NIBC BANK N.V.
ANNUAL REPORT 2018

REFLECTIONS

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AT A GLANCE

INITIAL PUBLIC OFFERING

As of 23 March 2018 NIBC Holding is a publicly listed company on the Amsterdam Stock Exchange. The selling shareholders decided to float 25% of the shares on the exchange. The listing marked a major milestone for NIBC and enables us to continue executing our strategy.

WHO WE ARE

OUR HERITAGE

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

OUR PURPOSE

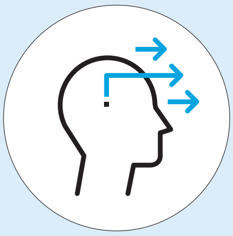
Making a difference
at decisive moments

OUR VALUES

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

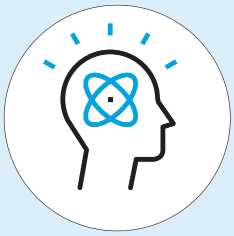
Professional

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



Entrepreneurial

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



Inventive

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

WHAT WE DO

OUR BUSINESS MODEL

We operate a focused mid-market corporate and retail client franchise, with a differentiated approach, bringing bespoke financial solutions to clients in chosen sectors where we can add most value. We are client-oriented, present at their decisive moments. We offer a broad and relevant product suite for these entrepreneurial clients in chosen subsectors. In the absence of payment flow business, current accounts and a branch network, which allow for client intimacy, we have complete insight and overview.

CORPORATE CLIENT OFFERING

- Focus on mid-market corporate clients
- Focus on specific sectors and product solutions, ranging from advice and structuring to financing and investing

EUR 9.9 billion client exposure

Typical ticket size: EUR 10 - 50 million

RETAIL CLIENT OFFERING

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

EUR 9.3 billion client exposure

Typical ticket size: EUR 0.1 - 2.5 million

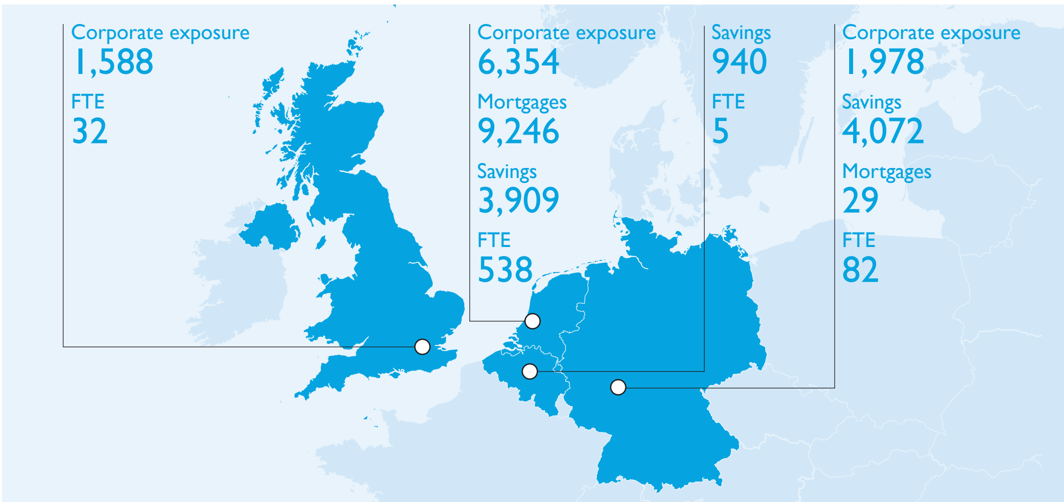
TREASURY & ASSET LIABILITY MANAGEMENT

RISK MANAGEMENT / CORPORATE CENTRE

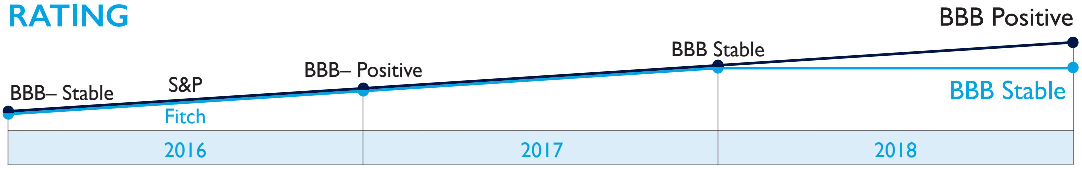
OUR MARKETS

Focus on north-western Europe

in EUR millions

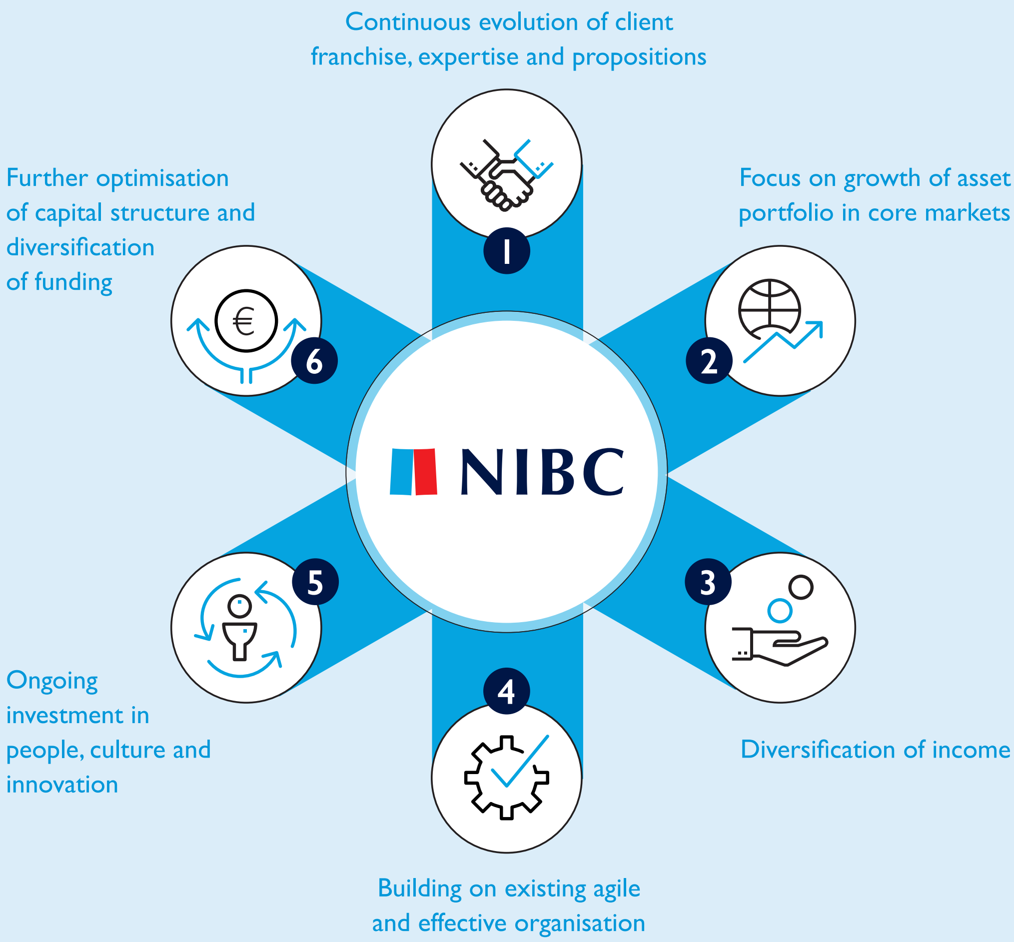


RATING



OUR KEY STRATEGIC PRIORITIES

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



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

NON-FINANCIAL HIGHLIGHTS

Corporate lending NPS score

2018

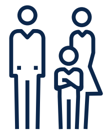
+63%

2017: +64% 2016: +37%

NIBC Direct customer survey score

2018

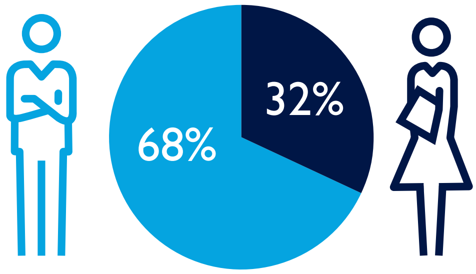
7.7



2017: 7.9 2016: 7.6

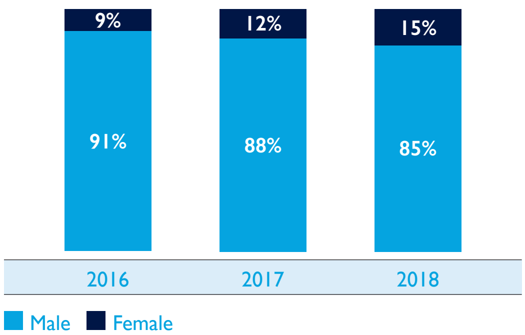
Male/female ratio

2018



2017: 69% / 31% 2016: 73% / 27%

Male/female ratio in senior management



Sustainability ratings[1]

2018

Oekom

C+

/Prime

Sustainalytics

72

/Outperformer

RepRisk

AAA

/AA

MSCI

AA

Banking Confidence Monitor - NIBC Direct

Trust in own bank in 2018

3.3/5

2017: 3.3/5 2016: 3.3/5

Screening corporate loans

2018

100%

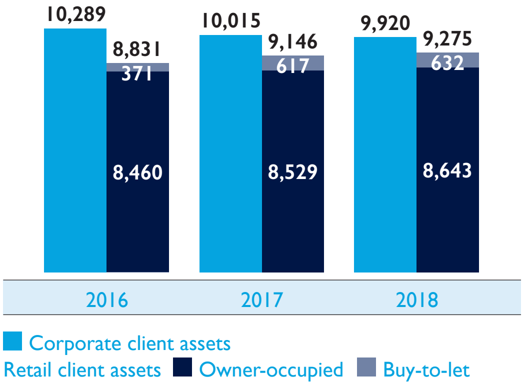
2017: 100% 2016: 100%

[1] Refer to Sustainability chapter for details.

FINANCIAL HIGHLIGHTS[1]

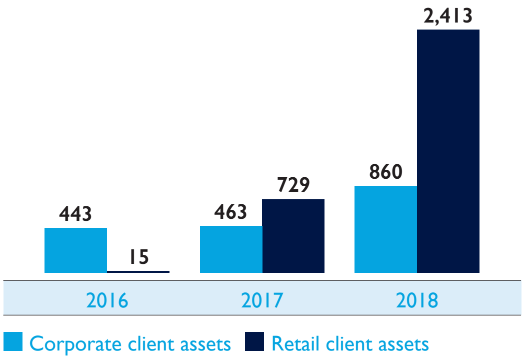
Client exposures

in EUR millions

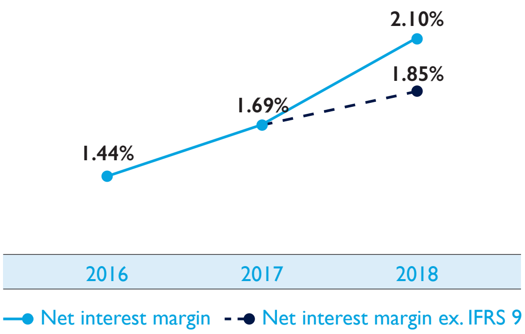


Originate-to-manage assets

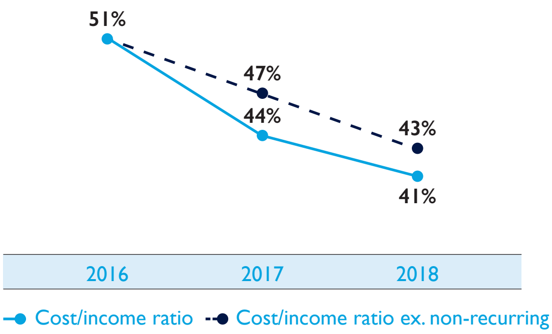
in EUR millions



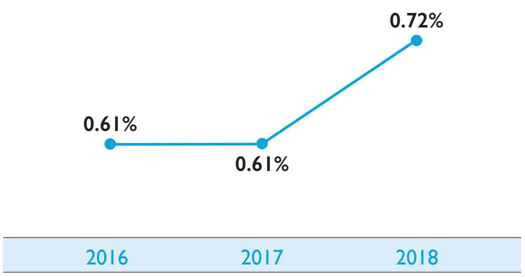
Net interest margin



Cost/income ratio

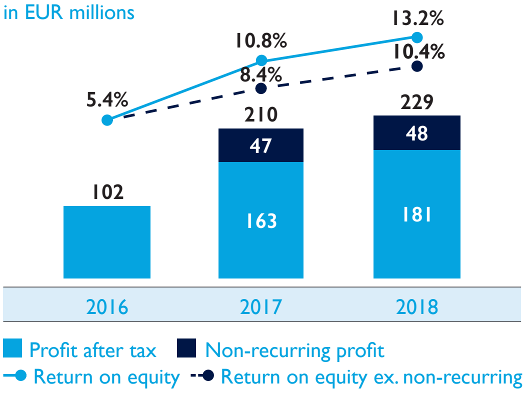


Cost of risk

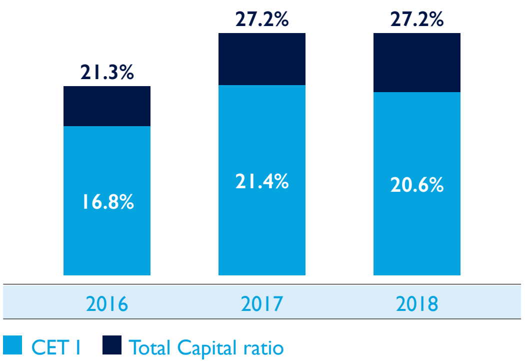


Profit after tax attributable to shareholders and return on equity

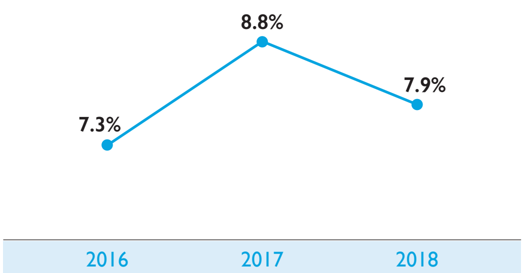
in EUR millions



Solvency ratios



Leverage ratio



1 2016 and 2017 figures are based on application of IAS 39, 2018 figures are based on application of IFRS 9.

KEY FIGURES

	IFRS 9 2018	IFRS 9 ex. non-recurring 2018	IAS 39 ex. Vijlma 2017	IAS 39 2017	IAS 39 2016
Earnings					
Operating income	550	513	470	512	381
Operating expenses	224	218	223	223	194
Profit after tax	241	193	166	213	102
Profit after tax attributable to shareholders	229	181	163	210	102
Cost/income ratio[1]	41%	43%	47%	44%	51%
Net interest margin[1]	2.10%	2.10%	1.61%	1.69%	1.44%
Return on equity[1]	13.2%	10.4%	8.4%	10.8%	5.4%
Return on assets	1.04%	0.83%	0.69%	0.89%	0.44%
Earnings per share basic	3.65	2.90	2.60	3.36	1.63
Earnings per share diluted	3.65	2.90	2.60	3.36	1.63
Dividend pay-out ratio[1/2]	100%			45%	25%
Dividend per share[2]	3.65			1.53	0.41

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

	IFRS 9 2018	IFRS 9 1 Jan 2018	IAS 39 2017	IAS 39 2016
Corporate & retail client offering				
Corporate client assets (drawn & undrawn):				
Commercial Real Estate (CRE)	1,309	1,391	1,391	1,375
Food, Agri, Retail & Health (FAR&H)	1,203	1,216	1,216	1,149
Industries & Manufacturing (I&M)	1,913	1,730	1,730	1,514
Infrastructure & Renewables (I&R)	1,481	1,626	1,626	1,618
Offshore Energy (OE)	902	934	934	1,233
Shipping & Intermodal (S&I)	1,370	1,297	1,297	1,512
Telecom, Media, Technology & Services (TMT&S)	1,235	1,198	1,198	1,257
Total corporate loans (drawn & undrawn)	**9,413**	**9,392**	**9,392**	**9,658**
Lease receivables	52	60	60	123
Investment loans	240	220	220	246
Equity investments	215	343	343	262
Investment property	-	-	-	-
Total corporate client assets (drawn & undrawn)	**9,920**	**10,015**	**10,015**	**10,289**
Corporate client assets (drawn & undrawn) per region				
Netherlands	4,592	4,415	4,415	3,849
Germany	1,978	2,161	2,161	2,378
United Kingdom	1,588	1,737	1,737	1,678
Other	1,762	1,702	1,702	2,384
Total corporate client assets (drawn & undrawn)	**9,920**	**10,015**	**10,015**	**10,289**

	IFRS 9 2018	IFRS 9 1 Jan 2018	IAS 39 2017	IAS 39 2016
Retail client assets				
Owner-occupied mortgage loans – Netherlands	8,614	8,158	8,476	8,376
Buy-to-let mortgage loans	632	617	617	371
Owner-occupied mortgage loans – Germany (closed book)	29	50	53	84
Total retail client assets	**9,275**	**8,825**	**9,146**	**8,831**
Originate to manage assets				
Corporate client assets	860	463	463	443
Retail client assets	2,413	729	729	15
Total originate to manage assets	**3,273**	**1,192**	**1,192**	**458**
Retail client savings				
Netherlands	3,909	3,871	3,871	3,950
Germany	4,072	4,407	4,407	4,542
Belgium	940	1,029	1,029	1,229
Total retail client savings	**8,921**	**9,307**	**9,307**	**9,721**
Asset quality				
Cost of risk[1]	0.72%		0.61%	0.61%
Impairment ratio[1/2]	0.32%		0.48%	0.62%
Impairment coverage ratio[1/2]	31%	51%	40%	30%
NPL ratio[1/2]	2.8%	2.8%	2.8%	4.0%
Top-20 exposure / Common Equity Tier 1	70%	82%	62%	79%
Exposure corporate arrears > 90 days	1.0%	1.6%	1.6%	2.0%
Exposure residential mortgage loans arrears > 90 days	0.2%	0.5%	0.5%	0.6%
Loan to value Dutch residential mortgage loans	72%	75%	75%	78%
Loan to value BTL mortgage loans	52%	57%	57%	59%
Solvency information				
Equity attributable to shareholders of the company	1,911	1,806	2,059	1,969
AT1 and Subordinated liabilities	479	483	483	398
Group capital base	2,390	2,289	2,544	2,367
Common Equity Tier 1 capital	1,594	1,567	1,827	1,698
Balance sheet total	21,717	21,716	22,209	23,580
Risk-weighted assets	7,723	8,508	8,546	10,109
Common Equity Tier 1 ratio	20.6%	18.4%	21.4%	16.8%
Tier 1 ratio	23.2%	20.8%	23.7%	16.8%
Total Capital ratio	27.2%	24.3%	27.2%	21.3%
Leverage ratio	7.9%	7.8%	8.8%	7.3%
Funding & liquidity				
LCR	241%		196%	124%
NSFR	123%		117%	112%
Loan-to-deposit ratio[1]	154%		150%	148%
Asset encumbrance ratio	26%		26%	29%
Retail savings / total funding	42%		44%	46%
Secured funding / total funding	21%		19%	23%
ESF / total funding	7%		6%	6%

	IFRS 9 2018	IFRS 9 1 Jan 2018	IAS 39 2017	IAS 39 2016
Non-financial key figures				
NPS score Corporate Lending clients	+63%		+64%	+37%
NIBC Direct customer survey score	7.7		7.9	7.6
% of new corporate loans screened against sustainability policy	100%		100%	100%
Number of new corporate clients with increased sustainability risk assessment	25		23	28
Fines or sanctions for non-compliance with laws and regulations	1		1	0
Employees				
Total number of FTEs end of financial period	657		666	704
Male / female ratio	68%/32%		69%/31%	73%/27%
Male / female ratio top management	85%/15%		88%/12%	91%/9%
Training expenses per employee (EUR)	3,206		2,377	2,070
Absenteeism (trend total)	2.1%		2.2%	2.4%
Employee turnover (employees started)	16.9%		14.5%	24.3%
Employee turnover (employees left)	18.4%		19.8%	14.9%

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

LETTER FROM THE CEO

Dear reader,

The financial year 2018 was an exceptional year for NIBC in many aspects. Having experienced our own decisive moment with the listing of NIBC on the Amsterdam Stock Exchange on the 23rd of March, we remain focused on our clients' decisive moments, driven by our core values of being Professional, Entrepreneurial and Inventive. We continue to rebalance our portfolios and to build curves for the future. Propelled by realised equity exits and higher interest income, we outperformed our medium-term objectives:

- Return on equity (ROE) for the full year 2018 was 13.2%, including the one-off results on the sale of certain equity positions. Excluding these and some other non-recurring items, we consider a ROE of 10.4% to be a better reflection of the real performance.
- Our cost/income ratio of 41% is well below the 45% mark, allowing us the flexibility to invest in the development of our business and do all what is necessary from regulatory compliance to investments in IT.
- Our strong capital position, as represented by our CET1 ratio, increased from 18.4% per 1 January 2018 to 20.6% at the end of 2018.
- Underpinning the strong performance and in line with our dividend policy, we propose a final dividend of EUR 2.47 per share, totaling a full dividend for 2018 of EUR 3.65 per share or EUR 229 million.
- Confirming NIBC's strong performance, S&P assigned a positive outlook to our "BBB" credit rating last October.

All in all, 2018 was a very successful year for NIBC with, for the second consecutive year, a net profit in excess of EUR 200 million.

The share price of NIBC Holding outperformed the market as it closed relatively close to the IPO issue price, as opposed to the average of European banks, for which last year has been an 'annus horribilis' with average price-to-book values falling from over 1.0x to below 0.8x, or a 30% decrease. For ourselves, we realise that past performance is no guarantee for future success. Therefore, looking forward, we will be more than ever cautious as the economic climate seems to be close to its cycle peak, geopolitical tensions persist to have an effect on market volatility, regulatory oversight has further intensified, and the business is facing increasing challenges to rebalance and grow our book. Although we have a clear strategy and have defined our position in the financial ecosystem as propagated at the Capital Markets Update last November in London, we have also reflected on challenges arising on the horizon. Can we sustain our efficient model with the scale we have, can we absorb higher future funding cost, can we incorporate the ever-increasing regulatory oversight, not only as to cost, but also as to a claim on internal capacity and business model options, or how well are we positioned for a potential downturn?

So, where are we today?

At the core of our strategy is our ability to rebalance and reinvent our business. Within the chosen sectors, we may vary subsector, product or the combination, so that we can support clients with value added services. On a continuous basis, we prudently rebalance portfolios, not only to grow in areas where we see opportunities, but also to deliberately reduce where we need to manage exposures within our risk appetite.

As a professional and fully regulated bank, we are uniquely positioned in the market between on the one hand the large and very large players and the smaller and more innovative fintechs on the other hand. Being in between, we can partner with both sides. We have the professionalism and the agility to work together to streamline the bank through partnerships, where scale is required or innovation is needed.

We embrace the fintech domain to learn from them and to work together with them in partnerships. Mostly, the relationship with a fintech starts by a financing relationship for their receivable portfolios and as such, we import their growth to our balance sheet. Next to OakNorth and Ebury, also names like iwoca, an award-winning UK fintech in the SME financing space, RatePAY, or Finleap in Berlin. In these receivable finance portfolios, we have seen fast growth over the last year and we have the ambition to bring it to a EUR 1.5 billion portfolio.

In some sectors, where the curve is possibly at or close to its tipping point, we see more downward challenges than upward potential. This relates to our highly cyclical businesses, Shipping and Offshore Energy, the latter of which we reduced our exposure from EUR 1.3 billion to currently below EUR 1.0 billion. We will further reduce the combined exposure of those two cyclical sectors by approximately EUR 150 million annually. But at the same time, we will remain open for business, as we follow our clients to adapt to their new role in a sustainable energy transition. Last but not least, we feel the leverage finance market is overheated, evidenced by low returns, high leverage and loose covenant structures. Nevertheless, also here, we remain open for business but we are quite restrictive in taking new deals in. With the high churn of our portfolio, driven by the oversupply of liquidity, we have brought back this portfolio by EUR 200 million in 2018 and we will reduce it further to approximately EUR 1.0 billion in the coming years.

At the same time, origination and refinancings for our corporate client offering increased to a record level of EUR 3.7 billion although elevated (p)repayments kept total volume more or less stable, and as such we were able to compensate the deliberate rebalancing started in 2018.

Retail also experienced record origination levels with a production of EUR 3.4 billion new mortgage loans. Not only on our own balance sheet, but especially with our strategic partner AXA Investment Managers, where we are well positioned to benefit from the ever-increasing demand from consumers for longer fixed-term interest rates. We have seen double-digit growth in our originate-to-manage business and our ambition for 2019 is to surpass the EUR 5 billion mark in mandates.

We place margin over volume and do not necessarily strive for market share. Especially in today's markets of low-for-long interest rates, abundance of liquidity and subsequent high levels of pre- and repayments, we focus on quality above quantity. This remains a delicate balance to be managed as in both businesses, margins remain under pressure, affecting overall revenues going forward. This can be even more challenging as interest rate hike expectations have been pushed forward while funding markets have tightened, economic growth is levelling off, credit quality is less benign, and geopolitical risks ranging from trade wars to Brexit continue to define volatility.

