortgages**
According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate mortgages activities above certain limits prescribed by the ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate mortgages. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the mortgages with a contractual duration longer than three months and the corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2016 was EUR 59 million credit (2015: EUR 18 million credit). The losses on the hedging instruments were EUR 32 million (2015: gain of EUR 6 million). The gains on the hedged items attributable to the hedged risk were EUR 40 million (2015: loss of EUR 7 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness and pipeline hedging.

**Micro fair value hedge of plain vanilla funding**
According to NIBC's hedging policy, NIBC should not be exposed to interest rate and foreign exchange risk from its fixed rate plain vanilla funding activities above certain limits prescribed by ALCO. Consequently, NIBC uses cross-currency interest rate swaps to hedge the fair value interest rate risk and foreign exchange risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a micro fair value hedge for fixed rate plain vanilla funding and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2016 was EUR 59 million debit (2015: EUR 42 million debit). The gains on the hedging instruments were EUR 8 million (2015: loss of EUR 8 million). The losses on the hedged items attributable to the hedged risk were EUR 7 million (2015: gain of EUR 8 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 2016 was EUR 11 million credit (2015: EUR 10 million credit). Losses on the hedging instruments were EUR 3 million (2015: gain of EUR 2 million). The gains on the hedged items attributable to the hedged risk were nil (2015: loss of EUR 3 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

**Micro fair value hedge of the Liquidity portfolio debt investments**

According to NIBC's hedging policy, NIBC should not be exposed to fair value interest rate risk from its fixed rate debt investments held in the Liquidity portfolios above certain limits prescribed by ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate debt investments. To mitigate any accounting mismatches, NIBC has defined a micro fair value hedge for fixed rate debt investments and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2016 was nil. (2015: nil). The losses on the hedging instruments were nil (2015: gain of EUR 1 million). The gains on the hedged items attributable to the hedged risk were nil (2015: nil). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

**Cash flow hedges**

NIBC has classified a large part of its corporate loans as loans and receivable at amortised cost. Therefore, variability in the cash flows of the floating rate corporate loans is accounted for in future periods, when the coupons are recorded in the income statement on an amortised cost basis. Interest rate swaps are used to hedge the floating cash flows of its floating corporate loans. These swaps are reported at fair value through profit or loss. This accounting mismatch creates volatility in the income statement of NIBC. Therefore NIBC applies hedge accounting on these positions. Hedge accounting is applied to all swaps that are used to hedge the cash flow risk of the floating corporate loans by defining a macro cash flow hedge relationship with the floating corporate loans.

The variability in interest cash flows arising on floating rate corporate loans is hedged on a portfolio basis with interest rate swaps that receive fixed and pay floating (generally one, three and six months floating rates). The highly probable cash flows being hedged relate both to the highly probable cash flows on outstanding corporate loans and to the future reinvestment of these cash flows. NIBC does not hedge the variability of future cash flows of corporate loans arising from changes in credit spreads.

Interest rate swaps with a net fair value of EUR 48 million debit (2015: EUR 41 million debit) were designated in a cash flow hedge relationship. The cash flow on the hedged item will be reported in income over the next seven years. In 2016 the ineffectiveness recognised in the income statement that arose from cash flow hedges was a loss of EUR 2 million (2015: loss of EUR 6 million).

Some macro cash flow hedging relationships ceased to exist during 2011 and therefore the related cumulative hedge adjustment as from that date is being amortised over the remaining contractual maturity of the hedged item.

The amount that was recognised in equity for the year 2016 was EUR 12 million credit (2015: EUR 3 million credit). The amount that was transferred from equity to the income statement in 2016 was a gain of EUR 18 million net of tax (2015: gain of EUR 23 million).

## 27. Investments in associates (equity method)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Investments in associates | 7 | 7 |
| | **7** | **7** |
| **Movement schedule of investments in associates:** | | |
| **Balance at 1 January** | **7** | **6** |
| Purchases and additional payments | - | - |
| Disposals | (1) | - |
| Share in result of associates | 1 | 1 |
| **Balance at 31 December** | **7** | **7** |

At the end of 2016 and 2015, all investments in associates were unlisted.

There is no unrecognised share of losses of an associate, either for the period or cumulatively.

The cumulative impairment losses amounted to nil for 2016 and 2015.

Other disclosure requirements for associates which are equity accounted are included in note 53 Principal subsidiaries and associates.

## 28. Intangible assets

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Intangible assets | - | - |
| | **-** | **-** |
| **Intangible assets related to non-financial companies included in the consolidation:** | | |
| Cost | - | - |
| Accumulated amortisation | - | - |
| | **-** | **-** |

| in EUR millions | Goodwill | Trademarks and licenses | Customer relationships | Other intangibles | Total |
|---|---|---|---|---|---|
| **The movement in intangible assets related to non-financial companies included in the consolidation:** | | | | | |
| **Balance at 1 January 2015** | **32** | **5** | **4** | **2** | **43** |
| Additions | - | - | - | 1 | 1 |
| Impairment losses | (17) | | (3) | | (20) |
| Amortisation | - | (1) | (1) | (1) | (3) |
| Transfer assets held for sale | (15) | (4) | - | (2) | (21) |
| **Balance at 31 December 2015** | **-** | **-** | **-** | **-** | **-** |

In 2015 all presented intangible assets are related to the non-financial company Olympia Nederland Holding B.V.

There were no new intangible assets acquired in 2016. In February 2016 NIBC reached an agreement on the sale of Olympia to a third party which was closed on 2 June 2016.

## 29. Property, plant and equipment

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Land and buildings | 40 | 43 |
| Other fixed assets | 4 | 6 |
| | **44** | **49** |
| **Movement schedule of land and buildings:** | | |
| **Balance at 1 January** | **43** | **37** |
| Additions | - | 9 |
| Revaluation | - | - |
| Depreciation | (3) | (3) |
| Impairments | - | - |
| Disposals | - | - |
| **Balance at 31 December** | **40** | **43** |
| Gross carrying amount | 97 | 97 |
| Accumulated depreciation | (57) | (54) |
| Accumulated impairments | - | - |
| | **40** | **43** |
| **Movement schedule of revaluation surplus:** | | |
| **Balance at 1 January** | **11** | **11** |
| Depreciation | (1) | - |
| **Balance at 31 December** | **10** | **11** |
| **Movement schedule of other fixed assets:** | | |
| **Balance at 1 January** | **6** | **5** |
| Additions | 2 | 4 |
| Revaluation | - | - |
| Depreciation | (4) | (3) |
| Impairments | - | - |
| Disposals | - | - |
| **Balance at 31 December** | **4** | **6** |
| Gross carrying amount | 27 | 24 |
| Accumulated depreciation | (23) | (18) |
| Accumulated impairments | - | - |
| | **4** | **6** |

NIBC's land and buildings in own use were revalued as of 31 December 2014 based on an external appraisal (a valuation is carried out every three years).

Buildings in use by NIBC are insured for EUR 74 million (2015: EUR 72 million). Other fixed assets are insured for EUR 43 million (2015: EUR 36 million).

## 30. Deferred tax

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Deferred tax assets | - | - |
| Deferred tax liabilities | 3 | 1 |
| | **3** | **1** |
| **Amounts of deferred income tax assets, without taking into consideration the offsetting of balances within the same jurisdiction:** | | |
| Debt investments (available-for-sale) | 2 | 2 |
| Tax losses carried forward | 17 | 20 |
| | **19** | **22** |
| **Amounts of deferred income tax liabilities, without taking into consideration the offsetting of balances within the same jurisdiction:** | | |
| Equity investments (available-for-sale) | 3 | 3 |
| Cash flow hedges | 14 | 16 |
| Property, plant and equipment | 4 | 4 |
| Temporary tax differences | 1 | - |
| | **22** | **23** |
| | **(3)** | **(1)** |

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Gross movement on the deferred income tax account may be summarised as follows:** | | |
| **Balance at 1 January** | **(1)** | **3** |
| **Debt investments (reported as available-for-sale):** | | |
| Fair value remeasurement charged/(credited) to revaluation reserve | - | 2 |
| **Cash flow hedges:** | | |
| Fair value remeasurement charged/(credited) to hedging reserve | 2 | 4 |
| **Temporarry tax differences** | | |
| IFRS - HGB deferred tax | (1) | - |
| Tax losses carried forward | (3) | (10) |
| **Balance at 31 December** | **(3)** | **(1)** |

Deferred tax assets and liabilities are measured for all temporary differences using the liability method. The effective tax rate in the Netherlands for measuring deferred tax is 25% (2015: 25%). There were no changes in deferred tax assets and liabilities resulting from changes in the effective tax rate in the Netherlands. No deferred tax asset has been recognised for unused tax losses in the Netherlands totaling EUR 106 million at 31 December 2016 (31 December 2015: EUR 106 million). Deferred tax assets of EUR 27 million at 31 December 2016 (31 December 2015: EUR 27 million) have not been recognised because future taxable profits are not considered probable. The term to maturity of the majority of these carry forward losses is four years, and for an immaterial part it is largely unlimited. Deferred tax assets recognised in respect of carry forward losses can only be utilized if taxable profits are realised in the future. To measure deferred tax assets, NIBC takes a prudent approach regarding future compensation of carry forward losses. On 31 December 2016 there was a realistic expectation that sufficient taxable profits would be generated within the applicable periods for the recognised deferred tax asset.

Corporate income tax is allocated by NIBC Holding N.V. to the company to which it relates and settled with the parent company in current account. NIBC Bank N.V. is jointly and severally liable for all debts arising from the fiscal entity for corporate income tax.

## 31. Other assets

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Accrued interest | 1 | - |
| Other accruals and receivables | 49 | 44 |
| Pending settlements | 173 | - |
| | **223** | **44** |

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature of its related assets.

Pending settlements are related to NIBC Markets N.V., a newly acquired subsidiary in 2016. These transitory amounts are related to the brokerage activities and settled within 3 days.

## 32. Disposal group held for sale

As per 31 December 2016 there are no assets or liabilities classified as disposal group held for sale.

**Disposal group held for sale in 2015 and closed in the first half year of 2016**

In September 2015, NIBC committed to a plan to sell its non-financial company *Olympia Nederland Holding B.V.* (**Olympia**) and was consequently classified as a Disposal group held for sale. In February 2016 NIBC reached an agreement on the sale of Olympia to a third party. For further details see note 51.

### Assets held for sale

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Intangible assets | - | 21 |
| Other assets | - | 50 |
| | **-** | **71** |

### Liabilities held for sale

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Due to other banks | - | - |
| Other liabilities | - | 42 |
| | **-** | **42** |

## 33. Due to other banks (amortised cost)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Due to other banks | 390 | 588 |
| Due to central banks | 900 | 241 |
| | **1,290** | **829** |
| **Due to other banks:** | | |
| Payable on demand | 6 | 75 |
| Not payable on demand | 1,284 | 754 |
| | **1,290** | **829** |
| **Legal maturity analysis of due to other banks not payable on demand:** | | |
| Three months or less | 120 | 287 |
| Longer than three months but not longer than one year | 68 | 9 |
| Longer than one year but not longer than five years | 905 | 242 |
| Longer than five years | 191 | 216 |
| | **1,284** | **754** |

Interest is recognised in interest expense and similar charges on an effective interest basis.

NIBC transacted several repurchase transactions with third parties. The related disclosures are included in note 47 Repurchase and resale agreements and transferred financial assets.

At 31 December 2016, an amount of EUR 114 million (2015: EUR 188 million) related to cash collateral received from third parties.

Amounts drawn under *Targeted Longer Term Refinancing Operation* (**TLTRO-program**) equal EUR 900 million (2015: EUR 241 million).

## 34. Deposits from customers (amortised cost)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Retail deposits | 9,723 | 10,080 |
| Institutional/corporate deposits | 2,104 | 1,693 |
| | **11,827** | **11,773** |
| **Deposits from customers:** | | |
| On demand | 5,454 | 4,552 |
| Term deposits | 6,373 | 7,221 |
| | **11,827** | **11,773** |
| **Legal maturity analysis of term deposits:** | | |
| Three months or less | 786 | 966 |
| Longer than three months but not longer than one year | 2,221 | 2,965 |
| Longer than one year but not longer than five years | 2,371 | 2,410 |
| Longer than five years | 995 | 880 |
| | **6,373** | **7,221** |

Interest is recognised in interest expense and similar charges on an effective interest basis.

## 35. Own debt securities in issue (amortised cost)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Bonds and notes issued | 3,855 | 3,050 |
| | **3,855** | **3,050** |
| **Legal maturity analysis of own debt securities in issue:** | | |
| Three months or less | - | 67 |
| Longer than three months but not longer than one year | 67 | 285 |
| Longer than one year but not longer than five years | 2,277 | 1,589 |
| Longer than five years | 1,511 | 1,109 |
| | **3,855** | **3,050** |
| **Movement schedule of own debt securities in issue:** | | |
| **Balance at 1 January** | **3,050** | **2,064** |
| Additions | 1,328 | 1,038 |
| Disposals | (453) | (103) |
| Other (including exchange rate differences) | (70) | 51 |
| **Balance at 31 December** | **3,855** | **3,050** |

In the first half year of 2016 a ten years conditional pass through covered bond of EUR 500 million and a senior unsecured bond of EUR 300 million was issued. In September an additional tap of EUR 200 million on the senior unsecured bond was placed. In 2015 NIBC issued a senior unsecured bond of EUR 500 million and a seven years conditional pass through covered bond of EUR 500 million.

The disposals of own debt securities in issue at amortised cost for 2016 include mainly redemptions at the scheduled maturity date to an amount of EUR 453 million (2015 EUR 61 million) and repurchases of debt securities before the legal maturity date to an amount of EUR nil (2015: EUR 41 million).

## 36. Debt securities in issue related to securitised mortgages and lease receivables (amortised cost)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Bonds and notes issued | 1,337 | 2,062 |
| | **1,337** | **2,062** |
| **Legal maturity analysis of debt securities in issue related to securitised mortgages and lease receivables:** | | |
| Three months or less | 2 | 3 |
| Longer than three months but not longer than one year | - | - |
| Longer than one year but not longer than five years | - | 49 |
| Longer than five years | 1,335 | 2,010 |
| | **1,337** | **2,062** |
| **Movement schedule of debt securities in issue related to securitised mortgages and lease receivables:** | | |
| **Balance at 1 January** | **2,062** | **3,348** |
| Additions | - | - |
| Disposals | (725) | (1,286) |
| Other (including exchange rate differences) | - | - |
| **Balance at 31 December** | **1,337** | **2,062** |

## 37. Own debt securities in issue (designated at fair value through profit or loss)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Bonds and notes issued | 37 | 36 |
| | **37** | **36** |
| **Legal maturity analysis of own debt securities in issue:** | | |
| Three months or less | - | - |
| Longer than three months but not longer than one year | - | - |
| Longer than one year but not longer than five years | 37 | 36 |
| Longer than five years | - | - |
| | **37** | **36** |
| **Movement schedule of own debt securities in issue:** | | |
| **Balance at 1 January** | **36** | **35** |
| Additions | 1 | 2 |
| Disposals | - | - |
| Changes in fair value | - | (1) |
| Other (including exchange rate differences) | - | - |
| **Balance at 31 December** | **37** | **36** |

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 34 million at 31 December 2016 (2015: EUR 32 million).

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to a gain of EUR 2 million and the change for the current year amounts to a loss of nil recognised in other comprehensive income following early adoption of IFRS 9 Own credit risk (2015: loss of 1 million). See note 44.7 for further information with respect to IFRS 9 Own credit risk.

## 38. Debt securities in issue structured (designated at fair value through profit or loss)

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Bonds and notes issued | 620 | 704 |
| | **620** | **704** |
| **Legal maturity analysis of debt securities in issue structured:** | | |
| Three months or less | - | - |
| Longer than three months but not longer than one year | 16 | 53 |
| Longer than one year but not longer than five years | 55 | 82 |
| Longer than five years | 549 | 569 |
| | **620** | **704** |
| **Movement schedule of debt securities in issue structured:** | | |
| **Balance at 1 January** | **704** | **823** |
| Additions | 56 | 53 |
| Disposals | (169) | (157) |
| Changes in fair value | 35 | (69) |
| Other (including exchange rate differences) | (6) | 54 |
| **Balance at 31 December** | **620** | **704** |

The disposals of debt securities in issue designated at fair value through profit or loss for 2016 include redemptions at the scheduled maturity date to an amount of EUR 169 million (2015: EUR 151 million) and repurchases of debt securities before the legal maturity date to an amount of nil (2015: EUR 6 million). The changes in fair value reflects movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these liabilities, the movement due to interest rate changes is compensated with results on financial derivatives.

The contractual amounts of these liabilities to be repaid at maturity, including unpaid but accrued interest at the balance sheet date, amounted to EUR 654 million at 31 December 2016 (2015: EUR 744 million).

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to a loss of EUR 3 million and the change for the current year is a loss of EUR 11 million recognised in other comprehensive income following early adoption of IFRS 9 Own credit risk (2015: loss of EUR 16 million, recognised in net trading income). See note 44.7 for further information with respect to IFRS 9 Own credit risk.

## 39. Other liabilities

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Payables | 68 | 71 |
| Reorganisation provisions | 2 | - |
| Other accruals | 29 | 21 |
| Pending settlements | 136 | - |
| | **235** | **92** |
| **Movement schedule of regorganisation provisions:** | | |
| **Balance at 1 January** | **-** | **-** |
| Addition allowances | 2 | - |
| Write-offs | - | - |
| Amounts released | - | - |
| **Balance at 31 December** | **2** | **-** |

In 2016, a reorganisation provision of EUR 2,3 million has been recognised for the transformation of the IT department and the reorganisation of NIBC Markets.

These initiatives have been announced in 2016 and the estimate of the reorganisation provisions is inherently uncertain. The provisions at balance sheet date represent the best estimate of the expected redundancy costs and are expected to be sufficient to cover these costs. For further details refer to note 7 Personnal expenses and share-based payments.

Pending settlements are related to NIBC Markets N.V., a newly acquired subsidiary in 2016. These transitory amounts are related to the brokerage activities and settled within 3 days.

## 40. Employee benefits

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Employee benefits | 3 | 4 |
| | **3** | **4** |
| **The movement in employee benefits recognised in the balance sheet may be summarised as follows:** | | |
| **Balance at 1 January** | **4** | **3** |
| Paid | - | - |
| Increase | - | 1 |
| Releases | (1) | - |
| **Balance at 31 December** | **3** | **4** |

Employee benefit obligations of EUR 3 million at 31 December 2016 are related to payments to be made in respect of other leave obligations (2015: EUR 4 million). These obligations are short-term in nature and therefore valued at nominal value.

## Pension benefit obligations

**Obligations and expense under pension plans**

On 29 September 2014 NIBC reached an agreement with the Employees' Council and the Pensioners Association on the new pension plan which qualifies as a *Collective Defined Contribution* (**CDC**) plan. Consequently, as of 1 January 2015 the pension scheme changed under IFRS from a defined-benefit pension plan to a defined-contribution plan.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **The amounts of pension charges recognised in personnel expenses in the income statement were as follows:** | | |
| **Collective Defined Contribution plans** | | |
| Employer's contribution | 11 | 10 |
| Participants' contributions | (1) | (1) |
| Administrative expenses | 1 | 1 |
| | **11** | **10** |

Employer's contributions in 2016 includes EUR 2 million (2015: EUR 1 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 defined-contribution plan is a pension plan under which NIBC each year pays a fixed percentage of the salaries of the members into the scheme. The size of the fund on retirement will be determined by how much was contributed to the scheme and the investment return achieved.

For defined-contribution plans, NIBC pays contributions directly into the member's scheme. NIBC has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The CDC-plan is based on an average salary plan. The retirement age is set at 67 years. The contribution payable by participants in the CDC-plan is maximised at 4% per annum. Under the CDC-plan the annual pension contributions are calculated according to a fixed contribution calculation mechanism. The annual pension contribution of NIBC is maximised at 26% of the pensionable salary (salary minus a social security deductible). By paying the agreed fixed annual contribution NIBC is released from all its obligations.

## 41. Subordinated liabilities - amortised cost

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Subordinated loans other | 122 | 120 |
| | **122** | **120** |
| **Legal maturity analysis of subordinated liabilities:** | | |
| One year or less | - | - |
| Longer than one year but not longer than five years | 2 | 2 |
| Longer than five years but not longer than ten years | 50 | 50 |
| Longer than ten years | 70 | 68 |
| | **122** | **120** |
| **Movement schedule of subordinated liabilities:** | | |
| **Balance at 1 January** | **120** | **67** |
| Additions | - | 62 |
| Disposals | - | (15) |
| Other (including exchange rate differences) | 2 | 6 |
| **Balance at 31 December** | **122** | **120** |

All of the above loans are subordinated to the other liabilities of NIBC. With respect to the CRR/CRDIV requirements regarding additional Tier-1 capital instruments, non-qualifying subordinated loans amounted to EUR 58 million (2015: EUR 56 million). Interest expense of EUR 4 million was recognised on subordinated liabilities during the year 2016 (2015: EUR 4 million). In 2016 and 2015, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item.

## 42. Subordinated liabilities - designated at fair value through profit or loss

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Non-qualifying as grandfathered additional Tier-1 capital | 179 | 172 |
| Subordinated loans other | 97 | 108 |
| | **276** | **280** |
| **Legal maturity analysis of subordinated liabilities:** | | |
| One year or less | 1 | 17 |
| Longer than one year but not longer than five years | - | 1 |
| Longer than five years but not longer than ten years | - | - |
| Longer than ten years | 275 | 262 |
| | **276** | **280** |
| **Movement schedule of subordinated liabilities:** | | |
| **Balance at 1 January** | **280** | **253** |
| Additions | 1 | 1 |
| Disposals | (17) | - |
| Changes in fair value | 5 | 6 |
| Other (including exchange rate differences) | 7 | 20 |
| **Balance at 31 December** | **276** | **280** |

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 405 million at 31 December 2016 (2015: EUR 411 million).

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in credit risk amounts to a gain of EUR 137 million and the change for the current year amounts to a loss of EUR 5 million recognised in other comprehensive income following early adoption of IFRS 9 Own credit risk (2015: loss of EUR 1 million). See note 44.7 for further information with respect to IFRS 9 Own credit risk.

All of the above loans are subordinated to the other liabilities of NIBC. The non-qualifying as grandfathered additional Tier-1 capital consists of perpetual securities and may be redeemed by NIBC only with the prior approval of the DNB. Interest expense of EUR 16 million was recognised on subordinated liabilities during the year 2016 (2015: EUR 17 million). In 2016 and 2015, 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 2016 or 2015.

## 43. Shareholder's equity

The ultimate controlling company is New NIB Limited, a company incorporated in Ireland.

### Share Capital

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Paid-up capital | 80 | 80 |
| | **80** | **80** |

| | 2016 | 2015 |
|---|---|---|
| **The number of authorised shares:** | | |
| Number of authorised shares[1] | 183,597,500 | 183,597,500 |
| Number of shares issued and fully paid[2] | 62,586,794 | 62,586,794 |
| Par value per A share | 1.28 | 1.28 |
| Par value class B, C, D, E1 and E3 preference share | 1.00 | 1.00 |
| Par value class E4 preference share | 5.00 | 5.00 |

1 The authorised capital amounts to EUR 214.9 million and is divided into 110,937,500 A shares of EUR 1.28 nominal value each, 72,600,000 of different classes of preference shares with a nominal value of EUR 1.00 each and 60,000 preference shares with a nominal value of EUR 5.00 each.
2 The shares issued and fully paid consist of A-shares.

Dividend restrictions

NIBC and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital, and reserves required by law. Additionally, certain Bank companies are subject to restrictions on the amount of funds they may transfer in the form of dividends or otherwise to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Other reserves are as follows:** | | |
| Share premium | 238 | 238 |
| Hedging reserve | 43 | 49 |
| Revaluation reserve - loans (available-for-sale) | 3 | - |
| Revaluation reserve - equity investments (available-for-sale) | 6 | 9 |
| Revaluation reserve - debt investments (available-for-sale) | (7) | (6) |
| Revaluation reserve - property, plant and equipment | 8 | 8 |
| Revaluation reserve - own credit risk | 103 | - |
| | **394** | **298** |

| in EUR millions | Share premium | Hedging reserve | Revaluation reserves | Own credit risk reserve | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **238** | **61** | **19** | **-** | **318** |
| Net result on hedging instruments | - | (12) | - | - | (12) |
| Revaluation/remeasurement (net of tax) | - | - | (3) | - | (3) |
| **Total recognised directly through other comprehensive income in equity** | **-** | **(12)** | **(3)** | **-** | **(15)** |
| Transfer to retained earnings | - | - | (5) | - | (5) |
| **Balance at 31 December 2015** | **238** | **49** | **11** | **-** | **298** |

| in EUR millions | Share premium | Hedging reserve | Revaluation reserves | Own credit risk reserve | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2016** | **238** | **49** | **11** | **-** | **298** |
| Impact of application IFRS 9 Own credit risk at 1 January 2016 | - | - | | 115 | 115 |
| **Restated balance at 1 January 2016** | **238** | **49** | **11** | **115** | **413** |
| Net result on hedging instruments | - | (6) | - | - | (6) |
| Revaluation/remeasurement (net of tax) | - | - | (1) | (12) | (13) |
| **Total recognised directly through other comprehensive income in equity** | **-** | **(6)** | **(1)** | **(12)** | **(19)** |
| **Balance at 31 December 2016** | **238** | **43** | **10** | **103** | **394** |

## OTHER RESERVES

**Share premium**
The proceeds from rights issues and options exercised received net of any directly attributable transaction costs and less the nominal value are credited to share premium.

**Hedging reserve**
This reserve comprises the portion of the gains or losses on hedging instruments in a cash flow hedge that is determined to be an effective hedge (net of tax).

**Revaluation reserve - loans (available-for-sale)**
This reserve comprises changes in fair value of amortised cost loans (net of tax).

**Revaluation reserve - equity investments (available-for-sale)**
This reserve comprises changes in fair value of available-for-sale equity investments (net of tax).

**Revaluation reserve - debt investments (available-for-sale)**
This reserve comprises changes in fair value of available-for-sale debt investments (net of tax).

**Revaluation reserve - property, plant and equipment**
This reserve comprises changes in fair value of land and buildings (net of tax).

**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 accrued and paid to shareholders and transfers from other reserves.

# 44. Fair value of financial instruments

This note describes the fair value measurement of both financial and non-financial instruments and is structured as follows:
44.1 Valuation principles
44.2 Valuation governance
44.3 Financial instruments by fair value hierarchy
44.4 Valuation techniques
44.5 Valuation adjustments and other inputs and considerations
44.6 Impact of valuation adjustments
44.7 Own credit adjustments on financial liabilities designated at fair value
44.8 Transfers between Level 1 and Level 2
44.9 Movements in level 3 financial instruments measured at fair value
44.10 Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions
44.11 Sensitivity of fair value measurements to changes in observable market data
44.12 Fair value of financial instruments not measured at fair value
44.13 Non-financial assets valued at fair value

### 44.1. Valuation principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as follows:

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

### 44.2. Valuation governance

NIBC's fair value methodology and the governance over its models includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. All new product initiatives (including their valuation methodologies) are subject to approvals by various functions of NIBC including the Risk and Finance functions. Once submitted, fair value estimates are also reviewed and challenged by the Risk and Finance functions.

### 44.3. Financial instruments by fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 within the fair value hierarchy based on the degree to which the fair value is observable:

| in EUR millions | Level 1 | Level 2 | Level 3 | 2016 |
|---|---|---|---|---|
| **Financial assets available-for-sale** | | | | |
| Loans | - | - | 24 | 24 |
| Equity investments (unlisted) | - | - | 41 | 41 |
| Debt investments | 840 | 187 | 1 | 1,028 |
| | **840** | **187** | **66** | **1,093** |
| **Financial assets at fair value through profit or loss (including trading)** | | | | |
| Loans | - | 210 | - | 210 |
| Residential mortgages own book | - | - | 4,124 | 4,124 |
| Securitised residential mortgages | - | - | 1,550 | 1,550 |
| Equity investments (including investments in associates) | 2 | - | 202 | 204 |
| Debt investments | - | 59 | 1 | 60 |
| Derivative financial assets | - | 1,817 | - | 1,817 |
| | **2** | **2,086** | **5,877** | **7,965** |
| | **842** | **2,273** | **5,943** | **9,058** |

| in EUR millions | Level 1 | Level 2 | Level 3 | 2016 |
|---|---|---|---|---|
| **Financial liabilities at fair value through profit or loss (including trading)** | | | | |
| Own debt securities in issue | - | 37 | - | 37 |
| Debt securities in issue structured | - | 620 | - | 620 |
| Derivative financial liabilities | - | 2,006 | - | 2,006 |
| Subordinated liabilities | - | 276 | - | 276 |
| | **-** | **2,939** | **-** | **2,939** |

| in EUR millions | Level 1 | Level 2 | Level 3 | 2015 |
|---|---|---|---|---|
| **Financial assets available-for-sale** | | | | |
| Loans | - | - | 18 | 18 |
| Equity investments (unlisted) | - | - | 48 | 48 |
| Debt investments | 839 | 224 | 1 | 1,064 |
| | **839** | **224** | **67** | **1,130** |
| **Financial assets at fair value through profit or loss (including trading)** | | | | |
| Loans | - | 302 | 14 | 316 |
| Residential mortgages own book | - | - | 4,111 | 4,111 |
| Securitised residential mortgages | - | - | 2,266 | 2,266 |
| Equity investments (including investments in associates) | - | - | 222 | 222 |
| Debt investments | - | 19 | - | 19 |
| Derivative financial assets | - | 2,151 | - | 2,151 |
| | **-** | **2,472** | **6,613** | **9,085** |
| | **839** | **2,696** | **6,680** | **10,215** |

| in EUR millions | Level 1 | Level 2 | Level 3 | 2015 |
|---|---|---|---|---|
| **Financial liabilities at fair value through profit or loss (including trading)** | | | | |
| Own debt securities in issue | - | 36 | - | 36 |
| Debt securities in issue structured | - | 704 | - | 704 |
| Derivative financial liabilities | - | 2,350 | - | 2,350 |
| Subordinated liabilities | - | 280 | - | 280 |
| | **-** | **3,370** | **-** | **3,370** |

### 44.4. Valuation techniques

The following is a description of the determination of fair value for financial instruments that are recorded at fair value using either quoted prices or valuation techniques. These incorporate NIBC's interpretation of valuation assumptions (qualitative) that a market participant would consider when valuing the instruments.

## Financial assets available-for-sale

**Debt investments - level 1**
For the determination of fair value at 31 December 2016, NIBC used market-observable prices (including broker quotes). NIBC has determined the fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

**Debt investments - level 2**
For the determination of fair value at 31 December 2016, NIBC applied market-observable prices (including broker quotes), interest rates and credit spreads derived from market-observable data. NIBC has determined the fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

**Loans - level 3**
For the level 3 loans classified at available-for-sale, NIBC determines the fair value based on the unobservable sales pricings from external parties and on an internal development valuation model.

**Equity investments (unlisted) - level 3**
The fair value of investments in equity funds is determined based on the net asset value reported by the managers of these funds. These net asset values are analysed for reasonableness, so as to ascertain that the reported net asset value has been appropriately derived using proper fair value principles as part of a robust process. To approximate the fair value at the reporting date, the net asset value is adjusted, where appropriate, for factors such as, subsequent capital contributions and fund distributions, movements in exchange rate and subsequent changes in the fair value of the underlying investee companies, where these are known to NIBC.

The fair value of equity investments is established by applying capitalisation multiples to maintainable earnings. Maintainable earnings are estimated based on the normalised last twelve months' *Earnings Before Interest, Taxes, Depreciation and Amortisation* (**EBITDA**). Capitalisation multiples are derived from the enterprise value and the normalised last twelve months EBITDA at the acquisition date. On each reporting date, the capitalisation multiple of each equity investment is compared against those derived from the publicly available enterprise value and earnings information of traded peers, where these can be identified. Peer capitalisation multiples are normalised for factors such as differences in regional and economic environment, time lags in earnings information and one-off gains and losses.

The resulting enterprise value is adjusted for net debt, non-controlling interests, illiquidity and management incentive plans to arrive at the fair value of the equity.

**Debt investments - level 3**
For the level 3 debt investments, NIBC uses valuation models that apply discounted cash flow analysis that incorporates both observable and unobservable data. Observable inputs include interest rates and collateral values; unobservable inputs include assumptions regarding credit spreads and market liquidity discounts.

## Financial assets at fair value through profit or loss

**Equity investments - level 1**
The level 1 portfolio consists of unadjusted, quoted prices for assets in an active market. The assets have been valued at the market's closing price of the 30rd of December.

**Loans - level 2**
In an active market environment, these assets are marked-to-market by applying market bid quotes observed on the secondary market. The quotes received from other banks or brokers and applied in the marked-to-market process are calibrated to actual market trades whenever possible.

In certain instances, where the market is inactive, a discounted cash flow model is used based on various assumptions including market interest rates, market credit spread levels and assumptions regarding market liquidity, where relevant. Additional pricing reference points have been obtained by collecting spreads using primary transactions that are comparable with the relevant loans.