The permanent and increased focus on know your customer and Anti-Money Laundering has, on the corporate client side of the business, resulted in a project aimed at further strengthening our processes. Alongside, the retail client side is also in the process of enhancing its systematic integrity risk assessment related policies and procedures.

Our DNA starts with our 'Think Yes' mentality, built around our three core values. That is how we do the business. That is also what we get back from our clients and the high appreciation for our services that has always been translated in a high NPS score as well as a high client satisfaction score. We are well connected to our franchise and we will further rebalance our portfolios as we will continue to grow in our chosen segments.

Concluding, on behalf of my team, I am proud that we are delivering on our promises. Despite uncertainty and challenges in the markets around us, I remain confident about our future, strengthened by our distinct business model and our clearly defined role in the financial ecosystem. I am therefore grateful to our employees, for the perseverance and commitment they have shown, as they are the driving force behind our ability to support our clients at their decisive moments, so that we can continue to build profitable growth into the future. And last but not least, I am thankful for the support from our investors since our IPO, and for the ongoing trust from our clients to fulfil their needs.

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

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

REPORT OF THE MANAGING BOARD

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

GENERAL DEVELOPMENTS

The economic fundamentals in 2018 have further improved in north-western Europe. GDP growth in the Netherlands continues to be at the high-end of post-crisis growth numbers. Associated with this, unemployment has been decreasing and housing prices have further increased. However, we observe various risks arising in the world around us. In the third quarter of 2018 Germany reported a decrease in economic activity leading to several profit warnings in the market. On a global level we observe several indications that the economic conditions are becoming more challenging. Geopolitical tensions and the risk of a full-fledged trade war persist to have an affect on the volatility of financial markets. Additionally the ambiguous form of the Brexit contributes to uncertainty in our markets.

We are aware of the current economic situation and are anticipating on developments in the markets we operate in. Being a medium-sized bank with a strategic focus on niche markets enables us to reflect on the current circumstances and to make clear choices regarding the deployment of available resources. NIBC is not a market share player and this gives us the ability to consolidate or reduce our exposures in certain markets, and to expand into others.

In 2018 interest rates continued to be at historically low levels, resulting in a liquidity abundance in capital markets, also impacting the lending market where we encounter pressure on prices. On the other hand, the abundance of liquidity also reduces the spread we pay on our funding products. In the retail market we see increased demand for long-term fixed rate mortgage loans, which typically is incompatible with the funding pattern of banks. We have anticipated this shift in consumer preference and are now able to benefit through our originate-to-manage offering. In this product we originate long-term fixed rate mortgage loans under the NIBC Direct brand for institutional investors who seek these long-duration products. Over the course of 2018 credit spreads have widened due to the aforementioned uncertainties in the global economic and political environments. We remain cautious in this uncertain and volatile environment and seek to grow in sectors and products where we see opportunities with attractive risk/reward characteristics. Currently these attractive opportunities typically are to be found in sectors and products with smaller individual exposures and increased diversification opportunities such receivables financing in our Structuring portfolio.

In the financial services industry we see fintechs increasingly becoming active, but also big technology companies finding their way to the financial services sector. Fintech start-ups are bringing innovative solutions to specific financial service products and often seek cooperation with incumbent financial institutions because they lack the scale and regulatory expertise to independently challenge the financial services industry. NIBC recognises the impact fintechs have on the banking industry and we are seeking cooperation with selected companies as evidenced by our collaboration with OakNorth and equity participations in Ebury and Finleap.

On the regulatory side, we see continuously increasing pressure in the area of non-financial risk management. Several topics related to client due diligence, data privacy and transaction reporting demand attention from management and stakeholders, in order to comply with the continuously changing regulatory environment.

VISION AND STRATEGY

About NIBC

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

Purpose and corporate values

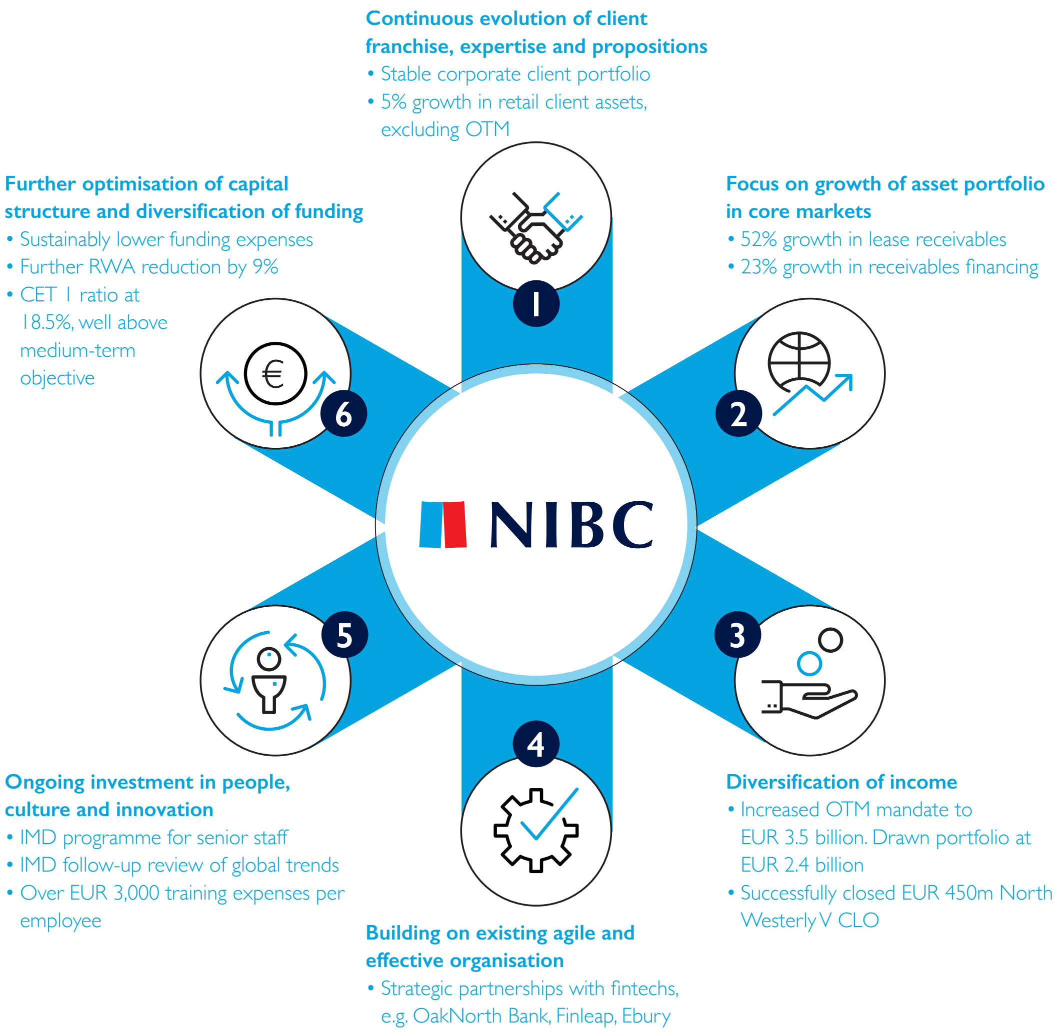
Our purpose is to create a sustainable franchise for the future, so we can continue to make a difference for our clients by focusing on their most decisive moments in business and in life.

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

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

Strategic priorities

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



NIBC is a medium-sized bank active in north-western Europe, more specifically in the Netherlands, Germany, the UK, Belgium and the Nordics. We know these markets and we believe in the economic foundations of this particular geographical area. Next to the clear geographic focus, we differentiate ourselves by our margin over volume strategy, which implies we are not driving our business on market share, emphasising quality over quantity. This enables us to continuously rebalance the portfolio and reduce exposures to (sub)sectors with increased risks and to expand in other sectors with a better risk-reward outlook.

NIBC's corporate clients are often private or family-owned companies with annual revenues between EUR 50 million and EUR 500 million, active in sectors where we have extensive experience and expertise. Our client offering consists of the full range of products such as advisory, financial structuring, collateralised lending, corporate lending, mezzanine and equity. In the retail client offering we operate without a branche network. Mortgage loans are offered via intermediaries where also mortgage products targeting clients in underserved market segments such as buy-to-let and mortgages for the self-employed are offered. The originate-to-manage proposition is a relatively new pillar in the retail franchise in which we currently are successful. Next to this, we offer online savings products directly to customers.

In doing business we differentiate ourselves through our 'Think YES' mentality where we think with and for our clients. This strategy is appreciated by our clients, as evidenced in high client satisfaction and NPS scores. The focus on decisive moments means we do not offer any payment and current account services, which translates into the objective of a sustainable cost/income ratio below 45%.

We continuously manage the composition of our funding by making use of a diverse range of funding sources, from retail savings to covered bonds and subordinated funding. One of our strengths has always been a strong capital position, providing flexibility for supporting further growth either organically or inorganically, or to support shareholder returns. All the above is managed by an experienced team that has the professional, entrepreneurial and inventive mindset that distinguishes NIBC in the financial ecosystem.

Our place in the financial ecosystem

NIBC is well positioned in the financial ecosystem. As a fully regulated bank we have the professional mindset making us well positioned to partner with large financial institutions, while also having the agility to cooperate with small and innovative fintechs. By exploring opportunities in both directions, we continuously work on further positioning the bank.

This is evidenced by our originate-to-manage mortgage product where we have a strategic partnership with AXA Investment Managers. Further, the mortgage business back office is outsourced to Stater, and independent mortgage brokers are used in the origination of mortgage loans. On the other hand we are partnering with fintechs to optimize our credit review process (e.g. OakNorth) and to identify new corporate client prospects (e.g. Ebury). Partnering with fintechs also entails financing their receivables, which is one of our growth drivers for the future.

Medium-term objectives

The deployment of our strategy should enable NIBC to deliver on the targets we set early 2018:

	Medium-term objectives	IFRS 9 2018	IFRS 9 ex. non-recurring 2018	2017	2017 ex. Vijlma
Return on equity	>10-12%	13.2%	10.4%	10.8%	8.4%
Cost/income ratio	<45%	41%	43%	44%	47%
CET 1 ratio	>14%	20.6%	20.6%	21.4%	21.4%
Rating Bank	BBB+	BBB	BBB	BBB	BBB
Annualised dividend pay-out ratio	>50%	100%		45%	

In 2018, we delivered on the medium-term objectives. During 2018, S&P has adjusted NIBC's credit rating outlook to positive, and we view a rating upgrade to BBB+ as a realistic scenario, when NIBC fills in the MREL and ALAC requirements (please see the '*Minimum requirement for own funds and eligible liabilities (MREL)*' section for more details). When looking at our 2018 results excluding non-recurring items, we believe that the goals stated above display a healthy level of ambition in the current economic environment.

The items identified as non-recurring in 2018 are EUR 37 million of income related to the sale of fund investments, EUR 6 million of operating expenses related to NIBC's IPO and the remeasurement of the deferred tax asset following the improved results (EUR 17 million). These are explained in more detail in the '*Significant events impacting our financial statements*' section in the Financial review.

The way forward

Our strategy is aimed at having the agility to continuously rebalance our portfolio: grow where markets indicate healthy risk-reward developments and active position management where markets are experiencing pressure, so that we can support our clients throughout the cycle. Improving our risk profile is one of the intended effects of the rebalancing strategy, to be accomplished through increasing the granularity within our portfolio and reducing large single client exposures. For the year 2019 and the years thereafter our commitment to deliver on the medium-term objectives as stated in the previous paragraph is our highest priority.

Delivery on our medium-term objectives is to be achieved, amongst others, through further expansion of our partnerships with fintechs. Besides learning from their technical skills, financing their accounts receivables portfolio fits our rebalancing strategy because it adds granularity to our portfolio. We aim to further increase our receivables finance portfolio to EUR 1.5 billion over the next two years. Furthermore, growing the portfolio of Beequip, the leasing venture of NIBC Holding which is financed by NIBC Bank, is another deliverable for 2019. Our ambition is to double the current portfolio of about EUR 400 million over the next two years.

In our retail client offering we aim to further increase our originate-to-manage portfolio which has displayed continued strong growth in 2018 to EUR 2.4 billion, an increase of EUR 1.7 billion. In 2019, we aim to increase the current mandate of EUR 3.5 billion to EUR 5 billion.

Next to growing these businesses, our goal is to reduce our exposure in cyclical sectors. We see more downward pressure than upside potential in our portfolios subject to cyclical influences. The Offshore Energy portfolio has already been reduced, and the combined USD exposures of Offshore Energy and Shipping & Intermodal will be decreased in the coming years. In the leveraged finance market we see increasing levels of leverage, loose covenants and decreasing returns. Because of these developments, many transaction proposals do not fit NIBC's risk appetite and are therefore not pursued. As NIBC aims to reduce this portfolio in the coming years, it has the opportunity to be strict on new transaction proposals.

FINANCIAL REVIEW

in EUR millions	IFRS 9 2018	IFRS 9 ex. non-recurring 2018	IAS 39 incl. Vijlma 2017	IAS 39 ex. Vijlma 2017	2018 ex. non-recurring vs. 2017 ex. Vijlma
Net interest income	432	432	366	349	24%
Net fee and commission income	51	51	54	54	-5%
Investment income	74	37	67	67	-45%
Other income	(7)	(7)	24	(1)	598%
Operating income	**550**	**513**	**512**	**470**	**9%**
Personnel expenses	105	99	109	109	-9%
Other operating expenses	99	99	95	95	5%
Depreciation and amortisation	5	5	5	5	1%
Regulatory charges and levies	15	15	14	14	7%
Operating expenses	**224**	**218**	**223**	**223**	**-2%**
Net operating income	**326**	**295**	**289**	**247**	**19%**
Credit loss expense / (recovery)	54	54	34	55	-2%
Tax	31	48	42	26	84%
Profit after tax	**241**	**193**	**213**	**166**	**16%**
Profit attributable to non-controlling shareholders	12	12	3	3	302%
Profit after tax attributable to shareholders of the company	**229**	**181**	**210**	**163**	**11%**

As of 1 January 2018, IFRS 9 has been fully implemented. This has a significant effect on the classification of a part of the mortgage portfolio which resulted in a decrease of retained earnings (capital). As the adoption of IFRS 9 has an effect on various key figures, comparative figures as at 1 January 2018 with the IFRS 9 transition effects are included, where relevant. The impact of IFRS 9 is explained in the section '*Significant events impacting our financial statements*'.

In 2018, a substantial part of the equity investment portfolio has been sold, resulting in a positive impact on investment income and a significant reduction of related risk-weighted assets (RWA), positively impacting NIBC's CET 1 ratio. Furthermore, operating expenses include EUR 6 million one-off costs relating to the IPO. Finally, the deferred tax asset has been reviewed and adjusted. Based on the positive development of NIBC's profit level, the deferred tax asset has increased by EUR 17 million as NIBC expects to fully compensate losses from 2010 and 2011. Given the material impact of these items, the 2018 results are presented both including and excluding these non-recurring results.

In 2017, EUR 47 million of NIBC's profit after tax related to the sale of the German commercial real estate legacy portfolio of Vijlma. This portfolio was sold in 2017 and final settlement of the sold assets took place in 2018. The presentation above is consistent with the Financial Performance paragraph as presented in the 2017 Annual Report. For 2017, the term non-recurring refers to this result of Vijlma.

Key figures

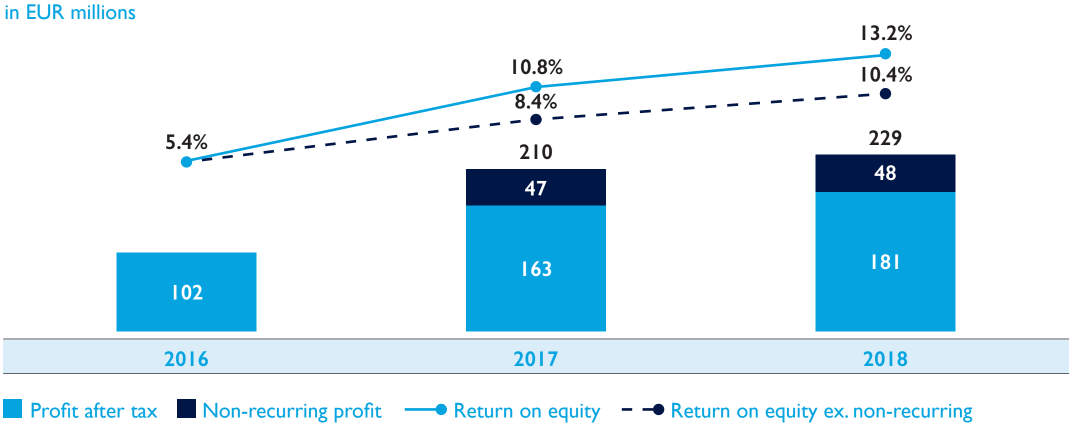
	IFRS 9 2018	IFRS 9 ex. non-recurring 2018	IAS 39 incl. Vijlma 2017	IAS 39 ex. Vijlma 2017
Earnings				
Return on equity	13.2%	10.4%	10.8%	8.4%
Net interest margin	2.10%	2.10%	1.69%	1.61%
Cost/income ratio	41%	43%	44%	47%

	IFRS 9 2018	IAS 39 2017
Fully loaded solvency ratios		
CET 1 ratio	20.6%	21.4%
Total capital ratio	27.2%	27.2%
Risk-weighted assets	7,723	8,546
Liquidity ratios		
LCR	241%	196%
NSFR	123%	117%
Other ratios		
Cost of risk	0.72%	0.61%
Loan to deposit ratio	154%	150%
Asset encumbrance ratio	26%	26%
Rating		
S&P rating and outlook	BBB / Positive	BBB / Stable
Fitch rating and outlook	BBB / Stable	BBB / Stable

On the back of increased net interest income, profitability further improved in 2018. Similar to 2017, investment income is at an elevated level. In 2018 this is the result of several successful exits in our equity investment portfolio. Both profit after tax and return on equity display substantial growth. Profit after tax attributable to the shareholders of the company increased to EUR 229 million. Excluding non-recurring results, this amounts to EUR 181 million (+11%). Return on equity increased to 13.2% (+22%) or 10.4% (+24%) without non-recurring results. The return on equity ratios are impacted by the transition to IFRS 9 on 1 January 2018, which resulted in a significantly lower equity base at the start of 2018.

Profit after tax attributable to shareholders and return on equity

in EUR millions



We are a medium-sized bank focusing on niche markets where we can add value with our differentiated approach. Due to our size we have the agility to enter sectors and products where we spot opportunities and to remain cautious in those where we see increasing levels of risk. 2018 has been about reducing the risks in our portfolio through a strategy of focusing on diversifiable portfolios with smaller tickets while remaining cautious in our exposures to cyclical (sub)sectors.

During 2018 we continued to improve our funding profile. We issued two 10-year Conditional Pass-Through Covered Bonds, returned to the RMBS market and issued a public 5-year GBP transaction, in addition to a new 5-year benchmark EUR senior unsecured transaction. As a result of these transactions we were able to lengthen our average maturity and to further reduce the funding spread, which is reflected in a higher net interest margin. Next to the increased interest margin, we showed strong liquidity and solvency ratios, and we are well-capitalised with a CET 1 of 20.6%, comfortably above SREP-requirements. This strong capitalisation implies we are well positioned to absorb the potential capital impact of Basel IV, to pay-out dividends in line with our dividend policy and we are ideally positioned for (non-)organic growth.

Significant events impacting our financial statements

Over the past year there have been a number of events that had a significant impact on the financial performance in 2018.

Transition to IFRS 9

At 1 January 2018 NIBC implemented the new accounting standard IFRS 9, *Financial Instruments* which replaced IAS 39, *Financial Instruments: Recognition and Measurement*. The application of IFRS 9 has various effects on our financial statements.

IFRS 9 has an effect on the classification of financial assets and on the calculation of credit losses. The total implementation impact of IFRS 9 on shareholders' equity is a reduction of EUR 256 million. The main effects can be summarised as follows:

- With the application of IFRS 9, the FVtPL mortgage loan portfolio has been reclassified to amortised cost. The mortgages previously held at FVtPL had an unrealised fair value gain of EUR 321 million. Upon transition to amortised cost, this resulted in a reversal of the unrealised fair value of EUR 321 million before tax;
  - The FVtPL mortgages were hedged with derivatives, which had a negative fair value at the date of transition, offsetting a large part of the unrealised fair value of the mortgage portfolio. The derivative classification is unchanged, and therefore, this derivative portfolio will, until maturity, generate a gain to offset the negative revaluation per transition date;

  - As part of the revision of NIBC's hedging framework, the existing hedging portfolio (with relatively high interest rates) has been unwound and replaced with new swaps at current (low) interest rates. As a result, the gain until maturity is recognised in net interest income, due to the lower coupon that NIBC pays on the hedging derivatives. For 2018, the estimated effect of this gain in net interest income amounts to approximately EUR 50 million;
- The remeasurement of exposures based on *expected credit losses* (**ECL**) resulted in a negative effect on retained earnings of EUR 22 million, effectively increasing the impairment provision.
- Reclassification of corporate loans resulted in EUR 5 million reversal of a positive revaluation reserve from other reserves;

From an operational perspective, the implementation of IFRS 9 has had a significant impact as well. The transition meant the implementation of new models to calculate expected credit losses, and the adjustment of many processes and systems. Following the first year of reporting based on the new standard, NIBC will continue to enhance its processes, focused on increasing the effectiveness and efficiency of its internal controls.

Initial public offering (IPO) of NIBC Holding

As of 23 March 2018 NIBC Holding is officially a publicly listed company on the Amsterdam stock exchange. Significant non-recurring expenses for advisors, personnel expenses and costs of the listing itself are directly related to the IPO. In 2018 these expenses amounted to a total of EUR 6 million before tax.

Sale of fund investments

NIBC European Infrastructure Fund (NEIF), a fund managed by NIBC Bank and in which NIBC also has an investment, sold two large portfolios. The transactions fit in our strategic review of fund investments as announced in the prospectus for the IPO of NIBC Holding. As the fund manager we were able to successfully execute the fund strategy and sell large parts of the NEIF portfolio.

In the second half of 2018, agreements were reached on the sale of two large investments in the fund. Both transactions have been settled before the end of 2018, leading to a total operating income from NEIF of approximately EUR 35 million.

In addition, the manager of NIBC Merchant Banking Fund 1B sold two large positions in 2018. Both CycloMedia and SportCity have been successfully closed and settled, leading to a realised result of EUR 16 million.

With the sale of these large equity investments and the strategy to build and manage a more granular investment portfolio, the larger part of these results are deemed to be non-recurring. In line with the non-recurring characteristics of these results, NIBC has paid a second interim dividend of EUR 37 million in December 2018, in addition to adhering to the standing dividend policy.

Financial Performance

The following sections describe the financial developments and analyses the performance of NIBC in 2018.

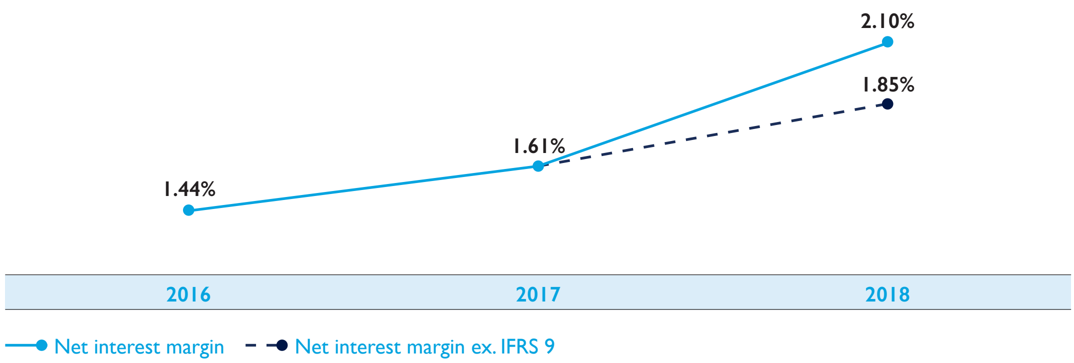
Operating income

Excluding the non-recurring income, operating income increased to EUR 513 (+9%). Including the non-recurring items listed above, total operating income further increased in 2018 from EUR 512 million to EUR 550 million, an increase of 7%.

Net interest income

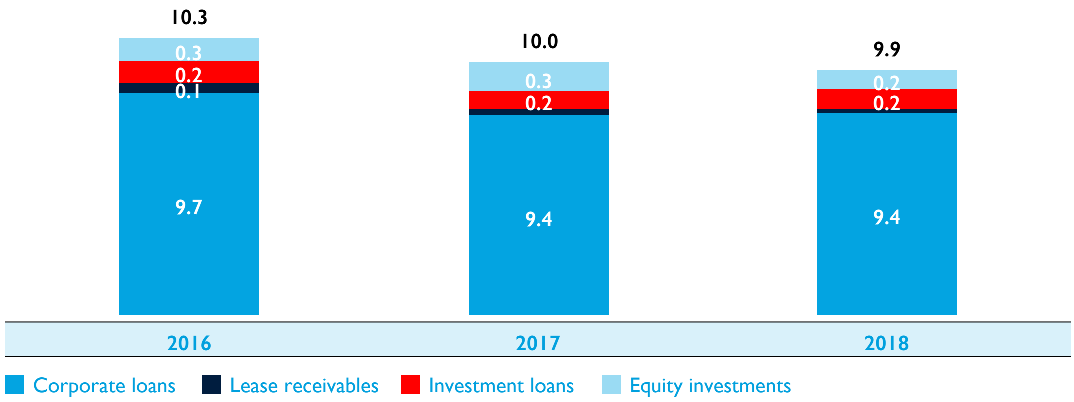
In 2018, net interest income further improved, as it was supported by a further reduction of the effective funding spread from 0.87% to 0.73%. Another determinant of the growth in net interest income was the IFRS 9 related pull-to-par effect of approximately EUR 50 million. Based on these developments, the net interest margin increased to 2.10%. Excluding the IFRS 9 effect on net interest income, the net interest margin increased to 1.85%. In total, net interest income increased from EUR 349 million in 2017 to EUR 432 million in 2018.

Net interest margin

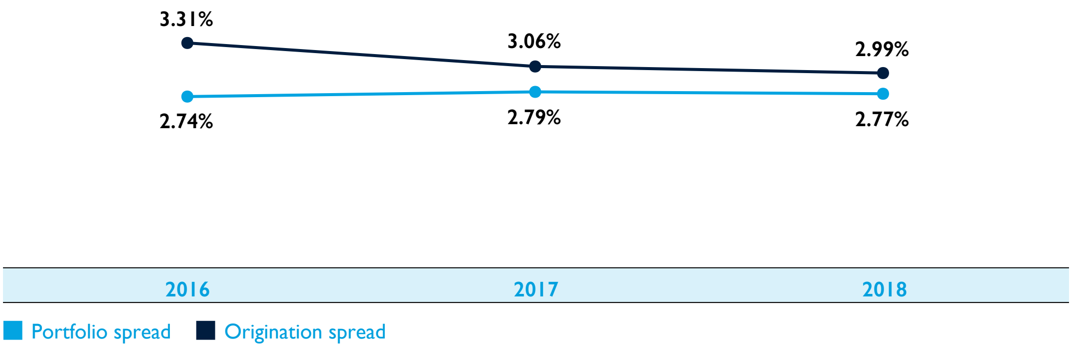


On the corporate client side, the lending margin decreased by 2 basis points to 2.77%, and the volume of interest generating corporate client assets remained stable at EUR 9.7 billion. At the same time the funding spread decreased in 2018, contributing to a higher corporate lending margin. In total this resulted in a EUR 15 million increase of net interest income to EUR 202 million.

Corporate client assets



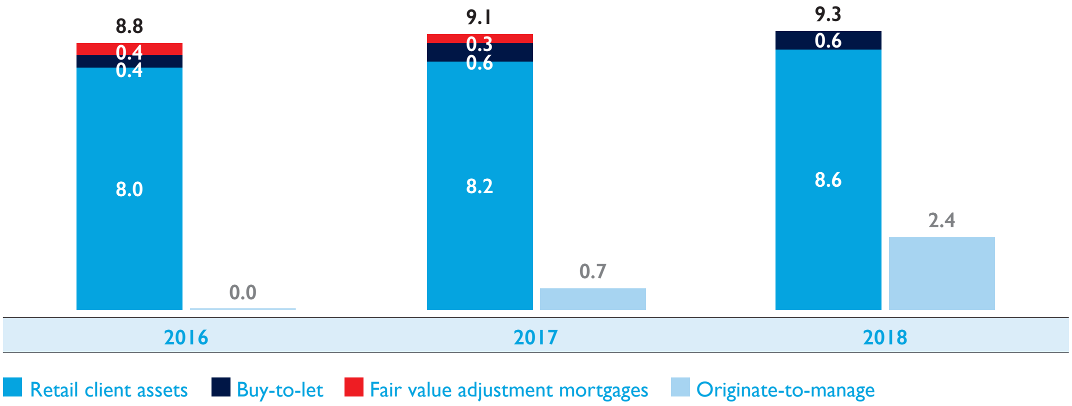
Corporate loan portfolio spreads above base



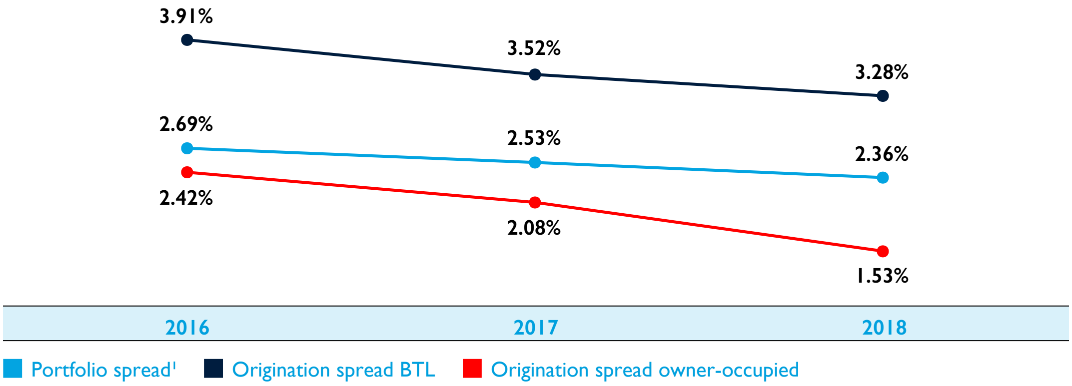
In our retail client offering the net volume of mortgage loans (including netting of savings values and exclusion of fair value amounts) increased by EUR 450 million to a total of EUR 9.3 billion. The margin on own book mortgages decreased from 2.53% to 2.36%, reflecting a decrease in the margin on newly originated mortgage loans. In the current low interest rate environment we observed increasing competition in the Dutch mortgage market. This results in a substantial lower level of origination spreads for the mortgage loans originated in 2018, compared to the years before. This also has a decreasing effect on the spread of the total mortgage loan portfolio. The fact that we are originating shorter tenor mortgages for our own book further contributed to the reduction of the spread on the mortgage loan book. Furthermore we have adjusted our appetite to originate more loan-to-value mortgages at the lower end of the spectrum. This also contributes to a lower spread as well as a better collateralised mortgage loan portfolio. Interest income for our retail client offering grew from EUR 127 million in 2017 to EUR 130 million in 2018.

Retail client assets

in EUR millions



Retail assets spreads above base



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

In 2018 we made a deliberate decision to benefit from the low interest environment. Issuing our wholesale funding more on the long end of the curve. As a result we further improved and diversified our funding with the issuance of two 10-year Conditional Pass-Through Covered Bonds, a benchmark EUR senior unsecured transaction, a public GBP senior unsecured transaction, a new RMBS transaction and an increase in the mix of on-demand deposits as a share of total customer deposits. We also received an upgrade of our credit rating outlook by S&P, resulting in a BBB rating with a positive outlook (2017: BBB, stable outlook). S&P's credit rating outlook for NIBC changed from stable to positive based on the expectation that NIBC will issue sufficient additional loss-absorption capacity (ALAC, the S&P equivalent of MREL).

In 2018 funding expenses continued to improve. Credit spreads have decreased over the past years but have increased during 2018. Market data shows a significant increase in spreads on unsecured funding for financial institutions. The spread widening is also displayed in the two covered bond transactions during 2018. Whereas in January we issued a covered bond with a spread of 13 basis points over 3-months EURIBOR, the spread on the issuance in September amounted to 21 basis points. Consequently, we expect that the low end of the funding curve has been reached.

NIBC funding spread and senior unsecured financials index spread

in %

[1] Source: Bloomberg Finance L.P.

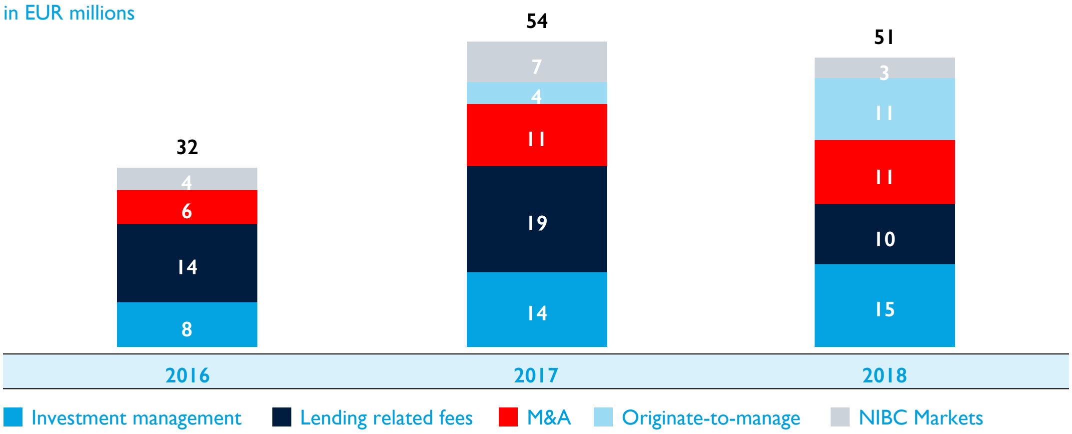
Net fee and commission income

Originate-to-manage fees display strong growth in line with the continued growth of the assets under management. Additionally, investment management fees remained strong, fuelled by strong performance of equity investments, including those exited in 2018.

- Fee income from the originate-to-manage mortgage offering increased from EUR 4 million in 2017 to EUR 11 million in 2018. During 2018, NIBC further increased the mandate with its institutional partner AXA Investment Managers to a level of EUR 3.5 billion. Under this mandate, a portfolio of EUR 2.4 billion has been originated. As NIBC is well positioned to cooperate with large financial institutions, we continue to seek further growth of the originate-to-manage proposition as this is a scalable business which helps to further diversify income with a limited capital impact.
- Investment management fees remain strong due to the successful exits of several equity positions, resulting in higher management and performance fees. Since we are shifting the investment portfolio away from investments in funds, and towards more smaller direct investments, we expect investment management fees to decrease going forward.
- M&A related fees remained stable at EUR 11 million, with both 2017 and 2018 including a single deal with significant fee income. In 2018, EUR 7 million related to the purchase of HSH Nordbank by a consortium led by J.C. Flowers Funds, where NIBC acted as the M&A advisor for the buyer.
- In 2018 lending related fee income has decreased. Rebalancing the portfolio results in origination that is focused on well-collateralised transactions requiring less upfront (structuring) services and therefore lower lending related fees.
- Fee income related to NIBC Markets was disappointing. Partly, this relates to the discontinuation of several fee-generating activities as part of our reorientation of Markets' activities, and it also reflect difficult market circumstances as well as impact from new regulation such as MiFID II.

Net fee and commission income

in EUR millions



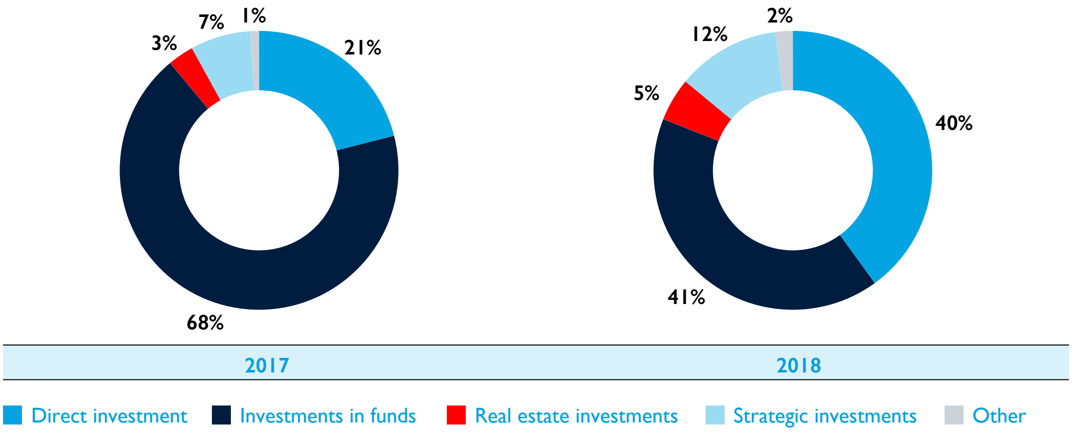
Investment income

In 2018 investment income remained at an elevated level. An important part (EUR 51 million) of the EUR 74 million of investment income in 2018 reflects realised income from a number of successful exits in our equity investment portfolio, whereas the EUR 67 million in 2017 mainly reflected non-cash revaluations on the portfolio.

Due to the exits, the on-balance equity investment portfolio decreased significantly from EUR 333 million in 2017 to EUR 199 million at the end of 2018.

Our strategy and ability to rebalance our portfolios also entails that within the investment portfolio there is a shift away from relatively large investments in funds towards more granular direct equity investments. With this shift, the equity portfolio is even more focused on supporting NIBC's clients, as NIBC is capable to provide equity financing, complementary to senior and mezzanine financing.

Investment portfolio



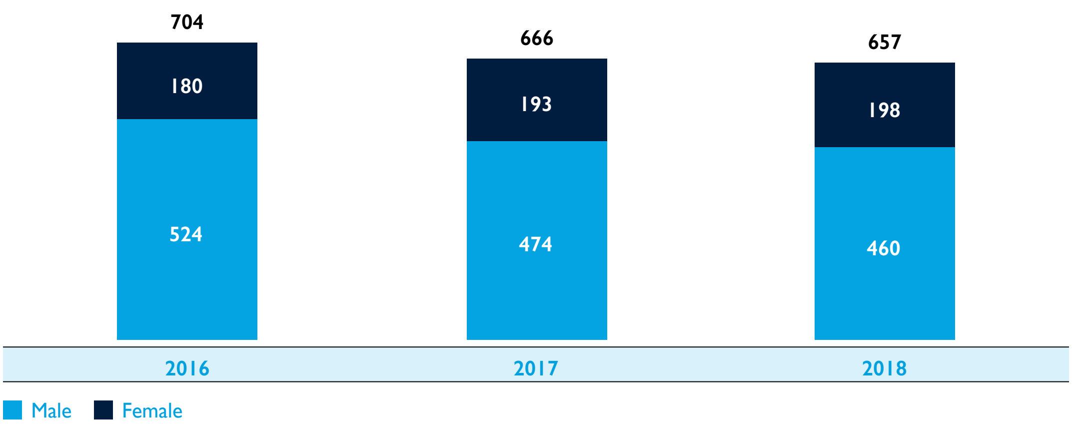
Operating expenses

Total operating expenses are impacted by the continued investments we are making in our organisation and various projects. These projects relate to the (re)transition of our IT infrastructure, regulatory requirements, IFRS 9, MIFID II, AnaCredit and increased requirements relating to Know Your Customer (KYC) and Anti-Money Laundering (AML).

Personnel expenses

In 2018 the number of FTEs decreased, primarily caused by the discontinuation of activities in NIBC Markets. This is reflected in the EUR 4 million decrease in total personnel expenses to EUR 105 million in 2018. Excluding IPO expenses, personnel expenses amounted to EUR 99 million in 2018 (2017 excluding IPO: EUR 105 million).

FTE development (year-end)

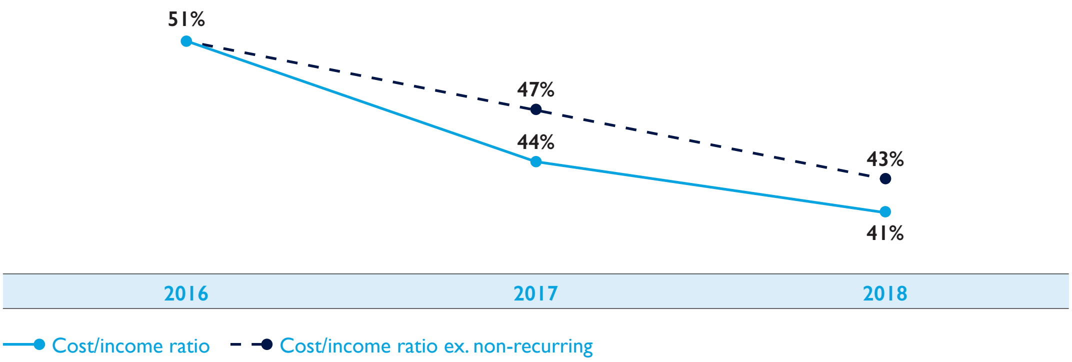


Other operating expenses

In 2018 we continued to invest in our IT landscape. We started the year 2018 to retransition our IT infrastructure back from our former outsourcing partner to NIBC premises. This resulted in additional costs. Parallel to the retransition, we started to negotiate with a new partner to outsource the IT infrastructure. In July, the transfer of the IT infrastructure to this party has started. Until finalisation of the transition, NIBC will incur additional costs. Next to this, additional investments were made in the aforementioned projects.

The developments on the income and expenses result in a cost/income ratio of 41%, meeting the medium-term objective of a cost/income ratio below 45%. It has to be noted, however, that the elevated level of investment income in 2018 had a significant impact on the cost/income ratio. The cost/income ratio excluding non-recurring income and expenses equals 43%.

Cost/income ratio



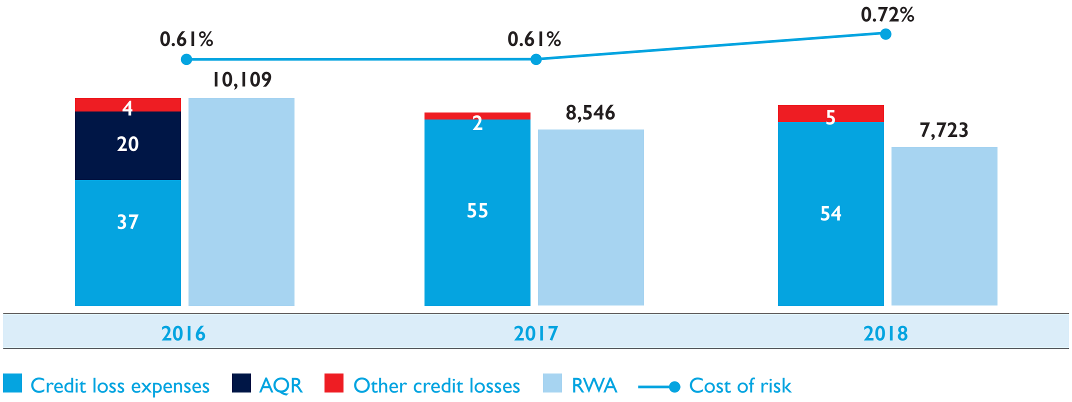
Credit loss expense / (recovery)
With the application of IFRS 9 in 2018, the credit loss expenses have a different composition than prior periods. Including the impact of stage 1 and stage 2 assets, total credit loss expenses amount to EUR 54 million, compared to IAS 39-based credit loss expenses of EUR 55 million in 2017. Stage 3 credit loss expenses related to the corporate client offering amount to EUR 62 million, whereas a credit loss recovery amounting to EUR 8 million was recognised in the retail client offering. Other credit losses amounting to EUR 5 million, relate to assets classified at Fair Value and the sale of individual exposures. The level of the impairments are elevated, reflecting the challenges we see in certain sectors and products. Especially the Offshore Energy and Shipping & Intermodal sectors and Leveraged Finance product portfolio.

The cost of risk is above our medium-term ambition level. While elevated impairments on individual Leveraged Finance and Offshore Energy exposures partially explain the level of credit losses, the reduction of RWAs also contributed to the increase in cost of risk. The sale of a part of our equity investments reduced RWAs by EUR 458 million. Total RWAs at year-end amount to EUR 7.7 billion, compared to EUR 8.5 billion in 2017.

In the following graph other credit losses refer to credit losses on assets recognised at FVtPL.

Credit losses and RWA

in EUR millions



Tax

Tax expense in 2018 amounts to EUR 31 million, implying an effective tax rate of 11%. This is well below the Dutch corporate tax rate of 25%. This mainly relates to the elevated level of investment income which is tax exempt under Dutch tax law and the recognition of an additional deferred tax asset.

In 2018, NIBC has recognised a positive revaluation of the Dutch deferred tax asset (DTA). This revaluation is based on the forecasted profitability of NIBC in future years, and clarity on the tax treatment of the IFRS 9 transition effect. The DTA that reflects the tax loss carry forwards from losses from 2010 and 2011 has been revalued at par at year-end 2018. This revaluation resulted in a non-recurring gain in our tax expenses of EUR 17 million, also reducing the effective tax rate.

As of 2020 the corporate tax rate will be gradually decreased towards a level of 20.5% in 2021. These steps will not impact the DTA, as they have already been included in the current valuation of the DTA.

Profit attributable to non-controlling shareholders

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

Profit after tax attributable to shareholders

NIBC's profit after tax attributable to the shareholders of the company amounts to a total of EUR 229 million, compared to EUR 210 million in 2017.

NIBC Bank N.V. currently has a EUR 233 million outstanding loan to the parent company (NIBC Holding N.V.). As the parent company does not have sufficient cash generating activities on a stand alone basis, this creates a double leverage from a NIBC Bank N.V. perspective. In order to resolve the double leverage, NIBC Holding N.V. is required to repay the outstanding loan which is only possible if it has a sufficient cash position resulting from dividend distributions. NIBC is committed to resolve the double leverage in the next few years. As a first step, NIBC Bank N.V. proposes to distribute its full 2018 profit after tax attributable to shareholders to the parent company.

Dividend policy and pay-out

Dividend policy

As stated in our medium-term objectives, we envisage a dividend pay-out of at least 50% of net profit attributable to shareholders. Part of the total dividend will be in the form of an interim dividend post half-year figures. For the next two years we aim to pay-out an interim dividend of (at least) EUR 37 million (under normal circumstances). Any dividends we intend to distribute are conditional upon sufficient profitability and conformation with all regulatory requirements, as well as sufficient capital and liquidity ratios as laid down in our policies.

Dividend pay-out 2018

The Managing Board proposes a total pay-out of EUR 3.65 per share for 2018. This translates to a total distribution to shareholders of EUR 229 million, or a total dividend pay-out of 100%. During 2018 we distributed EUR 1.18 per share as interim dividends. Subsequent to the 2018 interim report we distributed EUR 0.59, and the other EUR 0.59 per share was distributed as a second (special) interim dividend in December where we distributed to our shareholders the gains from the sale of several fund investments. We propose to pay out 100% of the profit for the year to NIBC Holding N.V. The total dividend proposal compares to EUR 1.54 dividend per share in 2017.

Taking into account the above, the proposed final dividend distribution amounts to EUR 155 million, reflecting EUR 2.47 per share. This proposed pay-out is subject to approval by the annual general meeting of shareholders, scheduled on 26 April 2019.

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., containing requirements to the maximum distributable amount and the calculation thereof, provides enough head room to pay-out this dividend. The free distributable reserves on company level have also been taken into account and allow for the proposed dividend distribution.

Balance sheet

Assets

	IFRS 9 2018	IFRS 9 1 Jan 2018	IAS 39 2017	IAS 39 2016
Cash and banks	2,624	2,564	2,565	2,346
Loans	7,865	7,861	7,871	8,380
Lease receivables	53	60	60	123
Mortgage loans	9,451	8,988	9,332	9,020
Debt investments	865	916	913	1,375
Equity investments	199	333	330	252
Derivatives	579	1,021	1,021	1,817
All other assets	80	202	117	267
Total assets	**21,716**	**21,945**	**22,209**	**23,580**

Liabilities and equity

	IFRS 9 2018	IFRS 9 1 Jan 2018	IAS 39 2017	IAS 39 2016
Retail funding	8,922	9,307	9,307	9,721
Funding from securitised mortgage loans	447	267	267	1,337
Covered bonds	2,510	2,008	2,008	2,028
ESF	1,522	1,350	1,350	1,230
All other senior funding	5,596	5,751	5,751	4,650
Tier 1 and subordinated funding	278	283	283	398
Derivatives	210	863	863	2,006
All other liabilities	120	110	119	241
Total liabilities	**19,605**	**19,939**	**19,947**	**21,611**
Equity attributable to shareholders of the company	1,911	1,806	2,059	1,969
Capital securities (non-controlling interest)	200	200	203	
Equity attributable to non-controlling interests	-			
Total liabilities and shareholders equity	**21,716**	**21,945**	**22,209**	**23,580**

Assets

Total client assets increased to EUR 17.4 billion. The transition to IFRS 9 had a decreasing impact of EUR 350 million on total client assets (refer to *Accounting policies* for details). During 2018 client assets increased with EUR 460 million, mainly due to an increase in the mortgage loan portfolio.

In our corporate client offering we focused efforts on rebalancing the portfolio. We seek to originate in sectors, subsectors and products in which we want to expand, such as lease lending and receivables financing while reducing our exposures in Offshore Energy, Shipping & Intermodal and Leveraged Finance. We reduced our Leveraged Finance exposure with more than EUR 200 million from EUR 1.6 billion to EUR 1.3 billion. The growth in the other cyclical sectors was primarily caused by foreign currency effects. The total volume of corporate loans origination in 2018 amounted to EUR 3.6 billion, which compares to EUR 3.1 billion of origination in 2017. Including the increase in the loans to Beequip, these movements resulted in a decrease in corporate client exposures from EUR 10.0 billion to EUR 9.9 billion. In our origination efforts we remain focused on deploying a margin over volume strategy, especially given our view that in some markets not all risks are priced correctly. Especially in Leveraged Finance we continue to observe relatively low returns, high levels of leverage and covenant-lite structures. Total drawn corporate client origination amounted to EUR 2.2 billion, which was slightly less than re- and prepayments on our drawn portfolio. The abundance of liquidity in the financial system is driving down returns, consequently making it challenging to find interesting opportunities that fit our risk appetite. We have been noticing relatively high levels of prepayment on our corporate loans. As a response to these challenges, we actively steer the corporate client offering towards rebalancing and other growth sectors.