**Debt investments - level 2**
For the determination of fair value at 31 December 2016, NIBC applied market-observable prices (including broker quotes), interest rates and credit spreads derived from market-observable data. NIBC has determined fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

**Derivatives financial assets and liabilities (held for trading and used for hedging) - level 2**
Derivative products valued using a valuation technique with market-observable inputs are mainly interest rate swaps, currency swaps, credit default swaps and foreign exchange contracts. The most frequently applied valuation techniques include swap models using present value calculations. The models incorporate various inputs including foreign exchange rates, credit spread levels and interest rate curves. Credit derivative valuation models also require input as to the estimated probability of default and recovery value.

**Loans - level 3**
For the level 3 loans classified at fair value through profit or loss, NIBC determines the fair value based on the unobservable sales pricings from external parties and on an internal development valuation model.

**Residential mortgages (own book and securitised) - level 3**
NIBC determines the fair value of residential mortgages (both those NIBC holds on its own book and those NIBC has securitised) by using a valuation model developed by NIBC. To calculate the fair value, NIBC discounts expected cash flows (after expected prepayments) to present value using inter-bank zero-coupon rates, adjusted for a spread that principally takes into account the credit spread risk of the mortgages and uncertainty relating to prepayment estimates.

The RMBS spread is determined by collecting RMBS spreads from publicly issued Dutch RMBS-transactions. The discount spread is derived by adding related RMBS costs to the RMBS spread.

Sensitivity analysis carried out on the prepayment rates used in the valuation model of the residential mortgages showed that the variability in these rates does not have a significant impact on the total value of the Residential Mortgage portfolio.

**Equity investments (including investments in associates) - level 3**
The fair value of investments in equity funds is determined based on the net asset value reported by the managers of these funds. These net asset values are analysed for reasonableness, so as to ascertain that the reported net asset value has been appropriately derived using proper fair value principles as part of a robust process. To approximate the fair value at the reporting date, the net asset value is adjusted, where appropriate, for factors such as, subsequent capital contributions and fund distributions, movements in exchange rate and subsequent changes in the fair value of the underlying investee companies, where these are known to NIBC.

The fair value of equity investments is established by applying capitalisation multiples to maintainable earnings. Maintainable earnings are estimated based on the normalised last twelve months' Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). Capitalisation multiples are derived from the enterprise value and the normalised last twelve months EBITDA at the acquisition date. On each reporting date, the capitalisation multiple of each equity investment is compared against those derived from the publicly available enterprise value and earnings information of traded peers, where these can be identified. Peer capitalisation multiples are normalised for factors such as differences in regional and economic environment, time lags in earnings information and one-off gains and losses.

The resulting enterprise value is adjusted for net debt, non-controlling interests, illiquidity and management incentive plans to arrive at the fair value of the equity.

**Debt investments - level 3**
For the level 3 debt investments, NIBC uses valuation models that apply discounted cash flow analysis that incorporates both observable and unobservable data. Observable inputs include interest rates and collateral values; unobservable inputs include assumptions regarding credit spreads and market liquidity discounts.

## Financial liabilities at fair value through profit or loss (including trading)

**Own liabilities designated at fair value through profit or loss - level 2**
This portfolio was designated at fair value through profit or loss and is reported on the face of the balance sheet under the following headings:

- Own debt securities in issue (financial liabilities at fair value through profit or loss);
- Debt securities in issue structured (financial liabilities at fair value through profit or loss); and
- Subordinated liabilities (financial liabilities at fair value through profit or loss).

Debt securities in issue structured consist of notes issued with embedded derivatives that are tailored to specific investors' needs. The return on these notes is dependent upon the level of certain underlying equity, interest rate, currency, credit, commodity or inflation-linked indices. The embedded derivative within each note issued is fully hedged on a back-to-back basis, such that effectively synthetic floating rate funding is created. Because of this economic hedge, the income statement is not sensitive to fluctuations in the price of these indices.

In the case of debt securities in issue structured and subordinated liabilities, the fair value of the notes issued and the back-to-back hedging swaps is determined using valuation models developed by a third party employing Monte Carlo simulation, lattice valuations or closed formulas, depending on the type of embedded derivative. These models use market-observable inputs (e.g. interest rates, equity prices) for valuation of these structures.

For each class of own financial liabilities at fair value through profit or loss, the expected cash flows are discounted to present value using interbank zero-coupon rates. The resulting fair value is adjusted for movements in the credit spread applicable to NIBC issued funding.

## 44.5. Valuation adjustments and other inputs and considerations

### Credit and debit valuation adjustments

NIBC calculates CVA/DVA (as defined in Critical accounting estimates and judgements) on a counterparty basis over the entire life of the exposure.

### Bid-offer

NIBC's pricing models initially calculate mid-market prices, which are subsequently adjusted to reflect bid-offer spreads (the difference between prices quoted for sales and purchases). NIBC Markets pricing models use bid prices.

### Day 1 profit

A Day 1 profit, representing the difference between the transaction price and the fair value output of internal models, is recognised when the inputs to the valuation models are observable market data.

## 44.6. Impact of valuation adjustments

The following table shows the amount recorded in the income statement:

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Type of adjustment | | |
| Risk related | | |
| Credit value adjustment/Debit value adjustment | 2 | - |
| **Totally Risk related** | **2** | **-** |
| Bid-offer adjustment | (3) | (4) |
| Day-1 profit (see the following table) | 3 | 3 |
| | **2** | **(1)** |

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 | 2016 | 2015 |
|---|---|---|
| **Movement schedule of day-1 profit** | | |
| **Balance at 1 january** | **16** | **19** |
| Deferral of profit on new transactions | - | - |
| **Recognised in the income statement during the year:** | | |
| Subsequent recognition due to amortisation | (2) | (3) |
| Derecognition of the instruments | - | - |
| **Balance at 31 december** | **14** | **16** |

## 44.7. Own credit adjustments on financial liabilities designated at fair value

The own credit presentation requirements of IFRS 9 were early applied as of 1 January 2016. From this date onward, changes in the fair value of financial liabilities designated at fair value through profit and loss related to own credit are recognised in Other comprehensive income and presented in the Statement of comprehensive income, and no longer in Net trading income within the Income statement. Comparative period information was not restated. 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 | 2016 | 2015 |
|---|---|---|
| **Recognised during the period (before tax):** | Included in OCI | Included in Net trading income |
| Realised gain/(loss) | - | 2 |
| Unrealised gain/(loss) | (16) | (18) |
| | **(16)** | **(16)** |
| Unrealised life-to-date gain/(loss) | 136 | 153 |
| | **136** | **153** |

## 44.8. Transfers between level 1 and level 2

During the year ended 31 December 2016 and 2015, there were no transfers between level 1 and level 2 fair value measurements.

## 44.9. Movements in level 3 financial instruments measured at fair value

During the year ended 31 December 2016, there were no transfers into and out of level 3 fair value measurements.

In 2015, loans classified at fair value through profit or loss for an amount of EUR 14 million 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 2015 | Amounts recognised in the income statement | Amounts recognised in OCI | Purchases/ Additions | Sales | Settle-ments/ Disposals | Transfers into level 3 | Transfers from level 3 | At 31 December 2015 |
|---|---|---|---|---|---|---|---|---|---|
| **Financial assets available-for-sale** | | | | | | | | | |
| Loans | - | - | - | 18 | - | - | - | - | 18 |
| Equity investments | 53 | 5 | 2 | - | (12) | - | - | - | 48 |
| Debt investments | 1 | - | - | - | - | - | - | - | 1 |
| **Financial assets at fair value through profit or loss (including trading)** | | | | | | | | | |
| Loans | - | - | - | - | - | - | 14 | - | 14 |
| Residential mortgages own book | 3,441 | 30 | - | 1,009 | - | (369) | - | - | 4,111 |
| Securitised residential mortgages | 3,720 | (121) | - | - | - | (1,333) | - | - | 2,266 |
| Equity investments (including investments in associates) | 276 | 24 | - | 27 | (105) | - | - | - | 222 |
| | **7,491** | **(62)** | **2** | **1,054** | **(117)** | **(1,702)** | **14** | **-** | **6,680** |

| in EUR millions | At 1 January 2016 | Amounts recognised in the income statement | Amounts recognised recorded in OCI | Purchases/ Additions | Sales | Settle-ments/ Disposals | Transfers into level 3 | Transfers from level 3 | At 31 December 2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Financial assets available-for-sale** | | | | | | | | | |
| Loans | 18 | - | 4 | - | - | 2 | - | - | 24 |
| Equity investments | 48 | (1) | (3) | - | (3) | - | - | - | 41 |
| Debt investments | 1 | - | - | - | - | - | - | - | 1 |
| **Financial assets at fair value through profit or loss (including trading)** | | | | | | | | | |
| Loans | 14 | 6 | - | - | - | (20) | - | - | - |
| Residential mortgages own book | 4,111 | 18 | - | 466 | - | (471) | - | - | 4,124 |
| Securitised residential mortgages | 2,266 | (50) | - | - | - | (666) | - | - | 1,550 |
| Equity investments (including investments in associates) | 222 | 14 | - | 41 | (75) | - | - | - | 202 |
| Debt investments | - | - | - | 1 | - | - | - | - | 1 |
| | **6,680** | **(13)** | **1** | **508** | **(78)** | **(1,155)** | **-** | **-** | **5,943** |

Total gains or losses on level 3 financial instruments in the previous table are presented in the income statement and other comprehensive income as follows:

| in EUR millions | 31 December 2016 Net trading income | Investment income | Revaluation reserve | Total | 31 December 2015 Net trading income | Investment income | Revaluation reserve | Total |
|---|---|---|---|---|---|---|---|---|
| | For the year ended | | | | | | | |
| **Financial assets available-for-sale** | | | | | | | | |
| Loans | - | - | 4 | 4 | - | - | - | - |
| Equity investments | - | (1) | (3) | (4) | - | 5 | 2 | 7 |
| Debt investments | - | - | - | - | - | - | - | - |
| **Financial assets at fair value through profit or loss (including trading)** | | | | | | | | |
| Loans | 6 | - | - | 6 | - | - | - | - |
| Residential mortgages own book | 18 | - | - | 18 | 30 | - | - | 30 |
| Securitised residential mortgages | (50) | - | - | (50) | (121) | - | - | (121) |
| Equity investments (including investments in associates) | - | 14 | - | 14 | - | 24 | - | 24 |
| Debt investments | - | - | - | - | - | - | - | - |
| | **(26)** | **13** | **1** | **(12)** | **(91)** | **29** | **2** | **(60)** |

The amount in total gains or losses presented in the income statement for the period relating to the assets and liabilities held in level 3 until the end of the reporting period is given in the following table:

| in EUR millions | 31 December 2016 Held at balance sheet date | Derecognised during the year | 31 December 2015 Held at balance sheet date | Derecognised during the year |
|---|---|---|---|---|
| | For the year ended | | | |
| **Financial assets available-for-sale** | | | | |
| Loans | - | - | - | - |
| Equity investments | (1) | - | 3 | 2 |
| Debt investments | - | - | - | - |
| **Financial assets at fair value through profit or loss (including trading)** | | | | |
| Loans | - | 6 | - | - |
| Residential mortgages own book | 18 | - | 30 | - |
| Securitised residential mortgages | (50) | - | (121) | - |
| Equity investments (including investments in associates) | 15 | (1) | 24 | - |
| | **(18)** | **5** | **(64)** | **2** |

## 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 year ended | | | | | |
|---|---|---|---|---|---|---|
| | 31 December 2016 | | | 31 December 2015 | | |
| in EUR millions | Net trading income | Investment income | Total | Net trading income | Investment income | Total |
| **Financial assets available-for-sale** | | | | | | |
| Loans | - | - | - | - | - | - |
| Equity investments | - | (1) | (1) | - | (1) | (1) |
| Debt investments | - | - | - | - | - | - |
| **Financial assets at fair value through profit or loss (including trading)** | | | | | | |
| Loans | - | - | - | - | - | - |
| Residential mortgages own book | 18 | - | 18 | 30 | - | 30 |
| Securitised residential mortgages | (50) | - | (50) | (121) | - | (121) |
| Equity investments (including investments in associates) | - | 9 | 9 | - | 13 | 13 |
| | **(32)** | **8** | **(24)** | **(91)** | **12** | **(79)** |

### 44.10. Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table provides a summary of the valuation techniques, key unobservable inputs and the lower and upper range of such unobservable inputs, by type of level 3 asset/liability. The lower and upper range mentioned in the overview represent the lowest and highest variance of the respective valuation input as actually used in the valuation of the different financial instruments. Amounts and percentages stated are unweighted. The range could change from period to period subject to market movements and change in level 3 position. Lower and upper bounds reflect the variability of level 3 positions and their underlying valuation inputs in the portfolio, but do not adequately reflect their level of valuation uncertainty. For valuation uncertainty assessment, please refer to following section 44.11 Sensitivity of fair value measurements to changes in observable market data.

| | At 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | in EUR millions | | | | | |
| | Fair value of level 3 assets | Fair value of level 3 liabilities | Valuation technique | Significant unobservable inputs | Lower range | Upper range |
| **Financial assets available-for-sale** | | | | | | |
| Loans | 24 | - | Expected cash flows | Expected salesprices underlying assets | 75% | 125% |
| Equity investments[1] | 41 | - | Discounted cash flows | Financial statements | n.a. | n.a. |
| | | | Multiplier method | Observable Market Factors | n.a. | n.a. |
| | | | Comparable transactions | - | n.a. | n.a. |
| Debt investments[1] | 1 | - | Expected cash flows | Expected cash flows from colleteral | 0% | 100% |
| **Financial assets at fair value through profit or loss (including trading)** | | | | | | |
| Residential mortgages own book | 4,124 | - | Discounted projected cash flows | Discount Spread (bps) | 119 | 174 |
| Securitised residential mortgages | 1,550 | - | Discounted projected cash flows | Discount Spread (bps) | 119 | 174 |
| Equity investments (including investments in associates)[1] | 202 | | Discounted cash flows | Financial statements | n.a. | n.a. |
| | | | Multiplier method | Observable Market Factors | n.a. | n.a. |
| | | | Comparable transactions | - | n.a. | n.a. |
| Debt investments[1] | 1 | - | Bid price | Price % | 0% | 100% |
| | **5,943** | **-** | | | | |

1 Given the wide range of diverse investments and the correspondingly large differences in prices, NIBC does not disclose the ranges as it believes it would not provide meaningful information without a full list of the underlying investments, which would be impractical.

| | At 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | in EUR millions | | | | | |
| | Fair value of level 3 assets | Fair value of level 3 liabilities | Valuation technique | Significant unobservable inputs | Lower range | Upper range |
| **Financial assets available-for-sale** | | | | | | |
| Loans | 18 | - | Expected cash flows | Expected salesprices underlying assets | 75% | 125% |
| Equity investments[1] | 48 | - | Discounted cash flows | Financial statements | n.a. | n.a. |
| | | | Multiplier method | Observable Market Factors | n.a. | n.a. |
| | | | Comparable transactions | - | n.a. | n.a. |
| Debt investments[1] | 1 | - | Expected cash flows | Expected cash flows from colleteral | 0% | 100% |
| **Financial assets at fair value through profit or loss (including trading)** | | | | | | |
| Loans | 14 | - | Price based | Price % | 60% | 100% |
| Residential mortgages own book | 4,111 | - | Discounted projected cash flows | Discount Spread (bps) | 119 | 174 |
| Securitised residential mortgages | 2,266 | - | Discounted projected cash flows | Discount Spread (bps) | 119 | 174 |
| Equity investments (including investments in associates)[1] | 222 | | Discounted cash flows | Financial statements | n.a. | n.a. |
| | | | Multiplier method | Observable Market Factors | n.a. | n.a. |
| | | | Comparable transactions | - | n.a. | n.a. |
| Debt investments[1] | 1 | - | Bid price | Price % | 0% | 100% |
| | **6,681** | **-** | | | | |

1 Given the wide range of diverse investments and the correspondingly large differences in prices, NIBC does not disclose the ranges as it believes it would not provide meaningful information without a full list of the underlying investments, which would be impractical.

## Non-Listed equity investments

Level 3 equity securities mainly include corporate investments, fund investments and other equity securities which are not traded in active markets. In the absence of an active market, fair values are estimated on the analysis of fund manager reports, company's financial position and other factors.

### Discount spreads
Discount spread is the spread above a market interest rate, based on Euribor, which is used to discount the projected cash flows. The lower range is the outcome of a bottom-up valuation approach, the upper range is the result of a top-down valuation approach.

### Expected sales prices underlying assets
The fair value of the loans available for sale is highly dependend on the projected sales prices of the underlying assets. The lower level assumes actual salesprices of 75% of the projected sales prices the higher level assumes actual salesprices of 125%.

### Price
For securities where market prices are not available fair value is measured by comparison with observable pricing data from similar instruments. Prices of 0% are distressed to the point that no recovery is expected, while prices significantly in excess of 100% or par are expected to pay good yield.

### Debt investments AFS
Level 3 AFS debt investments are valued based on the expected cashflows of the instrument flowing from the collateral.

## 44.11. Sensitivity of fair value measurements to changes in observable market data
The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument:

| | For the year ended | | | |
|---|---|---|---|---|
| | 31 December 2016 | | 31 December 2015 | |
| in EUR millions | Carrying amount | Effect of reasonably possible alternative assumptions | Carrying amount | Effect of reasonably possible alternative assumptions |
| **Financial assets available-for-sale** | | | | |
| Loans | 24 | 1 | 18 | 1 |
| Equity investments (unlisted) | 41 | 2 | 48 | 2 |
| Debt investments | 1 | - | 1 | - |
| **Financial assets at fair value through profit or loss (including trading)** | | | | |
| Loans | - | - | 14 | - |
| Residential mortgages own book | 4,124 | 12 | 4,111 | 12 |
| Securitised residential mortgages | 1,550 | 4 | 2,266 | 6 |
| Equity investments (including investments in associates) | 202 | 10 | 222 | 11 |
| Debt investments | 1 | - | - | - |

In order to determine the reasonably possible alternative assumptions, NIBC adjusted key unobservable valuation technique inputs as follows:

- For equity investments, the material unobservable input parameters, such as capitalisation multiple, that are applied to the maintainable earnings to determine fair value are adjusted by 5%;
- For the residential mortgages classified at fair value through profit or loss (both those NIBC holds on its own book and those NIBC has securitised), NIBC adjusted the discount spread with 10bp as a reasonably possible alternative outcome;
- For the debt investments, NIBC adjusted the weighted average calculated model price by 100 basis points as a reasonably possible alternative outcome. The primary unobservable input in the calculated model price is the applicable credit spread; and
- For loans, the material unobservable input parameters, such as discounts on sale prices, a 5% deviation in fair value is a reasonably possible alternative assumption.

In 2016, there were no significant changes in the business or economic circumstances that affect the fair value of the NIBC's financial assets and liabilities and there were no reclassifications of financial assets.

### 44.12. Fair value information on financial instruments not measured at fair value

The following table presents the carrying values and estimated fair values of financial assets and liabilities, excluding financial instruments which are carried at fair value on a recurring basis.

| | Fair value information at 31 December 2016 | | | | |
|---|---|---|---|---|---|
| in EUR millions | Level 1 | Level 2 | Level 3 | Carrying value | Fair value |
| **Financial assets at amortised cost** | | | | | |
| Loans | - | 8,269 | - | 8,269 | 8,370 |
| Residential mortgages own book | - | - | 3,346 | 3,346 | 3,618 |
| Debt investments | - | 287 | - | 287 | 261 |
| **Financial liabilities at amortised cost** | | | | | |
| Own debt securities in issue | - | 3,855 | - | 3,855 | 3,717 |
| Debt securities in issue related to securitised mortgages and lease receivables | - | - | 1,337 | 1,337 | 1,348 |
| Subordinated liabilities | - | 122 | - | 122 | 120 |

| in EUR millions | Fair value information at 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Carrying value | Fair value |
| **Financial assets at amortised cost** | | | | | |
| Loans | - | 7,668 | - | 7,668 | 7,737 |
| Residential mortgages own book | - | - | 2,390 | 2,390 | 2,552 |
| Debt investments | - | 294 | - | 294 | 276 |
| **Financial liabilities at amortised cost** | | | | | |
| Own debt securities in issue | - | 3,050 | - | 3,050 | 2,884 |
| Debt securities in issue related to securitised mortgages and lease receivables | - | - | 2,062 | 2,062 | 2,072 |
| Subordinated liabilities | - | 120 | - | 120 | 82 |

**Financial instruments for which carrying value approximates fair value**
Certain financial instruments that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These financial instruments include cash and balances with central banks, due from other banks, due to other banks, deposits from customers and other financial liabilities. These financial instruments are not included in the previous table.

### 44.13. Non-financial assets valued at fair value
NIBC's land and buildings are valued at fair value through equity. The carrying amount of NIBC's land and buildings (level 3) as of 31 December 2016 was EUR 40 million (31 December 2015: EUR 43 million). The land and buildings were last revalued as of 31 December 2014 based on external appraisal. No fair value movements were recognised in the statement of comprehensive income or the income statement in respect of NIBC's land and buildings in 2016 and 2015.

## 45. Reclassification financial assets (application of amendments to IAS 39 and IFRS 7)
As of 1 July 2008, NIBC reclassified non-derivative trading financial assets, which do not meet the definition of loans and receivables and are no longer held for the purpose of selling them in the near term, from held for trading to available-for-sale. NIBC believes that the deterioration of the world's financial markets that occurred in the course of 2008 represents a rare circumstance that allows such a reclassification, under the exemption rules of IAS 39.

In addition, NIBC reclassified financial assets from held for trading and available-for-sale to loans and receivables. At the date of reclassification NIBC had the intention and ability to hold these reclassified loans and receivables for the foreseeable future or until maturity.

**Impact reclassification financial assets on comprehensive income**

| in EUR millions | 2016 After reclassification | 2016 Before reclassification | 2015 After reclassification | 2015 Before reclassification |
|---|---|---|---|---|
| Net interest income | 16 | 15 | 23 | 22 |
| Net trading income | 1 | 1 | (1) | (1) |
| Impairment of financial assets | 4 | 4 | (8) | (6) |

**Impact reclassification financial assets**

The following table presents the fair value and carrying value of the financial assets reclassified as of 1 July 2008:

| | Loan portfolio reclassified from: | Debt investments reclassified from: | | |
|---|---|---|---|---|
| in EUR millions | Available-for-sale category to AC | Held for trading category to AC | Available-for-sale category to AC | Held for trading category to AFS |
| Fair value on date of reclassification | 569 | 150 | 33 | 14 |
| Carrying amount as per 31 December 2016 | 617 | 86 | 30 | 1 |
| Fair value as per 31 December 2016 | 583 | 73 | 30 | 1 |
| Range of effective interest rates at the date of reclassification[1] | 5-9% | 6-13% | 5-8% | 18-23 % |
| Expected undiscounted recoverable cash flows EUR | 625 | 33 | 8 | 31 |

1 Ranges of effective interest rates were determined based on weighted average rates.

**Revaluation reserve financial assets reclassified into available-for-sale category**

NIBC chose to reclassify (as of 1 July 2008) certain financial assets that were no longer held for the purpose of selling in the near term as permitted by the amendment to IAS 39 and IFRS 7. In NIBC's judgement, the deterioration in the world's financial markets was an example of a rare circumstance applicable on the date of reclassification. Had NIBC determined that the market conditions during 2008 did not represent a rare circumstance or that NIBC did not have the intention and ability to hold the financial assets for the foreseeable future or until maturity, and had NIBC therefore not reclassified the financial assets, no net of tax gain (2015: no gain) would have been recognised in the income statement and an incremental net of tax gain of EUR 1 million (2015: net of tax gain of EUR 4 million) would have been recognised in the revaluation reserve in equity in 2016 due to changes in fair value.

# 46. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

| | At 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the balance sheet | | |
| in EUR millions | Gross amount of recognised financial assets | Gross amount of recognised financial liabilities set off in the balance sheet | Net amount of financial assets presented in the balance sheet | Financial instruments collateral | Cash collateral received | Net amount |
| **Assets** | | | | | | |
| Derivative financial assets | 1,817 | - | 1,817 | - | 114 | 1,703 |
| Reverse repurchase agreements | - | - | - | - | - | - |
| | **1,817** | **-** | **1,817** | **-** | **114** | **1,703** |

| | At 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the balance sheet | | |
| in EUR millions | Gross amount of recognised financial liabilities | Gross amount of recognised financial assets set off in the balance sheet | Net amount of financial liabilities presented in the balance sheet | Financial instruments collateral | Cash collateral pledged | Net amount |
| **Liabilities** | | | | | | |
| Derivative financial liabilities | 2,006 | - | 2,006 | - | 1,016 | 990 |
| Repurchase agreements | - | - | - | - | - | - |
| | **2,006** | **-** | **2,006** | **-** | **1,016** | **990** |

| | At 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the balance sheet | | |
| in EUR millions | Gross amount of recognised financial assets | Gross amount of recognised financial liabilities set off in the balance sheet | Net amount of financial assets presented in the balance sheet | Financial instruments collateral | Cash collateral received | Net amount |
| **Assets** | | | | | | |
| Derivative financial assets | 2,151 | - | 2,151 | - | 188 | 1,963 |
| Reverse repurchase agreements | 400 | (400) | - | - | - | - |
| | **2,551** | **(400)** | **2,151** | **-** | **188** | **1,963** |

| | At 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the balance sheet | | |
| in EUR millions | Gross amount of recognised financial liabilities | Gross amount of recognised financial assets set off in the balance sheet | Net amount of financial liabilities presented in the balance sheet | Financial instruments collateral | Cash collateral pledged | Net amount |
| **Liabilities** | | | | | | |
| Derivative financial liabilities | 2,350 | - | 2,350 | - | 1,128 | 1,222 |
| Repurchase agreements | 496 | (400) | 96 | 141 | - | (45) |
| | **2,846** | **(400)** | **2,446** | **141** | **1,128** | **1,177** |

Related amounts which cannot be set off in the balance sheet position are amounts which are part of ISDA netting agreements. The related amounts are reported on the asset side and the liability side of the balance sheet as the ISDA agreements does not meet all requirements for offsetting in IAS 32.

## 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.

**Transferred financial assets**

This disclosure provides insight into the relationship between these transferred financial assets and associated financial liabilities in order to understand which risks the bank is exposed to when the assets are transferred.

If transferred financial assets continue to be recognised on the balance sheet, NIBC is still exposed to changes in the fair value of the assets.

**Transferred financial assets that are not derecognised in their entirety**
The following table shows transferred financial assets that are not derecognised in their entirety.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | RMBS programme | Covered Bond programme | RMBS programme | Covered Bond programme |
| in EUR millions | Securitised residential mortgages (FVtPL) | Residential mortgages own Book (AC and FVtPL) | Securitised residential mortgages FVtPL | Residential mortgages own Book (AC and FVtPL) |
| Securitisations | | | | |
| Carrying amount transferred assets | 1,550 | 2,428 | 2,266 | 1,823 |
| Carrying amount associated liabilities | 1,337 | 2,028 | 2,037 | 1,521 |
| Fair value of assets | 1,550 | 2,526 | 2,266 | 1,868 |
| Fair value of associated liabilities | 1,348 | 1,881 | 2,047 | 1,412 |
| Net position | 202 | 645 | 219 | 456 |

**RMBS programme**
NIBC uses securitisations as a source of funding whereby the *Structured Entity* (**SE**) issues debt securities. Pursuant to a securitisation transaction utilising true sale mechanics, NIBC transfers the title of the assets to SEs.When the cash flows are transferred to investors in the notes issued by consolidated securitisation vehicles, the assets (residential mortgage loans) are considered to be transferred.

**The Covered Bond programme**
Under NIBC's Covered Bond programme, notes are issued by NIBC from its own balance sheet. Bond holders are protected from suffering a loss even in the event that NIBC defaults because at the point the notes were issued, NIBC also transferred the legal title of a portfolio of mortgages to a *Structured Entity* (**SE**) to act as collateral for the covered bond investors. From a legal perspective, the SE guarantees the repayment of the Covered Bonds. The title transfer of the mortgages has been achieved by NIBC providing an inter-company loan on the same terms and conditions as the external bonds to the SE. The SE used the proceeds to purchase the mortgage portfolio. The net result is that the SE retains the legal title, but proceeds from the mortgages are passed through the intercompany loan to the covered bond holders. NIBC consolidates the SE on the basis that, in addition to having power as the sole owner, NIBC also is entitled to substantial variable returns through the over-collateralised portion of the sold mortgages.

**Continuing involvement in transferred financial assets that are derecognised in their entirety**
In prior years, NIBC transferred certain financial assets to securitisation vehicles it did not control. NIBC has determined that not substantially all risks and rewards were transferred as a consequence of providing clean-up calls (call options to purchase the loans if the principal outstanding of all notes in the securitisation vehicles is less than 10% of the original principal amount). Consequently NIBC continues to recognise these financial assets and related liabilities to the extent of its continuing involvement. For further details see the following table:

| in EUR millions | For the year ended 31 December 2016 Carrying amount asset | Carrying amount related liability |
|---|---|---|
| Loans at fair value through profit or loss | - | - |
| Debt securities in issue related to securitised mortgages (amortised costs) | - | - |

| in EUR millions | For the year ended 31 December 2016 Carrying amount assets before transfer |
|---|---|
| Loans at fair value through profit or loss | - |

| in EUR millions | For the year ended 31 December 2015 Carrying amount asset | Carrying amount related liability |
|---|---|---|
| Loans at fair value through profit or loss | 49 | - |
| Debt securities in issue related to securitised mortgages (amortised costs) | - | 49 |

| in EUR millions | For the year ended 31 December 2015 Carrying amount assets before transfer |
|---|---|
| Loans at fair value through profit or loss | 49 |

## 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 | 2016 | 2015 |
|---|---|---|
| **Contract amount:** | | |
| Committed facilities with respect to corporate loan financing | 1,303 | 1,416 |
| Committed facilities with respect to residential mortgages | 708 | 407 |
| Capital commitments with respect to equity investments | 19 | 25 |
| Guarantees granted | 76 | 41 |
| Irrevocable letters of credit | 18 | 12 |
| | **2,124** | **1,901** |

These commitments and contingent liabilities have off-balance sheet credit risk because only commitment/origination fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

Details of concentrations of credit risk including concentrations of credit risk arising from commitments and contingent liabilities as well as NIBC's policies for collateral for loans are set out in note 56 Credit risk.

**Legal proceedings**

There were a number of legal proceedings outstanding against NIBC as at 31 December 2016. No material provision has been made as at 31 December 2016, as legal advice indicates that, on the basis of the facts known at present, it is unlikely that any significant loss will arise.

## 49. Assets transferred or pledged as collateral

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **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 | 2,896 | 1,865 |
| Debt securities in issue related to securitised loans and mortgages | 1,945 | 2,802 |
| Derivative financial liabilities | 888 | 1,128 |
| | **5,729** | **5,795** |
| **Details of the carrying amounts of assets pledged as collateral:** | | |
| **Assets pledged** | | |
| Debt investments/Residential mortgages own book | 3,471 | 1,902 |
| Securitised loans and mortgages | 2,170 | 3,619 |
| Cash collateral (due from other banks) | 1,004 | 1,128 |
| | **6,645** | **6,649** |

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 residential mortgages, 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 2016 was 29% (2015: 29%).

## 50. Assets under management

NIBC provides collateral management services, whereby it holds and manages assets or invests funds received in various financial instruments on behalf of customers. NIBC receives fee income for providing these services. Assets under management are not recognised in the consolidated balance sheet. NIBC is not exposed to any credit risk relating to these assets, as it does not guarantee these investments.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Assets held and managed by NIBC on behalf of customers | 1,559 | 1,703 |
| | **1,559** | **1,703** |

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; and
- NIBC's 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.

NIBC's sustainability policy framework, including applicable sector policies, is also applicable to the investments made under these programmes.

For more information please see NIBC's website.

## 51. Business combinations and divestments

### Acquisitions

#### Acquisitions in 2016

#### Acquisition of SNS Securities N.V.

On 30 June 2016, NIBC obtained control of SNS Securities N.V., located in Amsterdam, by acquiring 100% of the share capital and voting interests in the company from SNS Bank N.V. With the acquisition, NIBC initially intended to expand its service offering with capital market solutions, bond and stock broking, research and execution services for independent asset managers, commercial lending and principal investments. The acquisition of SNS Securities N.V. has been approved by the appropriate regulatory authorities and work councils. On 30 June 2016 SNS Securities N.V. changed its name into NIBC Markets N.V. Based on change in strategic priorities NIBC announced in January 2017 to discontinue a part of these services in the first half year of 2017. Refer to note 61 Subsequent events for further information.

**Acquisition-related costs**
Acquisition related costs of EUR 0.5 million have been charged to other operating expenses in the consolidated income statement for the period ended 31 December 2016.

The following table summarises the consideration transferred and the fair value of assets acquired and liabilities assumed at the acquisition date. The fair value of the identifiable net assets is based on an assessment by an external independent valuator. The valuation was completed in 2016.

| in EUR millions | Fair value recognised on acquisition |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 38 |
| Loans and receivables (AC) | 71 |
| Debt investments (FV) | 79 |
| Other | 2 |
| | **190** |
| **Liabilities** | |
| Due to other banks | 93 |
| Deposits from customers | 68 |
| Other | 3 |
| | **164** |
| **Total identifiable net assets at fair value** | **26** |
| Badwill (negative goodwill) arising on acquisition | 22 |
| **Total consideration transferred** | **4** |

NIBC paid EUR 4 million in cash for 100% of the shares outstanding.