With regards to our retail client offering we continued building on our dual-track strategy of originating shorter tenor mortgage loans for own book and origination of longer tenor mortgage loans for the originate-to-manage proposition. In 2018, origination amounted to EUR 3.4 billion of mortgage loans, of which EUR 1.8 billion related to the originate-to-manage business and the remainder was originated for own book. Compared to 2017 mortgage origination volumes increased by 83%, resulting in total mortgage loans under management of EUR 11.7 billion (1 January 2018: EUR 9.6 billion, after the transition to IFRS 9).

In 2017 the balance of FVtPL mortgage loans included EUR 321 million of positive fair value. With the adoption of IFRS 9 and the classification and measurement of these mortgages at amortised cost, the carrying value was adjusted to exclude the fair value. Taking into account this effect the underlying value of the mortgage loans amounted to EUR 8.8 billion in 2017. The balance sheet value of the mortgage portfolio increased to EUR 9.5 billion (excluding the netting of savings value) in 2018 due to the origination of EUR 1.6 billion mortgage loans for own book, partially offset by re- and prepayments. The exposure of buy-to-let mortgage loans remained stable at EUR 0.6 billion, primarily due to increased competition in this market.

After a significant decrease in the derivative balances in 2017, the trend continued in 2018. Besides closing offsetting derivative positions and an increase in derivatives included in netting arrangements, the implementation of *settle-to-market* (**STM**) arrangements for centrally cleared derivatives has led to further reductions of derivative balances. Under STM, the market value gain or loss of STM derivatives is settled in cash on a daily basis. Therefore the balance of STM derivatives is close to nil at year-end 2018.

Asset quality

In 2018 we managed to further reduce the expected loss on our performing portfolio. On our corporate loan portfolio the expected loss decreased to 30 bps, down from 32 bps at year-end 2017. In the retail client offering the expected loss decreased by 4 bps to 9 bps at year-end 2018. Our total impaired exposure increased from EUR 406 million at 1 January 2018 to EUR 446 million at year-end 2018, mainly as a result of additional impaired exposures in Shipping & Intermodal and Leveraged Finance. 31% of the total impaired exposures have been provisioned.

The implementation of IFRS 9 in 2018 has had a profound effect on the way we calculate credit loss expenses. Prior to 2018 credit losses were based on an incurred loss model where impairments were recognised if objective evidence of impairment due to a loss event could be reliably estimated. As of 1 January 2018 credit losses are recognised based on an expected credit loss model. Within this model several stages are identified based on the credit quality of the asset:

- Stage 1 assets are assets where no indication of a credit impairment is present. The majority of our assets are categorised in this stage. A credit loss expense is recognised from initial recognition of the asset, reflecting lifetime cash shortfalls if a default occurs within 12 months after the reporting date, weighted by the probability of default of this specific asset;
- Stage 2 ECL is calculated for assets where there has been a significant increase in credit risk (SICR) subsequent to initial recognition. For these assets ECL is recognised reflecting lifetime cash shortfalls that would result from all possible default events over the expected life of the asset, again weighted by the risk of a default occurring;
- Stage 3 instruments are recognised once a loss event has occurred. The ECL is then calculated by estimating expected cash flows based on a chosen recovery strategy. It may be the case that an asset is recognised as stage 3 without a credit allowance if the asset is expected to be fully recoverable based on collateral;
- POCI reflects *purchased or originated credit impaired assets* (**POCI**). POCI assets are recognised at fair value and remain reported within this category until maturity.

The following table shows the ECL stage classification of our on-balance assets.

ECL Staging

31 December 2018		Stage 1	Stage 2	Stage 3	POCI	Total
Amortised cost	Loans	6,586	849	281	1	7,717
	Lease receivables	53				53
	Mortgage loans	9,351	83	17		9,451
	Debt investments					-
Fair Value through OCI	Debt investments	784	4		-	788
Total		**16,774**	**936**	**298**	**1**	**18,009**

1 January 2018		Stage 1	Stage 2	Stage 3	POCI	Total
Amortised cost	Loans	6,503	998	232	-	7,733
	Lease receivables	89	-	-	-	89
	Mortgage loans	8,859	101	37	-	8,997
	Debt investments	163	-	-	-	163
Fair Value through OCI	Debt investments	660	4	-	-	664
Total		**16,274**	**1,103**	**269**	**-**	**17,646**

As mentioned before, the increase in stage 3 assets is mainly due to the continuing pressure on the Offshore Energy, Shipping & Intermodal, and Leveraged Finance portfolios, where we saw additional impaired assets in 2018.

Impact of IFRS 9 on asset quality ratios

Due to the transition towards IFRS 9 several asset quality ratios are impacted. As a result of the new impairment calculation methodology the impairment coverage ratio increased upon adoption of IFRS 9 on 1 January 2018. Over the course of 2018, the ratios decreased as a consequence of newly impaired assets and write offs. The ratio of top-20 exposures compared to CET 1 capital increased as a result of the reduction of CET 1 capital, following the transition effects on retained earnings.

	IFRS 9 2018	IFRS 9 1 Jan 2018	IAS 39 2017
Impaired coverage ratio	31%	51%	40%
Top-20 exposure / Common Equity Tier 1	70%	82%	62%

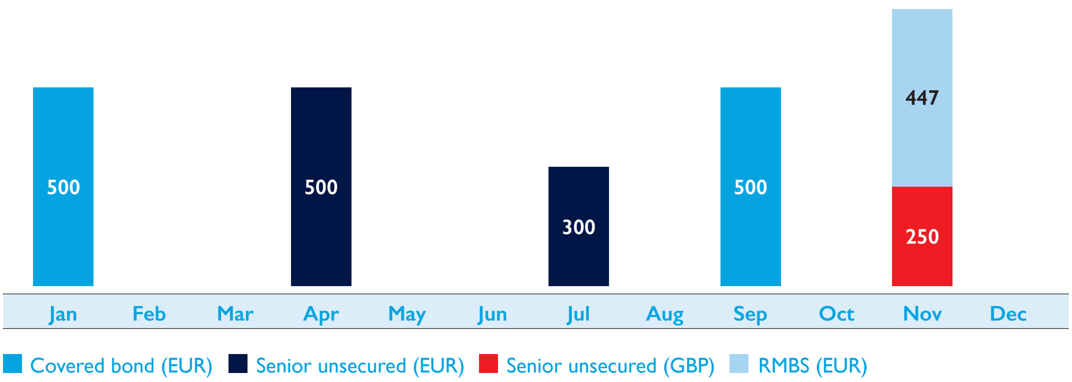
Funding and liquidity

We actively manage the composition of our funding profile and further enhanced the diversification of our funding instruments, e.g. by the issuance of two 10-year Conditional Pass-Through Covered Bonds. The return to the RMBS market and the GBP senior (preferred) market were important milestones. With our presence in the UK and our GBP assets, we have a natural appetite for this currency. We continued building the senior (preferred) curve with a 5-year benchmark transaction.

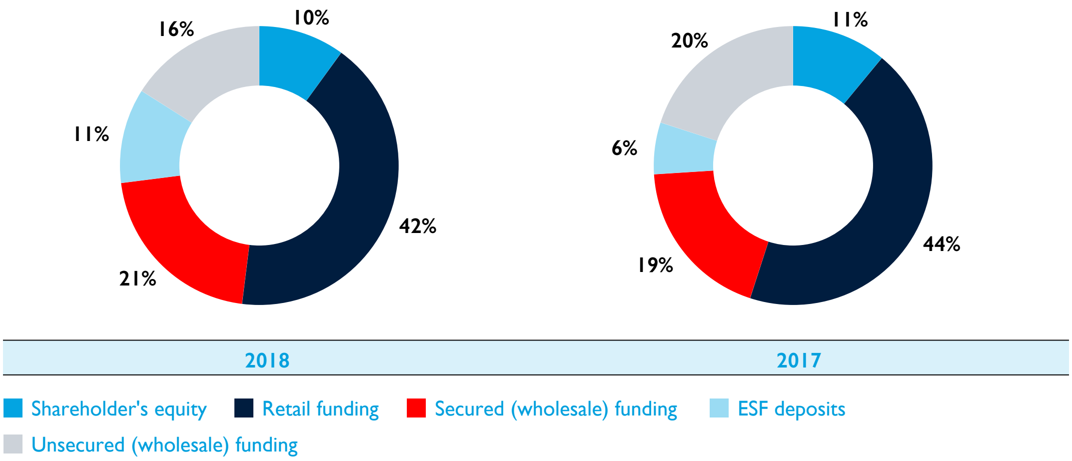
- The volume of retail savings decreased by 4% to EUR 8.9 billion. The mix within retail funding between on demand and term deposits has been managed towards more on demand savings. At the end of 2018 61% of the retail savings consisted of on demand deposits, compared to 58% at the end of 2017;
- In the wholesale funding market we raised approximately EUR 2.8 billion in 2018 with notable transactions displayed in the following graph;
- In addition, EUR 282 million senior (preferred) funding was privately placed in different formats, with various maturities and in various currencies;
- Institutional deposits under the German ESF guarantee scheme increased by EUR 172 million to EUR 1.5 billion.

Public funding transactions

in millions



Funding composition



Liquidity ratios remain strong, in line with the conservative approach to liquidity management. The loan-to-deposit ratio equals 154%, well-placed within the target range of 140%-160%. Asset encumbrance remains stable at 26%, within our appetite of a ratio below 30%.

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

Solvency

In 2018 the CET 1 ratio further improved compared to 1 January 2018, after transition to IFRS 9. It is important to distinguish the effect related to the adoption of IFRS 9 at 1 January 2018, and the increase in the solvency position during 2018.

Impact IFRS 9 on solvency position

For NIBC, the main impact of IFRS 9 on 1 January 2018 was related to the reclassification of the mortgage loan portfolio at FVtPL to amortised cost, in line with the hold to collect business model and with general market practice. This reclassification resulted in a one-off loss of EUR 321 million before tax, relating to the revaluation amount on the mortgage loans, which was charged directly to shareholders' equity. The magnitude of this one-off loss at 1 January 2018 had a negative impact on NIBC's CET 1 ratio of 2.9%-points.

In addition to the reclassification of the FVtPL mortgage loan portfolio, the change from an incurred loss to an *expected credit loss* (**ECL**) impairment model increased the level of loan provisions by EUR 22 million. This led to a downward transition impact of 0.2%-points on 1 January 2018 on the NIBC's CET 1 ratio.

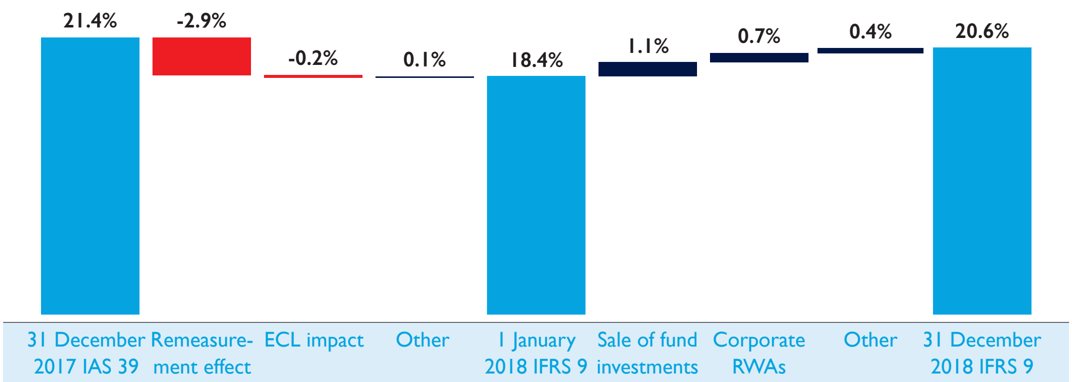
Overall, the reduction of capital following the transition to IFRS 9 on 1 January 2018 led to a reduction of NIBC's fully loaded solvency ratios, the total impact on CET 1 is 3.0%-points.

Solvency development in 2018

During 2018 the CET 1 ratio increased from 18.4% at 1 January 2018 to 20.6% at the end of 2018. This increase reflects the decrease in our *risk-weighted assets* (**RWA**) mainly related to the reduction of equity positions following the successful exits of several fund investments, partially compensated by the new investment in HSH Nordbank. These effects reduced RWAs by EUR 458 million.

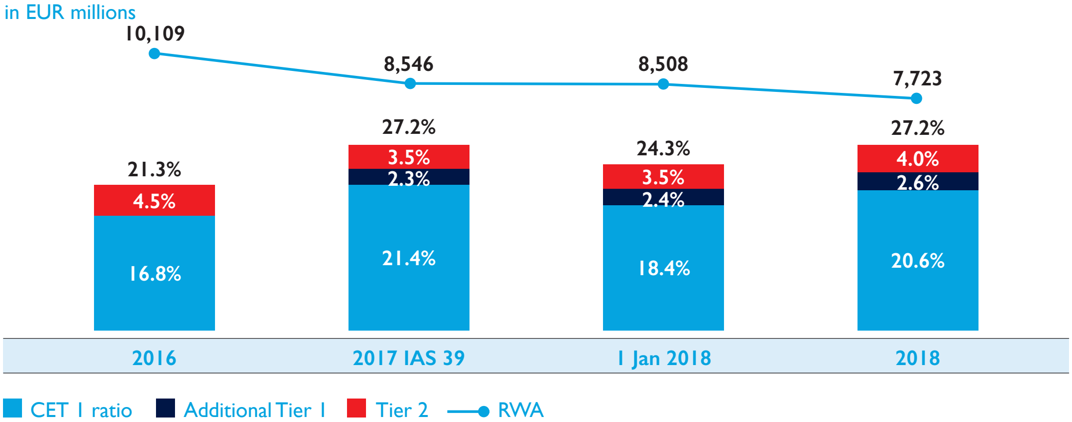
NIBC regularly refines and updates its *advanced internal rating based* (**AIRB**) models, significant adjustments are subject to DNB approval. With our most recent submission we expect and anticipate to have an increase in RWAs of approximately EUR 300 million.

CET 1 development



Total capital ratio

in EUR millions



SREP requirements

Our solvency levels are well above the minimum required levels as set by DNB in the SREP. The maximum distributable amount is determined by comparing actual solvency levels to the minimum SREP requirements. Solvency ratios have to exceed the SREP requirements to allow distribution of dividends. Given the current situation, the maximum distributable amount calculation provides sufficient room to execute NIBC's dividend policy.

As of 1 July 2018 a Countercyclical Capital Buffer (CCyB) of 0.1% is included in our SREP, due to activities in the UK and the looming threat of Brexit.

	1 January 2019			1 January 2018		
	CET 1	Tier 1	Total capital	CET 1	Tier 1	Total capital
Pillar 1	4.5%	6.0%	8.0%	4.5%	6.0%	8.0%
Pillar II	3.5%	3.5%	3.5%	3.3%	3.3%	3.3%
Subtotal	**8.0%**	**9.5%**	**11.5%**	**7.8%**	**9.3%**	**11.3%**
Capital Conservation Buffer (CCB)	2.5%	2.5%	2.5%	1.9%	1.9%	1.9%
Countercyclical Capital Buffer (CCyB)	0.1%	0.1%	0.1%			
SREP requirement	**10.6%**	**12.1%**	**14.1%**	**9.6%**	**11.1%**	**13.1%**
Pillar II guidance		*not disclosed*			*not disclosed*	
Actual						
NIBC Bank transition	20.6%	23.9%	27.2%	18.4%	21.3%	24.3%
NIBC Bank fully loaded	20.6%	23.2%	27.2%	18.4%	20.8%	24.3%
Fully loaded capital	1,594	1,794	2,103	1,567	1,767	2,069
Risk weighted assets	7,723	7,723	7,723	8,508	8,508	8,508

Our unweighted solvency position calculated by the leverage ratio equals 7.9%, comfortably above the minimum requirements.

Basel IV

The solvency ratios are comfortably above our SREP-levels and provide us with a sufficient buffer to comply with the future Basel IV regulation. Although the regulation has not been finalised and full implementation is only expected in 2027, we estimate the impact for NIBC to be an increase in our RWAs in the range of 25% to 35% (2017: 20% - 30%). The increase is primarily related to the reduction of our equity investments. This impact analysis does not include any management actions, implying we have a similar portfolio upon implementation of the Basel III reforms as we currently have.

An uncertainty for banks is that the new framework will have to be incorporated into legislation within the European Union based on the European Commission proposal. This entire process is expected to take several years. During this process of endorsement by the EU and subsequent transfer to local law, certain adjustments to the regulation may be implemented. We aim to meet the final requirements early in the phase-in period while we continue to execute our client-focused strategy.

Minimum requirement for own funds and eligible liabilities (MREL)

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

For NIBC, the relevant resolution authority – the *Single Resolution Board* (**SRB**) – has stated that bail-in will form a part of the resolution strategy with a single point of entry at NIBC Bank level. In the next resolution cycle NIBC Bank will receive a binding MREL target.

In line with the preferred resolution strategy the SRB has communicated an indicative – as yet non-binding – MREL requirement to NIBC. The MREL requirement has been established to ensure that banks in the European Union have sufficient own funds and eligible liabilities to absorb losses in the case of a potential bank failure. This indicative non-binding MREL requirement is in line with our expectations, and consistent with our funding and capital plans. Based on the initial discussions with the resolution authorities, NIBC is confident it will meet the MREL requirement once it becomes binding. The resolution authority has indicated that a binding MREL-target will be determined and communicated in 2020. Future requirements will be subject to ongoing regulatory review and clarification.

Based on the document 'Minimum Requirement for Own Funds and Eligible Liabilities (MREL) – 2018 SRB Policy for the first wave of resolution plans' (SRB policy document) disclosed by the SRB on 20 November 2018 an indicative 'default' MREL-requirement can be calculated for NIBC, by combining the formula in that document with our SREP requirements as disclosed in the previous table. Taking a forward looking approach we have based the calculations on beginning of year 2019 data and the 2018 SREP decisions displayed in the previous table.

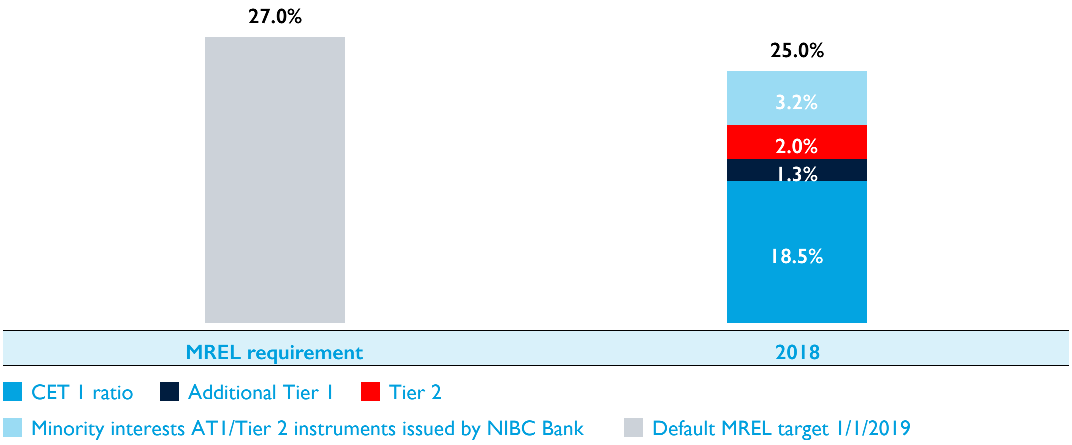
The default formula is made up of two components:

- A default loss-absorbing amount (LAA), which reflects the losses that the bank will incur in resolution. The default LAA is the sum of a bank's Pillar 1 requirement (P1), its Pillar 2 requirement (P2R), and its fully loaded combined buffer requirement (CBR).
  In the case of NIBC this amounts to: 8% (P1) + 3.5% (P2R) + 2.6% (CBR) = 14.1% (LAA)

- A default recapitalisation amount (RCA), which reflects the capital needed to meet ongoing prudential requirements after resolution. The default RCA consists of the minimum requirement for authorisation (P1 + P2R) and an amount intended to regain market confidence (MCC), of which the default has been set by the SRB at the level of the CBR less 125 basis points.
  In the case of NIBC this amounts to: 8% (P1) + 3.5% (P2R) + 2.6% (CBR) - 1.25% = 12.9% (RCA)

This leads to a default target MREL for NIBC of 27.0%. This target is displayed in the following graph as 'Default MREL target'. In this default target we have not included bank-specific adjustments that resolution authorities may consider with respect to the three components of the RCA, including the MCC.

MREL requirement



It is NIBC's intention to comply with the (as of yet non-binding) MREL target through own funds and senior non-preferred only. Please note the default MREL target is subject to change as a result of RWA development, future SREP requirements, bank-specific MREL target adjustments by the SRB and other regulatory developments, including Brexit impact on MREL eligibility of issuance under third country law.

BUSINESS REVIEW

Corporate client offering

Our corporate client offering consists of providing our clients senior debt, mezzanine, equity, advisory and capital markets products. With this product offering, we serve mid-market corporates in selected sectors and subsectors in north-western Europe with the purpose to enable growth for our clients. Clients are served from our offices in The Hague, Amsterdam, Frankfurt and London. We distinguish ourselves with tailor-made financing solutions and the ability to execute transactions swiftly at decisive moments for our clients.

Senior Debt

In our senior debt product suite we offer asset based finance, corporate lending, receivables finance, leveraged finance and leasing products, in the following sector – product combinations.

Sector	Products
Commercial Real Estate	Asset based finance
Food, Agri, Retail & Health	Corporate lending, Leveraged finance, Receivables finance
Industries & Manufacturing	Corporate lending, Leveraged finance, Receivables finance, Lease receivables
Infrastructure & Renewables	Asset based finance
Offshore Energy	Asset based finance
Shipping & Intermodal	Asset based finance
Telecom, Media, Technology & Services	Corporate lending, Leveraged finance, Receivables finance, Lease receivables

The corporate client offering is characterised by a margin over volume strategy. This implies that we are not a market-share player and do not originate for the sake of growing or consolidating our position. We make deliberate choices about the sectors we want to be active in and the products we want to offer to our clients. To be able to make these choices, we continuously reflect on our position in the financial ecosystem. We analyse developments in our portfolio and identify opportunities in the world around us. If we see an increase in risk, that does not fit our risk appetite, we are able to adjust our focus and rebalance accordingly. On the other side, we are able to identify and act on new opportunities with attractive earnings potential, as demonstrated by the growth in lease receivables and the receivables finance portfolio. The drawn credit facility to Beequip increased by 77% to EUR 371 million (2017: EUR 210 million). The receivables finance portfolio grew with EUR 195 million to EUR 1.0 billion (2017: EUR 0.8 billion). This development is in line with the strategy to increase the granularity of the corporate portfolio.

The asset based finance portfolios relate to more cyclical sectors such as Offshore Energy and Shipping & Intermodal, and also include Commercial Real Estate and Infrastructure & Renewables. Within Commercial Real Estate (CRE) we shifted from large single client exposures towards a.o. more short-term development financing, resulting in an increasingly diversified portfolio. Within our Infrastructure & Renewables portfolio we used to finance traditional infrastructure objects with a long maturity. While we continue to serve our clients and help them throughout their business cycle, we are shifting towards more digital infrastructure projects such as financing data centres and glass fibre networks, with relatively shorter tenors compared to the traditional infrastructure portfolio. Both the Offshore Energy and the Shipping & Intermodal portfolios have been actively managed, with prudent new deal selection focused on well-secured transactions. The strong USD development has resulted in a EUR 88 million appreciation of the balance sheet positions in these sectors. In combination with the re- and prepayments and currency revaluation effects, this has already led to a reduction of our Offshore Energy exposure. We plan to further reduce the exposure in these two cyclical sectors going forward. While remaining open for new opportunities provided these are within our risk appetite.

Regarding the fintech sector, we see opportunities to help our clients with our receivables financing solutions, at times enhanced with minority equity stakes. Within fintech there are several fast growing companies offering innovative solutions. In this industry, we aim to finance and cooperate with companies that are not directly our competitors. We seek to have a mutually beneficial relationship where we benefit from the technological knowledge of the fintech client and where the client benefits from our financial knowledge and solutions.

In the leveraged finance market, we continue to observe lending conditions that do not sufficiently reflect the risk characteristics in this asset class and thus are highly selective in the origination of new transactions. After reflection on our leveraged finance positions in comparison to our risk appetite, we decided to rebalance the leveraged finance exposure. This decision is representative of NIBC's agility and ability to reflect on our market position and the trends in the market. The ability to execute this decision is also reflected in the 14% decline of the leveraged finance exposure from EUR 1.6 billion as at year-end 2017 to EUR 1.3 billion as at year-end 2018. Within the Leveraged Finance portfolio we observe a relatively high number of impairments, confirming our view of the growing imbalance between risks and rewards.

With our corporate lending product, we focus on mid-market companies predominantly active in the Netherlands and Germany, and in the sectors Food, Agri, Retail & Health and Industries & Manufacturing. We offer solutions to enable our clients' growth and our solutions often evolve around a decisive moment. We proactively adjust our commercial strategies and focus depending on market circumstances and global trends. When doing business NIBC acts with an increased focus on sustainability across all sectors in which we are active.

Mezzanine and Equity

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

During 2018, we have reduced our portfolio of equity participations. As investment manager of NEIF, NIBC has successfully executed the exit strategy of the fund, through the sale of two large portfolios. In addition, the MBF 1B fund has successfully sold two investments. The profitable exit of these investments is reflected in investment income for 2018. In total, the investment portfolio has been reduced by EUR 128 million. In November 2018 the transaction regarding HSH Nordbank has been closed. NIBC's total commitment of EUR 30 million is included in 'investments in funds'. At the end of 2018, the equity investment portfolio amounts to EUR 215 million, including off-balance commitments, divided over the following types of investments:

- EUR 80 million direct investments;
- EUR 97 million investments in funds;
- EUR 24 million strategic investments in fintechs;
- EUR 11 million real estate investments;
- EUR 3 million other investments mainly related to the equity trading portfolio.

Corporate finance and capital markets

Similar to 2017, corporate finance had a successful year in 2018. We advised various clients, with the most notable transaction being the acquisition of HSH Nordbank by a consortium including J.C. Flowers & Co. We were advisor to the purchaser in the transaction.

In 2018, we further transformed our capital markets franchise into a primary capital markets business, helping our clients seeking to attract debt or equity on the capital markets. Over the past year, we participated in 17 *Debt capital markets* (**DCM**) transactions. Also in our Equities franchise, we saw an increase in new clients, whom we serve with *Equity capital markets* (**ECM**) solutions, advisory services and research.

Investment management

In the third quarter of 2018, NIBC successfully closed the North Westerly CLO V, a EUR 400 million leveraged loan CLO. The transaction represents a continuation of NIBC's established and successful North Westerly CLO franchise. This brings our total assets under management for corporate assets to EUR 860 million by year end 2018.

Performance

Income statement corporate client offering

	IFRS 9 2018	IFRS 9 ex. non-recurring 2018	IAS 39 incl. Vijlma 2017	IAS 39 ex. Vijlma 2017
Net interest income	202	202	204	187
Net fee and commission income	40	40	50	50
Investment income	74	37	66	66
Other income	(4)	(4)	37	12
Operating income	**312**	**275**	**357**	**315**
Other operating expenses	119	119	121	121
Regulatory charges and levies	-	-	-	-
Operating expenses	**119**	**119**	**121**	**121**
Net operating income	**193**	**156**	**235**	**193**
Credit loss expense / (recovery)	62	62	34	54
Profit before tax	**131**	**94**	**201**	**139**
Tax	15	15	35	19
Profit after tax	**116**	**79**	**166**	**119**

Total corporate loan origination in 2018 amounted to EUR 3.6 billion, compared to EUR 3.1 billion in 2017. As prepayments remain at a high level, close to our total origination, the total corporate lending book remained stable at EUR 9.7 billion. The equity investment portfolio declined due to the sale of investments from both the NEIF and MBF 1B funds from EUR 343 million to EUR 215 million. As a result total corporate client assets decreased marginally to EUR 9.9 billion (2017: EUR 10.0 billion).

The level of investment income in 2018 increased to EUR 74 million, mainly caused by the successful exits from the investment funds. Part of these sale results are considered to be non-recurring. The lower level of the equity investment portfolio, combined with the strategy to build a more granular equity investment portfolio implies that future income from this portfolio is expected to be below the levels displayed in 2017 and 2018.

Credit loss expenses are impacted by stage 3 credit losses mainly stemming from Leveraged Finance and Offshore Energy. Although we initiated the rebalancing strategy in 2018, this did not prevent the occurrence of additional stage 3 credit losses.

Retail client offering

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

Mortgages

NIBC only offers mortgage loans in the Netherlands. NIBC Direct mortgage loans are offered via independent intermediaries throughout the Netherlands. The mortgage servicing and back-office activities are outsourced to a third party. With this operational set up of our mortgage business, we have created an efficient and scalable business. We continuously reflect on developments and the options that our operational setup provides. By centralising back-office activities in 2018, we have been able to make product and service changes towards clients easier, quicker, and more cost effective. Futhermore our dual-track mortgage loans strategy has gained momentum by originating mortgage loans for own balance sheet and for third party (institutional) investors. Over the course of 2018, we further created a one-stop-shop for intermediaries by supplying a full product range from niche products to price competitive long-term interest rates mortgage loans.

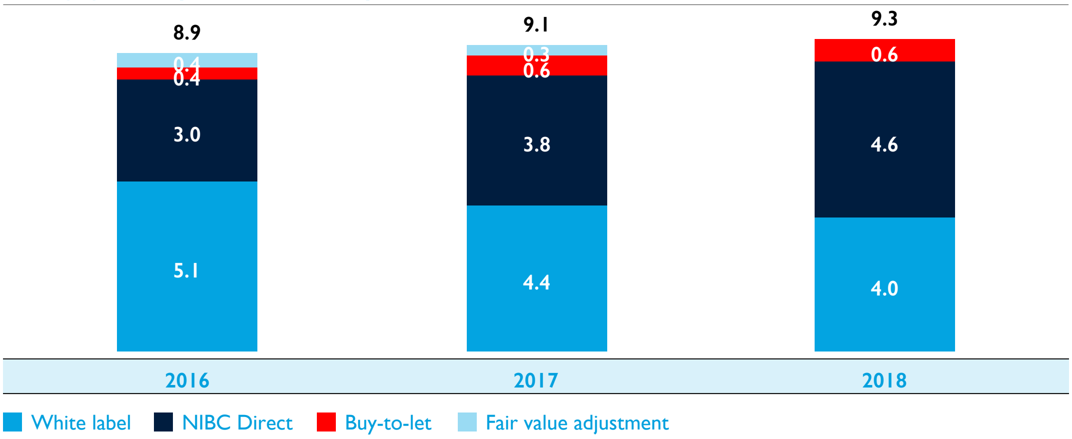
As a result of our efforts in expanding the originate-to-manage business, mortgage origination volumes increased significantly. In total, origination volumes increased by more than 80% to EUR 3.4 billion in 2018. EUR 1.8 billion of the originated mortgage loans are originated for the originate-to-manage proposition.

In 2018, we started the process of taking action to actively inform our clients about the terms and conditions of an interest-only mortgage loan. Upon maturity the full mortgage loan needs to be refinanced or repaid and research has shown that not all of our clients may be fully prepared for this. NIBC is fully committed to resolve these issues together with our clients. As a first step we will start contacting the most vulnerable clients in 2019 about possible personalised solutions. This effort is in coordination with the Dutch Banking Association (NVB) and the AFM.

Mortgages for own book

The volume of mortgage loans recognised by NIBC increased from EUR 8.8 billion in 2017 (excluding the fair value adjustment on FVtPL mortgage loans) to EUR 9.3 billion in 2018. In 2018, origination for own book amounted to EUR 1.6 billion and re- and prepayments were EUR 1.1 billion. We continued to focus on the more profitable segments of the mortgage market, outside of the NHG market and focused on niches like self-employed, expats and buy-to-let. The Dutch housing market price index further increased in 2018, leading to an increased credit quality of the portfolio. This is reflected in the decrease in the amount of arrears on the mortgage portfolio which reduced from EUR 42 million in 2017 to EUR 19 million in 2018. On the back of increased competition the buy-to-let portfolio displayed a EUR 15 million marginal growth to a balance sheet total of EUR 632 million in 2018.

Mortgage loan portfolio development



Originate-to-manage mortgages

The current low interest rate environment has shifted consumer preference towards mortgage loans with long fixed interest terms of 20 and 30 years. These long-term fixed products typically do not suit the shorter maturity profile of a bank. The observed trend resulted in the launch of our *originate-to-manage* (**OTM**) business in 2016. In this offering, we originate long fixed interest mortgage loans under our own label and distribute the loans to institutional investors who seek these long duration products. In the OTM offering, we have a strategic partnership with AXA Investment Managers, with whom we currently have a mandate to originate a portfolio of EUR 3.5 billion mortgage loans. At year-end 2018, the total portfolio amounted to EUR 2.4 billion.

Our position within the financial ecosystem enables us to cooperate with large financial institutions. There are a number of unique selling points for our originate-to-manage product. As we do not compete with these parties we do not have a natural conflict of interest, instead we have complementary interests. The mortgage loans we originate for OTM carry the NIBC Direct brand, the client has a contractual relationship with NIBC and the OTM mortgage follows exactly the same (application) process as mortgage loans for own book. Furthermore, the investor has the flexibility in determining what type of mortgages are originated. The strategic partner can for example choose the length of the fixed interest term on the mortgages and whether or not the mortgage is covered by the *Dutch mortgage guarantee scheme* (**NHG**). Next to this, NIBC can offer balance sheet support. The strategic partner usually favours long duration mortgage loans. There are, however, cases where the client needs short-term bridge financing. NIBC, with its balance sheet, can offer bridge financing to the client, while the mortgage is transferred to our partner as soon as the loan is originated. Further, NIBC has experience in mortgage origination and in managing mortgage loan portfolios. This proves to be of vital importance in our role as a strategic partner to institutional investors.

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

Savings

The savings products are an important pillar in the funding strategy of NIBC. NIBC's savings products are offered exclusively via the online channel in The Netherlands, Germany and Belgium. NIBC Direct celebrated its 10th anniversary for its saving products in 2018. To celebrate this event together with our clients, NIBC Direct colleagues visited several launching customers.

Active management of in- and outflow of deposits resulted in a decrease of the total retail savings deposits in 2018 to EUR 8.9 billion (2017: EUR 9.3 billion), which fits within the bank's funding appetite. Within the savings portfolio, the share of on-demand deposits increased from 58% in 2017 to 61% in 2018. The shift towards more on-demand deposits results in lower funding costs. We continue to evaluate our funding mix as a whole and possibilities to further diversify and strengthen the retail savings offer within NIBC's funding mix.

Performance

Profit after tax for the retail client offering improved compared to 2017 on the back of increasing fee income from the OTM offering and a credit loss recovery.

Income statement retail client offering

	IFRS 9 2018	IFRS 9 ex. non-recurring 2018	IAS 39 ex. Vijlma 2017
Net interest income	130	130	127
Net fee and commission income	11	11	4
Investment income	0	0	-
Other income	-	-	(2)
Operating income	**141**	**141**	**130**
Other operating expenses	54	54	54
Regulatory charges and levies	9	9	9
Operating expenses	**63**	**63**	**63**
Net operating income	**78**	**78**	**67**
Credit loss expense / (recovery)	(8)	(8)	-
Profit before tax	**85**	**85**	**67**
Tax	22	22	16
Profit after tax	**64**	**64**	**50**

The total mortgage loan book increased to EUR 9.3 billion due to EUR 1.6 billion of origination for own book in 2018. The spread on mortgage loans, however, decreased by 17 basis points to 2.36%. The decrease of the portfolio spread was caused by an increased share in origination of short-term fixed rate mortgages, and lower *loan-to-value* (**LtV**) levels on our mortgage portfolio. Further, we observed increased competition in the mortgage market, creating downward pressure on mortgage rates.

In total, the decline in spread and the increase in the volume of mortgage loans resulted in a EUR 3 million increase in net interest income. The IFRS 9 effects of the hedging swaps related to the mortgage loans previously recognised at FVtPL are reflected in the Treasury & Group functions income statement.

Net fee and commission income for the retail client offering fully reflects income from the originate-to-manage business. The OTM proposition is one of the growth drivers in the income statement. As both the amount of origination and the total originated portfolio increased substantially, fee income from this product increased significantly. Evidence of our scalable retail client offering is the fact that total operating expenses for retail clients remained stable, whereas the amount of mortgage loans under management increased by 22% to EUR 11.7 billion.

The improved state of the Dutch housing market, resulting in lower LtVs on mortgage loans, and consequently reduced risks in our mortgage book. As the risk profile improved, credit loss recoveries in 2018 amounted to EUR 8 million. At year-end the total impairment balance amounts to EUR 8 million.

Treasury & Group functions

The net interest income impact from the pull-to-par effect related to IFRS 9 is attributed to treasury & group functions. Total net interest income from IFRS 9 amounts to approximately EUR 50 million. Next to IFRS 9 effects, net interest income increased due to the decrease of funding expenses. This is driven by a further reduction of the effective funding spread from 0.87% to 0.73%.

Further, the previously explained EUR 17 million tax benefit due to the recognition at par of the tax losses carry forwards from losses in 2010 and 2011 was also recognised within Treasury & Group functions.

Income statement Treasury & Group functions

	IFRS 9 2018	IFRS 9 ex. non-recurring 2018	IAS 39 ex. Vijlma 2017
Net interest income	101	101	35
Net fee and commission income	0	0	-
Investment income	0	0	1
Other income	(4)	(4)	(10)
Operating income	**97**	**97**	**26**
Other operating expenses	36	30	-
Regulatory charges and levies	6	6	5
Operating expenses	**41**	**36**	**5**
Net operating income	**55**	**61**	**(6)**
Credit loss expense / (recovery)	(1)	(1)	-
Profit before tax	**56**	**62**	**(6)**
Tax	(6)	11	(1)
Profit after tax	**62**	**50**	**(5)**

RISK MANAGEMENT

Risk management is at the core of our business and sustainable growth strategy. NIBC's approach to risk management results in fast decision making through an experienced, client-focused origination team with detailed knowledge of its client portfolio, allowing for risk exposure to be managed through carefully structured facilities and client-centred restructuring on the corporate side. In the retail offering risk is managed through simple and transparent products and an experienced arrears management team aimed at preventing foreclosures. We mainly pursue credit and investment risk; lowering our interest rate, currency, liquidity and operational risks while ensuring solid capital and liquidity positions. These are integral aspects of the corporate and retail platform. Our risk appetite defines the scope and boundaries we are comfortable with while our risk management framework provides us with a structured approach for managing the various risks on a daily basis. It is indispensable that sound risk management is rooted in our culture, as it is the responsibility of all our people to service our clients over the long term in the way that they expect us to do, and in relationships based on trust, transparency and reliability.

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

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

NIBC has the advantage of its medium 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 while we continue to comply with evolving regulatory requirements.

Developments in risk management

Despite the generally positive economic climate there are uncertainties in the world that may have an adverse effect on NIBC. The looming threat of a 'hard Brexit', continued geopolitical tensions impacting global trade, increasing number of profit warnings in Germany, lower GDP growth expectations for EU member states and continued volatility in financial markets are examples of challenges for both NIBC and our clients. Within the financial industry we observe increasing risks in the leveraged finance market and the continuing low interest rate environment. We are constantly reflecting on our position in the financial industry and apply a careful approach to areas where we see an increased level of riskiness, while at the same time benefiting from identified opportunities in other sectors and products.

Throughout 2018 we have continued to improve the asset quality of our lending book. Important aspect to achieve that improvement is the rebalancing of our portfolios, aimed at higher granularity of exposures and smaller portfolios in certain sectors and products. Although impairments are still at an elevated level, driven by credit losses on a small number of individual clients within Leveraged Finance, Offshore Energy and Shipping & Intermodal, we see the first effects in the underlying portfolios. The interest rate risk management framework has been revised in 2018, leading to a more efficient hedging model and reduction of the volume of derivatives.

In the area of non-financial risks, client due diligence is an important topic, as banks fulfil an important role in the prevention of intentional and unintentional wrongdoing. *Know-your-customer* (**KYC**) and *Anti-Money Laundering* (**AML**) regulations are updated to meet today's challenges, and banks have to keep pace by adjusting their processes and procedures in order to address the risks effectively and remain compliant with these regulations . NIBC actively reviews and adjusts the client onboarding processes to keep these in line with continuously evolving requirements.

Another important development we monitored closely during 2018 relates to Brexit. We remain in close contact with the UK's regulator, the *Financial Conduct Authority* (**FCA**), and DNB to follow the latest developments and to ensure we can continue to operate in the UK. NIBC is in the process of completing its entry into the Temporary Permissions Regime. This regime will ensure that financial institutions can continue operating in the UK – post a hard-Brexit – essentially on the same basis as before. Further, ISDA agreements with UK counterparties who transfer their positions to an EU entity have been redrafted, and we invited our clients to have a dialogue on the effects of Brexit for them.

Developments with regard to Brexit are closely monitored. We remain in close contact with the Dutch and UK regulators to follow the latest developments, identify necessary adjustments and to ensure we can continue to operate in the UK. Additionally, NIBC has invited its clients to have a dialogue on the effects of Brexit on their business and operations.

As a regulated entity we continuously focus on the non-financial risks relating to doing business. As NIBC is increasingly becoming dependent on its outsourcing partners, which is a trend in the industry, we also expect all outsourcing partners to comply with the three lines of defense model. More regulation is expected to come into effect to formalise these relationships and responsibilities in the complete process. This is expected to include both the contractual and the process ownership.

Risk governance

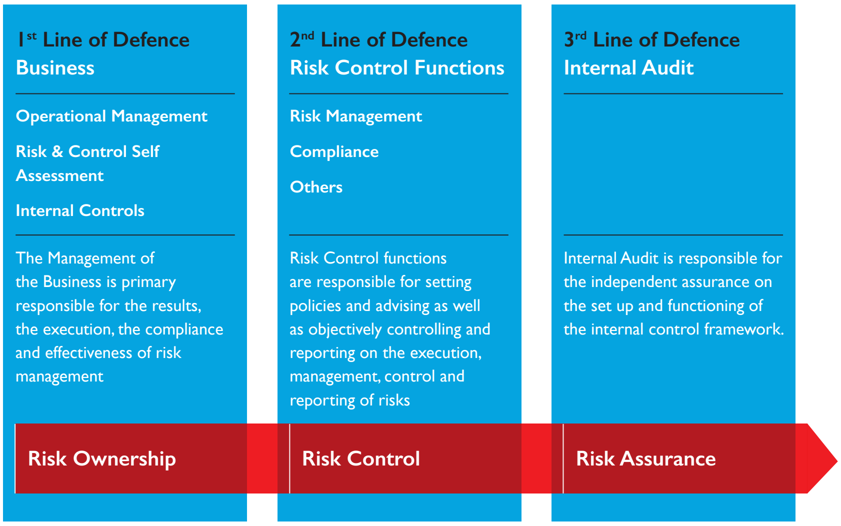
The overarching principles regarding risk management are laid down in our risk management framework. The ultimate purpose is to enable ourselves to properly assess in a timely manner whether our activities fit within our risk appetite and to provide insight into how we address opportunities and challenges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

Three lines of defence model

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

management and responsibility of the first line of defence lies with the non-statutory members of the *Executive Committee* (**ExCo**).
Our second line of defence lies within the Risk, Legal, Compliance and CSR departments. These departments monitor and evaluate risks versus the risk appetite framework. The second line of defence has an active advisory role in particular transactions and proposals. The CRO is head of the second line.
The third line of defence is the *Internal Audit* (**IA**) department. This department provides objective and independent assurance on the operations within the first and second lines of defence. IA helps to accomplish our objectives by evaluating and improving the effectiveness of risk management, control and governance. IA reports directly to the CEO and the Audit Committee.

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



Client privacy and data security

When confidential or private information belongs to NIBC or a client, we handle it with the utmost care. Cybercrime is a risk for NIBC as well as for all of our financial sector peers. In 2018 we carried out a large number of tests, continuously assessing our data protection measures, as part of our efforts to strengthen NIBC's cyber security.

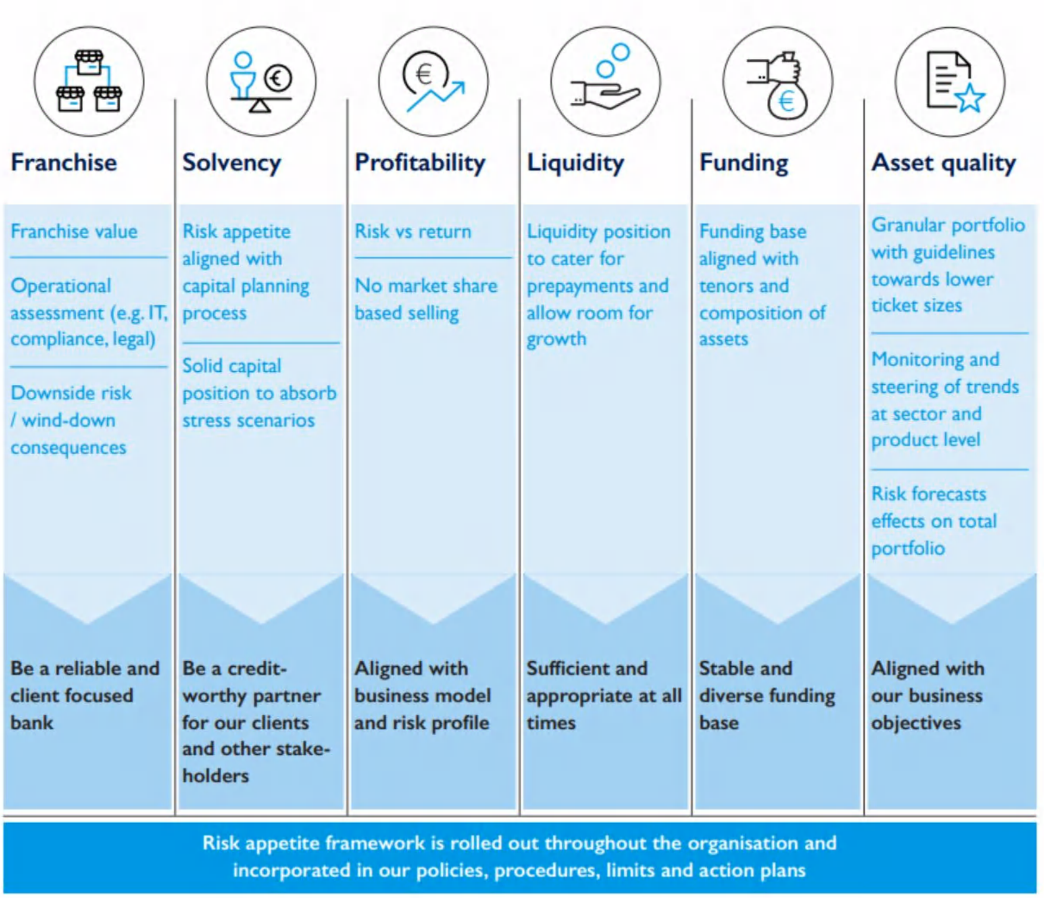
We do not leave such information unattended and we have policies such as a clear desk policy, information security policies, and additional security controls. Staff may not use non-secure communication channels or storage devices for sensitive or confidential information. Third parties may not use our equipment, software or databases unless authorised. Our approach is detailed in our Corporate Information Security Policy and our Data Protection Policy. We have a Record Keeping Policy in place to ensure we adhere to legal requirements with respect to data protection. During 2018, NIBC reported 18 incidents to authorities and clients. There were no severe leaks, thefts, or losses of customer data nor any complaints regarding severe breaches of customer privacy and losses of customer data.

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

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

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

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



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

Roles and responsibilities

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

- **Engagement committee (EC):** Responsible for decision-making with regard to client engagement and conflicts of interest including an assessment of the potential integrity risks when engaging with a client.
- **Transaction committee (TC):** The transaction committee has decision-making power with regards to credit transactions, assessment of credit proposals and the monitoring of credit related risks. The TC approves and monitors all transaction proposals which cause NIBC to assume credit risk. Further, the TC decides on impairments and write-offs and reviews all individual transactions at least annually.
- **Investment committee (IC):** The IC is the delegated authority to decide on equity, mezzanine, subordinated, and other equity related financial products. The IC assesses new investment proposals and periodically determines the valuation of our equity portfolio.
- **Strategic investment committee (SIC):**The SIC has decision-making power on equity, mezzanine debt, subordinated debt and senior debt granted to strategic participations and/or strategic investments.
- **Risk management committee (RMC):** The RMC decides on policies, measurement methods, monitoring, and controlling of all risk types. The role of the RMC is to safeguard our risk appetite by monitoring all risks we are exposed to, thereby looking backwards as well as forwards.
- **Asset & liability committee (ALCO):** The ALCO monitors and controls capital ratios, liquidity, earnings and market risk. As ALCO is responsible for liquidity, they also decide on funding plans and large funding transactions.

Risk profile

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

In order to reduce the risk profile we have to look beyond our lending activities. One of the non-lending activities relates to minority equity participations in clients and investment funds. In 2018 the equity investment portfolio decreased from EUR 343 million to EUR 215 million. Reduction of the equity investment exposure is primarily explained by the sale of investments from NEIF and MBF 1B, decreasing the exposure by EUR 155 million. On the new investment side we have focused on smaller exposures, increasing granularity of the equity investment portfolio.

In 2018 the risk profile of the performing corporate loan portfolio continued to improve as evidenced by the decrease of the expected loss to 31 bps (2017: 32 bps). Origination with lower expected credit loss than the existing portfolio has contributed to this reduction. The watch list of corporate loan exposures decreased from EUR 508 million to EUR 261 million. This indicates an improving portfolio, although part of the outflow is related to newly impaired assets. These impairments mostly relate to the Offshore Energy sector, which continues to experience pressure from price levels and uncertainties in the oil market, and Leveraged Finance products, which are currently displaying risk characteristics that are less in line with our risk appetite. Within the Shipping

& Intermodal portfolio the amount of non-performing loans increased in 2018. This was due to the continuation of the deteriorated market circumstances and our decision to take relatively small impairments totalling EUR 7 million on four exposures. Shipping & Intermodal assets are well collateralised and therefore impairments are relatively limited. The non-performing exposure in Industries & Manufacturing, mostly consisting of Leveraged Finance products, more than doubled.