EUR 22 million was recognised as badwill (negative goodwill) (income) on the acquisition of SNS Securities N.V. and is recognised on Other operating income of the consolidated income statement.

**Acquired loans and receivables (AC)**
The fair value of the receivables comprise gross amounts. NIBC estimates that all receivables are collectible.

**Intangible assets and contingent liabilities**
There are no material intangible assets identified and contingent liabilities related to the acquisition of SNS Securities N.V.

**Revenue and profit contribution**
From the date of acquisition to 31 December 2016 the impact of NIBC Markets N.V. on NIBC's results was a loss of EUR 2.4 million (excluding recognised badwill of EUR 22 million).

If this acquisition had occurred on 1 January 2016, management estimates that the result from this company included in the consolidation would have been a loss of EUR 3.3 million.

#### Acquisitions in 2015

In 2015 there were no business combinations.

### Divestments

#### Divestments closed in 2016

In September 2015, NIBC committed to a plan to sell its non-financial company Olympia Nederland Holding B.V., which was consequently classified as a Disposal group held for sale. In February 2016 NIBC reached an agreement on the sale of Olympia to a third party which was closed on 2 June 2016. The sale is based upon a strategic decision to place greater focus on NIBC's key financial services competencies.

The transaction resulted in a net loss of EUR 2 million in 2016 which was charged to impairment of non-financial assets in the income statement. Reference is made to note 32 Disposal group held for sale.

#### Divestments closed in 2015

There were no divestments in 2015.

## 52. Related party transactions

In the normal course of business, NIBC enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of NIBC include, amongst others, its subsidiaries, associates and key management personnel. The transactions were made at an arm's length price. Transactions between NIBC and its subsidiaries meet the definition of related party transactions. However, as all of these transactions are eliminated on consolidation, they are not disclosed as related party transactions.

#### Transactions with NIBC's parent company

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Transactions involving NIBC's shareholder** | | |
| Assets | 225 | 231 |
| Liabilities | - | - |
| Off-balance sheet commitments | - | - |
| | | |
| Income received | 1 | - |
| Expenses paid | - | - |

**Transactions with other entities controlled by the parent company**

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Transactions involving NIBC's shareholder** | | |
| Assets | 319 | 150 |
| Liabilities | (25) | (27) |
| Off-balance sheet commitments | 55 | 13 |
| | | |
| Income received | 1 | (3) |
| Expenses paid | - | - |

In March 2016, NIBC Holding (the parent company of NIBC) acquired *BEEQUIP B.V.* (**BEEQUIP**). Before and after the acquisition, NIBC financed BEEQUIP. At acquisition date the (long-term) loan to BEEQUIP amounted to EUR 52 million. NIBC's exposure at 31 December 2016 amounted to EUR 113 million (31 December 2015: nil).

In May 2015, NIBC obtained control of Vijlma B.V. with a view to resale to NIBC Investments N.V. (a subsidiary of the parent company of NIBC). Subsequently Vijlma B.V. was sold to NIBC Investments N.V. on 30 June 2015. NIBC's exposure to Vijlma B.V. at 31 December 2016 amounted to EUR 220 million (31 December 2015: EUR 178 million).

**Transactions within the group**

In March 2016, NIBC Holding (the parent company of NIBC) acquired BEEQUIP. Before and after the acquisition, NIBC financed BEEQUIP. At acquisition date the (long-term) loan to BEEQUIP amounted to EUR 52 million. NIBC's exposure at 31 December 2016 amounted to EUR 113 million.

In May 2015, NIBC obtained control of Vijlma B.V. with a view to resale to NIBC Holding, the parent company of NIBC. Subsequently Vijlma B.V. was sold to NIBC Holding on 30 June 2015. NIBC's exposure on the various debt instruments to Vijlma B.V. at 30 June 2015 amounted to EUR 244 million. NIBC's exposure at 31 December 2016 amounted to EUR 220 million (31 December 2015: EUR 178 million).

**Transactions related to associates**

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Transactions related to associates** | | |
| Assets | 86 | 87 |
| Liabilities | - | - |
| Off-balance sheet commitments | 12 | 9 |
| | | |
| Income received | 10 | 8 |
| Expenses paid | - | - |

Assets, liabilities, commitments and income related to Associates result from transactions which are executed as part of the normal banking business. Summarised financial information for the group's investments in associates is set out in note 53 Principal subsidiaries and associates.

NIBC did not earn fees on the loans from these associates in 2016 and 2015.

**Key management personnel compensation**

NIBC's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of NIBC (directly or indirectly) and comprise the Statutory Board members and Supervisory Board members.

Except for the transaction reported below transactions with key employees are reported in the tables in note 55 Remuneration of Statutory Board members and Supervisory Board members.

In December 2016 the members of the Managing Board personally invested directly in ordinary shares of NIBC Holding N.V. for a total amount of EUR 3.5 million on the back of a secondary trade (at a fair value of EUR 5,81 per share) with current shareholders.

The following table shows the specifics of the investments of the Managing Board-members in shares NIBC Holding N.V.:

| Management participant | Number of shares | Investment with own funds | Loans provided by shareholders of NIBC Holding N.V. | Total invested amount | Interest in share capital of NIBC Holding N.V. |
|---|---|---|---|---|---|
| | | | In EUR | | |
| P.A.M. de Wilt (CEO) | 258,141 | 300,000 | 1,200,000 | 1,500,000 | 0.17% |
| H.H.J. Dijkhuizen (CFO) | 172,094 | 200,000 | 800,000 | 1,000,000 | 0.12% |
| R.D.J. van Riel (CRO) | 172,094 | 200,000 | 800,000 | 1,000,000 | 0.12% |
| | 602,329 | 700,000 | 2,800,000 | 3,500,000 | 0.41% |

Details of the transaction in shares of NIBC Holding N.V.:

- The loans provided by shareholders of NIBC Holding N.V. are bearing interest at 5 per cent, including the premium of the put options. The term of the loans is five years;
- The shares have been pledged to the providers of the loans;
- The voting rights of the shares have been transferred to the providers of the loans;
- The management participants have a put option with an exercise price at 80% of the purchase price, adjusted for the accrued and capitalised interest and an exercise date five years after the purchase date;
- The providers of the loans have a call option with an exercise price at 80% of the purchase price, adjusted for the accrued and capitalised interest and an exercise date five years after the purchase date; and
- Any future transactions in shares will be executed at fair value.

The shares purchased cannot be sold for five years, except in the situation of a change of control of NIBC Holding N.V. In that case the loans including capitalised and accrued interest must be repaid. If a member of the Managing Board ceases employment during the five year period, the shares may not be sold.

# 53. Principal subsidiaries and associates

## INFORMATION ON SUBSIDIARIES

### Composition of NIBC

NIBC is the direct or indirect holding company for NIBC's subsidiaries.

NIBC consists of 59 (2015: 58) consolidated entities, including 13 (2015: 13) consolidated structured entities (for further details see note 54). 46 (2015: 46) of the entities controlled by NIBC are directly or indirectly held by NIBC at 100% of the ownership interests (share of capital). Third parties also hold ownership interests in 13 (2015: 12) 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% |
| NIBC Markets N.V. | Amsterdam | Netherlands | Brokerage | 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 54 Structured entities.

See the basis of consolidation section of the Accounting policies for further information on other factors affecting consolidation of an entity.

**Significant restrictions to access or use NIBC's assets**
Legal, contractual or regulatory requirements as well as protective rights of non-controlling interests might restrict the ability of NIBC to access and transfer assets freely to or from other entities within NIBC and to settle liabilities of NIBC.

Since NIBC did not have any material non-controlling interests at the balance sheet date, any protective rights associated with these did not give rise to significant restrictions.

Restrictions impacting NIBC's ability to use assets:
- NIBC has pledged assets to collateralise its obligations under repurchase agreements, securities financing transactions, collateralised loan obligations and for margining purposes of OTC derivative liabilities;
- The assets of consolidated structured entities are held for the benefit of the parties that have bought the notes issued by these entities; and
- Regulatory and central bank requirements or local corporate legislation may restrict NIBC's ability to transfer assets to or from other entities within NIBC in certain jurisdictions.

**Carrying amounts of restricted assets**

| | At 31 December 2016 | | At 31 December 2015 | |
|---|---|---|---|---|
| in EUR millions | Total assets | Restricted assets | Total assets | Restricted assets |
| **Financial assets at amortised cost** | | | | |
| Due from other banks | 1,428 | 1,304 | 1,745 | 1,468 |
| Loans | 8,269 | 613 | 7,668 | 759 |
| Mortgages own book | 3,346 | 2,020 | 2,390 | 698 |
| **Financial assets at available-for-sale** | | | | |
| Equity investments | 41 | 27 | 48 | 35 |
| **Financial assets at fair value through profit or loss (including trading)** | | | | |
| Loans | 210 | 128 | 316 | 155 |
| Residential mortgages own book | 4,124 | 2,516 | 4,111 | 2,294 |
| Securitised residential mortgages | 1,550 | 1,550 | 2,266 | 2,266 |
| Debt investments | 60 | - | 19 | - |
| Investments in associates | 204 | 200 | 222 | 189 |
| Investments in associates (equity method) | 7 | 6 | 7 | 6 |
| | **19,239** | **8,364** | **18,792** | **7,870** |

Previous table excludes assets that are not encumbered at an individual entity level but which may be subject to restrictions in terms of their transferability within NIBC. Such restrictions may be based on local connected lending requirements or similar regulatory restrictions. In this situation, it is not feasible to identify individual balance sheet items that cannot be transferred. This is also the case for regulatory minimum liquidity requirements. NIBC identifies the volume of liquidity reserves in excess of local stress liquidity outflows. The aggregate amount of such liquidity reserves that are considered restricted for this purpose is EUR 133 million and EUR 126 million as per 31 December 2016 and 31 December 2015, 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 33 (2015: 37) associates. Five associates are considered to be material to NIBC, based on the carrying value of the investment and NIBC's income from these investees. There are no joint arrangements which are considered individually significant.

**Accounting classification and carrying value**

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Investments in associates (fair value through profit or loss) | 186 | 172 |
| Investments in associates (equity method) | 7 | 7 |
| | **193** | **179** |

### Significant associates
NIBC's interests in significant associates are classified as associates fair value through profit or loss and are all unlisted.

The following tables illustrate the summarised financial information of NIBC's investments in associates material to NIBC.

| | Principal place of business | Country | Nature of relationship | Percentage of voting rights held |
|---|---|---|---|---|
| **Name of the associate** | | | | |
| MBF Equity 1B | The Hague | Netherlands | Investment company | 53% |
| NEIF | The Hague | Netherlands | Investment company | 29% |
| GCF II | The Hague | Netherlands | Investment company | 11% |
| Noordlease Holding B.V. | Groningen | Netherlands | Leasing | 50% |
| 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 2016. These associates are highly leveraged by equity.

| in EUR millions | Assets | Liabilities | Operating income | Other comprehensive income | Total comprehensive income[1] |
|---|---|---|---|---|---|
| MBF Equity 1B | 186 | 1 | (9) | - | (9) |
| NEIF | 360 | - | 15 | - | 15 |
| GCF II | 196 | 8 | 66 | - | 66 |
| Noordlease Holding B.V. | 70 | 56 | 2 | (1) | 1 |
| FINCO FUEL BENELUX B.V. | 32 | 20 | 1 | - | 1 |

1 The figures are based on the latest publicly available financial information of the investee.

NIBC received no dividends from above significant associates in 2016 and 2015.

### Investments in associates (equity method)
Summarised financial information for NIBC's investments in associates (equity method) is set out below. The amounts shown are the net income of the investees, not just NIBC's share for the year ended 31 December 2016 with the exception of associates for which the amounts are based on financial information made up to dates not earlier than three months before the balance sheet date.

### Associates

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Profit or loss from continuing operations | - | (2) |
| Other comprehensive income/(loss) | - | - |
| | **-** | **(2)** |

**Aggregated carrying amount of associates that are individually immaterial to NIBC**

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Aggregated amount of NIBC's share of profit/(loss) from continuing operations | 1 | 2 |
| Aggregated amount of NIBC's share of post-tax profit/(loss) from discontinued operations | - | - |
| Aggregated amount of NIBC's share of other comprehensive income | - | - |
| | **1** | **2** |

Unrecognised share of the losses of individually immaterial associates was nil in 2016 and 2015.

### OTHER INFORMATION ON ASSOCIATES

NIBC's associates are subject to statutory requirements such that they cannot make remittances of dividends or make loan repayments to NIBC without agreement from the external parties.

NIBC's share of contingent liabilities or capital commitments of its associates was nil in 2016 and 2015.

## 54. Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well-defined objective with restrictions around their ongoing activities.

The principal use of structured entities is to provide clients with access to specific portfolios of assets and to provide market liquidity for clients through securitising financial assets. Structured entities may be established as corporations, trusts or partnerships. Structured entities generally finance the purchase of assets by issuing notes that are collateralised by and/or indexed to the assets held by the structured entities. The notes issued by structured entities may include tranches with varying levels of subordination.

Structured entities are consolidated when the substance of the relationship between NIBC and the structured entities indicate that the structured entities are controlled by NIBC, as pointed out in the Accounting policies section Basis of consolidation. In other cases it may sponsor or have exposure to such an entity but not consolidate it.

### CONSOLIDATED STRUCTURED ENTITIES

**Nature, purpose and extent of NIBC's interests in consolidated structured entities**

#### Securitisation vehicles

NIBC primarily has contractual arrangements for securitisation vehicles which may require it to provide financial support. NIBC uses securitisation as a source of financing and a means of risk transfer. At 31 December 2016 and 2015, there were no significant outstanding loan commitments to these entities.

### Financial support provided or to be provided to consolidated structured entities

NIBC has not provided any non-contractual financial support during 2016 and 2015 and does not anticipate providing non-contractual support to consolidated structured entities in the future.

## UNCONSOLIDATED STRUCTURED ENTITIES

Nature, purpose and extent of NIBC's interests in unconsolidated structured entities

The structured entities covered by this section are not consolidated since NIBC does not has control them through voting rights, contract, funding agreements and/or other means. The extent of NIBC's interests in unconsolidated structured entities will vary depending on the type of structured entity. Examples of interests in unconsolidated structured entities include debt or equity investments, liquidity facilities and guarantees in which NIBC is absorbing variability of returns from the structured entities.

**Securitisation vehicles**

NIBC established securitisation vehicles which purchase diversified pools of assets, including fixed-income securities, corporate loans, and asset-backed securities (predominantly commercial, residential and mortgage-backed assets). The securitisation vehicles fund these purchases by issuing multiple tranches of notes.

**Third-party fund entities**

NIBC provides funding to structured entities that hold a variety of assets. These entities may take the form of funding entities, trusts and private investment companies. The funding is collateralised by the asset in the structured entities. NIBC's involvement involves predominantly equity investments.

**Income derived from involvement with unconsolidated structured entities**

NIBC earns management fees and, occasionally, performance-based fees for its investment management services in relation to funds. Interest income is recognised on the funding provided to structured entities. Movements in the value of different types of notes held by NIBC in structured entities are recognised in net trading income.

**Maximum exposure to unconsolidated structured entities**

The maximum exposure to loss is determined by considering the nature of the interest in the unconsolidated structured entity. The maximum exposure for loans and trading instruments is reflected in their carrying amounts in the consolidated balance sheet. The maximum exposure for off-balance sheet instruments such as guarantees, liquidity facilities and loan commitments under IFRS 12, as interpreted by NIBC, is reflected by the notional amounts. Such amounts do not reflect the economic risks faced by NIBC because they do not take into account the effects of collateral or hedges nor the probability of such losses being incurred.

At 31 December 2016 off-balance sheet instruments amounts to EUR 21 million (2015: EUR 17 million). There were no derivatives linked to structured unconsolidated entities.

### Size of structured entities

NIBC provides a different measure for the size of structured entities depending on their type. The following measures have been considered as appropriate indicators for evaluating the size of structured entities:

- Securitisations – notional of notes in issue when NIBC derives its interests through notes its holds and notional of derivatives when NIBC's interests is in the form of derivatives; and
- Third party fund entities – total assets in entities. For third party fund entities, size information is based on the latest available investor reports and financial statements.

### Summary of interests in unconsolidated structured entities

The following table shows, by type of unconsolidated structured entity, the carrying amounts of NIBC's interests recognised in the consolidated statement of financial position as well as the maximum exposure to loss resulting from these interests. It also provides an indication of the size of the structured entities. The carrying amounts presented below do not reflect the true variability of returns faced by NIBC because they do not take into account the effects of collateral or hedges.

| in EUR millions | Securitisations | Third party fund entities | 2016 |
|---|---|---|---|
| **Financial assets at amortised cost** | | | |
| Loans | - | 36 | 36 |
| Debt investments | 127 | - | 127 |
| **Financial assets at available-for-sale** | | | |
| Equity investments | - | 27 | 27 |
| Debt investments | 135 | - | 135 |
| **Financial assets at fair value through profit or loss (including trading)** | | | |
| Equity investments (including investments in associates) | - | 146 | 146 |
| **Total assets** | **262** | **209** | **471** |
| Off-balance sheet exposure | - | 21 | 21 |
| **Total maximum exposure to loss** | **262** | **230** | **492** |
| Size of structured entities | 6,608 | 3,440 | 10,048 |

| in EUR millions | Securitisations | Third party fund entities | 2015 |
|---|---|---|---|
| **Financial assets at amortised cost** | | | |
| Loans | - | 70 | 70 |
| Debt investments | 129 | - | 129 |
| **Financial assets at available-for-sale** | | | |
| Equity investments | - | 35 | 35 |
| Debt investments | 50 | - | 50 |
| **Financial assets at fair value through profit or loss (including trading)** | | | |
| Equity investments (including investments in associates) | - | 218 | 218 |
| **Total assets** | **179** | **323** | **502** |
| Off-balance sheet exposure | - | 17 | 17 |
| **Total maximum exposure to loss** | **179** | **340** | **519** |
| Size of structured entities | 2,861 | 3,672 | 6,533 |

Loans of EUR 36 million (2015: EUR 70 millions) consist of investments in securitisation tranches and financing to third party fund entities. NIBC's financing to third party fund entities is collateralised by the assets in those structured entities.

No debt investments are collateralised by the assets contained in these entities.

Equity investments of EUR 172 million (2015: EUR 253 million) primarily consist of investments in associates of EUR 12 million, EUR 107 million and EUR 33 million in NIBC MBF Equity IB B.V., NIBC European Infrastructure Fund I C.V. and NIBC MBF Mezzanine IB B.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 | 2016 |
|---|---|---|---|---|---|
| **Securitisations** | | | | | |
| I) Maximum exposure to loss | - | 58 | - | 204 | 262 |
| II) Potential losses held by other investors | - | 489 | 1,532 | 4,324 | 6,345 |

| in EUR millions | Subordinated interests | Mezzanine interests | Senior interests | Most senior interests | 2015 |
|---|---|---|---|---|---|
| **Securitisations** | | | | | |
| I) Maximum exposure to loss | - | 72 | - | 107 | 179 |
| II) Potential losses held by other investors | 49 | 451 | - | 2,181 | 2,681 |

**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 | 2016 |
|---|---|---|---|
| **Net income unconsolidated structured entities** | | | |
| Net interest income | 4 | (1) | 3 |
| Net fee and commission income | - | 1 | 1 |
| Investment income | - | 10 | 10 |

| in EUR millions | Securitisations | Third party entities | 2015 |
|---|---|---|---|
| **Net income unconsolidated structured entities** | | | |
| Net interest income | 1 | 14 | 15 |
| Net fee and commission income | - | 12 | 12 |
| Investment income | - | 45 | 45 |

**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 2016 comprised to nil (31 December 2015: EUR 1 million) interest earned from bonds recognised within interest income.

**Assets transferred to unconsolidated sponsored structured entities**

The carrying amounts of assets transferred to unconsolidated sponsored structured entities during the period were nil.

# 55. Remuneration of the Statutory Board members and Supervisory Board members

## Remuneration of the Statutory Board members

The Supervisory Board reviewed and amended NIBC's Remuneration Policy in 2015. The review took account of all relevant laws, regulations and guidelines: the Dutch Corporate Governance Code, the Dutch Banking Code, the *DNB Principles on Sound Remuneration Policies* (**DNB Principles**), 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 2016, the average number of members of the Statutory Board appointed under the articles of association was 3.7 (2015: 4.0). For the total regular annual remuneration costs (including pension costs) for members and former members of the Statutory Board, appointed under the articles of association, reference is made to note 8 Personnel expenses and share-based payments. During 2016 the following changes occurred in the Statutory Board: At 15 March 2016 Petra van Hoeken stepped down as Chief Risk Officer of the statutory Board and her employment ended on the same date. At 1 August 2016 Reinout van Riel joined NIBC and was appointed as Chief Risk Officer of the Statutory Board on 15 August 2016.

### Base salary and short-term incentive compensation (cash bonus)

In 2016, the base salary for the Chairman was increased with EUR 25,000 to EUR 800,000 gross per year, whilst the base salary for members of the Statutory Board increased with EUR 50,000 to EUR 550,000 gross per year. As of 1 January 2015, in light of the legislation on remuneration for Financial Service Companies and the social context, the long-term incentive arrangement (40% to 70% of base salary) was revoked by the Supervisory Board and replaced by a short-term variable income component at target of 15% of base salary (with a maximum of 20%).The variable compensation is delivered in a pre-defined mix: 30% in cash, 20% in deferred cash, 30% in Phantom Share Units and 20% in Restricted Phantom Share Units.

Over 2016 the following incentive compensation of base salary was granted: The Chief Executive Officer 17%, The Chief Client Officer 17%, The Chief Financial Officer 17% and the Chief Risk Officer 17%.

## Table 1

| in EUR | 2016 | 2015 |
|---|---|---|
| The breakdown of the amounts of compensation awards in cash per member and former member of the statutory board is as follows: | | |
| **Mr. Paulus de Wilt, Chief Executive Officer, Chairman** | | |
| Base salary | 800,000 | 775,000 |
| Short-term incentive compensation (cash bonus) | 40,800 | 39,525 |
| | **840,800** | **814,525** |
| **Mr. Herman Dijkhuizen, Chief Financial Officer** | | |
| Base salary | 550,000 | 500,000 |
| Short-term incentive compensation (cash bonus) | 28,050 | 25,500 |
| | **578,050** | **525,500** |
| **Mr. Reinout van Riel, Chief Risk Officer[1]** | | |
| Base salary | 229,167 | - |
| Sign-on compensation | 25,813 | |
| Short-term incentive compensation (cash bonus) | 11,688 | - |
| | **266,667** | **-** |
| **Mr. Rob ten Heggeler, Chief Client Officer[2]** | | |
| Base salary | 550,000 | 500,000 |
| Short-term incentive compensation (cash bonus) | 28,050 | 25,500 |
| | **578,050** | **525,500** |
| **Ms. Petra van Hoeken, former Chief Risk Officer[3]** | | |
| Base salary | 114,583 | 500,000 |
| Short-term incentive compensation (cash bonus) | - | 25,500 |
| | **114,583** | **525,500** |
| **Total cash compensation** | **2,378,150** | **2,391,025** |

1 Mr. Van Riel joined NIBC on 1 August 2016 and was appointed as Chief Risk Officer of the Statutory Board at 15 August 2016.
2 Mr. Ten Heggeler stepped down as Chief Client Officer of the Statutory Board on 31 December 2016 and his employment ended on the same date.
3 Ms. Van Hoeken stepped down as Chief Risk Officer of the Statutory Board on 15 March 2016 and her employment ended on the same date.

### Short-term incentive compensation (Deferred cash bonus, Phantom Share Units and Restricted

As of 1 January 2015 the Statutory Board is eligible for a short-term variable income component 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.

## Table 2

| in EUR | 2016 | 2015 |
|---|---|---|
| The breakdown of the amounts of deferred short-term incentive compensation awards in cash per member of the statutory board: | | |
| Mr. Paulus de Wilt | 27,200 | 26,350 |
| Mr. Herman Dijkhuizen | 18,700 | 17,000 |
| Mr. Reinout van Riel (sign-on) | 17,208 | - |
| Mr. Reinout van Riel | 7,792 | - |
| Mr. Rob ten Heggeler | 18,700 | 17,000 |
| Ms. Petra van Hoeken | - | 17,000 |
| **Total short-term deferred cash compensation** | **89,600** | **77,350** |

## Table 3

| in EUR | 2016 | 2015 |
|---|---|---|
| The breakdown of the amounts of short-term compensation share-related awards ((restricted) phantom share units) per member of the statutory board: | | |
| **Mr. Paulus de Wilt** | | |
| Number of phantom share units | 5,126 | 4,471 |
| Number of restricted phantom share units | 3,417 | 2,981 |
| Fair value of short-term incentive at date of grant (in EUR) | 68,000 | 65,875 |
| **Mr. Herman Dijkhuizen** | | |
| Number of phantom share units | 3,524 | 2,885 |
| Number of restricted phantom share units | 2,349 | 1,923 |
| Fair value of short-term incentive at date of grant (in EUR) | 46,750 | 42,500 |
| **Mr. Reinout van Riel (sign-on)**[1] | | |
| Number of phantom share units | 3,243 | - |
| Number of restricted phantom share units | 2,162 | - |
| Fair value of short-term incentive at date of grant (in EUR) | 43,021 | - |
| 1 | | |
| **Mr. Reinout van Riel**[1] | | |
| Number of phantom share units | 1,468 | - |
| Number of restricted phantom share units | 979 | - |
| Fair value of short-term incentive at date of grant (in EUR) | 19,479 | - |
| **Mr. Rob ten Heggeler**[2] | | |
| Number of phantom share units | 3,524 | 2,885 |
| Number of restricted phantom share units | 2,349 | 1,923 |
| Fair value of short-term incentive at date of grant (in EUR) | 46,750 | 42,500 |
| **Ms. Petra van Hoeken**[3] | | |
| Number of phantom share units | - | 2,885 |
| Number of restricted phantom share units | - | 1,923 |
| Fair value of short-term incentive at date of grant (in EUR) | - | 42,500 |
| **Total short-term share related compensation** | **224,000** | **193,375** |

1 Mr. Van Riel joined NIBC on 1 August 2016 and was appointed as Chief Risk Officer of the Statutory Board at 15 August 2016.
2 Mr. Ten Heggeler stepped down as Chief Client Officer of the Statutory Board on 31 December 2016 and his employment ended on the same date.
3 Ms. Van Hoeken stepped down as Chief Risk Officer of the Statutory Board on 15 March 2016 and her employment ended on the same date.

### Other remuneration elements

The other elements of the Statutory Board members' remuneration consist of car allowances and other emoluments.

### Table 4

| in EUR | 2016 | 2015 |
|---|---|---|
| The breakdown of the amounts of other remuneration elements per member and former member of the statutory board: | | |
| Mr. Paulus de Wilt | 53,039 | 52,844 |
| Mr. Herman Dijkhuizen | 52,628 | 52,521 |
| Mr. Reinout van Riel | 18,564 | |
| Mr. Rob ten Heggeler | 75,883 | 70,035 |
| Ms. Petra van Hoeken, former Chief Risk Officer | 28,482 | 60,588 |
| **Total other remuneration elements** | **228,596** | **235,988** |

### Table 5 - Pension Costs

| in EUR | 2016 | 2015 |
|---|---|---|
| The amounts of pension costs per member and former member of the statutory board: | | |
| Mr. Paulus de Wilt | 151,297 | 142,866 |
| Mr. Herman Dijkhuizen | 122,997 | 95,566 |
| Mr. Reinout van Riel | 38,651 | - |
| Mr. Rob ten Heggeler | 107,720 | 95,667 |
| Ms. Petra van Hoeken, former Chief Risk Officer | 21,754 | 95,566 |
| **Total pension costs** | **442,419** | **429,665** |

As at 31 December 2016 and 31 December 2015, no loans, advance payments or guarantees had been provided by the company to the Statutory Board members.

### Remuneration of the Supervisory Board members

The remuneration of the (former) Supervisory Board members relates to their position within NIBC Holding and NIBC Bank.

## Table 6

| in EUR | 2016 | 2015 |
|---|---|---|
| Members: | | |
| Mr. W.M. van den Goorbergh[1] | 96,500 | 96,500 |
| Mr. D.R. Morgan | 71,500 | 71,500 |
| Mr. M.J. Christner | 55,000 | 55,000 |
| Mr. J.C. Flowers | 40,000 | 40,000 |
| Mr. N.W. Hoek [1/2] | - | 16,250 |
| Mr. A. de Jong[1] | 51,500 | 51,500 |
| Ms. S.A. Rocker | 50,000 | 50,000 |
| Mr. D.M. Sluimers [1/3] | 63,333 | - |
| Ms. K.M.C.Z. Steel[1] | 66,500 | 66,500 |
| Mr. A.H.A. Veenhof[1] | 50,000 | 50,000 |
| **Total remuneration** | **544,333** | **497,250** |

1 In line with Dutch tax regulations, 21% VAT is payable on the total remuneration payable to the relevant Supervisory Board member. The amounts mentioned are without VAT.
2 Mr. N.W. Hoek stepped down as a member of the Supervisory Board on 30 March 2015.
3 Mr D.M. Sluimers was appointed as a member of the Supervisory Board as from 1 January 2016 in the Extraordinary Meeting of Shareholders on 14 December 2015.

The remuneration of the Supervisory Board members consists of annual fixed fees and committee fees. As at 31 December 2016 and 31 December 2015, no loans, advance payments or guarantees had been provided by the company to Supervisory Board members.

## Depositary receipts

### Common Depositary Receipts

The following tables show the holdings by current and former members of the Statutory Board:

| Number of common depositary receipts (investment from own funds) | 2016 | 2015 |
|---|---|---|
| Mr. Paulus de Wilt | 47,198 | 47,198 |
| Mr. Herman Dijkhuizen | 23,590 | 23,590 |
| Mr. Rob ten Heggeler | 48,826 | 48,826 |
| Ms. Petra van Hoeken, former Chief Risk Officer | 24,638 | 24,638 |
| **Total number of common depositary receipts (investment from own funds)** | **144,252** | **144,252** |

### Conditional Common Depositary Receipts

The following tables show the holdings by members of the Statutory Board:

| Number of conditional common depositary receipts (vested one-off matching shares) | 2016 | 2015 |
|---|---|---|
| Mr. Paulus de Wilt | 21,437 | 9,637 |
| Mr. Herman Dijkhuizen | 10,400 | 4,502 |
| Mr. Rob ten Heggeler | 44,640 | 43,244 |
| Ms. Petra van Hoeken, former Chief Risk Officer | 18,638 | 12,932 |
| **Total number of conditional common depositary receipts (vested one-off matching shares)** | **95,115** | **70,315** |

| Number of conditional common depositary receipts (lti) | 2016 | 2015 |
|---|---|---|
| Mr. Rob ten Heggeler | 9,173 | 9,173 |
| **Total number of conditional common depositary receipts (lti)** | **9,173** | **9,173** |

As of 1 January 2015 the long-term incentive arrangement (40% to 70% of base salary) was revoked by the Supervisory Board and replaced by a short-term variable income component, therefore no new CRDRs were granted under this program.

## Conditional Restricted Depositary Receipts

**Co-investment programme**

As a result of personal investments by the Statutory Board members in 2012 and 2014 matching shares were granted to the Statutory Board members in 2012 and 2014, in the form of CRDRs with an after-tax value equal to the value of the personal investment made.

NIBC has the discretion to offer new members of the Statutory Board the opportunity to participate in this co-investment programme under the same conditions.

This offer was made to and accepted by Mr Dijkhuizen and Mr. de Wilt when they joined the Statutory Board.

The following table shows the holdings by members of the Statutory Board:

| Number of conditional restricted depositary receipts (one-off matching shares) | 2016 | 2015 |
|---|---|---|
| Mr. Paulus de Wilt | 25,761 | 37,561 |
| Mr. Herman Dijkhuizen | 13,190 | 19,088 |
| Mr. Rob ten Heggeler | 4,187 | 5,582 |
| Ms. Petra van Hoeken, former Chief Risk Officer | - | 9,892 |
| **Total number of conditional restricted depositary receipts (one-off matching shares)** | **43,138** | **72,123** |

The matching shares are subject to four-year vesting with one quarter vesting each year on 1 January, but they will immediately vest upon a change of control of NIBC Holding, in which case they (i) will become fully unconditional and (ii) be legally transferred.

## Phantom Share Units

### Phantom Share Units

In 2010, a new equity-linked reward instrument was introduced as part of the *Short-Term Incentive* (**STI**) plan. The short-term compensation in share-related awards consists of *Phantom Share Units* (**PSUs**) and/or *Restricted Phantom Share Units* (**RPSUs**). RPSU awards are subject to a three-year vesting with one third vesting each year on 1 April. The PSUs, whether vested or restricted, held by the members of the Statutory Board are subject to a five-year retention period as measured from the date of vesting. This short-term compensation can be converted into cash immediately after the retention period.

The following table shows the holdings by members of the Statutory Board:

| Number of phantom share units | 2016 | 2015 |
|---|---|---|
| Mr. Paulus de Wilt | 9,597 | 4,471 |
| Mr. Herman Dijkhuizen | 6,409 | 2,885 |
| Mr. Reinout van Riel | 4,711 | - |
| Mr. Rob ten Heggeler | 6,409 | 2,885 |
| Ms. Petra van Hoeken, former Chief Risk Officer | 2,885 | 2,885 |
| **Total number of phantom share units** | **30,010** | **13,126** |

### Restricted Phantom Share Units

The following table shows the holdings by members of the Statutory Board:

| Number of restricted phantom share units | 2016 | 2015 |
|---|---|---|
| Mr. Paulus de Wilt | 6,398 | 2,981 |
| Mr. Herman Dijkhuizen | 4,272 | 1,923 |
| Mr. Reinout van Riel | 3,141 | - |
| Mr. Rob ten Heggeler | 4,272 | 1,923 |
| Ms. Petra van Hoeken, former Chief Risk Officer | - | 1,923 |
| **Total number of restricted phantom share units** | **18,083** | **8,750** |

## 56. Credit risk

This section includes all financial assets subject to credit risk. Non-credit obligations fall under other risk types, such as market risk, and equity is subject to investment risk. Figures may not always add up due to rounding. The following portfolios that contain credit risk have been identified:

- Corporate/Investment Loans;
- Lease receivables;
- Residential Mortgages;
- Debt Investments;
- Cash Management;
- Derivatives.

## 56-1 Credit risk exposure breakdown per portfolio

| in EUR millions | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **Corporate/ investment loans** | 9,904 | 9,392 |
| Corporate loans | 9,658 | 9,232 |
| Investment loans | 246 | 161 |
| **Lease receivables** | 123 | 221 |
| **Residential mortgages** | 8,831 | 8,580 |
| **Equity investments** | 262 | 300 |
| **Debt investments** | 1,232 | 1,296 |
| Debt from financial institutions and corporate entities | 459 | 482 |
| Securitisations | 773 | 814 |
| **Cash management** | 1,371 | 1,382 |
| **Derivatives**[1] | 1,817 | 2,174 |
| **Total** | **23,540** | **23,346** |

1 Positive replacement values

Table 56-1 presents the maximum credit risk exposure per portfolio, without taking collateral or any other credit risk reduction into consideration. For all portfolios except derivatives, this is generally the total commitment of NIBC, which also includes off-balance sheet commitments such as guarantees and undrawn credit lines. Only the positive replacement values for derivatives are shown, without netting and without any potential future exposure add-on.

The figures in table 56-1 are not directly comparable to the figures on the balance sheet. Corporate and investment loans include off-balance sheet exposures and exclude exposures from NIBC Bank to NIBC Holding. Residential mortgages are recognised on the balance sheet under residential mortgages own book and securitised residential mortgages. Debt investments (securitisations) differ from the figure on the balance sheet due to off-balance sheet exposures as disclosed in the Risk Management notes and due to partial offsetting of risk exposure with liabilities to the same counterparties. The main difference in the cash figures is due to collateral posting on credit risk differences for derivatives/repos.

NIBC employs an internally-developed methodology under the Advanced Internal Ratings Based (AIRB) approach for quantifying the credit quality of corporate and bank counterparties. The AIRB methodology for corporate counterparties was approved by NIBC's regulatory authority, the DNB, in 2008. In 2014, NIBC also received approval from the DNB to use the AIRB methodology for bank counterparties.

## Corporate loans

### Corporate loan distribution

The industry sectors shown in tables 56-2 and 56-3 are based on internal NIBC sector organisation. NIBC steers its business on internal sector classification, however it can be mapped to the industry sectors of NACE classification, if necessary. For comparability purposes portfolio breakdown based on NACE codes is also provided in a separate document published on NIBC's website.

Tables 56-2 and 56-3 display a breakdown of the Corporate Loan portfolio among regions and industry sectors, at year-end 2016 and 2015. The Corporate Loan portfolio increased by EUR 427 million in 2016 to EUR 9,658 million mainly due to exposure increase in the industry sectors: *I&M* (**Industries & Manufacturing**), *TMTS* (**Telecom, Media, Technology & Services**) and *FARH* (**Food, Agri, Retail and Health**). The relative weight of NIBC's core growth market the Netherlands increased, also the share of Germany slightly increased and the weight of the United Kingdom slightly decreased. The corporate loan portfolio in the Netherlands increased to 36% of the total exposure at 31 December 2016 (31 December 2015: 32%).

### 56-2 Corporate loan exposure per industry sector and region, 31 December 2016

| In % | Infrastructure & Renewables | Industries & Manufacturing | Shipping & Intermodal | Commercial Real Estate | Telecom, Media, Technology & Services | Oil & Gas Services | Food, Agri, Retail & Health | Total | TOTAL (in EUR millions) |
|---|---|---|---|---|---|---|---|---|---|
| The Netherlands | 2 | 10 | 2 | 10 | 4 | 2 | 7 | 36 | 3,451 |
| Germany | 3 | 4 | 1 | 4 | 6 | - | 4 | 23 | 2,211 |
| United Kingdom | 11 | 1 | 1 | - | 2 | 2 | - | 17 | 1,660 |
| Rest of Europe | 1 | 1 | 5 | - | 1 | 4 | - | 12 | 1,168 |
| Asia/Pacific | - | - | 2 | - | - | 2 | - | 4 | 387 |
| North America | - | - | 3 | - | - | 2 | - | 5 | 511 |
| Other | - | - | 1 | - | - | 1 | 1 | 3 | 270 |
| **Total** | **17** | **16** | **16** | **15** | **13** | **13** | **12** | **100** | **9,658** |
| **TOTAL (in EUR millions)[1]** | **1,618** | **1,514** | **1,512** | **1,375** | **1,257** | **1,233** | **1,149** | | **9,658** |

1 The market value of collateral related to NIBC's Corporate Loan portfolio amounts to EUR 7.4 billion (net realizable value after haircuts of EUR 6.6 billion).

## 56-3 Corporate loan exposure per industry sector and region, 31 December 2015

| In % | Infrastructure & Renewables | Industries & Manufacturing | Shipping & Intermodal | Commercial Real Estate | Telecom, Media, Technology & Services | Oil & Gas Services | Food, Agri, Retail & Health | Total | TOTAL (in EUR millions) |
|---|---|---|---|---|---|---|---|---|---|
| The Netherlands | 3 | 8 | 2 | 9 | 3 | 2 | 5 | 32 | 2,946 |
| Germany | 4 | 4 | 1 | 5 | 4 | - | 4 | 22 | 2,007 |
| United Kingdom | 13 | - | 1 | - | 1 | 2 | - | 18 | 1,679 |
| Rest of Europe | 2 | 1 | 4 | - | 2 | 4 | - | 13 | 1,218 |
| Asia / Pacific | - | - | 3 | - | - | 3 | - | 7 | 634 |
| North America | - | - | 3 | - | - | 2 | - | 5 | 475 |
| Other | - | - | 1 | - | - | 1 | 1 | 3 | 272 |
| **Total** | **22** | **14** | **17** | **14** | **10** | **14** | **10** | **100** | **9,232** |
| **TOTAL (in EUR millions)** | **1,990** | **1,266** | **1,537** | **1,293** | **968** | **1,282** | **896** | | **9,232** |

**CRR/CRD IV and credit approval process**

NIBC employs an internally-developed methodology under *Advanced Internal Ratings Based* (**AIRB**) approach for quantifying the credit quality of its Corporate Loan portfolio. In line with CRR/CRD IV regulations, the methodology consists of three elements:

- CCR, reflecting the PD of the borrower. The default definition is in line with the CRR/CRD IV definition[1]
- LGD, defined as an anticipated loss element that expresses the potential loss in the event of default, which takes into account the presence and the value of collateral; and
- EAD, which is the amount that is expected to be outstanding at the moment a counterparty defaults.

The PDs, LGDs and EADs that are calculated through NIBC's internal models are used for the calculation of expected loss (EL) and CRR/CRD IV/Pillar 1 *regulatory capital* (**RC**). Economic capital (EC), risk-adjusted return on capital (RAROC), limit setting and stress testing are additional areas which make use of these parameters, although the values and methodologies for both EC and stress testing differ from those employed in Pillar 1. PDs, LGDs and EADs are also used in the CRR/CRD IV solvency report to the regulator.

Annual backtests of the internal rating framework are carried out to assess the quality and the performance of the models. The internal CCRs and LGDs are also benchmarked periodically with the scales of external rating agencies.

NIBC enforces strict separation of responsibilities with respect to its internal rating methodologies and rating process, model development, model validation and internal audit. The roles and responsibilities of each department involved are explicitly set out in internal policies and manuals, also in conformity with the stipulations of CRR/CRD IV on model governance.

1 According to the CRR/CRD IV definition, a default is determined at the borrower level. A default is indicated by using a 9 or 10 rating in NIBC's internal rating scale. A default is considered to have occurred with respect to a particular obligor when either or both of the two following events have taken place: i) the bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realising security (if held); ii) the obligor is past due more than 90 days on any material credit obligation to the banking group.

All approvals of individual credit proposals are granted after risk management has made a credit risk assessment and has analysed proposals by taking into consideration, among others, aggregate limits set per country, per industry segment, and per individual counterparty. The total one obligor exposure and related exposure are also taken into account. Individual credit and transaction proposals are then approved in the *Transaction Committee* (**TC**). Proposals, credit reviews and amendments of smaller scale can be approved outside the TC by risk management. All counterparties and, subsequently, all facilities, are reviewed at least once a year.

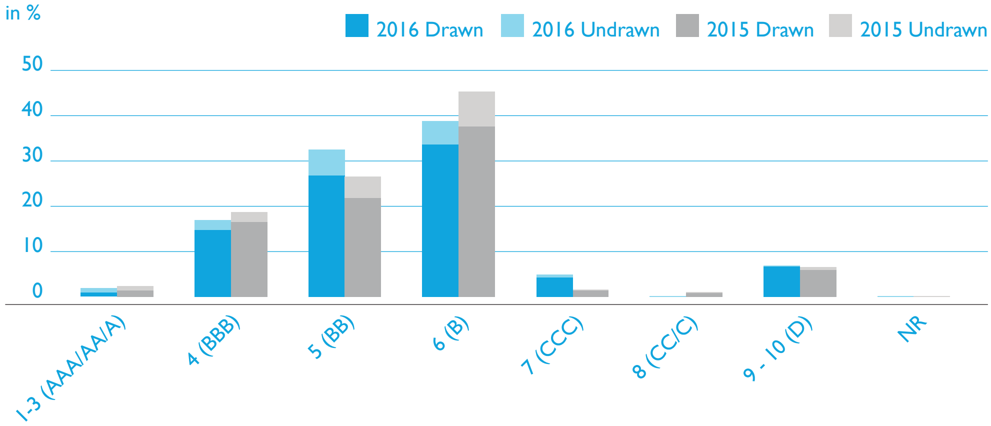
**Credit ratings**

NIBC uses an internal through-the-cycle CCR rating scale which consists of 10 grades (1-10) and a total of 22 notches. The CCRs 9 and 10 are assigned to counterparties that have already defaulted and therefore carry a PD of 100%.

The weighted average CCR of the non-defaulted clients remained stable during 2016 to 6+ with an average PD of 2.3% at 31 December 2016 (31 December 2015: 2.3%). The credit quality in terms of CCRs remained concentrated in the sub-investment grade categories 5 and 6 (BB and B categories in external rating agencies' scales).

Graph 56-4 shows the distribution of the drawn and undrawn corporate loan exposure per CCR. The numbers on the horizontal axis refer to NIBC's internal rating scale, whereas the letters in parentheses refer to the equivalent rating scale of Standard & Poor's. NR stands for not rateable, which was a negligible portion of the corporate loans (0.1% at 31 December 2016; 0.2% at 31 December 2015). NR is assigned to entities for which NIBC's corporate rating tools were not suitable at the time of rating.

## 56-4 Drawn and undrawn corporate loan exposure per CCR Rating

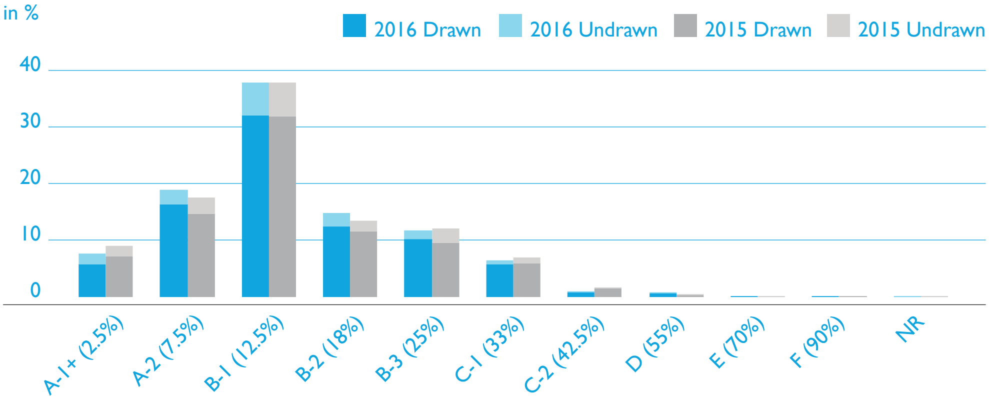



**Collateral and LGD**

NIBC's internal LGD scale consists of 7 grades (A-F) and 10 notches, each of which represents a different degree of recovery prospects and loss expectations. LGD ratings are facility-specific. The weighted average LGD improved to B-1 grade with an average LGD of 15.1% at 31 December 2016 (31 December 2015: 15.4%). The weighted average is calculated for non-defaulted loans. Nearly all facilities within NIBC have some form of collateralisation, resulting in LGDs concentrated in those LGD categories which correspond to high recoveries in the range of 80% and 90%.

Graph 56-5 shows the distribution of drawn and undrawn corporate loan exposures per LGD. The letters on the horizontal axis refer to NIBC's LGD grades and notches, whereas the numbers in parentheses refer to the loss percentage assigned to each LGD rating. NR was negligible (0.1% of corporate loans at 31 December 2016; 0.2% at 31 December 2015).

### 56-5 Drawn and undrawn non-defaulted corporate loan exposure per LGD rating




Note that the corporate loan exposure of graph 56-5 refers to non-defaulted exposure as the LGD is a measure of anticipated loss for facilities of a non-defaulted counterparty. Once counterparty enters default, the impairment amount becomes a more meaningful measure of the loss.

The most significant types of collateral securing the loan and derivative portfolios are tangible assets, such as real estate, vessels, rigs and equipment. Exposures in the shipping and oil & gas sectors are primarily secured by moveable assets such as vessels and drilling vessels. The commercial real estate portfolio is primarily collateralised by mortgages on financed properties. Collateral value is estimated using third-party appraisers, whenever possible, or valuation techniques based on common market practice. 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 exposure increased to 1% at 31 December 2016 (31 December 2015: 0.74%). An overview of the amounts in arrear per arrear bucket is provided in tables 56-6 and 56-7. The exposure amounts refer to drawn and undrawn amounts of those facilities with an arrear, whereas the outstanding amounts refer to the drawn amounts only. The amounts in arrear are the actual amounts overdue at 31 December 2016 and 31 December 2015. The column labelled 'Impairment Amount' includes on-balance sheet impairment amounts only (31 December 2016: EUR 181 million; 31 December 2015: EUR 161 million). The inclusion of *Incurred but not Reported* (**IBNR**) impairment amounts on the line with no payment in arrear brings the total impairment amount for 31 December 2016 to EUR 192 million (31 December 2015: EUR 170 million). Tables 56-11 and 56-12 provide more information on impairment amounts.

## 56-6 Corporate loan amounts in arrear, 31 December 2016

| | Exposure | | Outstanding | | Amount in arrear[1] | | |
|---|---|---|---|---|---|---|---|
| in EUR millions | Total | % of Exposure | Total | % of On-Balance | Total | % of On-Balance | Impairment Amount |
| **Age of payment in arrear** | | | | | | | |
| 1- 5 days | 44 | 0.5% | 43 | 0.5% | 18 | 0.2% | - |
| 6 - 30 days | 33 | 0.3% | 33 | 0.4% | - | 0.0% | - |
| 31 - 60 days | - | 0.0% | - | 0.0% | - | 0.0% | - |
| 61 - 90 days | 6 | 0.1% | 6 | 0.1% | - | 0.0% | - |
| **Subtotal less than 90 days** | **83** | **0.9%** | **82** | **1.0%** | **18** | **0.2%** | **-** |
| Over 90 days | 191 | 2.0% | 158 | 1.9% | 65 | 0.8% | 48 |
| No payment in arrear | 9,384 | 97.2% | 8,050 | 97.1% | - | 0.0% | 143 |
| **Total** | **9,658** | **100%** | **8,291** | **100%** | **83** | **1.0%** | **192** |

1 Of the total arrears of EUR 83 million, an amount of EUR 18 million is not impaired (EUR 17 million in the '1-5 days' bucket and EUR 1 million in the 'Over 90 days' bucket).

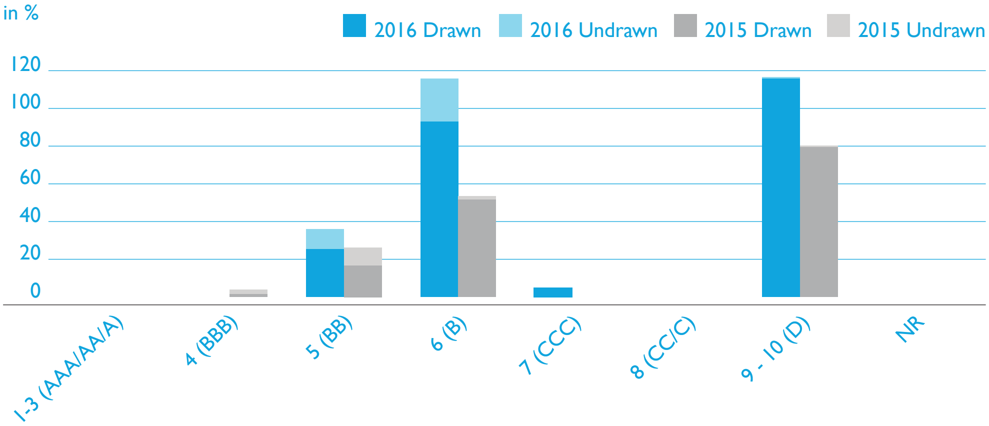
## 56-7 Corporate loan amounts in arrear, 31 December 2015

| | Exposure | | Outstanding | | Amount in arrear | | |
|---|---|---|---|---|---|---|---|
| in EUR millions | Total | % of Exposure | Total | % of On-Balance | Total | % of On-Balance | Impairment Amount |
| **Age of payment in arrear** | | | | | | | |
| 1- 5 days | 47 | 0.5% | 35 | 0.4% | 7 | 0.1% | 3 |
| 6 - 30 days | - | - | - | - | - | - | - |
| 31 - 60 days | 56 | 0.6% | 55 | 0.7% | 12 | 0.2% | 7 |
| 61 - 90 days | - | - | - | - | - | - | - |
| **Subtotal less than 90 days** | **103** | **1.1%** | **90** | **1.2%** | **20** | **0.3%** | **10** |
| Over 90 days | 61 | 0.7% | 61 | 0.8% | 38 | 0.5% | 32 |
| No payment in arrear | 9,068 | 98.2% | 7,601 | 98.1% | - | 0.0% | 128 |
| **Total** | **9,232** | **100%** | **7,751** | **100%** | **57** | **0.7%** | **170** |

NIBC applies a threshold for determining whether a loan carries a non-material arrear. If the total arrear on facility level is lower than EUR 25,000 per facility, the age of the payment in arrear is below 30 days and the counterparty has not defaulted, then the arrear is considered insignificant. If arrears fall within the threshold, the exposure is placed on the 'no payment in arrear' line on tables 56-6 and 56-7. The application of this threshold does not influence the total arrears, which amounted to EUR 83 million at 31 December 2016 (31 December 2015: EUR 57 million).

Graph 56-8 displays the rating distribution of the exposure amounts (expressed as the sum of drawn and undrawn amounts) of all loans with an amount in arrears. The total exposure amount at 31 December 2016 was EUR 274 million (31 December 2015: EUR 164 million) and the total drawn amount at 31 December 2016 was EUR 240 million (31 December 2015: EUR 151 million).

## 56-8 Distribution of drawn and undrawn amounts with an arrear per rating category




**Forbearance and non-performing Corporate Loans**

NIBC considers a client to be forborne if:

1. NIBC considers the obligor to be in financial difficulties, 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).

Tables 56-9 and 56-10 provide the total forborne outstanding in NIBC's Corporate Loan portfolio per industry sector and per region as at 31 December 2016. 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 2016, EUR 76 million non-performing outstanding was not forborne. Comparable figures for 2015 can be seen in Tables 56-11 and 56-12.

Impairments of forborne facilities (excluding IBNR) amounted to EUR 157 million at 31 December 2016, which represented 16% of the total forborne balances. The total impairments of the Corporate Loan portfolio amounted to EUR 175 million at 31 December 2016, which represented 1.8% of the total Corporate Loan portfolio of EUR 9.7 billion.

## Table 56-9 Forborne exposure per industry sector, 31 December 2016

| in EUR millions | Exposure Non-performing | Exposure Performing | Total Exposure | Impairment Amount |
|---|---|---|---|---|
| Infrastructure & Renewables | 51 | 32 | 83 | 14 |
| Industries & Manufacturing | 15 | 2 | 17 | 8 |
| Shipping & Intermodal | 56 | 203 | 259 | 28 |
| Commercial Real Estate | 362 | - | 362 | 76 |
| Telecom, Media, Technology & Services | - | 45 | 45 | - |
| Oil & Gas Services | 66 | 136 | 202 | 28 |
| Food, Agri, Retail & Health | 7 | - | 7 | 4 |
| IBNR Corporate Loans | | | | 17 |
| **Total** | **557** | **418** | **976** | **174** |

## Table 56-10 Forborne exposure per region, 31 December 2016

| in EUR millions | Exposure Non-performing | Exposure Performing | Total Exposure | Impairment Amount |
|---|---|---|---|---|
| The Netherlands | 25 | 105 | 129 | 15 |
| Germany | 410 | 29 | 439 | 86 |
| United Kingdom | 33 | 77 | 110 | 25 |
| Rest of Europe | 16 | 126 | 142 | 3 |
| Asia / Pacific | 47 | 10 | 57 | 27 |
| North America | - | 72 | 72 | - |
| Other | 26 | - | 26 | - |
| IBNR Corporate Loans | | | | 17 |
| **Total** | **557** | **418** | **976** | **174** |

## Table 56-11 Forborne exposure per industry sector, 31 December 2015

| in EUR millions | Exposure Non-performing | Exposure Performing | Total Exposure | Impairment Amount |
|---|---|---|---|---|
| Infrastructure & Renewables | 52 | 36 | 87 | 14 |
| Industries & Manufacturing | 38 | 17 | 55 | 12 |
| Shipping & Intermodal | 36 | - | 36 | 2 |
| Commercial Real Estate | 381 | - | 381 | 89 |
| Telecom, Media, Technology & Services | 32 | 56 | 88 | 14 |
| Oil & Gas Services | 49 | 54 | 102 | 23 |
| Food, Agri, Retail & Health | 11 | 6 | 18 | 7 |
| IBNR Corporate Loans | | | | 9 |
| **Total** | **599** | **169** | **768** | **169** |

## Table 56-12 Forborne exposure per region, 31 December 2015

| in EUR millions | Exposure Non-performing | Exposure Performing | Total Exposure | Impairment Amount |
|---|---|---|---|---|
| The Netherlands | 40 | 87 | 127 | 23 |
| Germany | 451 | 40 | 491 | 104 |
| United Kingdom | 35 | - | 35 | 19 |
| Rest of Europe | 31 | - | 31 | 8 |
| Asia / Pacific | 43 | 15 | 58 | 6 |
| North America | - | - | - | - |
| Other | - | 27 | 27 | - |
| IBNR Corporate Loans | | | | 9 |
| **Total** | **599** | **169** | **768** | **169** |

### Impairment amounts

The Corporate Loan portfolio is reviewed by credit officers and risk management who monitor the quality of counterparties and the related collateral. Formal assessment of the entire portfolio takes place on a quarterly basis. All existing impairments are also reviewed. NIBC calculates an impairment amount by taking various factors into account, particularly the available collateral securing the loan and the corporate derivative exposure, if present. The loss amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If collateral is present, then the present value of the future cash flows reflects the foreclosure of collateral. More information on the method impairments are calculated is included in the Accounting Policies section.

NIBC determines a default at counterparty level, whereas an impairment amount is taken at facility level. When a default occurs, the entire exposure and outstanding amount of the borrower are classified as defaulted. If, however, an impairment amount is taken on a facility, only the exposure amount of that particular facility is classified as impaired.

In 2016, the total write-offs (EUR 30 million) decreased compared to 2015 (EUR 51 million), mainly in the industry & manufacturing and shipping sectors. The stock of impairments increased and amounted to EUR 192 million at year-end 2016 (year-end 2015: EUR 170 million).

Tables 56-13 and 56-14 display an overview of the impairments at 31 December 2016 and 31 December 2015, subdivided in industry sectors and regions, respectively. The column labelled 'Exposure' includes both drawn and undrawn amounts.

## 56-13 Impairment per industry sector

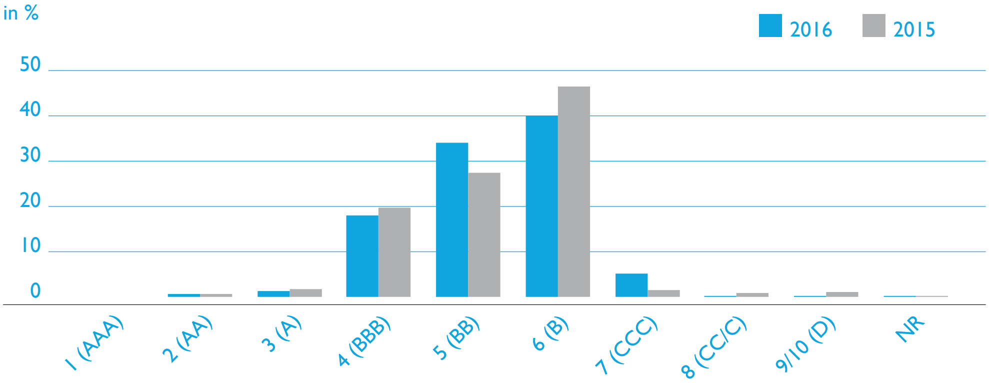
| | 31 December 2016 | | | | 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| in EUR millions | Exposure | Impaired Exposure | Impairment Amount | Write-offs | Exposure | Impaired Exposure | Impairment Amount | Write-offs |
| Infrastructure & Renewables | 1,618 | 52 | 15 | - | 1,990 | 45 | 14 | - |
| Industries & Manufacturing | 1,514 | 28 | 15 | 10 | 1,266 | 30 | 12 | 17 |
| Shipping & Intermodal | 1,512 | 58 | 28 | - | 1,537 | 10 | 2 | 33 |
| Commercial Real Estate | 1,375 | 363 | 77 | 8 | 1,293 | 336 | 90 | - |
| Telecom, Media, Technology & Services | 1,257 | 9 | 6 | 7 | 968 | 23 | 14 | - |
| Oil & Gas Services | 1,233 | 87 | 31 | - | 1,282 | 49 | 23 | - |
| Food, Agri, Retail & Health | 1,149 | 7 | 4 | 4 | 896 | 11 | 7 | - |
| IBNR Corporate Loans | | | 17 | | | | 9 | |
| **Total** | **9,658** | **604** | **192** | **30** | **9,232** | **503** | **170** | **51** |

## 56-14 Impairment per region

| | 31 December 2016 | | | | 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| in EUR millions | Exposure | Impaired Exposure | Impairment Amount | Write-offs | Exposure | Impaired Exposure | Impairment Amount | Write-offs |
| The Netherlands | 3,451 | 37 | 21 | 8 | 2,946 | 33 | 24 | 17 |
| Germany | 2,211 | 421 | 94 | 14 | 2,007 | 398 | 105 | - |
| United Kingdom | 1,660 | 63 | 27 | - | 1,679 | 27 | 19 | - |
| Rest of Europe | 1,168 | 17 | 4 | 7 | 1,218 | 14 | 8 | 21 |
| Asia / Pacific | 387 | 47 | 27 | - | 634 | 31 | 6 | - |
| North America | 511 | 19 | 2 | - | 475 | - | - | 13 |
| Other | 270 | - | - | - | 272 | - | - | - |
| IBNR Corporate Loans | | | 17 | | | | 9 | |
| **Total** | **9,658** | **604** | **192** | **30** | **9,232** | **503** | **170** | **51** |

**Corporate loans without impairments or arrears**
At 31 December 2016, the size of the corporate loan exposure carrying neither impairments nor arrears equalled EUR 8,900 million or 92% of the total Corporate Loan portfolio (31 December 2015: EUR 8,613 million or 93%). Graph 56-15 displays the distribution of exposure amounts without impairments or arrears, at 31 December 2016 and 31 December 2015. Of this exposure 92% 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 2016: 0.1% of all loans without impairments or amounts in arrear; 31 December 2015: 0.2%).

### 56-15 Distribution of exposure amount without impairments or arrears per rating category




**Country risk**
Country risk is the likelihood that a country will not service its external debt obligations and reflects the risk that a country will not honour its external liabilities due to political, social, economic or financial turmoil. 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 2016.

## Investment loans
Investment loans are originated and monitored separately from the Corporate Loan portfolio. Investment loans are typically unsecured subordinated loans that contain equity characteristics such as attached warrants or conversion features. As such, investment loans typically carry a higher risk profile than corporate loans. Examples of these loans include mezzanine loans, convertible loans and shareholder loans.

The investment loan can be divided into indirect investments and direct investments. Indirect investments are investments made through *funds* (**NIBC Funds**). Direct investments are all other investments.

Direct investments are approved by the *Investment Committee* (**IC**) of NIBC. Indirect investments are approved by the investment committees of the NIBC Funds, subject to the investment guidelines stipulated in the fund agreements between the manager of the NIBC Fund and the investors.

Investment officers monitor the quality of counterparties in the portfolio on a regular basis. On a quarterly basis, the entire Investment Loan portfolio is assessed for impairment. All existing impairments are reviewed. Impairments of indirect investments are determined by the manager of the NIBC Fund. All impairments are reviewed and approved by the IC.

The total size of investment loans at 31 December 2016 was EUR 246 million (31 December 2015: EUR 161 million), of which 91% had been drawn (31 December 2015: 89%). In line with the characteristics of the asset class, investment loans typically carry riskier internal CCRs and often a higher LGD than corporate loans. At 31 December 2016, the weighted average counterparty credit rating of non-defaulted investment loans remained stable at an internal rating 6 (31 December 2015: 6) on NIBC's internal rating scale (equivalent to B on external rating agencies' scales).

Tables 56-16 and 56-17 display a breakdown of investment loans per region and industry sector at 31 December 2016 and 31 December 2015.

### 56-16 Breakdown of investment loans per region

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| in EUR millions | Exposure | % | Exposure | % |
| The Netherlands | 243 | 99% | 143 | 89% |
| United Kingdom | 3 | 1% | 8 | 5% |
| Rest of Europe | - | - | - | - |
| North America | - | - | 9 | 6% |
| **Total** | **246** | **100%** | **161** | **100%** |

### 56-17 Breakdown of investment loans per industry sector

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| in EUR millions | Exposure | % | Exposure | % |
| Infrastructure & Renewables | 19 | 8% | 4 | 2% |
| Industries & Manufacturing | 6 | 3% | 17 | 11% |
| Shipping & Intermodal | - | - | - | - |
| Commercial Real Estate | 20 | 8% | - | - |
| Telecom, Media, Technology & Services | 69 | 28% | 82 | 51% |
| Oil & Gas Services | 16 | 7% | 16 | 10% |
| Food, Agri, Retail & Health | 116 | 47% | 42 | 26% |
| **Total** | **246** | **100%** | **161** | **100%** |

#### Arrears

The amounts in arrear as a percentage of exposure at year-end 2016 remained at 0% for the investment loans, the same as at year-end 2015.

## 56-18 Investment loan amounts in arrear, 31 December 2016

| | Exposure | | Outstanding | | Amount in arrear | | |
|---|---|---|---|---|---|---|---|
| in EUR millions | Total | % of Exposure | Total | % of On-Balance | Total | % of On-Balance | Impairment Amount |
| Age of payment in arrear | | | | | | | |
| 1 - 5 days | 9 | 3.7% | 6 | 3% | 5 | - | - |
| > 90 days | 6 | 2.5% | 6 | 3% | 6 | - | 6 |
| no payment arrear | 230 | 93.7% | 210 | 94% | - | - | 6 |
| Total | 246 | 100% | 222 | 100% | 12 | - | 13 |

## 56-19 Investment loan amounts in arrear, 31 December 2015

| | Exposure | | Outstanding | | Amount in arrear | | |
|---|---|---|---|---|---|---|---|
| in EUR millions | Total | % of Exposure | Total | % of On-Balance | Total | % of On-Balance | Impairment Amount |
| Age of payment in arrear | | | | | | | |
| 6 - 30 days | 20 | 12.3% | 18 | 13% | - | - | - |
| No payment in arrear | 141 | 87.7% | 125 | 87% | - | - | 1 |
| Total | 161 | 100% | 142 | 100% | - | - | 1 |

**Impairment amounts**

At 31 December 2016, impairments on investment loans increased to EUR 13 million due to one retail exposure (31 December 2015: EUR 1 million). Table 56-20 shows the breakdown of impairments and write-offs in industry sectors at 31 December 2016 and 31 December 2015. The column labelled 'Exposure' includes both drawn and undrawn amounts, and the column labelled 'Impairment Amount' refers to drawn amounts of impaired facilities. In 2016, no write-offs occurred on investment loans.