The sectors and products above remain challenging, and consistent with our rebalancing strategy we decided to decrease exposures to Offshore Energy, Shipping & Intermodal and Leveraged Finance. In 2018 this has already resulted in a decreased Leverage Finance exposure. Growth in the corporate client portfolio comes from our more granular offerings such as receivables financing and lease receivables, which is in line with the strategy to increase granularity of NIBC's exposures.

The housing market in the Netherlands has continued to improve in 2018. This is reflected in the performing mortgage loan portfolio by a decrease of the expected loss from 13 bps to 9 bps. In 2018 shorter tenor mortgage loan origination has also added to the rebalancing of our risk profile within the retail portfolio. Shorter tenors also provide repricing power, more flexibility and lower liquidity risk. Rebalancing the portfolios should position NIBC to address the challenges.

Overview of risk types

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

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

in EUR millions	Main risk types	2018	2017
Corporate / investment loans		9,652	9,612
Corporate loans	Credit risk	9,412	9,393
Investment loans	Credit risk	240	220
Lease receivables	Credit risk	52	60
Mortgage loans	Credit risk	9,275	9,146
Equity investments	Investment risk	215	343
Debt investments		825	822
Debt from financial institutions and corporate entities	Credit risk / Market risk	248	324
Securitisations	Credit risk / Market risk	577	498
Cash management	Credit risk	2,601	2,021
Derivatives[1]	Credit risk / Market risk	579	1,021
Funding	Liquidity risk	21,550	21,227
Capital (Incl. Tier-2 as per Basel III)	Capital Adequacy risk	2,103	2,328

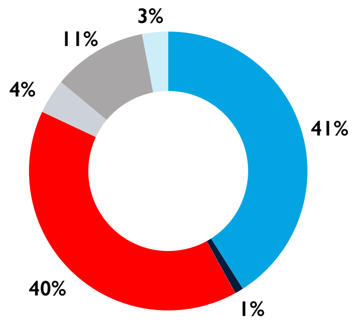
1 Based on a combination of netting and positive replacement values.

Credit risk

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

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

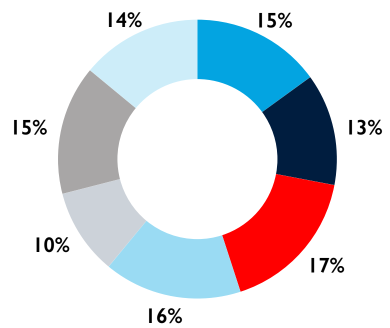
Credit risk exposure



2018

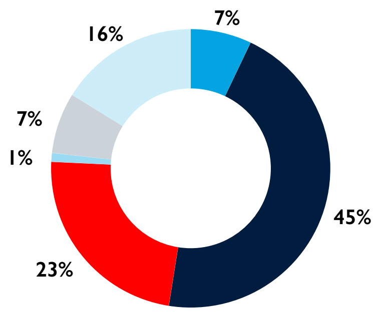
Corporate loan portfolio · Investment loan portfolio · Mortgage loan portfolio · Lease receivables · Debt investment portfolio · Cash · Derivatives

Corporate loan portfolio per sector



2018

Investment loan portfolio per sector



2018

Commercial Real Estate · Food, Agri, Retail & Health · Industries & Manufacturing · Infrastructure & Renewables · Offshore Energy · Shipping & Intermodal · Telecom, Media, Technology & Services

As indicated in previous paragraphs, we have seen a changing balance between the risks and rewards in the Offshore Energy, Shipping & Intermodal and Leveraged Finance sectors. As a consequence we have deliberately chosen to be more conservative and reduce our exposures in these sectors. We seek to grow in granular products such as receivable financing which is demonstrated by the increase in the sectors *Telecom, Media, Technology & Services* (**TMT&S**) and *Industries & Manufacturing* (**I&M**), as well as the growth in lease receivables.

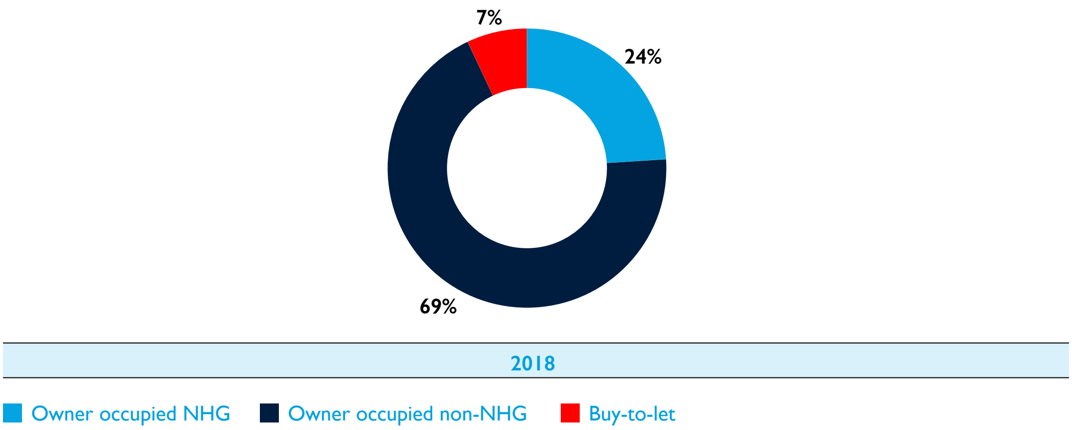
Corporate exposures per product type

in EUR millions	2018	2017
Asset based finance	4,908	5,057
Corporate lending	1,727	1,600
Leveraged finance	1,349	1,572
Receivables finance	1,028	832
Lease lending	401	331
Lease receivables	52	60
Investment loans	240	220
Equity investments	215	343
Total	**9,920**	**10,015**

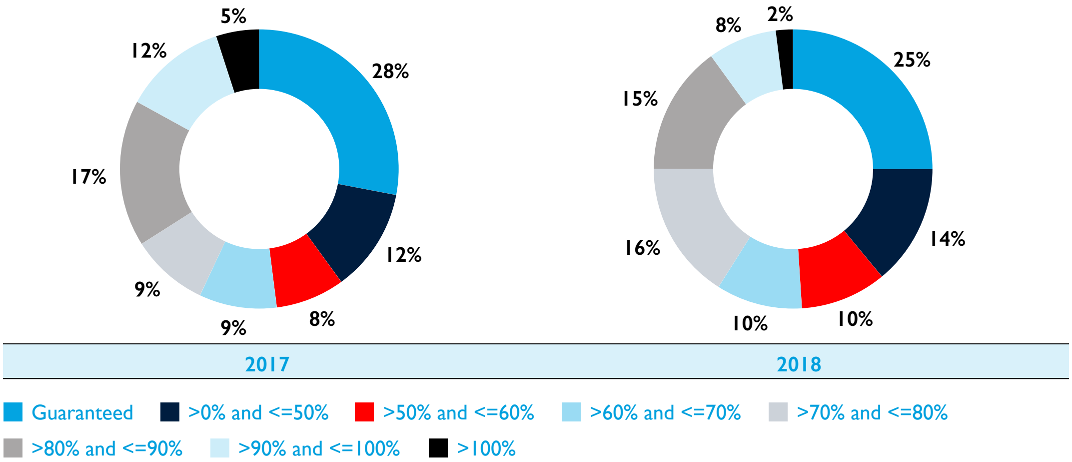
In the corporate client offering we mainly engage with clients rated a 5 or 6 on the internal credit risk scale, which corresponds to a BB and B in external rating agencies' scales. This translates to a probability of default ranging between 0.61% and 4.77%. As the exposures are concentrated in the sub-investment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

The Dutch housing market showed further strengthening in 2018, which is reflected in the credit loss reversals we report on the mortgage loans. In the retail client offering, where we offer mortgage loans to our clients, three different types of mortgages are distinguished from a risk perspective: owner-occupied mortgage loans with NHG, owner-occupied mortgage loans without NHG, and buy-to-let mortgage loans. NHG refers to the Dutch mortgage guarantee scheme that ensures that the lender is compensated for post-foreclosure losses on mortgage loans. A good indicator of the riskiness of a mortgage loan is the loan-to-value ratio. The Dutch housing market has displayed considerable improvements over the past years, causing loan-to-value ratios in our mortgage loan portfolio to further decrease.

Mortgage loan portfolio per product type



Mortgage loan portfolio per loan-to-value bucket



Development of credit quality

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

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

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

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

in EUR millions	2018 Corporate exposure	2018 Retail exposure	2018 Total exposure		2017 Corporate exposure	2017 Retail exposure	2017 Total exposure	
Defaulted exposure	480	20	500	2.6%	414	89[1]	503	2.7%
Impaired exposure	429	17	446	2.4%	321	-	321	1.7%
Non-performing exposure	503	20	523	2.8%	432	89[1]	521	2.8%
Forborne exposure	685	50	735	3.9%	931	43	974	5.2%

1 Part of the mortgage loans classified as financial assets at fair value through profit or loss.

in EUR millions	2018 Non-performing exposure	2018 Impaired exposure	2018 Impairment coverage ratio[1]	2017 Non-performing exposure	2017 Impaired exposure	2017 Impairment coverage ratio[2]
Corporate client exposures						
Commercial Real Estate	65	65	33%	98	98	40%
Food, Agri, Retail & Health	39	35	22%	28	16	21%
Industries & Manufacturing	50	26	38%	6	6	54%
Infrastructure & Renewables	58	12	17%	51	51	30%
Offshore Energy	132	132	40%	173	92	54%
Shipping & Intermodal	111	111	20%	48	48	32%
Telecom, Media, Technology & Services	48	48	44%	28	9	29%
Total corporate client exposures	**503**	**429**	**32%**	**432**	**321**	**40%**
Retail client exposures						
Mortgage loans	20	16	9%	88	-	-
Buy-to-let mortgages	-	-	-	-	-	-
Total retail client exposures	**20**	**17**	**9%**	**89**	**-**	**-**
Total exposures	**523**	**446**	**31%**	**521**	**321**	**40%**

1 Impairment coverage ratio includes IFRS 9 stage 3 assets only.
2 Impairment coverage ratio excludes IBNR amounts.

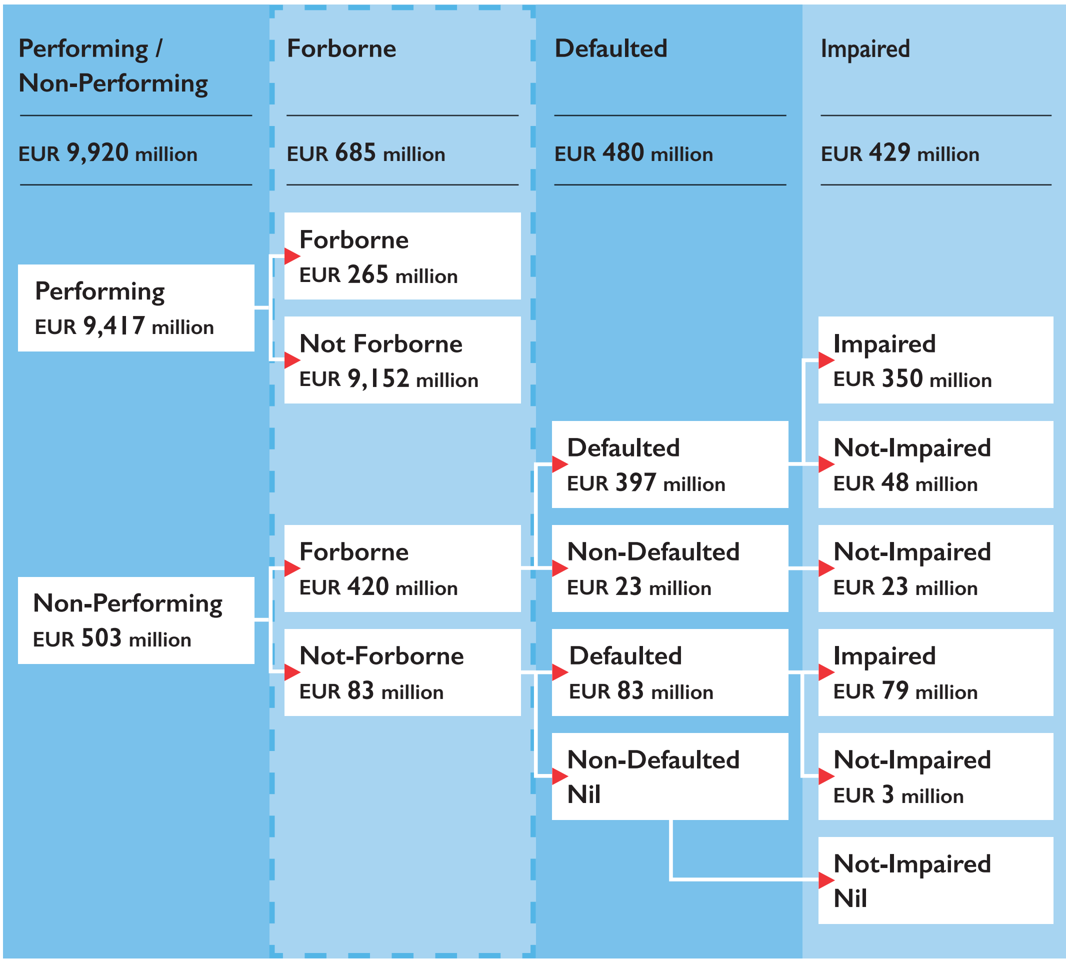
The increase in non-performing exposures for FAR&H, I&M and TMT&S are mainly related to leveraged finance assets. The decrease in the non-performing and impaired exposure in CRE is partly due to the write-down of two impaired exposures and a significant repayment of an impaired client. Besides former non-performing exposures improving into performing, write-downs also partially explain the decrease in non-performing exposure in Offshore Energy.

The increase in impaired mortgage loan exposure is due to the transition from IAS 39 to IFRS 9. The impaired exposure mainly relates to mortgage loans previously held at FVtPL which are recognised at amortised cost as of 1 January 2018. As FVtPL assets do not have impairments – instead they have fair value losses – they were not included in the impaired exposure under IAS 39 reporting. The decrease in the non-performing exposure for mortgage loans is primarily caused by the write-off of fully provisioned post-foreclosure arrears that were included in the 2017 positions. These arrears were long overdue and had a fair value of zero on the balance sheet. During 2018, it has been decided to write down the full post-foreclosure amount.

Corporate exposures and impairment coverage ratio per product

in EUR millions	2018 Non-performing exposure	2018 Impaired exposure	2018 Impairment coverage ratio[1]	2017 Non-performing exposure	2017 Impaired exposure	2017 Impairment coverage ratio[2]
Corporate client exposures						
Asset based financing	347	301	28%	340	260	40%
Corporate lending	26	2	100%	14	14	35%
Leveraged finance	95	95	46%	46	27	51%
Structuring	2	2	67%	2	2	68%
Investment loans	33	29	29%	30	18	30%
Total corporate client exposures	**503**	**429**	**32%**	**432**	**321**	**40%**

1 Impairment coverage ratio includes IFRS 9 Stage 3 assets only.
2 Impairment coverage ratio excludes IBNR amounts.



Investment risk

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

The NEIF fund has successfully executed its exit strategy and sold a number of investments in 2018, considerably reducing the amount of investments in the portfolio. This development is in line with NIBC's strategy of reducing large single-client exposures which also applies to the investment portfolio. As a result we are looking for smaller direct investments in our clients, preferably through offering a combination of senior and mezzanine lending, combined with an equity participation.

Equity investment exposure

in EUR millions	2018	2017
Commercial Real Estate	40	39
Food, Agri, Retail & Health	10	57
Industries & Manufacturing	24	16
Infrastructure & Renewables	23	129
Offshore Energy	3	3
Shipping & Intermodal	-	-
Telecom, Media, Technology & Services	115	98
Total	**215**	**343**

in EUR millions	2018	2017
The Netherlands	119	268
Germany	41	10
United Kingdom	26	24
Rest of Europe	4	4
North America	25	37
Other	-	-
Total	**215**	**343**

Interest rate risk in the banking book

Interest rate risk in the banking book refers to the sensitivity of interest income to adverse interest rate movements. Interest rate movements have an impact on cash flows and their present values. NIBC has a framework in place which keeps track of interest related risks in our economic value and our earnings. To monitor the impact on economic value, *basis point value* (**BPV**) and *value at risk* (**VaR**) are calculated on a daily basis.

To assess the impact on net interest income NIBC uses *earnings at risk* (**EaR**) by calculating the 12-months earnings impact of a gradual 100 bps and 200 bps upward or downward shift in interest rates per currency. At the end of 2018 the 100 bps EaR amounted to EUR 13 million (2017: EUR 13 million). Next to this, NIBC uses several dynamic analyses by modelling the development of its balance sheet in line with the business plan, taking into account refinancing and reinvestments.

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

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

Market risk

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

In the trading book, excluding NIBC Markets, NIBC takes short-term positions in the EUR, GBP and USD yield curves. The limits for the trading book are moderate and are monitored on a daily basis and reported to the Asset and Liability Committee on a biweekly basis. NIBC's policy is not to take any active currency positions. When currency positions exceed small facilitating limits, NIBC's policy is to enter into hedging transactions. NIBC's overall open foreign currency position was EUR 5.7 million as at 31 December 2018.

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

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

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

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

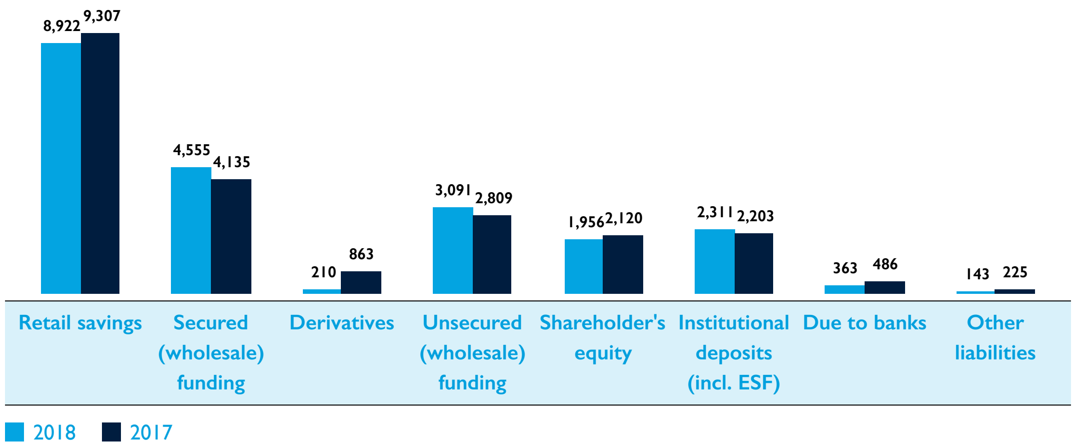
Liquidity risk

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

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

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

During 2018 we continued to actively manage the funding mix and tenor. The amount of secured funding increased due to the issuance of two 10-year covered bonds and one 5-year RMBS transaction.



Operational risk

Operational risk can be described as the risk of direct or indirect losses from inadequate or failed internal processes, people and systems or from external events. NIBC regards legal risk, reputational risk and compliance risk as part of operational risk. Examples of operational risk include fraud, systems failure, discrimination and data errors.

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 '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. This has created a valuable network of experts that shares its knowledge and expertise across the bank.

Regulators and society are increasingly interested in operational risk factors and what we as a bank do to prevent any wrongdoing. Increased attention is placed on KYC and *Anti-Money Laundering* (**AML**) measures. For more information on these subjects and how we actively manage these risks within the first line, please refer to the SWOT analysis section.

Capital adequacy

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

To assess the capital ratios at year-end we need to differentiate between the impact of the transition to IFRS 9 and the developments in 2018. The IFRS 9 transition had a significant capital impact, as

explained in the Financial review. During 2018 the capital ratios were impacted positively by the increased profitability in 2018 and reduced RWAs, mainly driven by the exits in the investment portfolio.
Operational risk RWAs are determined by a 3-year moving average of operating income. As operating income increased over the past years, so did the RWAs related to operational risk.

	IFRS 9 2018[1]	IFRS 9 1 Jan 2018	IAS 39 2017[1]
Capital ratios (in %)			
Common Equity Tier 1 ratio	20.6%	18.4%	21.4%
Tier 1 ratio	23.2%	20.8%	23.7%
Total Capital ratio	27.2%	24.3%	27.2%
Risk-weighted assets (in EUR millions)			
Credit risk	6,552	7,549	7,587
Market risk	230	130	130
Operational risk	891	746	746
Credit value adjustment	49	83	83
Total RWA	**7,723**	**8,508**	**8,546**

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

Economic capital

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

OUR PEOPLE

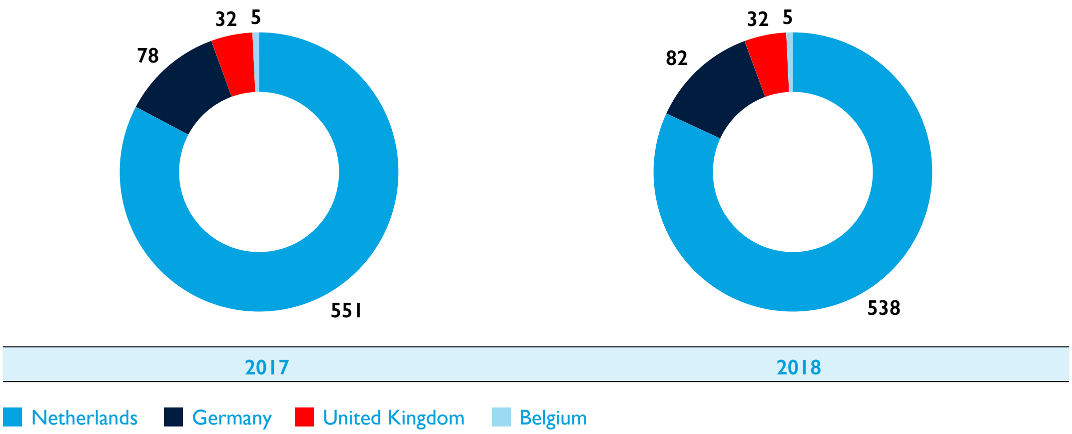
NIBC strives to make a difference at decisive moments for its clients. Consequently, the continuous development of employees' capabilities and commitment are pivotal. The NIBC3, our corporate values – professional, entrepreneurial and inventive - are the cornerstone for NIBC's organisation and culture.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

We evaluate ourselves and each other in accordance with these values. By doing so we link our external promise to the internal culture and capacity to deliver. These values are being applied consistently throughout the organisation in both the front and back offices and at all levels as part of the performance management framework.

Employee base

In 2018, our total headcount decreased to 683 employees, from 689 in 2017. The total FTE at 31 December 2018 was 657 (2017: 666). This small decrease mainly relates to some small adjustments in the organisation.

FTEs per country



Absenteeism remained low at 2.1% in 2018, a further decrease from 2017 (2.2%). Absenteeism frequency decreased to 0.8 (2017: 1.0).

	2018	2017
Male / female ratio	68%/32%	69%/31%
Male / female ratio top management	85%/15%	88%/12%
Training expenses per employee (EUR)	3,206	2,377
Absenteeism (trend total)	2.1%	2.2%
Employee turnover (employees started)	16.9%	14.5%

Employee engagement

We want to enable our employees to make a difference at decisive moments for our clients, by offering them a good employee experience. In 2018 we held an Employee Experience Survey to find out how our employees rate our culture, our leadership and their work experience by measuring the levels of engagement and commitment in our organisation.

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

As announced in 2018 we selected a new provider of the engagement survey. As a consequence the results of 2018 are not comparable with previous years. In order to track and monitor the results of NIBC we will, as of 2019, define targets to maintain or improve engagement levels compared to the previous year.

High participation (79%) in the survey provided solid insights, which led to the identification of the organisation's strengths and opportunities. The proportion of committed employees (commitment refers to the connection our employees feel towards our organisation) is 73% which is a positive result but also leaves room for improvement. Our focus on leadership, e.g. through courses, coaching and round-tables on themes regarding management and leadership, has led to a good score of 76%. Another important organisational performance indicator, employership, which gives an indication whether we enable employees to perform optimally, scored a satisfactory 72%. The level of engagement in the financial sector (engagement is the degree to which employees get inspiration from their work) is significantly lower than in other sectors. In our view this is one of the most critical success factors going forward. We therefore aim to increase our current score of 38%. To realise this we will pay attention to working efficiently, communication and perceived workload. We continue to raise awareness and understanding of health and wellness issues amongst our employees to keep on boosting their vitality and productivity. Furthermore we continue to invest in the development of our employees by offering them feedback, coaching and training, development programs and e-learnings.

Development

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

In 2018, we spent over EUR 3,200 per employee on training and educational programmes. This is close to the top quartile when benchmarked with financial services, and close to the top decile compared to general industries. The amount is significantly higher than in 2017 (EUR 2,300) mainly driven by the introduction of a personal development budget for all staff, enabling and motivating them to further develop themselves and by this also contribute to their employability. Moreover, these investments increase the professional capabilities and competences of our people.

Human capital

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

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

In this light, we are very proud that NIBC's Ellen Dekker was a nominee in the Young Talent category of the 2018 Women of the Year awards (Topvrouw van het Jaar). Twenty-six candidates from leading Dutch corporates were nominated under the theme of 'empowering young female talent' These awards help to promote cultural change and raise awareness for corporate gender diversity.