## 56-20 Impairment per industry sector

| | 31 December 2016 | | | | 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| in EUR millions | Exposure | Impaired Exposure | Impairment Amount | Write-offs | Exposure | Impaired Exposure | Impairment Amount | Write-offs |
| Infrastructure & Renewables | 19 | - | - | - | 4 | - | - | - |
| Industries & Manufacturing | 6 | - | - | - | 17 | - | - | - |
| Shipping & Intermodal | - | - | - | - | - | - | - | - |
| Commercial Real Estate | 20 | - | - | - | - | - | - | - |
| Telecom, Media, Technology & Services | 69 | 3 | - | - | 82 | 4 | 1 | - |
| Oil & Gas Services | 16 | - | - | - | 16 | - | - | - |
| Food, Agri, Retail & Health | 116 | 22 | 12 | - | 42 | - | - | - |
| Total | 246 | 25 | 13 | - | 161 | 4 | 1 | - |

At 31 December 2016, the investment loans that carried neither impairments nor past-due amounts equalled EUR 221 million or 90% of total (31 December 2015: EUR 157 million or 97% of total).

## Lease receivables

In 2014, NIBC obtained a leasing portfolio as a result of the acquisition of Gallinat-Bank AG in Germany. This is a static portfolio and strict criteria were in place to determine the eligibility of lease contracts for this programme. These were entered into with German lessees to finance moveable objects such as trucks and trailers. The contracts are to commercial clients in the German SME market and consist of hire purchase contracts, partially amortising and fully amortising lease contracts. The servicing of this portfolio remains with the leasing company. The portfolio is financed by NIBC via a ring-fenced structure benefiting from different layers of credit enhancement. At the end of December 2016, the leasing portfolio decreased from EUR 221 million to EUR 123 million.

## Residential mortgages

The composition of the Residential Mortgage portfolio at year-end 2016 and at year-end 2015 is displayed in Table 56-21.

### 56-21 Breakdown of Residential Mortgage portfolio

| in EUR millions | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Dutch Own Book portfolio | 7,215 | 6,227 |
| Dutch Securitised portfolio | 1,532 | 2,236 |
| German Own Book portfolio | 84 | 117 |
| **Total**[1] | **8,831** | **8,580** |

1 The collateral value related to NIBC's Residential Mortgages amounts to EUR 11.9 billion (EUR 9.4 billion (Own book) and EUR 2.5 billion (Securitised)).

### Dutch Residential Mortgage portfolio

The Dutch Residential Mortgage portfolio largely consists of owner occupied mortgages. These contain NIBC Direct loans originated by business partners since 2013, as well as white label mortgage loans that were also originated by business partners till 2009. Buy-to-let (NIBC Vastgoed Hypotheek) mortgages for investors were started in January 2015 and continued to show strong growth in 2016. This niche currently comprises approximately 4% of the total mortgage portfolio. Servicing and administration of the mortgage portfolio is outsourced to a third-party servicer. Acceptance and special servicing is performed in-house.

At 31 December 2016, 33% of the Residential Mortgage portfolio (31 December 2015: 37%) 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 Residential Mortgage portfolio has been securitised to obtain funding. In most cases, NIBC has retained the junior notes and other positions related to these securitisation programmes. As a result the securitisation programmes are consolidated on NIBC's balance sheet. The total amount of the retained positions at 31 December 2016 was EUR 135 million (31 December 2015: EUR 184 million).

### Risk governance Dutch Residential Mortgages

In order to control the credit risk in the origination of residential mortgages, an acceptance policy framework was formulated to screen residential mortgage applications. Acceptance depends on the following underwriting criteria:

- Conformity with the Code of Conduct on Mortgage Credits of the Dutch Bankers Association where applicable;
- A check of an applicant's credit history with the Dutch National Credit Register (*Bureau Krediet Registratie* or **BKR**), a central credit agency used by financial institutions in the Netherlands, which records five years of financial commitments and negative credit events;
- Mortgage loans are secured by first-ranking mortgage rights;
- Other criteria, such as type of property, maximum *Loan-To-Market Value* (**LTMV**), maximum *Loan-to-Income* (**LTI**) and minimum Debt Service Coverage Ratio (DSCR); and
- Underwriting criteria for mortgages with an NHG guarantee are set in accordance with the general terms and conditions set by the WEW. The WEW finances itself by a one-off up-front charge to the borrower as a percentage of the principal amount of the mortgage loan. The NHG guarantee covers losses on the outstanding principal, accrued unpaid interest, and disposal costs, caused by foreclosure.

Since 2013, major amendments in legislation have taken place. In 2016, the following amendments were implemented as well:
- Maximum NHG guaranteed loan amount stayed at EUR 245 thousand.
- Maximum Loan-to-Value decreased to 102% in 2016 for owner occupied mortgages. For buy-to-let mortgages, maximum LTMV is currently 70% (not regulated by law)

**Management of loans in arrears Dutch Residential Mortgages**
In order to control the credit risk in the Dutch Residential Mortgage 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 is investigating to introduce a programme under which customers who may face potential financial difficulties are approached pro-actively with the intention of identifying and resolving difficulties before actual arrears arise.

Table 56-22 shows the arrears overview of the total Dutch Residential Mortgage portfolio at 31 December 2016 and 31 December 2015. Overall, the amount of loans in arrear decreased compared to year-end 2015.

## 56-22 Arrears overview, Dutch Residential Mortgage portfolio

| In % | 31 December 2016 | 31 December 2015 |
|---|---|---|
| No payment in arrear | 97.6 | 97.5 |
| 0-30 days | 1.2 | 1.2 |
| 31-60 days | 0.4 | 0.5 |
| 61-90 days | 0.2 | 0.2 |
| Over 90 days | 0.6 | 0.7 |
| **Total** [1] | **100** | **100** |
| **Total (in eur million)** | **8,747** | **8,463** |

1 Of the total arrears of EUR 100 million, an amount of EUR 98.5 million is not impaired.

### Forbearance Dutch Residential Mortgages

NIBC has developed a forbearance policy for mortgage clients experiencing financial difficulties and who consequently are unable to meet the original terms and conditions of the contract. The forbearance policy is defined, formalized and implemented in the standard working routines and processes and is similar to the policy applied for the corporate loan portfolio.

NIBC has been providing a forbearance program to its mortgagers who are experiencing financial difficulties since May 2013. The Client Retention team of the Special Servicing department has the responsibility of assessing the nature and the expected duration of a client's financial distress, and will determine necessity of providing forbearance measures to that client and the conditions that should apply. The team considers forbearance solutions for clients who do not fully meet their financial obligations to NIBC. Forbearance solutions are also submitted to the Arrears Management Committee for further approval. At 31 December 2015, EUR 27 million was forborne of which EUR 21 million was performing and EUR 6 million non-performing. At 31 December 2016, EUR 38 million was reported as forborne of which EUR 23 million was performing and EUR 15 million non-performing.

### Risk measurement Dutch Residential Mortgages

NIBC's rating methodology for residential mortgages 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[2].

The PD estimates are dependent on a variety of factors, of which the key factors are debt-to-income and loan-to-value ratios. Minor factors that play a role in the PD estimates are several other mortgage loan characteristics, borrower characteristics and payment performance information. The PD scale is based on a continuous scale ranging from 0-100%.

The LGD estimates are based on a downturn scenario comparable to the downturn in the Dutch mortgage market in the 1980s. In this case, the indexed collateral value is stressed in order to simulate the proceeds of a sale or foreclosure of the collateral. The stress is dependent on the location and the absolute value of the collateral. Together with cost and time-to-foreclosure assumptions, an LGD is derived. The LGD estimate also takes into account whether a mortgage loan has an NHG guarantee, in which case the LGD estimate will be lower in comparison to a mortgage loan without the NHG guarantee. The LGD estimate is also based on a continuous scale.

2 For buy-to-let mortgages, Basel standardized approach for credit risk is used

The validation of these estimates is performed on historical data and is carried out annually. For the PD and LGD, the estimates are back tested against realised defaults and realised losses. In this way, it is ensured that the model functions correctly in a changing economic environment. Moreover, NIBC is closely following recent regulatory proposals regarding to adjust capital requirements under standardized approach and introducing capital floors.

Table 56-23 shows the PD distribution of the Dutch Residential Mortgage portfolio at 31 December 2016 and 31 December 2015. A PD of 100% means that a borrower is close to or more than 90 days in arrears.

## 56-23 PD allocation of Dutch residential mortgages

| | Own book Dutch mortgages[1] | | Securitised Dutch mortgages | |
|---|---|---|---|---|
| In % | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 |
| **Probability of default** | | | | |
| <= 1% | 97.5 | 97.1 | 95.3 | 95.8 |
| 1%> <=2% | 0.4 | 0.6 | 0.3 | 0.3 |
| 2%> <=5% | 1.3 | 0.2 | 2.4 | 0.3 |
| 5%> <100% | 0.7 | 1.3 | 1.7 | 2.1 |
| 100% | 0.2 | 0.8 | 0.3 | 1.5 |
| **Total (%)** | **100** | **100** | **100** | **100** |

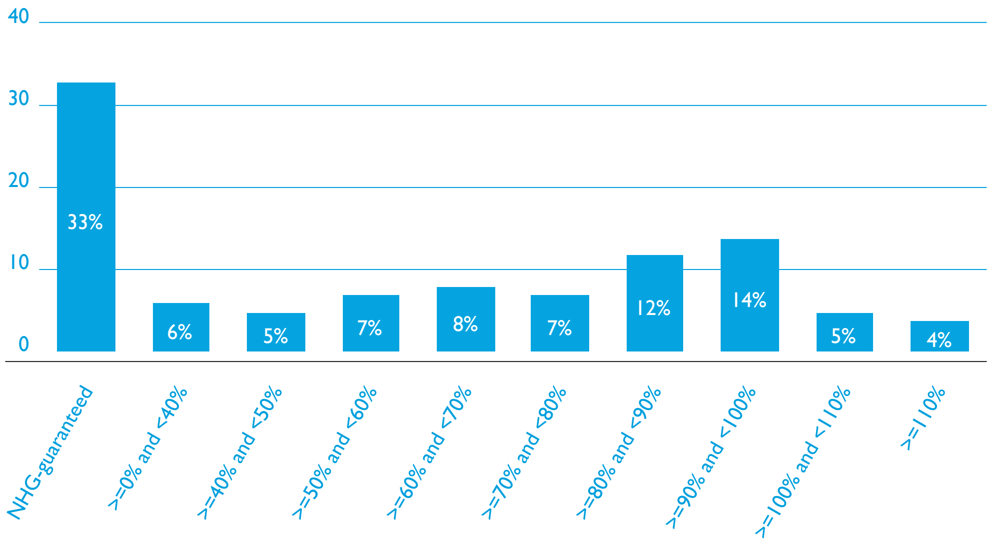
1 Excluding buy-to-let mortgages

**Risk mitigation and collateral management Dutch Residential Mortgages**
Credit losses are mitigated in a number of ways:
- The underlying property is pledged as collateral;
- 40% of the Dutch Own Book portfolio and 2% of the Securitised portfolio are covered by the NHG programme; and
- For the part of the Dutch portfolio that has been securitised, credit losses higher than the retained positions, excess spread and reserve accounts are attributable to investors in the securitisation programmes.

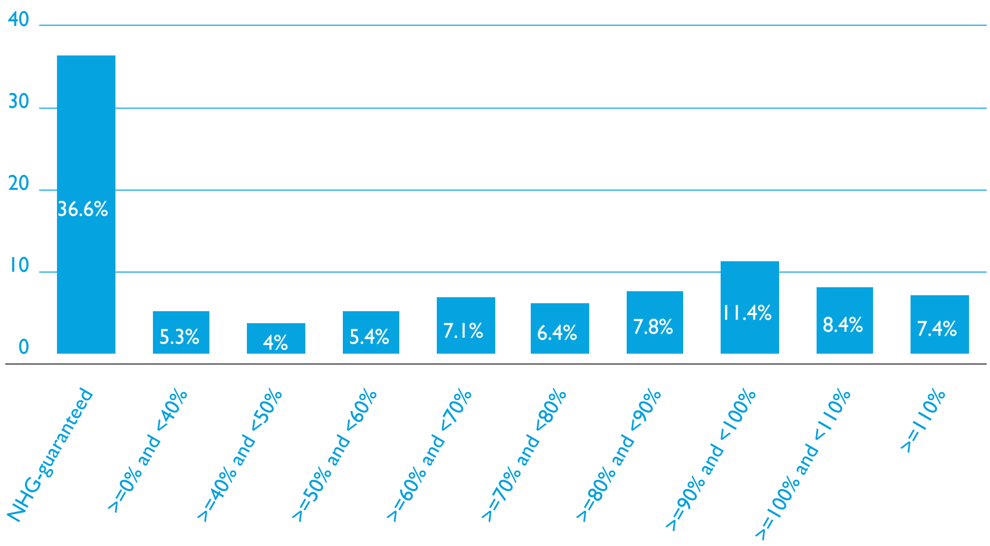
For the portfolio not covered by the NHG programme, the underlying property is the primary collateral for any mortgage loan granted, though savings, life insurance and investment deposits may also serve as additional collateral.

An indicator for potential losses, taking into account indexation of house prices and seasoning, is the *Loan-to-Indexed-Market-Value* (**LTIMV**). The indexation is made by using the CBS/Kadaster index, which is based on market observables. The Kadaster (national property register) is a public government register of real estate and their vested rights (e.g. ownership and mortgages). This register contains transaction data as well as CBS (Statistics Netherlands) data, which are used to construct a pricing index. Graphs 55-22 and 55-23 show a breakdown of the LTIMV for the total Dutch Residential Mortgage portfolio at 31 December 2016 and 31 December 2015. The average seasoning of the total portfolio is approximately 10 years. The increase in the NHG guaranteed category is due to new origination of NIBC Direct mortgages. 9% of the total portfolio has an LTIMV above 100%. For the remainder of the portfolio, the indexed collateral value is less than or equal to the nominal loan balance outstanding or is a NHG mortgage.

**56-24 LTIMV of Dutch Residential Mortgage portfolio (EUR 8,747 million), 31 December 2016**




**56-25 LTIMV of Dutch Residential Mortgage portfolio (EUR 8,463 million), 31 December 2015**




**German Residential Mortgage portfolio**

The German Residential Mortgage portfolio amounted to EUR 84 million at 31 December 2016 (31 December 2015: EUR 117 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.

The German Residential Mortgage portfolio was designated in 2011 as a legacy portfolio; therefore no new origination has taken place since 2011. In order to manage the credit risk of the German Residential Mortgage portfolio, NIBC has standardised procedures to manage all loan amounts in arrears which is outsourced to NIBC Deutschland AG. The arrear process starts directly by means of countered direct debits, i.e. when a direct withdrawal from the borrower's account fails. The Arrears Management team contacts the customer and claims the outstanding amount in letters sent every two weeks. If the standard dunning procedure is ineffective and no contact can be established with the client, individual reminders will follow to get insight into the reason for being in arrears. In case of private insolvency or payment in arrear beyond 90 days, responsibility is taken over by a special servicer (a legal firm specialised in handling arrears and foreclosures).

Table 56-26 displays an overview of the payments in arrear at 31 December 2016 and 31 December 2015 for the German Residential Mortgage portfolio. It is market practice in Germany to start the foreclosure procedure after being more than six months in arrear (180 days) and the foreclosure procedure takes, on average, around two years. Special Servicing Cancelled Loans are loans for which the contract has been legally terminated by the lender and are being handled by the special servicer. At 31 December 2016, only 17 loans (1.4% of the total exposure) had been transferred to special servicing and cancelled, from a total portfolio of 1,170 mortgages.

### 56-26 Arrears overview, German Residential Mortgage portfolio

| In % | 31 December 2016 | 31 December 2015 |
|---|---|---|
| No payment in arrear | 90.6 | 90.6 |
| 0-30 days | 2.8 | 1.7 |
| 31-60 days | 2.1 | 1.9 |
| 61-90 days | 0.9 | 0.7 |
| Over 90 days | 2.2 | 1.0 |
| Special Servicing Cancelled Loans | 1.4 | 4.1 |
| **Total** | **100** | **100** |
| **Total (in eur million)** | **84** | **117** |

As is the case in the Netherlands, the underlying property is the primary collateral for the granted mortgage loan. The majority of mortgage loans in Germany contain an annuity debt profile, leading to a lower outstanding balance during the lifetime of the loan.

## Debt investments

NIBC defines credit risk in debt investments as issuer risk, which is the credit risk of losing the principal amount on products such as bonds. Issuer risk is calculated based on the book value.

**Risk monitoring and measurement**

Risk is controlled by setting single issuer limits and, in some cases, programme limits. All single issuer limits are approved by the TC or by delegated authority to the FMCR department. Apart from single issuer limits, risk is also monitored by assessing credit spread risk. Both sensitivity analysis (*basis point values,* **BPV**s) and Value at Risk (**VaR**) numbers are used[3].

Note 58 on Market Risk contains more information on these variables.

In the remainder of this section, the exposure has been divided into the following two sub-portfolios:

- Debt from financial institutions, corporate entities and sovereigns; and
- Securitisations.

[3] Sensitivity Analysis for NIBC Markets is accounted for in Note 58 Market Risk

**Debt from financial institutions and corporate entities**
NIBC invests in debt (bonds) issued by financial institutions and corporate entities. The size of this sub-portfolio decreased in the course of 2016 to EUR 459 million at 31 December 2016 (31 December 2015: EUR 482 million). Of the total exposure, 37% (31 December 2015: 38%) were covered bonds. The remaining 63% (31 December 2015: 62%) was senior unsecured debt.

In 2014, NIBC began to use internal ratings to assess the creditworthiness of a financial institution. In general debt investments are rated more conservative by NIBC than by the external rating agencies.

The amount of EUR 459 million at 31 December 2016 represents the maximum credit risk exposure, without taking into account the presence of any collateral that could be repossessed in case of default. The portfolio did not contain any *credit default swap* (**CDS**) exposures.

## 56-27 Debt of financial institutions and corporate entities, 31 December 2016

| in EUR millions | AAA | AA | A | BBB | BB | <= b | NR | Total[1] |
|---|---|---|---|---|---|---|---|---|
| Financial institutions | 170 | 5 | 82 | 88 | - | 4 | - | 349 |
| Corporate entities | 8 | - | - | 11 | 50 | - | - | 68 |
| Sovereigns | 24 | 18 | - | - | - | - | - | 41 |
| **Total** | **201** | **23** | **82** | **99** | **50** | **4** | **-** | **459** |

1 Source ratings: internal rating model (excluding soevereigns)

## 56-28 Debt of financial institutions and corporate entities, 31 December 2015

| in EUR millions | AAA | AA | A | BBB | BB | <= b | NR | Total[1] |
|---|---|---|---|---|---|---|---|---|
| Financial institutions | 183 | - | 159 | 21 | - | 7 | - | 370 |
| Corporate entities | 14 | - | 9 | 18 | 20 | 7 | - | 68 |
| Sovereigns | 23 | 21 | - | - | - | - | - | 44 |
| **Total** | **219** | **21** | **168** | **39** | **20** | **14** | **-** | **482** |

1 Source ratings: internal rating model (excluding soevereigns)

At both 31 December 2016 and 31 December 2015, the portfolio of debt from financial institutions and corporate entities had no impairments and contained no arrears.

## Securitisations

NIBC has been an active participant on the securitisation market in the past decade, both as an originator and investor in securitisations.

Tables 56-29 and 56-30 present an overview of NIBC's total securitisation exposure resulting from its activities as investor in securitisations. The exposure relating to NIBC's activities as an originator can be split into exposures related to consolidated and non-consolidated securitisations. If a securitisation programme is consolidated on NIBC's balance sheet, the exposure to the underlying collateral is excluded from the securitisation exposure and included in the total exposures presented in note 56 on credit risk in the corporate loans or residential mortgages sections. NIBC's total exposure as an originator to consolidated securitisations was EUR 224 million at 31 December 2016 (31 December 2015: EUR 299 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 773 million at 31 December 2016 (31 December 2015: EUR 814 million), mainly due to a decrease of the Western European Securitisations portfolio.

The portfolio of investments in Western European securitisations contains NIBC's investor securitisations in Western Europe as well as all investments in NIBC's own non-consolidated securitisations. All investments in NIBC's own securitisations are subject to approval from both Risk Management and Finance. The total amount of the portfolio of investments in Western Europe decreased to EUR 256 million at 31 December 2016 (31 December 2015: EUR 299 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 increased to EUR 518 million at 31 December 2016 (31 December 2015: EUR 515 million).

## 56-29 Exposure to securitised products, 31 December 2016

| Book value, in eur millions | AAA | AA[1] | A | BBB | BB | <BB | Total[2] |
|---|---|---|---|---|---|---|---|
| Eu - abs | - | - | - | - | - | - | 1 |
| Eu - cdo | 24 | 10 | 9 | - | 4 | 12 | 59 |
| Eu - cmbs | - | - | - | - | - | 132 | 132 |
| Eu - rmbs | 5 | 13 | 29 | 4 | - | 12 | 64 |
| **Total western european securitisations** | **29** | **23** | **38** | **5** | **4** | **157** | **256** |
| NL - RMBS AAA Liquidity portfolio | 363 | - | 3 | - | - | - | 366 |
| EU- ABS AAA Liquidity portfolio | 152 | - | - | - | - | - | 152 |
| **Total securitisation exposure** | **543** | **23** | **41** | **5** | **4** | **157** | **773** |

1 Of AA related exposure of EUR 23 million and < BB related exposure of EUR 162 million an amount of respectively EUR 2 million and EUR 131 million relates to NIBC's own non-consolidated securitisations.
2 Source: external ratings

### 56-30 Exposure to securitised products, 31 December 2015

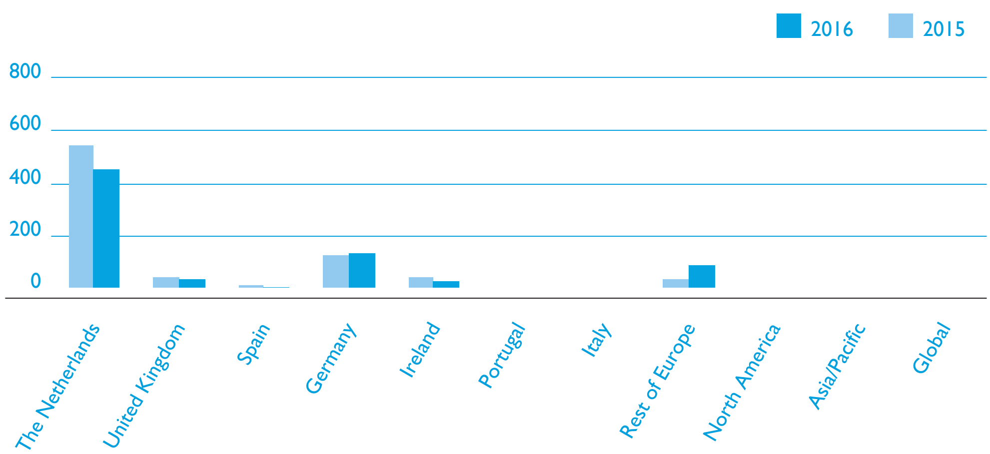
| Book value, in eur millions | AAA | AA | A | BBB | BB | <BB | Total[1] |
|---|---|---|---|---|---|---|---|
| Eu - abs | - | - | - | - | - | 1 | 1 |
| Eu - cdo | 15 | 20 | 5 | 5 | 11 | 15 | 71 |
| Eu - cmbs | - | - | 2 | - | 2 | 142 | 146 |
| Eu - rmbs | 6 | 25 | 33 | 5 | - | 12 | 81 |
| **Total western european securitisations** | **21** | **45** | **40** | **11** | **13** | **170** | **299** |
| NL - RMBS AAA Liquidity portfolio | 375 | - | - | - | - | - | 375 |
| EU- ABS AAA Liquidity portfolio | 140 | - | - | - | - | - | 140 |
| **Total securitisation exposure** | **536** | **45** | **40** | **11** | **13** | **170** | **814** |

1 Source: external ratings

**Geographic distribution of securitisations**

Graph 56-31 presents the distribution of the Securitisations portfolio by geographic region at 31 December 2016 and 31 December 2015. 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 (59%), Germany (18%) and the United Kingdom (5%). NIBC's exposure in Ireland, Italy, Spain and Portugal is limited and had decreased to EUR 44 million at 31 December 2016 (31 December 2015: EUR 57 million). Approximately 79% of this exposure is investment grade exposure. NIBC had no exposure in Greece at 31 December 2016 or 2015.

**56-31 Distribution of securitisations per region, 31 December 2016 (EUR 773 million) and 31 December 2015 (EUR 814 million)**




**Impairments on securitisations**

The majority of the Securitisations portfolio is reported at amortised cost or available for sale for accounting purposes and the respective assets are subject to a quarterly impairment analysis. The stock of impairments decreased to EUR 47 million at 31 December 2016 (31 December 2015: EUR 57 million).

### Securitisations without impairments
Table 56-32 presents the rating breakdown of securitisation exposure that did not carry an impairment amount at 31 December 2016 (EUR 762 million). The total amount of securitisations without impairments at 31 December 2015 was EUR 791 million.

## 56-32 Distribution of securitisation exposure without impairments per rating category, 31 December 2016

| Book value, in eur millions | AAA | AA | A | BBB | BB | <BB | Total[1] |
|---|---|---|---|---|---|---|---|
| **Securitisation exposure without impairments** | **543** | **23** | **41** | **5** | **4** | **145** | **762** |

1 Source: external ratings

## 56-33 Distribution of securitisation exposure without impairments per rating category, 31 December 2015

| Book value, in eur millions | AAA | AA | A | BBB | BB | <BB | Total[1] |
|---|---|---|---|---|---|---|---|
| **Securitisation exposure without impairments** | **536** | **45** | **39** | **7** | **13** | **151** | **791** |

1 Source: external ratings

## Cash management
NIBC is exposed to credit risk as a result of cash management activities. In 2016, 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 2016, NIBC's total cash amounted EUR 1,371 million (31 December 2015: EUR 1,382 million). EUR 917 million of the cash was held at DNB and Deutsche Bundesbank, EUR 439 million at financial institutions and the remaining EUR 14 million at corporate entities (securitisation-related liquidity facilities).

## 56-34 Cash, 31 December 2016

| in EUR millions | AAA | AA | A | ≤bbb | Total[1] |
|---|---|---|---|---|---|
| Cash and balances with central banks | 917 | - | - | - | 917 |
| Financial institutions | - | 77 | 282 | 81 | 439 |
| Corporate entities | 4 | - | 10 | - | 14 |
| **Total** | **922** | **-** | **292** | **81** | **1,371** |

1 Source ratings: internal rating model (excluding Cash and balances with central banks)

## 56-35 Cash, 31 December 2015

| in EUR millions | AAA | AA | A | ≤bbb | Total[1] |
|---|---|---|---|---|---|
| Cash and balances with central banks | 746 | - | - | - | 746 |
| Financial institutions | - | - | 575 | 47 | 622 |
| Corporate entities | 4 | - | 10 | - | 14 |
| **Total** | **750** | **-** | **585** | **47** | **1,382** |

1 Source ratings: internal rating model (excluding Cash and balances with central banks)

At year-end 2016, EUR 1,016 million cash collateral has been excluded from the cash management exposure (year-end 2015: EUR 1,128 million) as this amount is restricted cash that relates to derivatives with a negative fair value and can be netted with these negative exposures. At both 31 December 2016 and 31 December 2015, 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 2016, EUR 866 million of NIBC's derivative portfolio excluding netting, collateral and PFE has been centrally cleared. For corporate counterparties, both the loan and derivative are treated as a single package whereby the derivative often benefits from the security/collateral supporting the loan exposure.

**Exposures**

Tables 56-36 and 56-37 display NIBC exposures from credit risk in derivatives allocated across the rating class of the underlying counterparty. Exposure is the sum of the positive marked-to-market value of derivative contracts, excluding the effect of netting and collateral exchange. Due to amortisation and limit origination, the total derivative exposure excluding netting and collateral decreased in 2016 to EUR 1,817 million at 31 December 2016 (31 December 2015: EUR 2,174 million).

## 56-36 Derivative exposure excluding netting and collateral, 31 December 2016

| in EUR millions | AAA | AA | A | BBB | BB | B | CCC | CC | D | NR | Total[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial institutions | - | 31 | 1,121 | 91 | - | - | - | - | - | - | 1,242 |
| Corporate entities | - | 25 | 5 | 358 | 45 | 58 | 72 | - | 13 | - | 575 |
| **Total** | **-** | **56** | **1,126** | **449** | **45** | **58** | **72** | **-** | **13** | **-** | **1,817** |

1 Source ratings: internal rating model

## 56-37 Derivative exposure excluding netting and collateral, 31 December 2015

| in EUR millions | AAA | AA | A | BBB | BB | B | CCC | CC | D | NR | Total[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial institutions | - | - | 1,261 | 228 | - | - | - | - | - | 36 | 1,525 |
| Corporate entities | 22 | - | 6 | 352 | 35 | 188 | - | - | 45 | - | 649 |
| **Total** | **22** | **-** | **1,267** | **580** | **35** | **188** | **-** | **-** | **45** | **36** | **2,174** |

1 Source ratings: internal rating model

**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. Accepted collateral is mainly cash collateral, which is usually exchanged on a daily basis. The primary counterparties in these CSAs are large international banks with ratings of A or higher. NIBC generally carries out daily cash collateral exchanges to account for changes in the market value of the contracts included in the CSA.

Terms and conditions of these CSAs are in line with general *International Swaps and Derivatives Association* (**ISDA**) credit support documents. Collateral from CSAs significantly decreases the credit exposure on derivatives, as presented in table 56-38 at 31 December 2016 and in table 56-39 at December 2015.

## 56-38 Derivative exposure including netting and collateral, 31 December 2016

| in EUR millions | AAA | AAA | AA | A | BBB | BB | B | CCC | CC | D | NR | Total[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial institutions | - | - | - | 58 | 31 | - | - | - | - | - | - | 89 |
| Corporate entities | - | - | 25 | 5 | 347 | 45 | 57 | 72 | - | 13 | - | 563 |
| **Total** | **-** | **-** | **25** | **63** | **378** | **45** | **57** | **72** | **-** | **13** | **-** | **652** |

1 Source ratings: internal rating model

## 56-39 Derivative exposure including netting and collateral, 31 December 2015

| in EUR millions | AAA | AAA | AA | A | BBB | BB | B | CCC | CC | D | NR | Total[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial institutions | - | - | - | 95 | 8 | - | - | - | - | - | 1 | 103 |
| Corporate entities | - | 22 | - | 6 | 339 | 35 | 187 | - | - | 45 | - | 634 |
| **Total** | **-** | **22** | **-** | **101** | **347** | **35** | **187** | **-** | **-** | **45** | **1** | **738** |

1 Source ratings: internal rating model

**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 2016 and 2015.

Table 56-40 displays an overview of the arrears for corporate derivatives at 31 December 2016 and 31 December 2015 as well as the exposures (marked-to-market values) these arrears refer to. There were no amounts in arrear for derivatives with financial institutions. As shown in Table 56-40, at 31 December 2016, no marked-to-market exposure an arrear (31 December 2015: exposure of less than EUR 1 million with an arrear of EUR 1 million).

## 56-40 Arrears overview, corporate derivative exposure

| | 2016 | | 2015 | |
|---|---|---|---|---|
| in EUR millions | Exposure (MtM)[1] | Amount in arrear | Exposure (MtM)* | Amount in arrear |
| **Age of payment in arrear** | | | | |
| 1- 5 days | - | - | - | 1 |
| 6 - 30 days | - | - | - | - |
| 31 - 60 days | - | - | - | - |
| 61 - 90 days | - | - | - | - |
| **Subtotal less than 90 days** | **-** | **-** | **-** | **1** |
| Over 90 days | - | - | - | - |
| No payment in arrear | 575 | - | 634 | - |
| **Total** | **575** | **-** | **634** | **1** |

1 MtM: Marked-to-Market value

## 57. Interest rate risk in the Banking book

NIBC defines interest rate risk in the Banking book (IRRBB) as the risk of losses from interest rate sensitive positions in non-trading activities due to movements in interest rates. Interest rate risk is measured both from an economic value perspective and an earnings perspective. The first perspective considers the impact on the market value, while the latter considers the impact on the net interest income.

NIBC's banking book consists of:

- Corporate treasury
- Commercial Treasury
- Corporate banking
- Consumer banking

### Risk appetite

The risk appetite for IRRBB from an economic value perspective is measured by the modified duration of equity and equal to 5 (with a tolerance of 7.5), while the risk appetite from an earnings perspective is measured by the impact on 1Y earnings and equal to EUR 13 million (assuming a shift in interest rates of 100 bps).

### Risk monitoring and measurement

From an economic value perspective the impact of an instantaneous shift in interest rates on a static portfolio is considered. Interest *Basis Point Value* (**BPV**) and interest *Value at Risk* (**VaR)** measures are calculated on a daily basis and reviewed by the Market Risk department:

- Interest BPV measures the sensitivity of the market value to an instantaneous change of one basis point in each time bucket of the interest rate curve. The BPV as displayed in the tables below represents the sensitivity of the market value to a one-basis-point, parallel upward shift of the underlying curve;
- The interest VaR measures the threshold value, which daily marked-to-market losses with a confidence level of 99% will not exceed, based on four years of historical data for weekly changes in interest rates. These weekly changes are superimposed on the current market rates. The VaR is calculated by means of full valuation to take non-linearity into account.

From the earnings perspective changes in interest rates occur both instantaneously and gradually over time. The combination of static and dynamic (changes to the current portfolio composition) analyses are used. The dynamic analysis allows the integration of the business strategy in the earnings, by aligning the development of the balance sheet with the business plan, taking into account both refinancing and reinvestments. Earnings at risk (EatR) is calculated by means of the following measure:

- 12 months earnings impact due to a 200 bps gradual upwards or downwards interest rate shock per currency

EatR as displayed in the tables below represents the 200 bps gradual upwards measure.

The interest rate risk analysis is complemented by a set of scenarios, including scenarios intended as stress testing and vulnerability identification, both based on historical events and on possible future events.

Limits are set on the above measures, both those from the economic value perspective and from an earnings perspective. The limits and utilisation are reported to the ALCO once every two weeks. Any major breach of IRRBB limits is reported to the CRO immediately.

## Interest rate risk

**Interest rate risk in the Banking book**

Interest rate risk in the Banking book from an economic value perspective is mainly present in the Mismatch book and the Mortgages book; note that the books have opposite interest rate risk positions from an economic value perspective.

NIBC accepts a certain economic value risk exposure in the Mismatch book to stabilize earnings. We call this our strategic mismatch exposure. If we would not have this exposure and hedge all our interest bearing assets and liabilities to 3-months Euribor/Libor, our (non-interest bearing) capital will effectively be financing very short-term assets and the interest return on our (non-interest bearing) capital will fluctuate with these short term rates earned on those assets.

The Mismatch book exclusively contains swaps in EUR, USD and GBP, as these are the major currencies, in which also lending activities take place. At year-end of 2016 the total notional position is 687 EUR mln, with 41% of the mismatch position held in EUR, 31% in GBP and 29 % in USD. Duration based the relative positions would be 42% in EUR, 25% in GBP, 32% in USD.

The Mortgages book consists of:

- The "old" (white label) mortgage portfolio, 5.7 billion EUR of which 84 million EUR in Germany. This portfolio is accounted on fair value. The hedging strategy of this book is based upon the interest rate sensitivity, including a discount spread.
- In 2013 NIBC started originating mortgages under the NIBC Direct label and this portfolio grew significantly since then. At year-end 2016 this portfolio's size was 3.3 billion EUR. This portfolio is accounted on amortised cost. The hedging strategy of this book is based upon notional amounts, i.e. excluding a discount spread.

However the interest rate sensitivity (from an economic value perspective) of both books is measured identically, i.e. by taking into account a discount spread.

The Corporate Treasury Book contains mainly the funding activities of NIBC and the corporate loan books. The Liquidity portfolio, Collateral portfolio and Debt Investments portfolio are part of the Banking Book and consist mainly of investments in financial institutions and securitisations.

Tables 57-1 and 57-2 illustrate in EUR the interest rate sensitivity for EUR, USD and GBP in the Mismatch and remaining Banking book at year-end 2016. For other currencies, the interest rate risk is minimal.

### 57-1 Interest rate statistics Banking book, 31 December 2016

| | Economic value perspective (BPV) | | | Earnings perspective (EatR) | | |
|---|---|---|---|---|---|---|
| in EUR thousands | Mismatch | Other | Total | Mismatch | Other | Total |
| EUR | (120) | 335 | 216 | (1,900) | 17,260 | 15,360 |
| USD | (72) | - | (72) | (1,400) | 970 | (430) |
| GBP | (91) | 8 | (82) | (1,200) | (900) | (2,100) |
| Other | - | - | - | - | 20 | 20 |
| **Total** | **(282)** | **344** | **62** | **(4,500)** | **17,350** | **12,850** |

### 57-2 Interest rate statistics Banking book, 31 December 2015

| | Economic value perspective (BPV) | | | Earnings perspective (EatR) | | |
|---|---|---|---|---|---|---|
| in EUR thousands | Mismatch | Other | Total | Mismatch | Other | Total |
| EUR | (147) | 130 | (16) | (2,525) | 15,625 | 13,100 |
| USD | (80) | 8 | (72) | (1,442) | 2,632 | 1,190 |
| GBP | (124) | 7 | (117) | (2,070) | (2,830) | (4,900) |
| Other | - | 3 | 3 | - | (500) | (500) |
| **Total** | **(350)** | **148** | **(202)** | **(6,038)** | **14,928** | **8,890** |

From the economic value perspective more detailed statistics with respect to the Mismatch book are presented in the following table.

### 57-3 Interest rate statistics Mismatch book, 31 December 2016

| | 2016 | | 2015 | |
|---|---|---|---|---|
| in EUR thousands | Interest rate BPV | Interest rate VaR | Interest rate BPV | Interest rate VaR |
| Max[1] | (357) | 2,540 | (362) | 2,586 |
| Average | (313) | 2,196 | (334) | 2,335 |
| Min[2] | (272) | 1,912 | (293) | 1,940 |
| Year-end | (282) | 1,971 | (350) | 2,519 |

1 Max: value farthest from zero
2 Min: value closest to zero

In the following table the interest BPV statistics of the Banking Book, split in Mismatch, Other and Total are presented.

## 57-4 Interest rate BPV statistics Banking book, 31 December 2016

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| in EUR thousands | Mismatch | Other | Total | Mismatch | Other | Total |
| Max[1] | (357) | 392 | (260) | (362) | 289 | (453) |
| Average | (313) | 195 | (118) | (334) | 85 | (248) |
| Min[2] | (272) | 61 | 1 | (293) | - | (7) |
| **Year-end** | **(282)** | **342** | **60** | **(350)** | **113** | **(236)** |

1 Max: value farthest from zero
2 Min: value closest to zero

# 58. Market risk

NIBC defines market risk as the risk of losses from an economic value perspective:

- in the Trading book;
- due to changes in credit spreads, for assets accounted on fair value (either through equity or P&L) in the banking book
- due to changes in the value of equities in the banking book; and
- due to changes in FX rates both in the banking and trading book

The predominant market risk drivers for NIBC are interest rate risk (in the trading book only) and credit spread risk (both in the trading and banking book).

Per 30 June 2016, NIBC Markets (formerly SNS Securities) was acquired by NIBC. All positions within NIBC Markets are part of the Trading book. In the Trading book excluding NIBC Markets, 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. The Trading book of NIBC Markets contains bonds and a relatively small equity portfolio in those equities, for which NIBC markets is liquidity provider.

## Risk appetite

The risk appetite for market risk is moderate. For all market risk types limits are set and monitored on a daily basis.

## Risk monitoring and measurement

From an economic value perspective the impact of an instantaneous shift in interest rates on a static portfolio is considered. Interest and credit spread *Basis Point Value* (**BPV**) and interest and credit spread *Value at Risk* (**VaR)** measures are calculated on a daily basis and reviewed by the Market Risk department. VaR is calculated using 4 years of historical data and a confidence level of 99%.

The market risk analysis is complemented by a set of scenarios, including scenarios intended as stress testing and vulnerability identification, both based on historical events and on possible future events.

Limits are set on the above measures. The limits and utilisation are reported to the ALCO once every two weeks. Any major breach of market risk limits is reported to the CRO immediately.

## Interest rate risk, credit spread risk and equity risk

The Trading book excluding NIBC Markets contains plain vanilla interest rate derivatives only. Trading book figures excluding NIBC Markets per year-end 2016 versus 2015 are displayed below.

### 58-1 Interest rate statistics Trading book NIBC excluding NIBC Markets, 31 December 2016

| | 2016 | | 2015 | |
|---|---|---|---|---|
| in EUR thousands | Interest rate BPV | Interest rate VaR | Interest rate BPV | Interest rate VaR |
| Max[1] | (91) | 377 | (65) | 631 |
| Average | (30) | 174 | (1) | 288 |
| Min[2] | 0 | 69 | 0 | 89 |
| **Year-end** | **38** | **116** | **37** | **133** |

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 2016 figures are displayed in the table below.

### 58-2 Interest rate & credit spread risk statistics Trading book NIBC Markets, 31 December 2016

| | 2016 | | |
|---|---|---|---|
| in EUR thousands | Interest BPV | Credit spread BPV | VaR |
| NIBC Markets | -18 | -51 | 171 |

The VaR in this table includes both interest rate risk and credit spread risk.

The year-end 2016 equity VaR of NIBC Markets is 38K.

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.

### 58-3 Credit spread risk statistics Banking book, 31 December 2016

| | 2016 | | 2015 | |
|---|---|---|---|---|
| in EUR thousands | Credit spread BPV | Credit spread VaR | Credit spread BPV | Credit spread VaR |
| Liquidity / Collateral | (233) | 1,598 | (278) | 2,918 |
| Structured Credits | (59) | 687 | (113) | 1,757 |
| Mortgages (fair value) | (1,770) | 2,966 | (1,938) | 6,055 |

### 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 18 million at year-end 2016. This currency position is the position prior to hedging, which is always done shortly after month-end.

## 59. Liquidity risk
NIBC defines liquidity risk as the inability of NIBC to fund its assets and meet its obligations as they become due, at acceptable cost.

Maintaining a sound liquidity and funding profile is one of NIBC's most important risk management objectives. NIBC analyses its funding profile by mapping all assets and liabilities into time buckets that correspond to their maturities. Based on projections prepared by the business units and reviewed by Risk Management, and the current asset and liability maturity profiles, several liquidity stress tests are prepared and presented once every two weeks to the ALCO, in order to create continuous monitoring of the liquidity position.

**Assumptions**
One of the stress scenarios, the market-wide stress test, assumes a world-wide liquidity shortage in which no new market funding can be attracted by NIBC. Furthermore, it is assumed that assets cannot be sold, but that they can only be made liquid by making them eligible for collateralised and ECB funding. In addition, the following assumptions are made:

- In order to maintain NIBC's business franchise, it is assumed that new corporate loan production continues at a level where the current books are maintained constant;
- Conservative assumptions with respect to for example collateral cash outflows (payments from CSAs) and drawdowns of undrawn commitments are made; and
- A one notch downgrade is assumed.

The projection of NIBC's liquidity in this way is necessarily a subjective process and requires management to make assumptions about, for example, the fair value of eligible collateral and potential outflow of cash collateral placed by NIBC with derivative counterparties.

In light of these projections, NIBC is confident that sufficient liquidity is available to meet maturing obligations over the next 12 months.

**Maturity calendar consolidated balance sheet**
The following tables present the cash flows payable by NIBC in respect of non-derivative financial liabilities relevant for liquidity risk by the remaining contractual maturities at 31 December. The amounts disclosed in the tables for the non-derivative financial liabilities are contractual undiscounted cash flows. Financial liabilities at fair value through profit or loss are therefore restated to nominal amounts. The estimated interest cash flows related to the liabilities are reported on a separate line item. The financial assets relevant for managing liquidity risk are based on the fair value (discounted cash flows) for those assets which are classified at fair value through profit or loss or available-for-sale.

The differences between the table and the stress scenario are caused mainly by the following items that are included in the stress scenario analysis but not in the maturity calendar of the consolidated balance sheet:

- New asset production;
- Collateralised funding capacity of internal securitisations and individual bonds; and
- Conservative assumptions with respect to possible cash outflows (e.g. CSA collateral, callable funding).

## 59.1. Liquidity maturity calendar, 31 December 2016

| in EUR millions | Not dated | Payable on demand | Due within three months | Due between three and twelve months | Due between one and five years | Due after five years | Total |
|---|---|---|---|---|---|---|---|
| **Liabilities (undiscounted cash flows)** | | | | | | | |
| **Financial liabilities at amortised cost** | | | | | | | |
| Due to other banks | - | 6 | 120 | 68 | 905 | 191 | 1,290 |
| Deposits from customers | - | 5,454 | 786 | 2,221 | 2,371 | 995 | 11,827 |
| Own debt securities in issue | - | - | - | 67 | 2,277 | 1,511 | 3,855 |
| Debt securities in issue related to securitised mortgages and lease receivables | - | - | 2 | - | - | 1,335 | 1,337 |
| **Financial liabilities at fair value through profit or loss (including trading)** | | | | | | | |
| Own debt securities in issue | - | - | - | - | - | - | - |
| Debt securities in issue structured | - | - | 1 | 3 | 31 | 173 | 208 |
| **Other financial liabilities** | | | | | | | |
| Other liabilities | - | - | - | 235 | - | - | 235 |
| Deferred tax | - | - | - | - | 3 | - | 3 |
| Employee benefits | - | - | - | - | - | 3 | 3 |
| **Subordinated liabilities** | | | | | | | |
| Amortised cost | - | - | - | 2 | 50 | 70 | 122 |
| Fair value through profit or loss | - | - | 2 | 6 | 40 | 407 | 455 |
| **Other** | | | | | | | |
| Liabilities held for sale | - | - | - | - | - | - | - |
| **TOTAL LIABILITIES (excluding derivatives)** | **-** | **5,460** | **911** | **2,602** | **5,677** | **4,685** | **19,335** |
| Estimated contractual interest cash flows | - | - | 63 | 167 | 744 | 2,222 | 3,196 |
| **TOTAL LIABILITIES (excluding derivatives, including estimated contractual interest rate cash flows)** | **-** | **5,460** | **974** | **2,769** | **6,421** | **6,907** | **22,531** |
| **TOTAL ASSETS RELEVANT FOR MANAGING LIQUIDITY RISK AT FAIR VALUE (excluding derivatives and interest cash flows)** | **1,382** | **1,312** | **498** | **1,309** | **5,271** | **11,991** | **21,763** |

## 59.2. Liquidity maturity calendar, 31 December 2015

| 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 cash flows)** | | | | | | | |
| **Financial liabilities at amortised cost** | | | | | | | |
| Due to other banks | - | 75 | 287 | 9 | 242 | 216 | 829 |
| Deposits from customers | - | 4,552 | 966 | 2,965 | 2,410 | 880 | 11,773 |
| Own debt securities in issue | - | - | 67 | 285 | 1,589 | 1,109 | 3,050 |
| Debt securities in issue related to securitised mortgages and lease receivables | - | - | 3 | - | 49 | 2,010 | 2,062 |
| **Financial liabilities at fair value through profit or loss (including trading)** | | | | | | | |
| Own debt securities in issue | - | - | - | - | 1 | - | 1 |
| Debt securities in issue structured | - | - | 2 | 5 | 30 | 179 | 216 |
| **Other financial liabilities** | | | | | | | |
| Other liabilities | - | - | - | 92 | - | - | 92 |
| Deferred tax | - | - | - | - | 1 | - | 1 |
| Employee benefits | - | - | - | - | - | 4 | 4 |
| **Subordinated liabilities** | | | | | | | |
| Amortised cost | - | - | - | - | 2 | 118 | 120 |
| Fair value through profit or loss | - | - | 2 | 7 | 38 | 378 | 425 |
| | | | | | | | - |
| **Other** | | | | | | | |
| Liabilities held for sale | 42 | - | - | - | - | - | 42 |
| **TOTAL LIABILITIES (excluding derivatives)** | **42** | **4,627** | **1,327** | **3,363** | **4,362** | **4,894** | **18,615** |
| Estimated contractual interest cash flows | - | - | 57 | 144 | 464 | 1,203 | 1,868 |
| **TOTAL LIABILITIES (excluding derivatives, including estimated contractual interest rate cash flows)** | **42** | **4,627** | **1,384** | **3,507** | **4,826** | **6,097** | **20,483** |
| **TOTAL ASSETS RELEVANT FOR MANAGING LIQUIDITY RISK AT FAIR VALUE (excluding derivatives and interest cash flows)** | **1,537** | **1,349** | **357** | **848** | **4,903** | **12,084** | **21,078** |

## 59.3. Liquidity maturity calendar of derivatives, 31 December 2016

**Liquidity maturity calendar derivatives**

The following tables present the derivative financial instruments that will be settled on a net basis into relevant maturity classes based on the contractual maturity date at 31 December 2016 and 2015. The amounts disclosed in the tables are the contractual undiscounted cash flows.

| in EUR millions | Less than three months | Between three months and one year | One to five years | Five years or more | Total |
|---|---|---|---|---|---|
| **Derivatives held for trading** | | | | | |
| ***Interest rate derivatives (net settled)*** | | | | | |
| Inflow | 476 | 986 | 2,279 | 717 | 4,458 |
| Outflow | (498) | (1,018) | (2,327) | (749) | (4,592) |
| ***Credit derivatives*** | | | | | |
| Inflow | - | - | - | 1 | 1 |
| Outflow | - | - | - | - | - |
| **Derivatives used for hedging** | | | | | |
| ***Interest rate derivatives (net settled)*** | | | | | |
| Inflow | 10 | 70 | 296 | 33 | 409 |
| Outflow | (14) | (49) | (297) | (52) | (412) |
| **Total inflow** | **486** | **1,056** | **2,575** | **750** | **4,868** |
| **Total outflow** | **(512)** | **(1,067)** | **(2,624)** | **(801)** | **(5,004)** |

## 59.4. Liquidity maturity calendar of derivatives, 31 December 2015

| 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 | 457 | 1,295 | 3,112 | 1,463 | 6,327 |
| Outflow | (483) | (1,301) | (2,950) | (1,000) | (5,734) |
| **Derivatives used for hedging** | | | | | |
| ***Interest rate derivatives (net settled)*** | | | | | |
| Inflow | 14 | 61 | 82 | 6 | 163 |
| Outflow | (8) | (48) | (102) | (7) | (165) |
| **Total inflow** | **471** | **1,356** | **3,194** | **1,469** | **6,490** |
| **Total outflow** | **(491)** | **(1,349)** | **(3,052)** | **(1,007)** | **(5,899)** |

### 59.5. Liquidity maturity calendar off-balance sheet, 31 December 2016

**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 | 1,303 | - | - | - | 1,303 |
| Committed facilities with respect to residential mortgages financing | 708 | - | - | - | 708 |
| Capital commitments | 19 | - | - | - | 19 |
| Guarantees granted | 76 | - | - | - | 76 |
| Irrevocable letters of credit | 18 | - | - | - | 18 |
| | **2,124** | **-** | **-** | **-** | **2,124** |

### 59.6. Liquidity maturity calendar off-balance sheet, 31 December 2015

| 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 | 1,416 | - | - | - | 1,416 |
| Committed facilities with respect to residential mortgages financing | 407 | - | - | - | 407 |
| Capital commitments | 25 | - | - | - | 25 |
| Guarantees granted | 41 | - | - | - | 41 |
| Irrevocable letters of credit | 12 | - | - | - | 12 |
| | **1,901** | **-** | **-** | **-** | **1,901** |

## 60. Capital management

**Overview**

It is NIBC's policy to maintain a strong capital base, to meet regulatory capital requirements at all times and to support the development of its business by allocating capital efficiently. Allocation of capital to the business is based on an EC approach. EC is the amount of capital which NIBC allocates as a buffer against potential losses from business activities, based upon its assessment of risks. The EC that NIBC allocates to each business is based on the assessment of risk of its activities. It differs from the CRR/CRDIV capital requirements, i.e. regulatory capital, as in certain cases NIBC assesses the specific risk characteristics of its business activities in a different way than the CRR/CRDIV method. Total regulatory capital however, in combination with a minimum benchmark Tier-1 ratio, does form a limit to the maximum amount of EC that can be allocated to the business.

Comparing the risk-based EC of each business to its profit delivers a RAROC for each business. EC and RAROC are key tools in NIBC's capital allocation and usage process, assisting in allocating Own Funds as efficiently as possible, based on expectations of both risks and return. Usage of EC is assessed once every two weeks in the ALCO. The ALCO resets the maximum allocation level of EC to and within each business, taking into account business expectations, NIBC's desired risk profile and the regulatory requirements.

**Methodology**

NIBC uses the business model of each activity as the basis for determining the EC. If the business model of an activity is trading, distribution or investing for a limited period, a market risk approach based upon VaR and scaled to a one-year horizon is used to calculate the EC usage. A business model based on 'buy-to-hold' or investing to maturity leads to a credit risk approach being applied, based upon estimations of PD and LGD. Add-ons for operational risk and country risk are also calculated. Furthermore, NIBC allocates EC for business risk, reputation risk and model risk on a group-wide level.

The EC approach differs from the CRR/CRDIV approach in which only the trading books are assigned a market risk approach. In the CRR/CRDIV framework, activities that are not trading but have a business model based on distribution or investment for a limited period are often assigned a credit risk approach, following CRR/CRDIV regulations or regulatory industry practice, whereas in the EC framework NIBC applies a market risk approach similar to that of the trading activities. Risks and EC are monitored accordingly.

The main differences between the EC capital and CRR/CRDIV framework come from the Residential Mortgage portfolio, the Securitisations portfolio and NIBC's interest rate mismatch position. EC is determined by a market risk approach for these activities. The CRR/CRDIV approach is either a credit risk approach (residential mortgages 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; and
- For the Investment loans, NIBC calculates EC usage by applying a credit approach based upon the CRR regulatory capital formula. NIBC uses fixed percentages for the equity investments.

**CRR/CRDIV regulatory capital**

The objective of CRR/CRDIV is to enhance the capital adequacy of the banking industry by making it more responsive to risk. CRR/CRDIV is structured on three pillars:

- Pillar 1 describes the capital adequacy requirements for three risk types; credit risk, market risk and operational risk;
- Pillar 2 describes the additional *supervisory review and evaluation process* (**SREP**), where regulators analyse the *internal capital adequacy assessment process* (**ICAAP**) of the individual banks. Since the end of 2011, Dutch Central Bank also analyses the *internal liquidity adequacy assessment process* (**ILAAP**); and
- In Pillar 3 the required risk reporting standards are displayed, supporting additional market discipline in the international capital markets.

Under CRR/CRDIV and subject to approval from the regulator, banks have the option to choose between various approaches, each with a different level of sophistication in risk management, ranging from 'standardised' to 'advanced'.

For credit risk, NIBC adopted the AIRB approach as further specified in CRR/CRDIV for its corporate, retail and institutional exposure classes. NIBC started using the AIRB approach at 1 January 2008. A small residue of exposures is measured on the standardised approach.

For market risk, NIBC adopted an internal model VaR approach.

For measuring operational risk, NIBC adopted the standardised approach, which is based on prescribed business-line activities.

The basis for Pillar 2 is NIBC's ICAAP, which is NIBC's self-assessment of risks sufficiently captured by Pillar 1, i.e. the link between NIBC's risk profile, its risk management and risk mitigation, and NIBC's capital planning.

Under Pillar 3, NIBC publishes its regulatory disclosures regarding its capital structure, capital adequacy, liquidity risk, risk management objectives/policies and risk-weighted assets each year. The Pillar 3 disclosures are published on the same date as the Annual Report on NIBC's website.

The following table displays the composition of regulatory capital as at 31 December 2016 and 31 December 2015.The regulatory capital is based on the CRR/CRDIV scope of consolidation, calculated for NIBC Bank consolidated on a fully loaded base and including the full year net profit of the year. The full year net profit is included without permission of DNB. NIBC Bank complies with the CRR/CRDIV capital requirements, which formally requires a minimum Common Equity Tier-1 ratio (incl. capital buffer) of 7% and a Total Capital ratio (including capital buffer) of 10.5%.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Tier-1** | | |
| Called-up share capital | 80 | 80 |
| Share premium | 237 | 237 |
| Eligible reserves | 1,608 | 1,519 |
| Net profit not included in CET 1 Capital | (26) | - |
| Regulatory adjustments | (201) | (259) |
| **Common equity Tier-1 capital** | **1,698** | **1,577** |
| | | |
| Additional Tier-1 capital | - | - |
| **Total Tier-1 capital** | **1,698** | **1,577** |
| | | |
| **Tier-2** | | |
| Qualifying subordinated liabilities | 457 | 449 |
| **Total Tier-2 capital** | **457** | **449** |
| **Total BIS Capital** | **2,155** | **2,026** |

## 61. Subsequent events

In January 2017, NIBC announced that, despite their logical position in and their contribution to NIBC Markets, the activities of *NIBC Vermogensbeheerders Services* (**NVS**), *Third Party Execution* (**TPS**) and *Specialised Asset Management* (**SAM**) are no longer part of the strategic priorities of the Bank. Because of the current and expected scale and profitability, increasing regulatory pressures (ao MiFID II and EMIR) and the related deployment of scarce resources, for example for IT investments, it was decided that these services will be discontinued in the first half of 2017. In the best interest of the related employees and clients, options are being explored for transferring the NVS and SAM services to another market player.

Within NIBC Markets, NIBC decided to give priority to ECM and DCM, Fixed Income and Equity Sales & Trading and Research. These business units are crucial to NIBC's strategic ambition. They offer NIBC's investor clients and corporate clients primary and secondary sales & trading solutions, and independent equity research.

# COMPANY FINANCIAL STATEMENTS

# COMPANY INCOME STATEMENT

## for the year ended 31 December

| in EUR millions | note | 2016 | 2015 |
|---|---|---|---|
| Interest and similar income | | 448 | 413 |
| Interest expense and silimar charges | | 276 | 270 |
| **Net interest income** | 1 | **172** | **143** |
| Fee and commission income | | 21 | 33 |
| Fee and commission expense | | - | - |
| **Net fee and commission income** | 2 | **21** | **33** |
| Income from equity investments | 14 | 2 | 4 |
| Income from interests in group companies | 15 | 111 | 89 |
| **Income from group companies and (other) equity investments** | | **113** | **93** |
| Results from financial transactions | 3 | 8 | (17) |
| **Total operating income** | | **314** | **252** |
| **Personnel expenses** | 4 | **78** | **75** |
| Depreciation, amortisation and value adjustments of tangible assets and intangible assets | 5 | 5 | 5 |
| Other operating expenses | 6 | 59 | 54 |
| Impairments and provisions | | 59 | 87 |
| Release of impairments and provisions | | (4) | (27) |
| Other | | 1 | - |
| **Net impairments and provision charges of loans** | 7 | **56** | **60** |
| Regulatory charges and levies | 8 | 13 | 3 |
| **Total operating expenses** | | **211** | **197** |
| **Profit from ordinary operations before tax** | | **103** | **55** |
| Tax | 9 | 1 | (16) |
| **Profit after tax** | | **102** | **71** |

# COMPANY STATEMENT OF COMPREHENSIVE INCOME

## for the year ended 31 December

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| in EUR millions | Before tax | Tax charge/ (credit) | After tax | Before tax | Tax charge/ (credit) | After tax |
| **Profit for the period** | **103** | **1** | **102** | **78** | **7** | **71** |
| **Other comprehensive income** | | | | | | |
| **Items that will not be reclassified to profit or loss** | | | | | | |
| Revaluation of property, plant and equipment | - | - | - | - | - | - |
| Revaluation of liability credit reserve | (16) | (4) | (12) | - | - | - |
| **Items that may be reclassified subsequently to profit or loss** | | | | | | |
| Net result on hedging instruments | (8) | (2) | (6) | (16) | (4) | (12) |
| Revaluation of equity investments | (4) | (1) | (3) | 2 | - | 2 |
| Revaluation of loans and advances to customers | 4 | 1 | 3 | - | - | - |
| Revaluation of interest-bearng securities | (1) | - | (1) | (7) | (2) | (5) |
| **Total other comprehensive income** | **(25)** | **(6)** | **(19)** | **(21)** | **(6)** | **(15)** |
| **Total comprehensive income** | **78** | **(5)** | **83** | **57** | **1** | **56** |

# COMPANY BALANCE SHEET

## before profit appropriation, at 31 December

| in EUR millions | note | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | 10 | 845 | 660 |
| Due from other banks | 11 | 1,386 | 1,446 |
| Loans and advances to customers | 12 | 23,620 | 19,488 |
| Interest-bearing securities | 13 | 1,316 | 1,334 |
| Equity investments | 14 | 1 | - |
| Interests in group companies | 15 | 1,209 | 1,074 |
| Property, plant and equipment | 16 | 28 | 32 |
| Derivative financial instruments | 17 | 2,250 | 2,635 |
| Other assets | 18 | 69 | 66 |
| **Total assets** | | **30,724** | **26,735** |
| | | | |
| **Liabilities and equity** | | | |
| Due to other banks | 19 | 1,441 | 843 |
| Customer deposits and other fund on deposit | 20 | 20,246 | 17,273 |
| Debt securities in issue | 21 | 4,537 | 3,839 |
| Other liabilities | 22 | 47 | 50 |
| Derivative financial instruments | 17 | 2,065 | 2,425 |
| Provisions | 23 | 22 | 20 |
| Subordinated liabilities | 24 | 397 | 399 |
| **Total liabilities** | | **28,755** | **24,849** |
| | | | |
| **Shareholder's equity** | | | |
| Share capital | 25 | 80 | 80 |
| Share premium | 25 | 238 | 238 |
| Revaluation reserves | 25 | 156 | 60 |
| Other reserves | 25 | 1,393 | 1,437 |
| Net profit | | 102 | 71 |
| **Total parent shareholder's equity** | | **1,969** | **1,886** |
| **Total liabilities and shareholder's equity** | | **30,724** | **26,735** |
| | | | |
| Contingent liabilities | 26 | 77 | 39 |
| Irrevocable liabilities | 26 | 1,241 | 1,358 |

# COMPANY STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

| | Attributable to parent shareholder | | | | | |
|---|---|---|---|---|---|---|
| in EUR millions | Share capital | Share premium | Revaluation reserves | Other reserves | Net profit | Total |
| **Balance at 1 january 2015** | **80** | **238** | **80** | **1,409** | **24** | **1,831** |
| Transfer of net profit 2014 to retained earnings | - | - | - | 24 | (24) | - |
| Total comprehensive income for the period ended 31 December 2015 | - | - | (15) | - | 71 | 56 |
| Transfer of realised depreciation revalued property, plant and equipment | - | - | (5) | 5 | - | - |
| Other | - | - | - | (1) | - | (1) |
| **Balance at 31 december 2015** | **80** | **238** | **60** | **1,437** | **71** | **1,886** |

| | Attributable to parent shareholder | | | | | |
|---|---|---|---|---|---|---|
| in EUR millions | Share capital | Share premium | Revaluation reserves | Other reserves | Net profit | Total |
| **Balance at 1 january 2016** | **80** | **238** | **60** | **1,437** | **71** | **1,886** |
| Impact of adpoting IFRS 9 Own credit risk at 1 January 2016 | - | - | 115 | (115) | - | - |
| **Restated balance at 1 january 2016** | **80** | **238** | **175** | **1,322** | **71** | **1,886** |
| Transfer of net profit 2015 to retained earnings | - | - | - | 71 | (71) | - |
| Total comprehensive income for the period ended 31 December 2016 | - | - | (19) | - | 102 | 83 |
| **Balance at 31 december 2016** | **80** | **238** | **156** | **1,393** | **102** | **1,969** |

# COMPANY ACCOUNTING POLICIES

## Basis of preparation

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

The company financial statements have been prepared in accordance with the legal requirements for financial statements contained in Title 9 of Book 2 of the Netherlands Civil Code. NIBC applies the provisions in Section 362, paragraph 8, Title 9 of Book 2 of the Netherlands Civil Code that make it possible to prepare the company financial statements in accordance with the accounting policies (including those for the presentation of financial instruments as equity or liability) used in its consolidated financial statements.

The company financial statements are presented in euros rounded to the nearest million. The euro is the functional and presentation currency of NIBC .

## Summary of significant accounting policies

Except as set forth below, the accounting policies applied in the company financial statements are the same as those for the consolidated financial statements.

### Interests in group companies

Interests in group companies, as defined in the Subsidiaries section in the basis of consolidation in the notes to the consolidated financial statements, are measured at net asset value. Net asset value is determined by measuring the assets, provisions, liabilities and income based on the accounting policies used in the consolidated financial statements. The company's share of its group companies profits or losses is recognised in the income statement.

If losses of group companies that are attributable to the company exceed the carrying amount of the interest in the group company (including separately presented goodwill, if any, and including other unsecured receivables), further losses are not recognised unless the company has incurred obligations or made payments on behalf of the group company to satisfy obligations of the group company. In such a situation, NIBC recognises a provision up to the extent of its obligation.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 1. Net interest income

Interest income consists of interest income on loans and advances to customers, interest-bearing securities and other interest and similar income.