NIBC Introduction Programme

The NIBC Introduction Programme was organised on a regular basis in 2018 to enhance the onboarding of new employees. Besides presentations on the strategy of the bank and on various parts of organisation, special attention was paid to the importance of our corporate values, the NIBC3. All new employees have taken the Bankers' Oath.

NIBC Academy

We have a solid training and learning offering in the NIBC Academy, our virtual centre for continuous training and learning, enabling us to offer development in a more customised and effective way. It ran a total of 25 modular courses in 2018. The Academy's approach is to empower employees to take responsibility for their own development, through a range of channels, including on-demand online workshops and classroom courses. Staff can also create their own learning initiatives, as a result of which we also offer training courses that are offered by employees who are subject matter experts.

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

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

- To build on our basic financial and lending skills, in 2018 we offered a number of professional training courses such as Financial & Cashflow Analysis and a Fitch Credit Course.
- We continue to support new ways of working through a high number of IT and application related courses that are available to all personnel.
- The Management Development Programme and 'Influencing with Impact' training courses have continued to help develop employees' personal and management skills.
- A total of 26 participants completed our dedicated Talent Programme in 2018. This Talent Programme for young bankers has been designed to appeal to a new generation of bankers. A complete new set-up was launched in January 2018. The modular and flexible approach of this renewed set-up is even more tailored to the needs and demands of the new generation.
- A group of 20 talented employees participated in the Orchestrating Winning Performance programme of IMD in Lausanne. In this energetic programme they gained the newest insights on various business and management topics.

Recruitment and Young NIBC

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

At the same time, we have become more inventive in our recruitment efforts and are using new and more dynamic channels, such as gamification, social media and other online platforms. These enable us to engage with a more diverse group of talents and help to convey what working at NIBC is really like.

Young NIBC

The Young NIBC network is focused on connecting younger NIBC staff to each other and the bank. Young NIBC identifies their needs and facilitates matching events, with a focus on personal development, learning about NIBC's organisation and culture and creating a professional network. One of the Young NIBC activities in 2018 was a visit to a client in Berlin, a fintech company. Over thirty of our young colleagues learned about their way of working and how to apply this at NIBC.

Social responsibility is highly valued in Young NIBC. In 2018, several young colleagues were given the opportunity to participate in the Face-the-Future Programme, directed to connect refugees in The Netherlands (or 'newcomers') to corporate employees. Moreover, Young NIBC organised the NIBC 'Young for the Young' Challenge which entailed 25 young colleagues and Stichting Vitalis (an organisation supporting children in need of extra care and attention), working together to find a solution for minimising the waiting list.

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 behaviour. Each month the Managing Board takes the Bankers' Oath from all new employees, thereby emphasising the importance of trust in our behaviour.

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

Promoting inclusiveness and diversity

We believe that diversity is critical to our ability to succeed and achieve sustainable success. We are committed to creating a stimulating work environment for people from all backgrounds, that is open to different ways of thinking. In 2018, we continued to pay close attention to all elements of our diversity goals.

Diversity across age segments showed balance in 2018. 19% of our employees were under 30 years of age (2017: 18%) and 23% of employees were age 50 or older (2017: 23%).

The gender diversity for our organisation slightly increased to 32% female staff (2017: 31%). Senior management also reported an increase in gender diversity to 15% (2017: 12%). We are fully committed to further continue our efforts and structural attention concerning inclusiveness and gender diversity.

We realise that improving diversity ratios is a long-term process and will continue to strive to meet our ambitions. We have a Diversity Committee in place which is tasked with researching our current behaviours and recommending ways to achieve a more inclusive environment at NIBC. We took steps to increase diversity across the company through our recruitment processes. And diversity in general, and the male-female balance specifically, are also explicitly taken into account in our talent programmes and performance management. To address gender imbalances specifically, we have introduced engagements, like mentorships and dedicated workshops and programmes, aimed at retaining and further developing talented female employees.

Increasing diversity among senior managers was a key focus area in 2018. Our objective is at least one third of our Supervisory Board and Managing Board members to be female. NIBC's Executive Committee meets this objective. NIBC is aware that it falls short of this goal with respect to the Managing Board (nil on a total of three) and the overall senior positions (director level and higher), although here the percentage increased to 15% (from 12% in 2017). With regard to the Supervisory Board, the ratio of 29% is close to our objective.

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

Pensions and benefits

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

Similarly, our pension plan is a *collective-defined contribution* (**CDC**) scheme for salaries up to EUR 105,075, ensuring that pension costs have become predictable. As of 2018 the contribution for NIBC is determined at 26.2% and the contribution of the employee at 4.2%, whilst the gross contribution by NIBC for pensions above the fiscal maximum is set at 25% for all ages.

Health and safety

A healthy workforce is a key element in achieving the our objectives. We executed a range of programmes and initiatives in 2018, to enhance our people's well-being.

We continued to promote a good work-life balance and to incorporate new ways to increase flexibility in how we work. In that respect NIBC joined the Virgin Global Challenge focusing on vitality, through a.o. exercise, nutrition and work-life balance. The Challenge combined attention to lifestyle with an internal competition, which created a positive atmosphere within NIBC. This led to a high participation: approximately 70% of all employees, from all the offices, participated in 70 teams aiming to increase a healthy and active lifestyle.

With the health and safety programmes and initiatives, NIBC has contributed in a positive way to the low absenteeism rate of 2.1% in 2018.

Works Council

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

Since 2014, NIBC has opted not to be part of the collective labour agreement for banking institutions in the Netherlands. Therefore, the Council – as the representative of all NIBC's employees on the payroll in the Netherlands – became senior management's direct interlocutor for negotiations in this important area. The negotiations have led to revisions in our employee benefit scheme in 2018.

The Council advised on three matters in 2018: the IPO, organisational adjustments to the Corporate Banking and Operations departments. The Council approved two matters, including adjustments to the Staff Manual and to the policy on private investment transactions. Furthermore, the Council used its right to nominate a member of the Supervisory Board.

Given the challenges facing NIBC and the banking sector, the Council remains focused on the employability of NIBC's staff and on NIBC's competitive position as an attractive employer. This was reflected in the Council's position with respect to reorganisations, diversity and labour agreements. The Council actively monitors employee engagement and other metrics (e.g. absence ratios) in order to gauge the effect of increasing workload. This may be caused by competitive pressure, the effect of reorganisations and increased activity levels of NIBC in 2018. The Council has also been actively involved with multiple other developments such as the sustainable investment policy of the NIBC pension fund, mobility policies and employability while also maintaining regular contact with the Works Councils of other Dutch banks and financial institutions in order to learn from best practices.

SUSTAINABILITY

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

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

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

Core standards

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

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

As part of our standard process we reviewed all of our sustainability policies, updating where necessary to reflect improvements, best practices and societal developments which are relevant for our financial activities and operations.

Sustainability ratings

During 2018, NIBC received upgrades of its sustainability ratings from ISS-Oekom (to Prime/C+) and Sustainalytics (to 72 / Outperfomer). RepRisk continued to rate NIBC at top levels – AA for NIBC Holding and AAA for NIBC Bank. MSCI reaffirmed NIBC at its AA rating. These ratings place NIBC among the top financial institutions in terms of sustainability. This is due to our comprehensive sustainability policies, effective environmental and human rights due diligence, and increased transparency in our sustainability reporting. We aspire to maintain a high level of sustainability and to continuously improve in the years ahead. Reviews of our policies and performance by leading sustainability research and rating agencies will continue to help us toward this goal.

Sustainable development goals

Based on our business activities and where we believe that we can have the most impact, NIBC has prioritised several *Sustainable Development Goals* (**SDGs**) as part of our sustainability strategy. These SDGs include Responsible Consumption and Production (SDG12), Economic Growth (SDG8), Industry & Innovation (SDG9), Sustainable Communities (SDG11), and Clean Energy (SDG7). Importantly, these goals relate closely to our corporate and retail businesses and business strategy. By focusing on these SDGs, we believe we will also contribute towards several other goals including

Good Health (SDG3), Gender Equality (SDG5) and Climate Action (SDG13) among others. References to the SDGs are included in our Sustainability Report, UN Global Compact Commitment on Progress and other reports on our corporate website.

Equator Principles

NIBC is one of 94 financial institutions in 37 countries worldwide which have officially adopted the *Equator Principles* (**EPs**). The EPs are a risk management framework for determining, assessing and managing environmental and human rights risks in project finance transactions. NIBC has implemented the EPs in our sustainability policies and due diligence process for financing projects. Consequently, NIBC will not provide project finance or project-related corporate loans to projects where the client will not, or is unable to, comply with the EPs. In 2018, five transactions financed by NIBC were closed which qualified under these guidelines. Each of these transactions were in north-west Europe.

How we manage sustainability

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

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

Sustainability Officer

The NIBC Sustainability agenda is led by a dedicated full-time senior sustainability officer who is responsible for catalysing sustainability and corporate social responsibility within the organisation.

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

Business units

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

We ensure sustainability due diligence is performed on all corporate clients and transactions. New products and significant changes to existing products are assessed for potential human rights and environmental impacts. Subsidiaries of NIBC have adapted our compliance policies and sustainability policies to their businesses and applied these in their operations and client interactions. Suppliers are required to meet our human rights, environment and anti-corruption standards and are evaluated as part of NIBC’s know your supplier (KYS) process.

Non-financial reporting

The NIBC Annual Report 2018 has been drafted in accordance with the Dutch Decree disclosure on non-financial information (Besluit bekendmaking niet-financiele informatie), which came into effect on 24 March 2017 as part of the transposition into Dutch law of the EU Non-Financial Reporting Directive (2014/95/EU, OJEU 201 330).

This report has also been prepared in accordance with *Global Reporting Initiative* (**GRI**) Standards: core option. Our GRI Content Index and a materiality assessment can be found on the NIBC Annual Report website. Sustainability performance indicators such as NIBC's scope 1, 2 and 3 emissions are reported in detail in our Sustainability Report including comparable figures from prior years. Additional non-financial information and disclosures are published in the Sustainability section of our website.

Environmental sustainability and natural capital

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

NIBC is carbon neutral in regard to direct emissions from its own operations. Since 2010, we have measured our direct emissions, realised substantial reductions and compensated for any remaining direct emissions. During 2018, NIBC extended its certified gold standard carbon offset programme with Climate Neutral Group through 2020. The offsets support emission reductions in Africa, ensure clean water for these local communities, promote gender equality and social development of women.

We manage our direct impact on the environment through an environmental management programme. 100% of electricity used in NIBC's facilities is sourced from renewable energy. In 2018, further renovations were initiated at our headquarters in The Hague. These were based in part on an energy audit that was conducted at the end of 2017. These improvements will help to further optimise energy efficiency and contribute to energy-related carbon emission reductions directly related to our operations. Our geothermal system in the Hague was also optimised to reduce use of gas heating and cooling, thereby reducing future emissions.

NIBC also supports its clients in their transition towards more sustainable business. The main environmental risks in NIBC's financings are climate risk and water security as a result of rising global temperatures caused by greenhouse gas emissions. During 2018, no severe environmental incidents related to NIBC's financings, own operations or supply chain were reported.

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

Responsible ship recycling standards

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

Importantly, NIBC's shipping clients embraced this approach and have led its implementation. A number of clients have taken further steps beyond the vessels financed by NIBC and have committed to this approach across their entire fleet. Additional leading shipping financiers have joined RSRS during 2018. NIBC met with representatives of ship owners, trade unions, NGOs, peer banks and national authorities to address the adverse human rights and environmental effects within the sector's global value chain and to work together to influence improved standards and practices.

NIBC also acted in a coordinating role for a selective number of Dutch Banks in the drafting of a 'Green Deal' with national authorities, ship owners and other stakeholders in the Dutch maritime industry. The Green Deal for Shipping, Inland Shipping and Ports is part of a National Climate Agreement to reduce emissions towards 2030.

Social sustainability and human capital

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

Respecting people and their human rights is a foundation of NIBC's Code of Conduct which underpins NIBC's corporate values. Human rights due diligence is integrated into our sustainability due diligence and monitoring processes for financings, investments, and product development to identify, mitigate and manage potential human rights risks. NIBC has published an overview aligned with the UNGP Reporting Framework in our Sustainability Report.

During 2018 no severe human rights incidents related to NIBC's financings, own operations, and supply chain were reported. The main salient human rights risks for NIBC are labour conditions and worker safety in corporate client supply chains. NIBC manages these risks through stakeholder engagement, client and transaction due diligence and by raising awareness with corporate clients. Full transparency into supply chains is an ongoing challenge for mid-market corporate businesses but is gradually improving.

IRBC agreement for the Dutch banking sector

NIBC signed the International Responsible Business Conduct (IRBC) agreement for the Dutch banking sector. The initiative aims to improve human rights practices related to project and corporate financings and is guided by the OECD Guidelines for multinational enterprises and UN Guiding Principles for Business and Human Rights. We use the IRBC platform to share knowledge and engage with civil society organisations, authorities, clients, and financial sector peers. During 2018, NIBC actively participated in working groups focused on knowledge sharing and enabling effective grievance and remedy mechanisms.

Tax compliance

NIBC proactively communicates with tax authorities, evidenced by its ongoing agreement on horizontal supervision with the Dutch tax authorities. NIBC has an administrative organisation, procedures and internal controls, to meet our tax compliance requirements. We consider tax risk in our decision making with regard to clients, transactions and investments. Our aim is to avoid possible risks of tax base erosion and profit-shifting activities.

NIBC's Tax Position Statement on our corporate website summarises our approach. Our Statement is reviewed periodically in order to keep it up to date and in line with all relevant developments in rules and regulations, changes within the organisation and societal demands. We do not engage in transactions without economic substance or which are exclusively aimed at safekeeping or realising tax benefits for ourselves or our clients.

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.

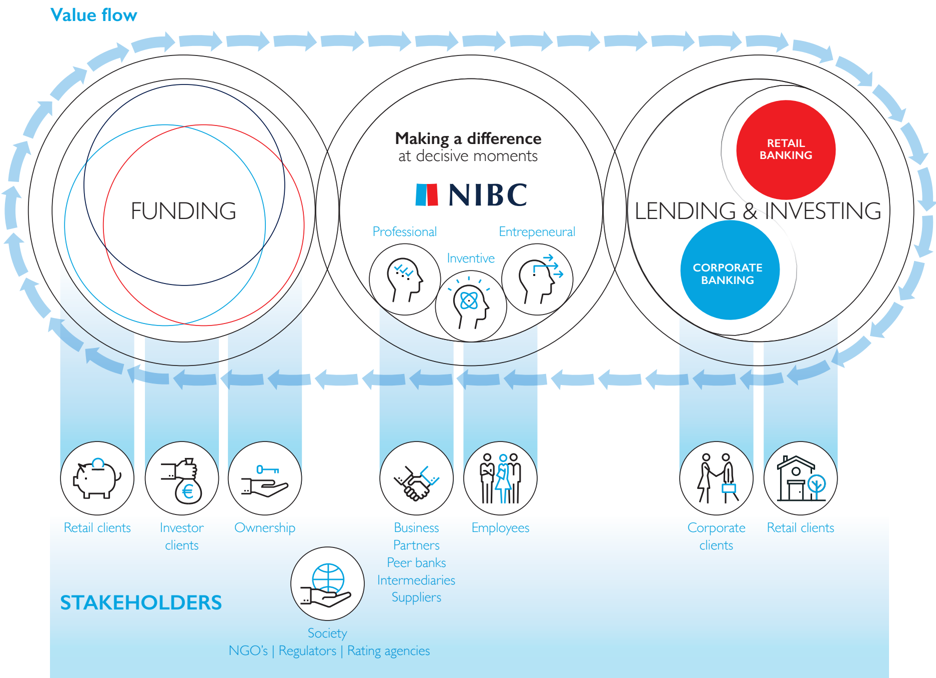
We define stakeholders as any group or individual affected directly or indirectly by our activities. We have identified our main stakeholders to include clients, investors and shareholders, regulators, rating agencies, employees and society at large. Our engagement with these groups takes place via different 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. Stakeholder representatives are interviewed to determine the aspects that have a direct or indirect impact on economic, social or environmental value and to determine which are most important to their stakeholder group. The analysis was conducted in preparation of this report and the results are compiled and reported visually in this chapter.

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

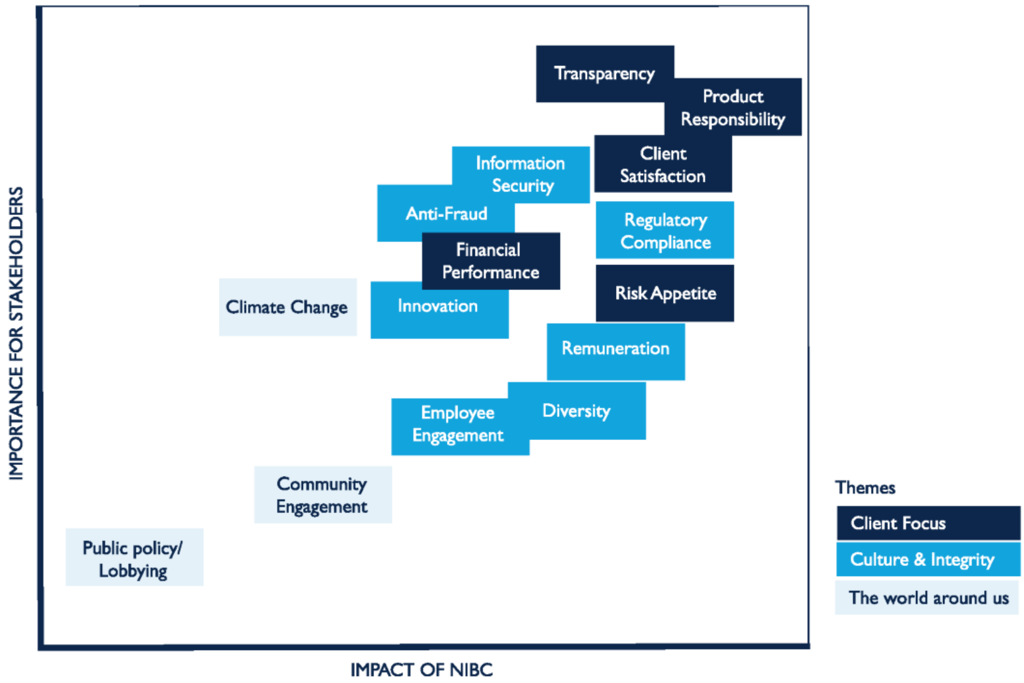
We have encapsulated the results into a 'value flow' diagram which provides clarity into our value creation model. While a simplified view, it reflects our client-first business agenda and our business principles which will enable our future financial and non-financial performance.



Materiality analysis 2018

For 2018, our stakeholder consultation was performed across a range of stakeholder groups representing our clients, investors, regulators, civil society and employees. One significant change from recent years was a result of NIBC's *Initial Public Offering* (**IPO**) in 2018. This has added new equity shareholder voices among the diverse stakeholders with whom we engage. Stakeholder representatives were asked to rank each material topic on a scale of 1 to10 (1 = least important; 10 = most important).

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



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

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

Information security and privacy significantly increased in importance to stakeholders, likely due to increased public awareness of data protection regulations such as GDPR. Stakeholder views on financial performance reflected the balance that many are increasingly expecting in regard to financial and non-financial aspects.

Stakeholders have appreciated NIBC's focus and efforts to take action on diversity broadly and gender equality more specifically. Having a diversity committee to oversee progress within the company, focus on improving gender equality, and improved diversity in senior management and in our Supervisory Board is seen as tangible and meaningful. This positive feedback throughout 2018 inspires and motivates NIBC staff to continue to make further progress.

NIBC NGO Boulevard

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

NIBC aims to help these civil society organisations to be effective and increase their impact. At the same time, since we share the same facilities, these organisations inspire us and help raise the awareness amongst NIBC's employees of societal challenges. Interaction with these civil society organisations has led to several joint initiatives on societal challenges focused on financial education, circular economy, and mobility as part of NIBC's Talent Programme. New initiatives are planned for 2019.

Community engagement

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

NIBC employees were active in a wide range of initiatives in our communities during 2018. In March, NIBC employees again conducted financial education classes during the Week van het Geld (Global Money Week), an initiative whereby bankers provide fun lessons about money to primary school children. Approximately 700 primary school children participated in this Bank voor de Klas programme with NIBC staff.

NIBC donated food and dozens of our employees packed 2,200 holiday food parcels to support families which rely on the Dutch Foodbanks. Together with employees of other leading corporates such as Unilever, Mars, Shell, Dr Oetker and Upfield we ensured that each of the 35,000 families reliant on the Foodbanks received a holiday food parcel.

Beequip continued their support of 'Honey Highway', an initiative which sows flowers to create habitat for bees and combat bee mortality. NIBC was a main sponsor of the Union International Club in Frankfurt for the second time, catalysing a donation to the Frankfurt Clementine Children's Hospital and increasing awareness in the Rhine Main Business Region.

In December, employees in The Hague supported Stichting Vitalis in what has become an annual holiday tradition at the bank. Vitalis is a professional non-profit organisation that supports vulnerable children so they can avoid intensive professional youth counselling programmes. NIBC employees provided personalised holiday gifts for more than 100 children in a special Christmas event.

PERFORMANCE EVALUATION

In the following table, we measure NIBC's performance against the strategic priorities as described in the 2017 annual report.

STRATEGIC PRIORITIES	PERFORMANCE
Continuous evolution of our client franchise, expertise and proposition	Current NPS is +63% (2017: +64%), while our customer satisfaction survey result for NIBC Direct is 7.7 (2017: 7.9). Both are above target. In both Retail and Corporate client offering, the OTM proposition has been further developed, leading to a significant increase of assets under management, (Retail: +231% to EUR 2.4 billion; Corporate: +86% to EUR 0.9 billion). In 2018, the Nordics has been added as a target geographic market and the first transactions have been executed.
Focus on growth of asset portfolio in core markets	NIBC has started to rebalance the Corporate portfolio in 2018, to focus on profitable niches and (sub)sectors. This has led to a reduction of EUR 223 million (14%) of Leverage Finance exposures and simultaneously to an increase of EUR 147 million (52%) in lease receivables and EUR 196 million (24%) in receivables financing.
Diversification of income	In 2018, we have continued to focus on growing our OTM revenues, leading to EUR 11 million OTM-related fee income, an increase of 175%.
Building on existing agile and effective organisation	Further developing our capital markets franchise, growing the portfolios of recently added niches and meeting new reporting requirements have challenged the organisation. With the talent present, NIBC has been successful in addressing these challenges.
Ongoing investment in people, culture and innovation	EUR 3,100 per employee spent on training and educational programmes (2017: EUR 2,300). Employee Experience Survey was completed using a new methodology. Scores provide useful insights to improve our employee engagement, commitment and overall satisfaction as well as our employership.
Further optimisation of capital structure and diversification of funding	With the full adoption of IFRS 9, the CET 1 ratio reduced to 16.1% per 1 January 2018. Due to the strong result and reduction of RWAs, the CET 1 ratio increased to 18.5% per year-end 2018. During the year, NIBC has been able to use a variety of funding instruments, including a new RMBS transaction ensuring continued access to the various parts of the capital market. EUR 250 million GBP was issued in order to improve our funding match to the corporate exposures.

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

	Medium-term objectives	IFRS 9 2018	IFRS 9 ex. non-recurring 2018	IAS 39 2017	IAS 39 ex. Vijlma 2017
Return on equity	>10-12%	13.6%	10.8%	11.9%	9.0%
Cost/income ratio	<45%	43%	45%	42%	48%
CET 1	>14%	18.5%	18.5%	19.3%	19.3%
Rating Bank	BBB+	BBB	BBB	BBB	BBB
Dividend pay-out ratio	>50%	58%		45%	

Based on the current state of affairs, the performance in 2018 in relation to both the strategic priorities and the medium-term objectives, preparation of the financial reporting on an on-going basis is justified.

SWOT ANALYSIS

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

STRENGTHS	WEAKNESSES
■ Clear strategic focus with a margin over volume angle, providing NIBC with opportunities to rebalance our portfolio, as we are not a market share player; ■ Medium-size allows for flexibility to adapt to a changing world and grasp the opportunities this presents; ■ Employees who are professional, entrepreneurial, inventive; ■ Strong client satisfaction with a net promotor score (NPS) of +63% for corporate clients and a customer satisfaction score of 7.7 for retail client offering; ■ Proven capability to broaden the product range, demonstrated by launches and further growth of the leasing offering through Beequip and the originate-to-manage (OTM) proposition as well as the growth of the fintech receivables portfolio; ■ Consistent cost/income ratio below 45%.	■ Limited market share reduces NIBC's ability to influence pricing, with a possible negative impact on net interest margin and net fee income; ■ No direct access to USD funding and dependency on cross-currency swaps.

OPPORTUNITIES	THREATS
■ Solid capital base and capital generation capabilities, enabling us to grow and absorb the anticipated Basel IV impact; ■ External credit rating provides room for improvement, enabling us to further build our funding curves; ■ Combining developments in data technology with our efficient internal organisation, we can – given our size – address increasingly granular reporting requirements and demands regarding data quality in an effective way.	■ Offshore Energy, Shipping & Intermodal and Leveraged Finance markets remain challenging; ■ Geopolitical situation and its impact on global and regional economic developments; ■ Prolonged low interest rate environment resulting in abundance of liquidity and increased mispricing risk; ■ Pressure on the project calendar from the regulatory environment, characterised by increasing and changing requirements; ■ An increasingly challenging labour market impacting NIBC's effort to recruit new talent.