Interest expense consists of interest expense on liabilities, whether or not embodied in debt securities, and derivatives, as well as commissions having an interest nature, penalty interest on early redemptions, premiums and discounts. Premiums and discounts on debts, whether or not embodied in debt securities, not stated at fair value are recognised using the effective interest method, together with the relevant interest expense.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Interest and similar income** | | |
| Interest from loans and advances to customers - designated at fair value through profit or loss | 51 | 39 |
| Interest from interest-bearing securities - designated at fair value through profit or loss | 7 | 10 |
| Interest income from other assets | 390 | 364 |
| | **448** | **413** |
| **Interest expense and similar charges** | | |
| Interest expense from liabilities - designated at fair value through profit or loss | 18 | 17 |
| Interest expense from other liabilities | 258 | 253 |
| | **276** | **270** |
| | **172** | **143** |

For the year ended 31 December 2016, interest income included accrued interest on impaired financial assets of nil (2015: EUR 6 million).

For the year ended 31 December 2016, interest expense related to deposits from customers amounted to EUR 154 million (2015: EUR 186 million).

## 2. Net fee and commission income

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Fee and commission income** | | |
| Agency and underwriting fees | 4 | 4 |
| Investment management fees | 5 | 15 |
| Advisory fees | 4 | 8 |
| Other fees | 8 | 6 |
| | **21** | **33** |
| **Fee and commission expense** | | |
| Other non-interest related | - | - |
| | **-** | **-** |
| | **21** | **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 | 2016 | 2015 |
|---|---|---|
| Debt securities (designated at fair value through profit or loss) | - | (14) |
| Debt investments (designated at fair value through profit or loss) | - | (1) |
| Residential mortgages own book and securitsed residential mortgages | 1 | 2 |
| Loans (designated at fair value through profit or loss) | 10 | (1) |
| Assets and liabilities held for trading | 2 | 6 |
| Other interest rate Instruments | (16) | (3) |
| Foreign exchange | (1) | 1 |
| Other trading income: | | |
| Fair value hedges of interest rate risk | 9 | (2) |
| Cash flow hedges of interest rate risk | (2) | (6) |
| Other net trading income | (3) | 9 |
| Gains less losses from interest-bearing securities (available-for-sale) | (2) | 1 |
| Currency hedge adjustments related to equity investments | 10 | (3) |
| Other gains less losses | - | (6) |
| | **8** | **(17)** |

## 4. Personnel expenses

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Salaries | 58 | 55 |
| Social security charges | 6 | 6 |
| **Other personnel expenses** | | |
| **Variable compensation** | | |
| Cash bonuses | 4 | 5 |
| Share-based and deferred bonuses including expenses relating to previous years' grants | 2 | 2 |
| **Pension and other post-retirement charges:** | | |
| Defined-contribution plan | 10 | 10 |
| Other post-retirement charges/(releases) including own contributions of employees | (1) | (1) |
| Other staff expenses | (1) | (2) |
| Staff cost of non-financial companies included in the consolidation | - | - |
| | **78** | **75** |

The increase in salaries in 2016 is mainly explained by an increase in the average number of *Full-Time Equivalents* (**FTEs**), mainly driven by the acquisition of SNS Securities N.V. on 30 June 2016.

The number of FTEs increased from 494 at 31 December 2015 to 543 at 31 December 2016. The number of FTEs employed outside of the Netherlands decreased from 121 at 31 December 2015 to 54 at 31 December 2016.

## 5. Depreciation

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Property, plant and equipment | 5 | 5 |
| | **5** | **5** |

## 6. Other operating expenses

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Other operating expenses | | |
| Building-, housing & services expenses | 4 | 4 |
| Car-, travel- and accomodation expenses | 3 | 3 |
| Consultants | 16 | 17 |
| Control and supervision | 2 | 1 |
| Corporate brand, brochures, (re-)presentation expenses etc. | 5 | 6 |
| General personal expenses | 3 | 3 |
| ICT expensens | 16 | 12 |
| Office costs | 3 | 3 |
| Other general expenses | 5 | 3 |
| Fees of external independent auditor | 2 | 2 |
| | **59** | **54** |

### Audit fees 2016

| in EUR thousands | Accountants | Other network | Other audit firms | Total |
|---|---|---|---|---|
| **Fees of the external independent auditors can be categorised as follows:** | | | | |
| Audit of financial statements | 1,165 | 254 | - | 1,419 |
| Other audit-related services | 303 | - | 186 | 489 |
| Other non-audit related services | 15 | - | 128 | 143 |
| Tax services | - | - | 22 | 22 |
| | **1,483** | **254** | **336** | **2,073** |

### Audit fees 2015

| in EUR thousands | Accountants | Other network | Other audit firms | Total |
|---|---|---|---|---|
| **Fees of the external independent auditors can be categorised as follows:** | | | | |
| Audit of financial statements | 1,254 | 269 | 43 | 1,566 |
| Other audit-related services | 441 | 24 | 278 | 743 |
| Other non-audit related services | - | - | 34 | 34 |
| Tax services | - | - | 50 | 50 |
| | **1,695** | **293** | **405** | **2,393** |

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 2016 and 2015 annual reports, regardless of whether the work was performed during the financial year.

## 7. Net impairments and provision charges of loans

This item relates to impairments and reservals of loans and advances to customers and banks, interest-bearing securities classified at amortised cost or available-for-sale. In addition it is also related to provisions and reversals of off-balance sheet commitments.

### Financial assets

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Impairments and provision charges of loans** | | |
| **Loans and advances to customers** | | |
| Loans classified at amortised cost | 64 | 72 |
| Residential mortgages own book classified at amortised cost | - | - |
| **Interest-bearing interests** | | |
| Debt investments classified at amortised cost | 6 | 15 |
| Debt investments classified available-for-sale | - | - |
| | **70** | **87** |
| **Reversals** | | |
| **Loans and advances to customers** | | |
| Loans classified at amortised cost | (15) | (26) |
| Residential mortgages own book classified at amortised cost | - | - |
| **Interest-bearing interests** | | |
| Debt investments classified at amortised cost | - | (1) |
| Debt investments classified available-for-sale | - | - |
| | **(15)** | **(27)** |
| Other | 1 | - |
| | **56** | **60** |

## 8. Regulatory charges and levies

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Resolution levy | 4 | 3 |
| Deposit Guarantee Scheme | 9 | - |
| | **13** | **3** |

## 9. Tax

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Current tax | 1 | (14) |
| Deferred tax | - | (2) |
| | **1** | **(16)** |

## 10. Cash and balances with central banks

This item consists of balances with De Nederlandsche Bank (the Dutch Central Bank) as well as balances with foreign central banks in countries where NIBC operates.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Cash and balances with central banks | 845 | 660 |
| | **845** | **660** |
| **Cash and balances with central banks can be categorised as follows:** | | |
| Receivable on demand | 708 | 527 |
| Not receivable on demand | 137 | 133 |
| | **845** | **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 | 7 |
| Longer than five years | - | - |
| Assets with central banks due to mandatory reserve deposits | 129 | 126 |
| | **137** | **133** |

Cash and balances with central banks included EUR 707 million on the current account balance held with Dutch Central Bank (2015: EUR 608 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 | 2016 | 2015 |
|---|---|---|
| Current accounts | 93 | 230 |
| Deposits with other banks | 1,026 | 1,137 |
| Due from group companies | 267 | 79 |
| | **1,386** | **1,446** |
| **Due from other banks can be categorised as follows:** | | |
| Receivable on demand | 360 | 312 |
| Cash collateral placements posted under CSA agreements | 1,026 | 1,128 |
| Not receivable on demand | - | 6 |
| | **1,386** | **1,446** |
| **Legal maturity analysis of due from other 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 | - | 3 |
| Longer than five years | - | 3 |
| | **-** | **6** |

There were no subordinated loans outstanding due from other banks in 2016 and 2015.

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.

Other than from group companies, NIBC does not have receivables from other participating interests.

No impairments were recorded in 2016 and 2015 on the amounts due from other banks at amortised cost.

NIBC transacted several reverse repurchase transactions with third parties. The related disclosures are included in note 47 Repurchase and resale agreements and transferred financial assets of the consolidated financial statements.

## 12. Loans and advances to customers

This item consists of loans and advances arising in the course of business operations, other than receivables from banks and interest-bearing securities.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Amortised cost | 6,047 | 5,841 |
| Available for sale | 24 | 18 |
| Fair value through profit or loss | 294 | 433 |
| Group companies - amortised cost | 17,255 | 13,196 |
| | **23,620** | **19,488** |
| **Legal maturity analysis of loans:** | | |
| On demand or undated | 2,763 | 3,397 |
| Three months or less | 648 | 872 |
| Longer than three months but not longer than one year | 2,443 | 967 |
| Longer than one year but not longer than five years | 11,262 | 8,004 |
| Longer than five years | 6,504 | 6,248 |
| | **23,620** | **19,488** |
| **Movement schedule of loans:** | | |
| **Balance at 1 January** | **19,488** | **14,274** |
| Additions | 6,722 | 7,621 |
| Disposals | (2,478) | (2,697) |
| Other (including exchange rate differences) | (112) | 290 |
| **Balance at 31 December** | **23,620** | **19,488** |
| **Movement schedule of impairment losses on loans:** | | |
| **Balance at 1 January** | **158** | **159** |
| Additional allowances | 64 | 78 |
| Write-offs / disposals | (21) | (51) |
| Amounts released | (15) | (26) |
| Unwinding of discount adjustment | (9) | (5) |
| Other (including exchange rate differences) | 9 | 3 |
| **Balance at 31 December** | **186** | **158** |

| Concentration of loans (excluding loans to group companies) in specific business sectors (in %): | 2016 | 2015 |
|---|---|---|
| Commercial Real Estate | 11 | 11 |
| FAR | 9 | 6 |
| HNWE / Co-Investment | - | - |
| Industrials & Manufacturing | 13 | 12 |
| Infrastructure & Renewables | 20 | 26 |
| Oil & Gas Services | 16 | 15 |
| Shipping & Interrmodel | 21 | 20 |
| TMS | 9 | 7 |
| Other | 1 | 3 |
| | **100** | **100** |

The total amount of subordinated loans in this item amounted to EUR 69 million in 2016 (2015: EUR 63 million).

For the impact of the reclassifications following IASB amendments 'IAS 39 Financial Instruments: Recognition and Measurements' on the income statement and on shareholder's equity, see notes to the consolidated financial statements 2016 of NIBC.

Impairment losses of loans at amortised cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

As a policy, NIBC does not provide loans to its key management personnel (see note 30).

## 13. Interest-bearing interests

This item represents loans and advances to other banks, other than in the form of interest-bearing securities.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Amortised cost | 288 | 278 |
| Available-for-sale | 1,024 | 1,037 |
| Fair value through profit or loss | - | 7 |
| Held for trading | 4 | 12 |
| | **1,316** | **1,334** |

The previous table displays the IFRS accounting classification of interest bearing securities. All interest-bearing securities are non-government, except for EUR 55 millions, and are issued by third parties.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Interest-bearing securities analysed by listing:** | | |
| Listed | 1,262 | 1,190 |
| Unlisted | 54 | 144 |
| | **1,316** | **1,334** |
| **Legal maturity analysis of interest-bearing securities:** | | |
| Three months or less | 34 | 32 |
| Longer than three months but not longer than one year | 105 | 80 |
| Longer than one year but not longer than five years | 358 | 408 |
| Longer than five years | 819 | 814 |
| | **1,316** | **1,334** |
| **Movement schedule of interest-bearing securities:** | | |
| **Balance at 1 January** | **1,334** | **1,266** |
| Additions | 529 | 646 |
| Disposals | (535) | (582) |
| Gains/(losses) from changes in fair value recognised in the income statement | (6) | (14) |
| Changes in fair value | (3) | (4) |
| Other (including exchange rate differences) | (3) | 22 |
| **Balance at 31 December** | **1,316** | **1,334** |

There were no subordinated loans outstanding in interest-bearing interests in 2016 and 2015.

As at 31 December 2016, interest-bearing interests amounts from group companies of EUR 51 million (2015: EUR 4 million).

## 14. Equity investments

This item consists of shares and other non-interest-bearing securities, including temporary other investments.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Available-for-sale | - | - |
| Fair value through profit or loss | 1 | - |
| | **1** | **-** |
| **Movement schedule of equity investments:** | | |
| **Balance at 1 January** | **-** | **2** |
| Additions | | - |
| Disposals (sales and/or capital repayments) | (1) | (4) |
| Impairments | | - |
| Changes in fair value through income statement | 2 | 4 |
| Changes in fair value through equity | - | (2) |
| **Balance at 31 December** | **1** | **-** |

Impairment losses for equity investments at available-for-sale are defined as the difference between the fair value of equity investments that exhibit indicators of impairment and original cost.

## 15. Interests in group companies

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Interests in group companies | 1,209 | 1,074 |
| | **1,209** | **1,074** |
| **Movement schedule of participating interests in group companies** | | |
| **Balance at 1 January** | **1,074** | **986** |
| Purchases and investments | - | - |
| Disposals | 26 | (4) |
| Revaluation | (3) | 3 |
| Results of group companies | 111 | 89 |
| Other (including exchange rate differences) | 1 | - |
| **Balance at 31 December** | **1,209** | **1,074** |

| List of Principal Participating Interests of NIBC | |
|---|---|
| NIBC Bank Deutschland AG, Frankfurt | 100% |
| Parnib Holding N.V., The Hague | 100% |
| Counting House B.V., The Hague | 100% |
| B.V. NIBC Mortgage Backed Assets, The Hague | 100% |
| NIBC Principal Investments B.V., The Hague | 100% |
| NIBC Financing N.V., The Hague | 100% |

## 16. Property, plant and equipment

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Land and buildings | 24 | 27 |
| Other fixed assets | 4 | 5 |
| | **28** | **32** |
| **Movement schedule of land and buildings:** | | |
| **Balance at 1 January** | **27** | **20** |
| Additions | - | 9 |
| Revaluation | - | - |
| Depreciation | (3) | (2) |
| Impairments | - | - |
| Disposals | - | - |
| **Balance at 31 December** | **24** | **27** |
| Gross carrying amount | 61 | 61 |
| Accumulated depreciation | (37) | (34) |
| Accumulated impairments | - | - |
| | **24** | **27** |
| **Movement schedule of revaluation surplus:** | | |
| **Balance at 1 January** | **7** | **8** |
| Depreciation | - | (1) |
| **Balance at 31 December** | **7** | **7** |
| **Movement schedule of other fixed assets:** | | |
| **Balance at 1 January** | **5** | **4** |
| Additions | 2 | 4 |
| Revaluation | - | - |
| Depreciation | (3) | (3) |
| Impairments | - | - |
| Disposals | - | - |
| **Balance at 31 December** | **4** | **5** |
| Gross carrying amount | 25 | 23 |
| Accumulated depreciation | 21 | 18 |
| Accumulated impairments | - | - |
| | **4** | **5** |

Buildings in use by NIBC are insured for EUR 74 million (2015: EUR 72 million).

There is no property, plant and equipment pledged as security for liabilities.

There were no contractual commitments for the acquisition of property, plant and equipment at 31 December 2016 and 31 December 2015.

NIBC's land and buildings in own use were revalued as of 31 December 2014 based on an external appraisal (a valuation is carried out every three years).

## 17. Derivative financial instruments

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Derivative financial assets** | | |
| Derivative financial assets used for hedge accounting | 177 | 168 |
| Derivative financial assets - other | 2,073 | 2,467 |
| | **2,250** | **2,635** |
| **Derivative financial liabilities can be broken down as follows:** | | |
| Derivative wih third parties | 1,811 | 2,102 |
| Derivative with group companies | 439 | 533 |
| | **2,250** | **2,635** |
| **Derivative financial liabilities** | | |
| Derivative financial liabilities used for hedge accounting | 89 | 45 |
| Derivative financial liabilities - other | 1,976 | 2,380 |
| | **2,065** | **2,425** |
| **Derivative financial liabilities can be broken down as follows:** | | |
| Derivative wih third parties | 1,983 | 2,252 |
| Derivative with group companies | 82 | 173 |
| | **2,065** | **2,425** |

Derivative financial assets and liabilities used for hedge accounting are derivatives designated in hedge accounting relationships as defined in IAS 39.

The derivatives financial assets and liabilities in the category "other" are classified as held for trading according to IAS 39.

The derivatives in this category consist of:
- Interest rate swaps to hedge the interest rate risk of the mortgage portfolio;
- Interest rate swaps to transform fixed rate funding into floating rate funding;
- FX and cross-currency swaps to fund the non-euro loans to customers or to transform non-euro funding into euros;
- Client-driven derivative transactions and hedges resulting from this activity; and
- Limited money market trading.

Economically all these derivatives, with the exception of the limited proprietary trading, are used to hedge interest rate or FX risk. The limited proprietary trading is controlled by a small facilitating VaR limit of EUR 2.25 million. For further details see note 58 Market risk of the consolidated financial statements.

## Derivative financial instruments used for hedge accounting at 31 December 2016

| in EUR millions | Notional amount with remaining life of: Less than three months | Between three months and one year | More than one year | Total | Assets | Liabilities |
|---|---|---|---|---|---|---|
| **Derivatives accounted for as fair value hedges of interest rate risk** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps | - | 10 | 7,996 | 8,006 | 121 | 87 |
| Interest currency rate swaps | - | - | 18 | 18 | 6 | - |
| | **-** | **10** | **8,014** | **8,024** | **127** | **87** |
| **Derivatives accounted for as cash flow hedges of interest rate risk** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps | 25 | 225 | 1,852 | 2,102 | 50 | 2 |
| | **25** | **225** | **1,852** | **2,102** | **50** | **2** |
| **Total derivatives used for hedge accounting** | **25** | **235** | **9,866** | **10,126** | **177** | **89** |

## Derivative financial instruments used for hedge accounting at 31 December 2015

| 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 | 20 | 4,898 | 2,115 | 7,033 | 120 | 44 |
| Interest currency rate swaps | - | - | 17 | 17 | 6 | - |
| | **20** | **4,898** | **2,132** | **7,050** | **126** | **44** |
| **Derivatives accounted for as cash flow hedges of interest rate risk** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps | 25 | 1,142 | 976 | 2,143 | 42 | 1 |
| | **25** | **1,142** | **976** | **2,143** | **42** | **1** |
| **Total derivatives used for hedge accounting** | **45** | **6,040** | **3,108** | **9,193** | **168** | **45** |

## Derivative financial instruments- other at 31 December 2016

| in EUR millions | Notional amount with remaining life of Less than three months | Between three months and one year | More than one year | Total | Assets | Liabilities |
|---|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps | 6,803 | 15,362 | 34,194 | 56,359 | 1,911 | 1,872 |
| Interest rate options (purchase) | - | 60 | 714 | 774 | 2 | - |
| Interest rate options (sale) | - | 30 | 782 | 812 | - | 2 |
| | **6,803** | **15,452** | **35,690** | **57,945** | **1,913** | **1,874** |
| **Derivatives accounted for as cash flow hedges of interest rate risk** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps | 277 | 760 | 1,809 | 2,846 | 148 | 88 |
| Currency/cross-currency swaps | 451 | - | - | 451 | 4 | - |
| | **728** | **760** | **1,809** | **3,297** | **152** | **88** |
| **Other derivatives (including credit derivatives** | | | | | | |
| ***OTC products:*** | | | | | | |
| Credit default guarantees given | - | 10 | 4 | 14 | - | 1 |
| Credit default guarantees received | - | 10 | - | 10 | - | - |
| Other swaps | 27 | - | 35 | 62 | 8 | 13 |
| | **27** | **20** | **39** | **86** | **8** | **14** |
| **Total derivatives - other** | **7,558** | **16,232** | **37,538** | **61,328** | **2,073** | **1,976** |

## Derivative financial instruments- other at 31 December 2015

| 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 | 3,978 | 44,756 | 19,547 | 68,281 | 2,369 | 2,301 |
| Interest rate options (purchase) | - | 414 | 45 | 459 | 2 | - |
| Interest rate options (sale) | - | 620 | 54 | 674 | - | 2 |
| | **3,978** | **45,790** | **19,646** | **69,414** | **2,371** | **2,303** |
| **Derivatives accounted for as cash flow hedges of interest rate risk** | | | | | | |
| ***OTC products:*** | | | | | | |
| Interest rate swaps | 207 | 2,776 | 32 | 3,015 | 75 | 55 |
| Currency/cross-currency swaps | 203 | - | - | 203 | 6 | 1 |
| | **410** | **2,776** | **32** | **3,218** | **81** | **56** |
| **Other derivatives (including credit derivatives** | | | | | | |
| ***OTC products:*** | | | | | | |
| Credit default guarantees given | 14 | - | - | 14 | - | 1 |
| Credit default guarantees received | 10 | - | - | 10 | | - |
| Other swaps | 28 | - | 37 | 65 | 15 | 20 |
| | **52** | **-** | **37** | **89** | **15** | **21** |
| **Total derivatives - other** | **4,440** | **48,566** | **19,715** | **72,721** | **2,467** | **2,380** |

**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 | 2016 | 2015 |
|---|---|---|
| Fair value pay - fixed swaps (hedging assets) \| assets | 6 | 3 |
| Fair value pay - fixed swaps (hedging assets) \| liabilities | (80) | (34) |
| | **(74)** | **(31)** |
| **Derivative financial liabilities** | | |
| Fair value pay - floating swaps (hedging liabilities) \| assets | 121 | 123 |
| Fair value pay - floating swaps (hedging liabilities) \| liabilities | (7) | (10) |
| | **114** | **113** |

**Cash flow hedges of interest rate risk**
The following table discloses the fair value of the swaps designated in cash flow hedging relationships:

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Fair value receive - fixed swaps \| assets | 50 | 42 |
| Fair value receive - fixed swaps \| liabilities | (2) | - |
| | **48** | **42** |
| Fair value receive - floating swaps \| assets | - | - |
| Fair value receive - floating swaps \| liabilities | - | - |
| | **-** | **-** |

**Sum of fair value and cash flow hedges of interest rate risk**

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Fair value pay swaps \| assets | 127 | 126 |
| Fair value receive swaps \| assets | 50 | 42 |
| | **177** | **168** |
| Fair value pay swaps \| liabilities | (87) | (44) |
| Fair value receive swaps \| liabilities | (2) | - |
| | **(89)** | **(44)** |

The average remaining maturity (within which the related cash flows are expected to enter into the determination of profit and loss) is five years (2015: four years).

## 18. Other assets

This item relates to goods and warehouse receipts, current and deferred tax assets and assets that cannot be classified under any other heading.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Accrued interest | 1 | - |
| Current tax | - | - |
| Deferred tax assets | 24 | 23 |
| Accrued income and repayments | 44 | 43 |
| | **69** | **66** |
| Deferred tax assets | 24 | 23 |
| Deferred tax liabilities[1] | (17) | (17) |
| | **7** | **6** |

1 Deferred tax liabilities are presented in note 24 Provisions.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Deferred income tax assets, without taking into consideration the offsetting of balances within the same jurisdiction:** | | |
| Debt securities | 2 | 2 |
| Tax losses carried forward | 22 | 23 |
| | **24** | **25** |
| **Deferred income tax liabilities, without taking into consideration the offsetting of balances within the same jurisdiction** | | |
| Equity investments (available for sale) | 1 | |
| Cash flow hedges | 14 | 17 |
| Property, plant and equipment | 2 | 2 |
| | **17** | **19** |
| | **7** | **6** |

| in EUR millions | 2016 | 2015 |
|---|---|---|
| **Gross movement on the deferred income tax account:** | | |
| **Balance at 1 January** | **6** | **2** |
| **Debt investments (reported as available-for-sale):** | | |
| Fair value remeasurement charged/(credited) to revaluation reserve | - | 2 |
| **Equity investments (reported as available-for-sale):** | | |
| Fair value remeasurement charged/(credited) to hedging reserve | (1) | - |
| **Cash flow hedges:** | | |
| Fair value remeasurement charged/(credited) to hedging reserve | 3 | 3 |
| Tax losses carried forward | (1) | (1) |
| **Balance at 31 December** | **7** | **6** |

The deferred tax asset is recognised to the extent that taxable profit will be available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are measured for all temporary differences using the liability method. The effective tax rate in the Netherlands for measuring deferred tax is 25% (2015: 25%). There were no changes in deferred tax assets and liabilities resulting from changes in the effective tax rate in the Netherlands. Deferred tax assets recognised in respect of carry forward losses can only be utilized if taxable profits are realised in the future. To measure deferred tax assets, NIBC takes a prudent approach regarding future compensation of carry forward losses. On 31 December 2016 there was a realistic expectation that sufficient taxable profits would be generated within the applicable periods for the recognised deferred tax asset.

## 19. Due to other banks

This item represents amounts owed to credit institutions, other than debt securities and subordinated debt, of which:

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Due to other banks | 541 | 602 |
| Due to central banks | 900 | 241 |
| | **1,441** | **843** |
| **Due to other banks:** | | |
| Payable on demand | 174 | 67 |
| Note payable on demand | 1,267 | 776 |
| | **1,441** | **843** |
| **Legal maturity analysis of due to other banks:** | | |
| Three months or less | 297 | 381 |
| Longer than three months but not longer than one year | 48 | 5 |
| Longer than one year but not longer than five years | 905 | 241 |
| Longer than five years | 191 | 216 |
| | **1,441** | **843** |

Interest is recognised in interest expense and similar charges on an effective interest basis.

NIBC transacted several repurchase transactions with third parties. The related disclosures are included in note 47 Repurchase and resale agreements and transferred financial assets.

At 31 December 2016, an amount of EUR 114 million (2015: EUR 188 million) related to cash collateral received from third parties.

Amounts attracting under *Targeted Longer Term Refinancing Operation* (**TLTRO**) is EUR 900 million (2015: EUR 241 million).

## 20. Customer deposits and other funds on deposit

This item consists of amounts due to customers other than debt securities.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Customer deposits and other funds on deposit | 20,246 | 17,273 |
| | **20,246** | **17,273** |
| **Customer deposits and other funds on deposit:** | | |
| Certificates of deposits | 4,275 | 4,600 |
| Due to customers | 15,971 | 12,673 |
| | **20,246** | **17,273** |
| **Customer deposits and other funds on deposit:** | | |
| Payable on demand | 5,445 | 4,550 |
| Note payable on demand | 14,801 | 12,723 |
| | **20,246** | **17,273** |
| **Legal maturity analysis of deposits from customers not payable on demand:** | | |
| Three months or less | 9,316 | 8,988 |
| Longer than three months but not longer than one year | 2,773 | 3,285 |
| Longer than one year but not longer than five years | 5,895 | 3,877 |
| Longer than five years | 2,262 | 1,123 |
| | **20,246** | **17,273** |

Interest is recognised in interest expense and similar charges on an effective interest basis.

The balance sheet item included EUR 3,003 million (2015: EUR 6,901 million) in respect of deposits from customers to group companies.

The balance sheet item includes all non-subordinated liabilities other than debt securities and amounts owed to credit institutions.

## 21. Debt securities in issue

This item relates to non-subordinated bonds and other interest-bearing securities and fair value hedge accounting adjustments.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Bonds and notes issued - amortised costs | 3,827 | 3,052 |
| Bonds and notes issued - through profit or loss | 657 | 739 |
| Fair value hedge adjustment on amortised cost bonds and notes issued | 53 | 48 |
| | **4,537** | **3,839** |
| **Legal maturity analysis of debt securities:** | | |
| Three months or less | - | 68 |
| Longer than three months but not longer than one year | 82 | 338 |
| Longer than one year but not longer than five years | 2,396 | 1,755 |
| Longer than five years | 2,059 | 1,678 |
| | **4,537** | **3,839** |

## 22. Other liabilities

This item includes liabilities that cannot be classified under any other heading, such as liabilities for staff costs and taxes.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Interest | - | 6 |
| Acruals | 23 | 19 |
| Payables | 24 | 25 |
| | **47** | **50** |

## 23. Provisions

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Reorganisation provision | 2 | - |
| Deferred tax liabilities[1] | 17 | 17 |
| Employee benefits | 3 | 3 |
| | **22** | **20** |
| **Movement schedule of reorganisation provisions:** | | |
| **Balance at 1 January** | **-** | **-** |
| Additional allowances | 2 | - |
| Write-offs | - | - |
| Amounts released | - | - |
| **Balance at 31 December** | **2** | **-** |

1 Deferred tax assets and liabilities are disclosed in note 19 Other assets.

In 2016, a reorganisation provision of EUR 1.9 million was recognised as a result of further measures that have been taken to transform the IT department, in order to improve performance and to add value to the business. These measures are expected to result in a further reduction of the IT deparment of around 28 FTEs.

In addition, in 2016, a reorganisation provision of EUR 0.3 million was recognised related to an expected reduction of the workforce of around 5 FTEs.

Each of these intiatives will be implemented in 2016 and 2017 and the estimate of the reorganisation provisions is inherently uncertain. The provisions at balance sheet date represent the best estimate of the expected redundancy costs and are expected to be sufficient to cover these costs.

## 24. Subordinated liabilities

This represents IFRS accounting classification of subordinated loans.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Amortised cost | 121 | 119 |
| Designated at fair value through profit or loss | 276 | 280 |
| | **397** | **399** |

**Subordinated loans - amortised cost**

## Legal maturity analysis of subordinated liabilities amortised cost

| | 2016 | 2015 |
|---|---|---|
| One year or less | - | - |
| Longer than one year but not longer than five years | - | - |
| Longer than five years but not longer than ten years | 51 | 51 |
| Longer than ten years | 70 | 68 |
| | **121** | **119** |

The subordinated loans classified at amortised cost are subordinated to the other liabilities of NIBC. With respect to the new CRR/CRDIV requirements regarding additional Tier-1 capital instruments, non-qualifying subordinated loans amounted to EUR 57 million (2015: EUR 56 million). Interest expense of EUR 4 million was recognised on subordinated liabilities during the year 2016 (2015: EUR 4 million). In 2016 and 2015, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item.

The subordinated liabilities reflect five transactions (2015: five transactions), of which the largest three total EUR 120 million (2015 largest three: EUR 118 million).

## Subordinated liabilities - designated at fair value through profit or loss

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Non-qualifying as grandfathered additional Tier-1 capital | - | 172 |
| Subordinated loans other | 276 | 108 |
| | **276** | **280** |

## Legal maturity analysis of subordinated liabilities:

| | 2016 | 2015 |
|---|---|---|
| One year or less | 1 | 17 |
| Longer than one year but not longer than five years | - | 1 |
| Longer than five years but not longer than ten years | - | - |
| Longer than ten years | 275 | 262 |
| | **276** | **280** |

The subordinated loans classified at fair value are subordinated to the other liabilities of NIBC. The non-qualifying as grandfathered additional Tier-1 capital consists of perpetual securities and may be redeemed by NIBC only with the prior approval of the Dutch Central Bank. Interest expense of EUR 16 million was recognised on subordinated liabilities during the year 2016 (2015: EUR 17 million). In 2016, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item (2015: nil).

The subordinated liabilities reflect seven transactions (2015: eight transactions), of which the largest three total EUR 206 million (2015 largest three: EUR 196 million).

## 25. Shareholder's equity

The ultimate controlling company is New NIB Limited, a company incorporated in Ireland.

| in EUR millions | 2016 | 2015 |
|---|---|---|
| Share capital | 80 | 80 |
| Share premium | 238 | 238 |
| Revaluation reserves | 156 | 60 |
| Other reserves | 1,393 | 1,437 |
| Net profit for the year | 102 | 71 |
| | **1,969** | **1,886** |

### Share capital

This section includes the fully issued and paid-up share capital. No changes occurred in the issued share capital in 2016 and 2015.

| | 2016 | 2015 | 2016 | 2015 |
|---|---|---|---|---|
| | Numbers x 1,000 | | In EUR millions | |
| Authorised share capital | 183,598 | 183,598 | 215 | 215 |
| Unissued share capital | 121,011 | 121,011 | 135 | 135 |
| **Issued share capital A shares** | **62,587** | **62,587** | **80** | **80** |
| | Numbers x 1,000 | | In EUR millions | |
| **The number and total amounts of authorised shares :** | | | | |
| Class A share | 110,938 | 110,938 | 142 | 142 |
| Class B, C, D, E1 and E3 preference shares | 72,600 | 72,600 | 73 | 73 |
| Class E4 preference share | 60 | 60 | - | - |
| | **183,598** | **183,598** | **215** | **215** |
| | | | In EUR | |
| **Classes and par values of authorised shares :** | | | | |
| Class A share | | | 1.28 | 1.28 |
| Class B, C, D, E1 and E3 preference shares | | | 1.00 | 1.00 |
| Class E4 preference share | | | 5.00 | 5.00 |

### Share premium

No changes occurred in the share premium in 2016 and 2015.

### Changes in revaluation reserves

| in EUR millions | Property in own use reserve | Available-for-sale reserve | Cash flow hedge reserve | Own credit risk reserve | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **8** | **6** | **61** | **-** | **75** |
| Unrealised revaluations | - | (3) | - | - | (3) |
| Changes in cash flow hedge reserve | - | - | (12) | - | (12) |
| Changes in liabilty credit reserve | - | - | - | - | - |
| **Balance at 31 December 2015** | **8** | **3** | **49** | **-** | **60** |

| in EUR millions | Property in own use reserve | Available-for-sale reserve | Cash flow hedge reserve | Own credit risk reserve | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2016** | **8** | **3** | **49** | **-** | **60** |
| Impact of adopting IFRS 9 Own credit risk | - | - | - | 115 | 115 |
| **Restated balance at 1 January 2016** | **8** | **3** | **49** | **115** | **175** |
| Unrealised revaluations | - | (1) | - | - | (1) |
| Changes in cash flow hedge reserve | - | - | (6) | - | (6) |
| Changes in liabilty credit reserve | - | - | - | (12) | (12) |
| **Balance at 31 December 2016** | **8** | **2** | **43** | **103** | **156** |

## Changes in other reserves

| in EUR millions | Statutory reserve | Retained earnings | Total |
|---|---|---|---|
| **Balance at 1 January 2015** | **247** | **1,162** | **1,409** |
| Transfer of net profit previous financial year | - | 24 | 24 |
| Other | - | 4 | 4 |
| Movement related to statutory reserves | (30) | 30 | - |
| **Balance at 31 December 2015** | **217** | **1,220** | **1,437** |

| in EUR millions | Statutory reserve | Retained earnings | Total |
|---|---|---|---|
| **Balance at 1 January 2016** | **217** | **1,220** | **1,437** |
| Impact of adopting IFRS 9 Own credit risk | - | (115) | (115) |
| **Restated balance at 1 January 2016** | **217** | **1,105** | **1,322** |
| Transfer of net profit previous financial year | - | 71 | 71 |
| Movement related to statutory reserves | (19) | 19 | - |
| **Balance at 31 December 2016** | **198** | **1,195** | **1,393** |

Information on NIBC's solvency ratios is included in the risk management section of this Annual Report.

**Statutory reserves**

This concerns the reserve for unrealised fair value changes on residential mortgages (own book and securitised), certain non-listed trading assets, derivatives related to residential mortgages (own book and securitised) and these non-listed trading assets, and on associates designated at fair value through profit or loss and liabilities designated at fair value through profit or loss.

Including the revaluation and hedging reserves displayed in note 43 of the consolidated financial statements, total legal reserves at 31 December 2016 amount to EUR 258 million, including an amount of EUR 103 million relating to the Own credit risk reserve (2015: EUR 284 million).

## 26. 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 | 2016 | 2015 |
|---|---|---|
| **Contract amount:** | | |
| Undrawn facilities and capital commitments | 1,241 | 1,358 |
| Guarantees and letters of credit | 77 | 39 |
| | **1,318** | **1,397** |

These commitments and contingent liabilities have off-balance sheet credit risk because only commitment/origination fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

Details of concentrations of credit risk including concentrations of credit risk arising from commitments and contingent liabilities as well as NIBC's policies for collateral for loans are set out in note 56 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.

## 27. 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.

## 28. Assets pledged as security

For a specification of the assets pledged as security, please see note 49 of the consolidated financial statements.

## 29. 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 2016, the total assets held by NIBC on behalf of customers were EUR 1,583 million (2015: EUR 1,703 million).

## 30. Related party transactions

For a specification of the related party transactions, see note 52 of the consolidated financial statements.

## 31. Principal subsidiaries and associates

For a specification of the principal subsidiaries and associates, see note 53 of the consolidated financial statements.

## 32. Financial risk management

Please see notes 56 to 59 of the consolidated financial statements, for NIBC's risk management policies.

## 33. Remuneration

For the remuneration of the Statutory Board members and Supervisory Board members, see notes 7 and 55 of the consolidated financial statements.

At 31 December 2016 and 31 December 2015, there were no receivables outstanding with current and former members of the Statutory Board and Supervisory Board.

## 34. Profit appropriation

| in EUR millions | 2016 |
|---|---|
| Result available for shareholder's distribution | 102 |
| | **102** |
| Interim dividend paid 2016 | - |
| Proposed final dividend 2016 | 25 |
| Transferred to retained earnings | 77 |
| | **102** |

## 35. Subsequent events

In January 2017, NIBC announced that, despite their logical position in and their contribution to NIBC Markets, the activities of *NIBC Vermogensbeheerders Services* (**NVS**), *Third Party*

*Execution* (**TPS**) and *Specialised Asset Management* (**SAM**) are no longer part of the strategic priorities of the Bank. Because of the current and expected scale and profitability, increasing regulatory pressures (ao MiFID II and EMIR) and the related deployment of scarce resources, for example for IT investments, it was decided that these services will be discontinued in the first half of 2017. In the best interest of the related employees and clients, options are being explored for transferring the NVS and SAM services to another market player.

Within NIBC Markets, NIBC decided to give priority to ECM and DCM, Fixed Income and Equity Sales & Trading and Research. These business units are crucial to NIBC's strategic ambition. They offer NIBC's investor clients and corporate clients primary and secondary sales & trading solutions, and independent equity research.

**The Hague, 7 March 2017**

## Managing Board

Paulus de Wilt, Chief Executive Officer, Chairman
Herman Dijkhuizen, Chief Financial Officer
Reinout van Riel, Chief Risk Officer

## Supervisory Board

Mr. W.M. van den Goorbergh, Chairman
Mr. D.R. Morgan, Vice-Chairman
Mr. M.J. Christner
Mr. J.C. Flowers
Mr. D.M. Sluimers
Mr. A. de Jong
Ms. S.A. Rocker
Ms. K.M.C.Z. Steel
Mr. A.H.A. Veenhof

# OTHER INFORMATION

# AUDITOR'S REPORT

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# Independent auditor's report

To: the shareholders and supervisory board of NIBC Bank N.V.

## Report on the audit of the financial statements 2016 included in the annual report

### Our opinion

We have audited the financial statements 2016 of NIBC Bank N.V. (hereinafter: NIBC or the Company), based in 's-Gravenhage. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of NIBC Bank N.V. as at 31 December 2016, and of its result and its cash flows for 2016 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 2016, and of its result for 2016 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 2016
- The following statements for 2016: the consolidated income statement, the consolidated statements of comprehensive income, changes in shareholder's equity and the consolidated cash flow statement
- The notes comprising a summary of the critical accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2016
- The following statements for 2016: the company income statement, the company statements of comprehensive income and changes in shareholder's equity
- The notes comprising a summary of the accounting policies and other explanatory information

### Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of NIBC Bank N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Materiality

| | |
|---|---|
| Materiality | EUR 5.9 million |
| Benchmark applied | 5% of operating profit before tax. |
| Explanation | Based on our professional judgment, a benchmark of 5% of operating profit before tax is an appropriate quantitative indicator of materiality and it best reflects the financial performance of NIBC. We have applied the initial planning materiality of EUR 5.9 million as set in our planning phase. Based on the actual operating income before tax as of 31 December 2016 we reassessed the materiality and concluded to apply the materiality initially set. |

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of EUR 300 thousand, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### Scope of the group audit

NIBC Bank N.V. 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. Our group audit mainly focused on significant group entities in the Netherlands and Germany based on size and risk.

By performing the procedures mentioned above at group entities, together with 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.

### 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.

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.

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| Estimation uncertainty with respect to impairment losses on corporate loans | |
|---|---|
| Key audit matter | The appropriateness of the loan impairment allowances for corporate loans require judgment of management. Impairment losses are incurred if there is objective evidence of impairment as a result of a loss event that has an impact on the estimated future cash flows of the loans that can be reliably estimated. The identification of impairment and the determination of the recoverable amount are part of the estimation process at NIBC including, amongst others, the assessment of objective evidence for impairment, the financial condition of the counterparty, the expected future cash flows and the value of collateral. For corporate loans that are individually not impaired, the company assesses on a collective basis whether further impairment losses are present in the portfolio of accumulated loans with a similar risk. Through the use of models, the company estimates and accounts for incurred but not reported impairment losses based on the emergence period and historical loss and recovery rates. The use of different modelling techniques and assumptions could lead to different estimates of impairment charges on corporate loans. Furthermore, associated risk management disclosures are complex and dependent on high quality data. As the corporate loans classified as loans and receivables at amortized cost amount to EUR 8.269 million as at 31 December 2016 and given the related estimation uncertainty on impairment charges, we consider this a key audit matter. Refer to the Critical accounting estimates and judgments section in note 1 to the financial statements, note 11 Impairments of financial and non-financial assets, note 15 Loans (amortized cost) and related disclosures of credit risk within note 56 Credit risk. |
| Our audit approach | In our audit we assessed and tested the design and operating effectiveness of controls within the loan origination process, risk management process and the estimation process of determining impairment losses. In addition, on a risk based approach we have performed a detailed credit file review for loan impairment allowances calculated on an individual basis. In selecting the loan exposures for our detailed credit file review, we applied professional judgment with an emphasis on pre-default exposures in shipping & intermodal, oil & gas and commercial real estate due to for instance pressure on oil prices, charter rates, real estate valuations and macro-economic conditions. We challenged the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. Furthermore, we updated our risk based approach considering the results from the Asset Quality Review (AQR) on Corporate Loans performed by the Dutch Central Bank in 2016. For loan loss provisions calculated on a collective basis we tested, supported by our specialists, the underlying models including the model approval and validation process. We also tested the appropriateness and accuracy of the inputs to those models, such as the loss emergence period and historical loss estimates and experiences, and where available, compared data and assumptions made to external benchmarks. Finally we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in EU-IFRS. |

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| Estimation uncertainty with respect to financial instruments measured at fair value | |
|---|---|
| Key audit matter | Fair value measurement, hedge accounting and associated valuation adjustments can be a subjective area and more so for areas were NIBC uses model based valuation or with weak liquidity and price discovery. Also, considering the current low interest rate environment, existing prepayment models could lose their predictive value required for the fair valuation of the residential mortgage portfolio and the hedge accounting applied. Valuation techniques and models used can be subjective in nature and involve various assumptions regarding pricing and pre-payment behavior. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value and/or hedge effectiveness. Associated risk management disclosure is complex and dependent on high quality data. Specific areas of focus include the valuation of the residential mortgages (residential mortgages own book and securitized mortgages) at fair value through profit or loss, together with the gains and losses on the derivatives (including credit and debit valuation adjustments) used to hedge interest rate risk arising on the portfolio, both presented in net trading income. The valuation of residential mortgages is determined through a valuation model in which the expected cash flows (including a prepayment rate to reflect early redemptions in the portfolio) are discounted to present value using interbank zero-coupon rates and a retail mortgage specific discount spread. NIBC applied amongst others observable primary RMBS transactions in the estimate of the relevant discount spread.<br>Other specific areas of focus include the valuation of own liabilities (own debt securities in issue, debt securities in issue structured and subordinated liabilities) designated at fair value through profit or loss, using models through which the value of each individual financial liability in the portfolio is determined. These liabilities consist of notes issued with embedded derivatives for which the valuation is determined using valuation models. For each class of financial liabilities at fair value through profit or loss, the expected cash flows are discounted to present value using a risk free rate and an estimate for the own credit spread. Since the market for cash and synthetic funding and protection of the company is inactive and/or infrequent, management also identified a number of observable data points to substantiate its own credit spread. These data points include primary unsecured issuances by NIBC, primary unsecured and subordinated issuances by other financial institutions, the company's CDS spread, actual transactions in paper of the company and industry index developments.<br>Where applicable, observed data inputs have been adjusted to reflect NIBC's credit rating and the characteristics of the portfolio. This analysis results in a range of data points in which the applied credit spread at 31 December 2016 falls. As the residential mortgages (own book and securitized), designated at fair value through profit or loss, amount to EUR 4,124 million and EUR 1,550 million respectively, own debt securities in issue, debt securities in issue structured and subordinated liabilities designated at fair value through profit or loss amount to EUR 37 million, EUR 620 million and EUR 276 million respectively, and given the subjectivity in the determination of the discount spread, the prepayment rate, in the determination of the own credit spread, we determined this to be a key audit matter. |

| | |
|---|---|
| | Refer to the accounting policies "financial instruments designated upon initial recognition at fair value through profit or loss", the critical accounting estimates and judgments 'residential mortgages', note 5 "net trading income", note 22 residential mortgages own book (designated at fair value through profit and loss), and note 23 "securitized residential mortgages (designated at fair value through profit or loss)", note 37 "own debt securities in issue (designated at fair value through profit or loss)", note 38 "debt securities in issue structured (designated at fair value through profit or loss)" and note 42 "subordinated liabilities (designated at fair value through profit and loss)", note 44 Fair value of financial instruments. |
| Our audit approach | We assessed and tested the design and operating effectiveness of controls over valuation, independent price verification, hedge accounting and model approval. We performed additional procedures for areas of higher risk and estimation with the assistance of our valuation specialists. This included a challenge of pre-payment assumptions made for the fair valuation of the residential mortgage portfolio and the hedge accounting and, where relevant, comparison of judgments made to current and emerging market practice and re-performance of valuation based on a retail mortgage specific spread. Furthermore, we tested and challenged the appropriateness of the data points used in the determination of the own credit spread, which included reconciliation of data to supporting evidence and further analysis of available benchmark data. We also tested any adjustments made by the company to reflect its credit rating and the characteristics of the portfolio in the applied data points. We reconstructed the range of data points to conclude whether management's estimate of its own credit spread falls within the acceptable range. In addition, we tested on a sample basis the credit and debit valuation adjustments calculated by NIBC. Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in EU-IFRS. |
| **Purchase price allocation of SNS Securities N.V.** | |
| Key audit matter | The acquisition of SNS Securities (renamed to NIBC Markets) in 2016 was significant to our audit due to the complexity and significant judgments and assumptions involved in determining the purchase price allocation for SNS Securities. At acquisition date 30 June 2016, "negative goodwill" of EUR 22 million was recognized as income in other operating income of the consolidated income statement. In January 2017 NIBC decided and announced to discontinue the external asset managers services, third party execution and specialized asset management in the first half of 2017. Refer to note 51 Business combinations and divestments and note 61 Subsequent events. |
| Our audit approach | With respect to the accounting for the SNS Securities acquisition, we have, amongst others, audited the completion accounts of SNS Securities as of 30 June 2016, read the share purchase agreement, confirming the correct accounting treatment has been applied and assessed the valuation accounting, especially the treatment of any identified intangible assets related to customer relationships. In doing so, we have utilized valuation specialists to assist with the audit. Finally we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in EU-IFRS. |

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| Reliability and continuity of the information technology and systems | |
|---|---|
| Key audit matter | NIBC is dependent on the IT infrastructure for the continuity and reliability of their business processes and financial reporting. NIBC continuously made investments to further improve the IT environment and IT systems. Furthermore, the role of financial disclosures is important to stakeholders and increasing data granularity in financial reporting and regulatory reporting requirements urge for high quality data and an adequate IT environment. We therefore consider this as a key audit matter. |
| Audit approach | As part of our audit procedures we tested the IT general controls related to logical access and change management and application controls embedded in NIBC's key processes. Our work consisted of assessing the developments in the IT infrastructure and analyzing the impact on the IT organization. In addition, we assessed the reliability and continuity of the IT environment and the possible impact of changes during the year either from the ongoing transitioning initiative toward a platform sourced by an external party or from external factors such as reporting requirements. We assessed the reliability and continuity of electronic data processing only to the extent necessary within the scope of the audit of the financial statements. |

## Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- At a Glance
- Key figures
- Letter from the CEO
- Report of the managing board
- Report of the supervisory board
- Remuneration Report
- Corporate Governance
- Risk Management
- In Control Report
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The managing board is responsible for the preparation of the other information, including the report of the managing board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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## 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 incoming statutory auditor ever since that date.

## Description of responsibilities for the financial statements

### Responsibilities of the managing board and the supervisory board for the financial statements

The managing board 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, the managing board is responsible for such internal control as the managing board 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, the managing board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the managing board should prepare the financial statements using the going concern basis of accounting unless the managing board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The managing board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

### Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the managing board

- Concluding on the appropriateness of the managing boards' use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 7 March 2017

Ernst & Young Accountants LLP

signed by N.Z.A. Ahmed-Karim

# 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 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).

# PRINCIPAL SUBSIDIARIES AND OFFICES

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# 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, through a template that includes definitions, reporting considerations, analytics and relevant controls. The reported non-financial key figures were subject to Internal Audit's audit procedures.

## 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). In the Key Figures section, the absenteeism rate relates to our offices in The Netherlands only. Employee figures reflect the situation on 31 December 2016.

NIBC is a signatory to the UN Global Compact. This 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; and
- Legal and regulatory requirements. For NIBC, the principal regulatory requirements are contained in the Dutch Corporate Governance Code and the Banking Code. Please see the Corporate Governance sector for more details.

## Accountability and reporting standards

Our non-financial key figures are prepared in accordance with the reporting criteria and guidelines of the latest Global Reporting Initiative (GRI) Standards. We have applied the GRI Standards guidelines at a "core" level with no exceptions. The GRI content index and glossary of definitions can be found in the appendices available on our website.

The methodology used for the calculation of indicators for 2016 is the same as for 2015 unless otherwise specified in the 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 transparency, product responsibility, client satisfaction, and stakeholder engagement. Given their importance to stakeholders, NIBC will focus on in these areas while continuing to prioritize our efforts across the other twelve aspects which stakeholders found to be most material.

## Assurance

Non-financial key figures are as relevant to NIBC as financial data. For this reason, we have engaged EY to perform a reasonable assurance engagementon the non-financial key figures in our Key Figures. EY has not performed assurance procedures on any other non-financial information in this report in light of this engagement.

These non-financial key figures were determined through a materiality analysis of the aspects which are most important our stakeholders and where NIBC has the most impact. We therefore decided to ask EY to provide assurance on these specific indicators.

Such an external assessment is a logical step on our path towards further transparency. At the same time, we have opted for an appropriate approach that takes account of the time and cost impact on our organisation. EYs assurance work is performed in accordance with the Dutch Standard 3000, assurance engagements other than audits of historical financial information.

NIBC's Internal Audit department plays an important role in the assurance of our data. This department applies an ongoing risk-based approach to audit NIBC's operational processes as part of our three lines of defence risk management model. For more information, please see the Risk Management section.

# 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 and website.

## NPS

Outcome of Net Promoter Score (`NPS') survey with corporate lending clients, who executed a lending deal/deals with NIBC Corporate Banking during the reporting period, and for existing lending clients of NIBC.

Stakeholders view this as a material indicator of client satisfaction of our corporate lending clients as well as an indicator of stakeholder engagement.

The NPS methodology is a widely used methodology in which scores from 0 to 6 are classified as 'detractor', scores. 7 or 8 are classified as 'passive' and only those scores that are 9 or 10 are classified as 'promoters'. The result is calculated by the percentage of promoters minus the percentage of detractors, giving the NPS. The NPS can therefore range from -100% to +100%.

The NPS is measured over a 12 month period, from the 1st December to the 30st November each year. It takes place in four batches and each respondent weighs the same in the score. It is calculated over the corporate lending client base, where we are in direct contact with the client, excluding distressed asset clients, internal clients and certain legacy clients. In case of multiple deals for one client, the client is counted once. When the online survey is sent to multiple contact persons for a client, only the first response is included.

The total population of NIBC corporate clients in scope is 545 clients in the 12 month period. 317 clients fall within the definition described above and were surveyed, 155 responsed were received. NIBC considers this to be representative of the total population. The online surveys are sent by a third party service provider, which transfers the raw results back to NIBC.

## NIBC Direct Customer Satisfaction Score

The results of the latest, annual online Customer Satisfaction Survey ('CSS') for the bank's retail clients, i.e. NIBC Direct Savings Netherlands (NL, including Mortgages), Belgium (BE) and Germany (GE, also including Brokerage clients), that was completed in the reporting period.

The digital surveys were conducted in October through third parties, using a random selection of NIBC's new and existing Dutch mortgages- and NIBC Direct Savings clients, Belgian NIBC Direct Savings clients and German brokerage- and NIBC Direct Savings clients. Clients were selected based on country, product, and duration of services. The average scores per country and product are totaled and divided by the total number of respondents.

Stakeholders view this as a material indicator of client satisfaction of our retail clients as well as an indicator of stakeholder engagement.

The total population of NIBC Direct Customer Satisfaction survey was 399.000 clients in October 2016, of which 31.000 have been surveyed, and 3.400 responses were received. NIBC considers this to be representative of the total population.

### % of new Corporate loans screened against sustainability policy framework
New corporate loans which have been screened on social and environmental standards during the reporting period.

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 an increased sustainability risk assessment was identified by a third party toolkit assessment. This does not include monitoring of existing client files with sustainability risks nor clients for which the increased 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.

### Number of project finance transactions closed in line with Equator Principles
Number of new project finance transactions closed in line with the Equator Principles during the reporting period.

NIBC adheres to the Equator Principles III guidelines and reports the number of transactions that fall in scope of EP and that reached financial close in the reporting period.

Stakeholders view this as material indicators of product responsibility and transparency.

### Fines or sanctions for non-compliance with laws and regulations
Number of significant fines and number of non-monetary sanctions for non-compliance with laws and regulations. The definition is limited to fines from a regulator. This excludes any pending claims and/or litigation. Significant: values of fine > EUR 10.000 (in line with category 2 and 3 fines of AFM).

Stakeholders view this as a material indicator of regulatory compliance and corporate governance of NIBC's own operations and day-to-day business.

NIBC includes non-punitive fines agreed as part of settlement of regular tax audits within its interpretation of the definition for this indicator.

### Number of FTE's end of year
Number of FTE's of NIBC worldwide at the end of the year. Only employees on NIBC's payroll and having an 'internal' position are accounted for. NIBC Bank N.V. includes all its

international offices as well as NIBC Bank Deutschland AG, though excludes minor participations of the bank.

At year end 2016, 704 FTEs have been reported, a year-on-year increase of 60 FTEs. This figure includes NIBC Markets as a result of NIBC's acquisition of SNS Securities (rebranded as NIBC Markets) earlier in 2016.

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.

## Employee Engagement

The 'Sustainable' Employee Engagement score is based on the responses of NIBC employees on 9 pre-defined questions in NIBC's annual online Employee Engagement Survey ('EES'). The average percentage of employees of NIBC that responded positively (favourable, i.e. "agree" or "tend to agree" on a 5 point scale) on nine questions with regard to sustainable engagement. The %'s for each question answered are totalised and divided by 9.

Stakeholders view this as a material indicator of employee engagement.

The EES is a tool to measure the level of involvement and engagement of employees about their job, colleagues and the organisation.

Employees in service of the bank on 1 November 2016 were anonymously invited to fill in the EES online. 520 out of 728 employees responded to survey, which is considered representative by NIBC. Interns and employees which have not worked in 2016, e.g. because of long term illness were excluded. Employees on maternity leave were included. The EES is conducted annually, supported by a third party service provider.

## 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. In 2015, we reported an absenteeism rate of 2.1 belonging to the trend 1$^{st}$ year, not taking into account employees who were ill longer than 1 year (but shorter than 2 years). NIBC considers the current trend total absenteeism figure, based on the trend 1$^{st}$ year and trend 2$^{nd}$ year, the appropriate trend indication of absenteeism. The comparative figure absenteeism (trend total) for 2015 is 2.2%.

Notifications of illness and recovery are submitted by NIBC to a 3$^{rd}$ party ARBO service organization. NIBC uses its 3$^{rd}$ party Arbo 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.

## 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 diversity in the company. NIBC supports diversity across all aspects and aspires to further diversify its workplace.

## Male/female ratio top management

Percentage of number of male and female for NIBC worldwide, at the end of the year. Top management consists of management with corporate title 'Director' and 'Managing Director'.

Stakeholders view this metric as a material indicator for 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 employe development and future employability.

## Employee turnover (employees joiners & leavers)

Employee turnover consists of inflow of new employees ('joiners') and outflow of existing employees ('leavers').

Joiners: The number of employees that joined NIBC worldwide throughout the current calendar year (hire date between 1-1-16 and 31-12-16), divided by total number of employees at the end of the year.

Leavers: The number of employees that left NIBC worldwide throughout the calendar year divided by the total number of employees at the end of the year.

Stakeholders view this metric as a material indicator of employee engagement of existing employees and further as an indicator of the bank's position as an attractive employer.

NIBC's employee figures include the acquisition of NIBC Markets. In 2016, these employees are shown as "joiners", since they officially became part of NIBC in the middle of the calendar year.

# ASSURANCE REPORT OF THE INDEPENDENT AUDITOR ON THE NON-FINANCIAL KEY FIGURES

# Assurance report of the independent auditor on the non-financial key figures

To: the shareholders and supervisory board of NIBC Bank N.V.

## Our opinion

We have performed a reasonable assurance engagement on the non-financial key figures on pages 9 and 10 of the Annual Report 2016 of NIBC Bank N.V. based in Den Haag (hereinafter: NIBC). Our scope is further explained in the section Our scope.

Based on our procedures performed, in our opinion, the non-financial key figures are prepared, in all material respects, in accordance with the reporting criteria of NIBC as disclosed in the section Definitions for the non-financial key figures of the Annual Report 2016. We believe these criteria are suitable for the purpose of our assurance engagement.

## Basis for our opinion

We conducted our assurance engagement on the non-financial key figures in accordance with Dutch law, including the Dutch Standard 3000, "Assurance engagements other than audits or reviews of historical financial information". Our responsibilities under those standards are further described in the section Our responsibilities' in this assurance report.

We believe the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Our Independence

We are independent of NIBC in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagement. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

## Our Scope

Our assurance engagement is restricted to the non-financial key figures. We have not performed assurance procedures on any other information in the Annual Report 2016 in light of this engagement.

The assurance engagement with respect to the non-financial key figures in the Annual Report 2015 resulted in a qualified opinion due to an uncertainty in the data selection for the NPS surveys sent. The uncertainty in 2015 has no impact on the 2016 figures and the definition of NPS was changed in 2016. Consequently, we do not provide assurance on the corresponding information of the NPS in the non-financial key figures for the periods before 2016.

## Responsibilities

### Responsibilities of Management and the Supervisory Board

Management is responsible for the preparation of the non-financial key figures in accordance with the reporting criteria of NIBC as disclosed in the section Definitions for the non-financial key figures of the Annual Report 2016, including the identification of the intended users, the determination of material issues and the reporting criteria being applicable for the purposes of the intended users. The choices made by management with respect to the scope of the non-financial key figures are included in the section Definitions for the non-financial key figures of the Annual Report 2016.

Building a better working world



Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the non-financial key figures that are free from material misstatement, whether due to fraud or error.

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

### Our responsibilities

Our responsibility is to plan and perform the assurance engagement in a manner that allows us to obtain sufficient and appropriate assurance evidence for our opinion.

Our assurance engagement has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

We apply the Nadere voorschriften accountantskantoren ter zake van assurance opdrachten RA and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these non-financial key figures. The materiality affects the nature, timing and extent of our 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 assurance engagement, in accordance with the Dutch Standard 3000, ethical requirements and independence requirements.

Our assurance engagement included amongst others the following:

- Evaluating the appropriateness of the reporting criteria and its consistent application, including the evaluation of the results of the stakeholders' dialogue and the reasonableness of management's estimates.
- Identifying and assessing the risks of material misstatement of the non-financial key figures, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Interviewing relevant staff responsible for providing the information in the non-financial key figures, carrying out internal control procedures on the data and consolidating the data in the non-financial key figures.
- Evaluating the design and implementation and testing the operating effectiveness of the reporting systems and processes related to the information in the non-financial key figures.
- Testing relevant data and internal and external documentation, on a sample basis, to determine the reliability of the information in the information in the non-financial key figures.
- Performing an analytical review of the data and trends submitted for consolidation at corporate level.

Amsterdam, 7 March 2017

Ernst & Young Accountants LLP

signed by R.J. Bleijs

# ANNUAL REPORT 2016

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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.

# GLOSSARY

| | |
|---|---|
| AC | Audit Committee |
| AFM | Authority for the Financial Markets |
| AIRB | Advanced Internal Ratings Based |
| ALCO | Asset & Liability Committee |
| BEEQUIP | BEEQUIP B.V. |
| BKR | Bureau Krediet Registratie (Dutch National Credit Register) |
| BPVs | Basis Point Value |
| CCDRs | Conditional Common Depositary Receipts |
| CCO | Chief Client Officer |
| CCR | Counterparty Credit Rating |
| CDC | Collective Defined Contribution |
| CDC arrangement | Collective defined-benefit pension arrangement |
| CDO | Collateralised Debt Obligation |
| CDRs | Common Depositary Receipts |
| CDS | Credit Default Swaps |
| CEBS | Guidelines Committee of European Banking Supervisors Guidelines |
| CEO | Chief Executive Officer |
| CET-I | Common Equity Tier-I ratio |
| CFO | Chief Financial Officer |
| CGUs | Cash-Generating Units |
| Code | Dutch Banking Code |
| CRDRs | Conditional Restricted Depositary Receipts |
| CRE | Commercial Real Estate |
| CRO | Chief Risk Officer |
| CSA | Credit Support Annexes |
| CSS | Customer Satisfaction Survey |
| CVAs and DVAs | Credit Valuation Adjustments & Debit Valuation Adjustments |
| DACB | Dutch Association of Covered Bond Issuers |
| DCM | Debt Capital Management |
| DNB | Dutch Central Bank |
| DNB Principles | DNB Principles on Sound Remuneration Policies |
| DRs | Depositary Receipts |
| DSA | Dutch Securitisation Association |
| DSCR | Debt Service Coverage Ratio |
| EAD | Exposure at Default |
| EatR | Earnings at risk |
| EBA | European Banking Authority |
| EBITDA | Earnings Before Interest, Taxes, Depreciation and Amortisation |
| EC | Engagement Committee |
| EC | Economic Capital |
| ECB | European Central Bank |
| ECL | Expected Credit Loss |
| ECM | Equity Capital Management |
| EES | Employee Engagement Survey |
| EL | Expected loss |
| EP | Equator Principles |
| ESF | Einlagensicherungsfonds |
| ExCo | Executive Committee |
| FAR&H | Food, Agri, Retail & Health |

| | |
|---|---|
| FMCR | Financial Markets Credit Risk |
| FTEs | Full-Time Equivalents |
| FVOCI | Fair Value with adjustments processed through Other Comprehensive Income |
| FVtPL | Fair value through profit or loss |
| GRI | Global Reporting Initiative |
| I&M | Industries & Manufacturing |
| I&R | Infrastructure & Renewables |
| IASB | International Accounting Standards Board |
| IBNR | Incurred But Not Reported |
| IC | Investment Committee |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IFRS | International Financial Reporting Standards |
| IFRS 15 | IFRS 15 'Revenue from Contract with Customers' |
| IFRS 16 | IFRS 16 'Leases' |
| IFRS 9 | IFRS 9 'Financial instruments' |
| IFRS-EU | International Financial Reporting Standards as adopted by the European Union |
| ILAAP | Internal Liquidity Adequacy Assessment Process |
| IPO | Initial public offering |
| IRRBB | Interest Rate Risk in the Banking book |
| ISDA | International Swaps and Derivatives Association |
| LEP | Loss Emergency Period |
| LFM | Leveraged Finance Markets |
| LGD | Loss Given Default |
| LTI | Long-Term Incentive plan |
| LTI | Loan-to-Income |
| LTIMV | Loan-to-Indexed-Market-Value |
| LTMV | Loan-to-Market Value |
| LVR | Leverage ratio |
| Money Week | Week van het Geld |
| MtM | Marked-to-Market value |
| NACE | Statistical Classification of Economic Activities in the European Community |
| NHG | National Mortgage Guarantee |
| NIBC | NIBC Bank N.V. |
| NIBC Funds | Funds set up and managed by NIBC |
| NIBC Holding | NIBC Holding N.V. |
| NPAP | New Product Approval Process |
| NPS | Net Promoter Score |
| NRA | National Regulation Authority |
| NVB | Dutch Banking Association |
| NVS | NIBC Vermogensbeheerders Services |
| O&G | Oil & Gas Services |
| OCI | Other Comprehensive Income |
| Olympia | Olympia Nederland Holding B.V. |
| OTC | Over The Counter |
| PD | Probability of Default |
| PFE | Potential Future Exposure |
| PPI | Premium Pension Institution |

| | |
|---|---|
| PSUs | Phantom Share Units |
| RAROC | Risk-adjusted return on capital |
| RC | Regulatory capital |
| RCSA | Risk and control self-assesment |
| RDRs | Restricted Depositary Receipts |
| 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 |
| RPCC | Risk Policy & Compliance Committee |
| RPSUs | Restricted Phantom Share Units |
| RPTC | Related Party Transactions Committee |
| RWA | Risk Weighted Assets |
| S&I | Shipping & Intermodal |
| S&P | Standard & Poor's |
| SAM | Specialised Asset Management |
| SCAP | Significant Change Approval Process |
| SE | Structured Entity |
| SPE | Special Purpose Entities |
| SPPI | Solely Payments of Principal and Interest test |
| SRB | Single Resolution Board |
| SREP | Supervisory review and evaluation process |
| STI | Short-Term Incentive |
| TC | Transaction Committee |
| The Council | Employees' Council |
| The Foundation | Stichting Administratiekantoor NIBC Holding |
| The Lab | The Innovation Lab |
| TLTRO | Targeted Longer Term Refinancing Operation |
| TMT&S | Telecom, Media, Technology & Services |
| TPE | Third Party Execution |
| VaR | Value at Risk |
| VR | Viability Rating |
| Wbfo | Wet beloning financiële ondernemingen |
| WEW | Stichting Waarborgfonds Eigen Woningen (Social Housing Guarantee Fund) |