Recent developments

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

Corporate client offering

We operate in a world in which change is ever faster, impacted by continuous and accelerating developments in the areas of technological advancements, innovation, platformisation, the energy transformation, sustainability, consumer empowerment and ageing. In order to facilitate the continued growth dialogue with our clients, we have formulated a focused strategy and revised our commercial business model for Corporate Banking. The corporate bank will be organised along a number of product-market combinations, focused on origination, execution & portfolio management of their core products, based on specific client needs. We aim to further rebalance activities and exposures, whilst becoming more active in high growth areas acting as a growth enabler for our clients. Income diversification. and a strong focus on productivity will be drivers of future growth.

In 2019, this refined strategy, focused on sustainability and technological innovation, and organisational structure will be implemented in order to enable our people to be the best professionals they can be.

Regulatory environment

Following several incidents in the financial sector, the attention for non-financial risk management has increased. *Know-Your-Customer* (**KYC**) and *anti-money laundering* (**AML**) regulations are two pivotal areas for the financial sector, as banks fullfill an important role as gatekeeper. As a response to the incidents, regulators have increased oversight intensity on these matters. On-site inspections and desktop reviews are done in order to evaluate the quality of the policies and execution of those policies.

NIBC acknowledges the importance of knowing its clients and consequently the necessity to fully comply with the associated laws and regulations. In July 2018, the European Fourth Anti-Money Laundering Directive 2018 came into effect. During the second half of 2018, DNB executed an on-site inspection focusing on how NIBC incorporates *systemic integrity risk analysis* (**SIRA**). Both the new Directive and the observations from the on-site inspection have already led to improvements of our policy framework and procedures to increase effectiveness of controls. During 2019, NIBC will continue to implement improvements in its processes related to client due diligence.

Brexit

With a branch office located in London and various activities carried out in the UK on a cross-border basis from the Netherlands and Germany, NIBC is exposed to the uncertainty surrounding Brexit. To the extent NIBC carries out regulated activities in (and into) the UK, it does so on the basis of its Dutch and/or German licenses, as passported to the UK. Depending on the outcome of the UK/EU political negotiations, NIBC may be required to apply for a local license in due course and, in the meantime, to enter into the *Temporary Permissions Regime* (**TPR**) as implemented by the *Financial Conduct Authority* (**FCA**, the UK regulator). The TPR (and its equivalent as implemented by the *Prudential Regulation Authority* (**PRA**) in the UK) will enable financial institutions to continue operating in the UK – post a hard Brexit – essentially on the same basis as before, under the supervision of the FCA and/or the PRA. To ensure continued access to the UK market we are in the process of completing our entry into the TPR and are in close dialogue with the FCA and the DNB in relation to such matters. In addition, certain contractual arrangements such as ISDA agreements with UK financial institutions and trade reporting arrangements have been reviewed and (are being) amended and/or replaced, where necessary to ensure continuity. Furthermore, NIBC has invited its clients to enter into a dialogue on the effects of Brexit on their business and operations.

Brexit may negatively impact the macro economic climate in Europe. The impact that this may have on our clients and consequently on NIBC's positions remains difficult to assess.

IT Transition

In 2016, NIBC explored a new framework for IT delivery, including outsourcing a substantial part of its IT infrastructure to a third party. The chosen outsourcing initiative was cancelled at the end of 2017 and the relevant contract terminated. In December 2017, we started to work on the retransition of the relevant IT infrastructure back to NIBC. This retransition was successfully completed in the second quarter of 2018. At the same time, new opportunities to achieve the intended goals were evaluated. This led to the signing of a contract with Cegeka as the new outsourcing service provider in June 2018. As part of the agreement, a full transition of the relevant IT infrastructure towards Cegeka is scheduled in the third quarter of 2019.

As a financial institution, NIBC is highly dependent on its IT systems and IT infrastructure for the continuity of the operations. NIBC continuously strives to further improve its IT environment and systems. In 2018, serious investments were made. The outsourcing of our IT infrastructure should over time result in a more efficient and effective organisation for running the bank and to fast track the change agenda of NIBC.

The necessary retransition, early 2018, of the IT infrastructure resulted in delay in the continuous improvement efforts relating amongst others to logical access management and the further strengthening of the governance around outsourced systems and applications. Consequently, NIBC has taken actions to remediate these topics. In addition, a project is started to simplify and strengthen the relevant processes. Despite the challenges related to these developments, NIBC remained in control of its IT operations, which serviced NIBC's business on a stable basis.

The earlier reported legal proceedings with the previous IT outsourcing service provider have been terminated by a settlement on mutual satisfactory terms. NIBC does not disclose detailed information regarding such provisions and/or settlements as such disclosures could seriously prejudice its position and/or disclosures are not allowed based on the settlement agreements. This settlement has no material impact on the financial performance of NIBC.

Long-term value creation

With its purpose and strategic priorities in mind, NIBC is continuously evaluating its position within the financial ecosystem and calibrating its short-term action plans with its long-term strategy. With the direct interaction between the Managing Board and the Executive Committee, NIBC ensures the connection between its strategy planning process and stakeholder engagement processes, so that the interests of different stakeholders are actively included in the decision-making process. The choices are translated into a long-term capital planning, which is on the agenda of the Audit Committee. In the current environment, these processes have led to amongst others a focus on actively rebalancing our portfolios, the development of our OTM proposition, investments in CDD processes and procedures and various reporting processes and the on-going transition of NIBC's IT infrastructure to an external outsourcing service provider.

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

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board is proud to present that 2018 was again a very strong year for NIBC in many respects. We saw strong results in profit, product portfolio and client franchise in both retail and corporate client offering. In the first months of 2018 the agenda of the Supervisory Board was fully focused on the listing of NIBC Holding N.V. at the Amsterdam Stock Exchange as of 23 March 2018. This listing marks a new point in the history of the company and has raised its public profile.

NIBC delivered a very strong performance in 2018. It did so by continuing its strategy of a focused approach to select market niches in the dynamic mid-sized segment. Hereby NIBC further strengthened its franchise and expanded its offering to clients. NIBC's profit after tax attributable to shareholders amounted, for the second year in a row, to more than EUR 200 million, as it increased from EUR 213 million in 2017 to EUR 217 million in 2018 (+2%). Excluding non-recurring items the profit improved from EUR 160 million to EUR 173 million, or by more than 8%.

Our most important stakeholder, the customer, continues to value our efforts to serve his or her interests demonstrated by our sustainable strong client satisfaction scores: our NPS for corporate clients was +63% in 2018 (2017: +64%) and our NIBC Direct Customer Survey 7.7 (2017: 7.9). The success of a mid-sized niche market bank and retail offering like NIBC stands or falls with an excellent customer experience, therefore the Supervisory Board pays close attention to these metrics.

The Supervisory Board notes with satisfaction that NIBC proves it has the agility to continuously reinvent itself. This theme was also shared by the Managing Board as the driver for the rebalancing of the portfolios in the corporate client segment and the strong growth of the originate-to-manage mortgages in the retail offering.

Corporate client offering

In 2018, corporate client offering achieved solid results in almost all products and (sub)sectors. Initially a lending house for mostly medium-sized family businesses, NIBC corporate client offering has transformed into a broad range, mid-market bank that is equipped to deliver on the entire liability side of the client's balance sheet. NIBC corporate client offering primarily achieves this by leveraging its expertise in key (sub)sectors where it can add the greatest value through its tailored solutions and services. NIBC corporate client offering continued its gradual shift in client groups, with a strong focus on building more granular portfolios e.g. in receivable finance and leasing. It focuses on mid-sized and often family-owned companies in the Netherlands, Germany and the UK. Due to the growing product range it increasingly attracts other highly relevant client groups: private equity funds and parties, institutional investors, financial sponsors and large corporate clients. The origination and refinancing volumes increased from EUR 3.1 billion in 2017 to EUR 3.7 billion in 2018, an all time high.

Retail client offering

In 2018, total mortgage origination volume increased to EUR 3.4 billion in 2018 (2017: EUR 2 billion), of which EUR 1.8 billion for originate-to-manage. These mortgage loans are originated for our strategic partner AXA Investment Managers. We were able to increase the mandate with AXA Investment Managers to EUR 3.5 billion. Consequently, retail client offering is creating a new fee revenue stream. Total mortgage loans for own book increased by more than 5% to EUR 9.3 billion. As NIBC Direct celebrated its 10th anniversary for its saving products in 2018, they visited several current clients who were also our launching customers, to celebrate this event together.

Medium-term targets and dividend

The Supervisory Board is proud that NIBC delivered upon its promises to meet the medium-term targets as set early 2018. We realise that good economic conditions in our home markets supported NIBC in this period, but the Board strongly believes that NIBC's delivery upon its clear strategy was key to this success. The strong performance over 2018 is also demonstrated by the proposed total dividend of EUR 229 million.

Executive Committee

In 2018, the *Executive Committee* (**ExCo**) comprised of the three Managing Board members together with Saskia Hovers (Corporate clients sectors), Michel Kant (Retail clients) and Caroline Oosterbaan (Corporate clients products).

The members of the Managing Board attended all meetings of the Supervisory Board. The non-statutory members of the Executive Committee attended almost all meetings of the Supervisory Board (illness or permanent education were the only reasons for absence). Through these meetings, in addition to the regular informal contacts, the Supervisory Board stays closely tuned with all developments throughout the focus areas of the individual ExCo members.

As part of the annual evaluation of the Managing Board/ExCo, the interaction and communication between the statutory and non-statutory members of the ExCo was observed as an attention point. Additional effort will be put in communication to close the perceived gap in this area.

Composition of the Supervisory Board

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

As per 31 December 2018 the Supervisory Board comprised of two female and five male members of various nationalities. Four members are independent members that meet the independence criteria laid out in the Dutch Corporate Governance Code. The other three are representatives of NIBC Holding's majority shareholder.

As per 31 December 2018

Name	Year of birth	Nationality	Member since	End of term	Committee memberships[1]
Mr. W.M. van den Goorbergh *(Chairman)*[2]	1948	Dutch	2005	2019[3]	AC, RPCC, RNC, RPTC
Mr. D.M. Sluimers *(Vice-Chairman)*[2]	1953	Dutch	2016	2020	AC, RPCC, RNC
Mr. R.L. Carrión	1952	American	2017	2021	RPCC
Mr. M.J. Christner	1972	German	2011	2019	AC
Mr. J.C. Flowers	1957	American	2012	2020	-
Ms. A.G.Z. Kemna[2]	1957	Dutch	2018	2022	AC, RPCC, RPTC
Ms. S.M. Zijderveld[2]	1969	Dutch	2018	2022	RNC, RPTC

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

Changes in 2018

In 2018, new members Ms A.G.Z. Kemna (Angelien) and Ms S.M. Zijderveld (Susi) were appointed to the NIBC Supervisory Board. They both started as per 27 Augustus after appointment in the Extraordinary General Meeting of Shareholders. Ms Kemna became member of the Risk Policy & Compliance Committee (RPCC) in August and chair of the RPCC in December thereby succeeding Mr de Jong who stepped down in December at the end of his term after being a member of NIBC's Supervisory Board for 13 years. Ms Zijderveld became chair of the Remuneration and Nominating Committee, succeeding Mr Veenhof who stepped down in March at the end of his term after being a member of NIBC's Supervisory Board for 12 years. In the time between the resignation of Mr Veenhof and the appointment of Ms Zijderveld, Mr van den Goorbergh acted as chair of the RNC. In August 2018, Ms Steel stepped down at the end of her term after being a member of NIBC's Supervisory Board for 4 years. The Supervisory Board wishes to express its gratitude to Mr de Jong, Mr Veenhof and Ms Steel for their great and continuous input and efforts during the years they served the company.

Because 2018 was a year of strategical importance, stability was key for NIBC's Supervisory Board. In January 2018, for this reason, Supervisory Board's chair Mr van den Goorbergh was reappointed for a maximum of one year till the *Annual General Meeting* (**AGM**) of 2019.

Diversity and succession

In November 2018, the Remuneration and Nominating Committee of the Supervisory Board discussed a succession planning for the (near) future. The Supervisory Board is pleased with its current composition and that of its Committees, as changes always bring new perspectives and the changes in 2018 contributed to further diversity in terms of gender, age and skills. In the case of a vacancy, the regular policy is applied in which an executive search firm is asked to provide a shortlist with at least 50% female candidates, although final selection is ultimately based on the suitability for a specific position.

With the scheduled resignation of Mr van den Goorbergh as per the AGM of 2019, the Supervisory Board will need at least one new member in 2019. With the support of an executive search firm we have started a new search.

Additional functions

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

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

Meetings of the Supervisory Board

The Supervisory Board met on seven occasions in 2018. This included three regular two-day meetings in February, August and November and two regular one-day meetings in June and December. An additional one-day meeting in June was held at which the Supervisory Board and the Executive Committee discussed NIBC's current and future strategy, and the way the company can meet its objectives in order to provide long term value creation for all stakeholders. Due to the IPO process and the publication of NIBC's annual results already beginning of February an additional meeting was held early February. Most members of the Supervisory Board participated in all meetings in 2018; three members were absent from one meeting and one member was absent from two meetings.

The members of the Managing Board attended all meetings of the Supervisory Board. The non-statutory members of the Executive Committee attended almost all meetings of the Supervisory Board (illness or permanent education were the only reasons for absence). Additionally, three members of the Supervisory Board attended two consultation meetings between the Chief Executive Officer and the Works Council.

In the first months of 2018, several meetings were held to discuss the progress on the IPO and challenges encountered. After the IPO in March 2018, the Supervisory Board focused more on different (strategic) topics such as reporting as a publicly listed company, strategic initiatives, the Corporate and Retail client offering, risk management, the IT Forward/Move project, the funding profile, remuneration and the regulatory environment and reporting. The 2018 quarterly and interim results were discussed as well as the proposed dividend payout and the budget for 2019.

The Supervisory Board also continued its permanent education (PE) programme. During one of the PE sessions the IPO process and the role and responsibilities of the Supervisory Board in this process were extensively discussed. In other PE sessions the impact of IFRS9 and Cyber Security were the topics.

There were no transactions in the year in which the members of the Supervisory Board had a conflict of interest. One member of the Supervisory Board and the spouse of one member of the Supervisory Board acquired shares in NIBC Holding N.V. shortly after the IPO. Please refer to note 53 to the Financial Statements for more detail.

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

The four Supervisory Board committees

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

Audit Committee

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

The AC met on four occasions in 2018 (March, June, August and November) in presence of the Managing Board. An additional meeting was held in January 2019 to discuss the Management Letter 2018. One member of the AC was absent during one meeting. By mutual agreement the external auditor was represented at all meetings of the AC in 2018. The external auditor had one meeting with the AC without the members of the Managing Board being present.

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

In 2018, the AC extensively reviewed NIBC's quarterly financial highlights, interim and annual financial reports and related press releases. It discussed the draft reports of the external auditor, including its Audit Results Report, before the reports were discussed in the Supervisory Board meeting.

The AC had in depth discussions about NIBC's financial performance, including the development of the bank's net profit, business growth and the development of spreads and cost/income ratios. Furthermore, the AC reviewed NIBC's liquidity and its funding profile, and the development of related liquidity and solvency ratios. The AC was informed specifically on the retransition of the IT infrastructure and the related risks as well as the decision to outsource to a new third party. Also the progress made in the retransition was discussed in detail.

Specific topics discussed with the auditor dealt with loan loss provisioning, especially in light of the adoption of IFRS 9 and the associated staging of expected credit losses. Furthermore the sale of legacy portfolios, NIBC's change agenda, new developments and their impact on financial figures and fraud risk were discussed. The impact of IFRS 9 and the IT transition (IT Forward/Move) were the two topics that were discussed during all AC meetings. The Management Letter 2018 was discussed in an additional meeting in January 2019. Main topics in the Management Letter are the IT environment including the transition to a new external provider, the current state of the IT-landscape with respect to access management and the internal control environment and governance on outsourcing arrangements, loan loss provisioning with a focus on the impairment triggers in the process. Also compliance was included where anti-money laundering and customer due diligence are the main areas.

Next to the regular topics mentioned before, the AC also discussed and has taken notice of management views and arguments on the deferred tax position, Basel IV impact on the capital position, budget 2019, forecast and capital plan 2018-2021, dividend policy and main topics discussed in the Disclosure Committee. The external auditor also reported on its independence towards the AC which was further discussed by the AC. The AC annually assesses NIBC's compliance with the Dutch Corporate Governance Code and reports thereon towards the Supervisory Board.

The AC took note of and discussed NIBC's consultations with DNB. As part of the yearly cycle, the AC discussed the main observations made by DNB in its annual SREP letter and the impact on the business/capital positions of the bank. The AC considered the on-site examinations conducted by DNB, including examinations of IRRBB (Interest Rate Risk in the Banking Book) and an onsite on SIRA (Systematic Integrity Risk Analysis).

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

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 matters in these areas for decision in the Supervisory Board by presenting proposals and recommendations on credit, market, investment, liquidity, operational and compliance/regulatory risks, and any other material (non) financial risks to which NIBC is exposed. The RPCC met four times in 2018 in the presence of the members of the Managing Board.

During 2018, the RPCC extensively discussed NIBC's assets, liquidity and funding, stress tests and risk profile. A topic that was on the agenda throughout 2018 was NIBC's 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). Updates to the risk appetite framework, involving new metrics and revised limits, were reviewed and approved.

The RPCC was also involved in the process leading towards NIBC's successful initial public offering in March 2018, identifying new risks and appraising their impact on the organisation.

On the overall compliance and regulatory topics, the RPCC extensively discussed the profile of the bank and its customers, associated regulatory requirements and the ways that NIBC controls the potential risks involved.

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 reports, liquidity risk reports and risks of the macroeconomic environment, such as the availability of foreign currency funding 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 relation with the regulators, the views of the rating agencies and its operational risk profile and in-control environment, including specific risks such as information security, new product approvals and significant changes within the organisation, as well as compliance and regulatory risk. The committee also reviewed the risk assessments of new business initiatives, evaluated how risk awareness is embedded in NIBC's organisation, as well as its own functioning. In addition, it regularly reviewed and discussed regulatory, societal and market developments and their impact on NIBC, such as systematic integrity risk analysis, Basel IV, sustainability, block chain, Euribor residential mortgage loans and interbank benchmarks.

The RPCC paid attention to the ongoing examinations at financial institutions in general concerning systemic integrity risks as well as the SIRA on-site by DNB at NIBC in 2018. In the RPCC the follow-up by NIBC on the SIRA on-site and the improvements in processes related to client due diligence and relevant controls were discussed. The increased management attention ensuring adherence to KYC principles and the onboarding process is appreciated and stimulated by the RPCC. The RPCC is also actively discussing the implementation of relevant laws and regulations, including the European Fourth Anti-Money Laundering Directive 2018, by NIBC.

Remuneration and Nominating Committee

The *Remuneration and Nominating Committee* (**RNC**) advises the Supervisory Board on the remuneration of the members of the Supervisory Board, the Managing Board and certain other senior managers. In addition, it provides the Supervisory Board with proposals for appointments and reappointments to the Supervisory Board, its committees and the Managing Board. In March 2018, Mr Veenhof, the chair of the RNC, resigned at the end of his term (after having been member of NIBC's Supervisory Board for 12 years). He was succeeded by Ms Zijderveld in August 2018. In the time between the resignation of Mr Veenhof and the appointment of Ms Zijderveld, Mr van den Goorbergh acted as chairman of the RNC.

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

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

In 2018, the Remuneration and Nominating Committee held five regular meetings, one additional conference call and a meeting with the external executive search agency, all in the presence of NIBC's head of Human Resources and, in appropriate cases, of NIBC's CEO. Additionally, the chair on behalf of the Remuneration and Nominating Committee attended a meeting of the control functions. The Remuneration and Nominating Committee discussed the regular subjects regarding remuneration, risk and audit assessments, governance and variable income as well as the vacancies and nominations for the Supervisory Board and its committees. NautaDutilh held interviews with all members of the Supervisory Board and the Executive Committee as input for the yearly evaluation of the Supervisory Board and the cooperation with and amongst the Managing Board/Executive Committee. The evaluation was discussed in a private session of the Supervisory Board in November. In general the Supervisory Board concluded that the information provided is at a very professional level, allowing the Supervisory Board to have a good insight in the bank. The Supervisory Board noted that meetings and discussions with the Managing Board/Executive Committee are open and transparent. Especially the preparation of the Supervisory Board meetings through the Committees is perceived as very valuable as this gives room for more detailed discussions. Based on this it was decided that all Supervisory Board members will have a standing invitation to attend the Committees as a listener. The chair of the Remuneration and Nominating Committee prepared the meetings of the RNC in advance by having meetings/calls with the CEO and the head of Human Resources.

Remuneration management

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

In 2017, the RNC started discussions and developed scenarios for retention packages for the members of the Executive Committee in the light of the IPO. These discussions were concluded in 2018.

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

In line with the Remuneration Policy the RNC received information for a hybrid benchmark peer group reflecting the labour market of NIBC as well as a benchmark regarding post-employment benefits. Given the specific circumstances and legislation for the (Dutch) financial institutions, more specifically for banks, the Remuneration and Nominating Committee decided to also use a benchmark of the Dutch banks. Based on this information the Remuneration and Nominating Committee proposed to the Supervisory Board to present to the AGM 2019 a proposal to put a system in place that determines the annual adjustment of salaries of the Members of the Managing Board. Also for the Supervisory Board a proposal will be put forward to the AGM to put a system in place that determines the annual adjustment of the annual fee of the members of the Supervisory Board.

Succession management

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

The Remuneration and Nominating Committee also extensively discussed the succession management regarding the Supervisory Board in the light of the resignation of three members as a result of expiring terms of appointment. On its proposal the Supervisory Board decided to nominate Ms Zijderveld and Ms Kemna as member of the Supervisory Board. Additionally, the Remuneration and Nominating Committee started a new search, which is expected to lead to a new appointment in 2019.

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

Related Party Transactions Committee

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

In a RPTC meeting end of February, the RPTC reconfirmed its approval to the Managing Board's decision to indirectly participate up to a certain maximum amount in the HSH transaction.

Financial statements

The company and consolidated financial statements have been drawn up by the Managing Board and audited by Ernst & Young Accountants LLP, who issued an unqualified opinion dated 26 February 2019. The Supervisory Board recommends that shareholders adopt the 2018 Financial Statements at the Annual General Meeting of shareholders on 26 April 2019. 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 2018.

The Supervisory Board would like to express its gratitude to all our stakeholders who helped to make 2018 the big success it was, most notably to our nearly 700 highly professional, entrepreneurial and inventive employees. Thanks to their skills, expertise, agility and dedication NIBC could achieve these great results.

The Hague, 26 February 2019

Supervisory Board

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

PERSONAL DETAILS OF THE SUPERVISORY BOARD

Mr. W.M. van den Goorbergh, Chairman (1948)

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

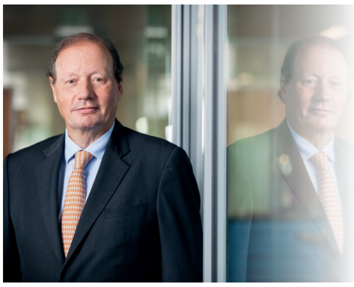
Current principal position: None

Other positions: Chairman of the supervisory boards of Coöperaties DELA and Leyden Academy on Vitality and Ageing B.V.; chairman of Stichting Adminstratiekantoor ANWB, Vereniging AEGON, Stichting Administratiekantoor Heijmans, Stichting Leefbaarheid Luchthaven Eindhoven and member of the Commissie van Beroep Tuchtrecht Banken

Nationality	Dutch
First appointment	2005
Current term of office expires	2019

Mr. D.M. Sluimers, Vice-chairman (1953)

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



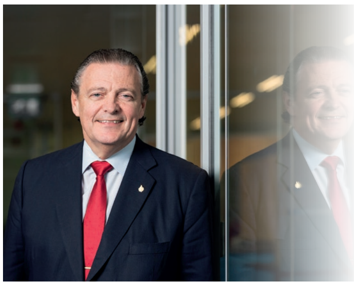
Current principal position: None

Other positions: Member of the supervisory boards at Akzo Nobel N.V., Atradius N.V., Atradius Credit Insurance N.V., chair of the supervisory board Euronext Paris; member of the board of directors at FWD Group Limited and member of the advisory board of Spencer Stuart Executive Search

Nationality	Dutch
First appointment	2016
Current term of office expires	2020

Mr. R.L. Carrión (1952)

Member of the Risk Policy & Compliance Committee



Current principal position: Executive Chairman of the Board of Popular, Inc

Other positions: Operating partner at J.C. Flowers & Co; member of the board of directors at Verizon Communications and First Bank; chairman of Vall Banc S.A.U.; member of the International Olympic Committee and trustee and president of Banco Popular Foundation; member of the Central Board of International Basketball Foundation (FIBA) Finance Commission

Nationality	American
First appointment	2017
Current term of office expires	2022

Mr. M. Christner (1972)

Member of the Audit Committee

Current principal position	Managing director at J.C. Flowers & Co and chief executive officer of Vall Banc S.A.U.
Other positions:	Chairman of the supervisory board of Lunis Vermoegensverwaltung AG[1] and member of the supervisory board of Hamburg Commercial Bank[2]
Nationality	German
First appointment	2011
Current term of office expires	2019

Mr. J.C. Flowers (1957)

Current principal position	Chief executive officer and managing director at J.C. Flowers & Co
Other positions:	Member of the board of directors at Shinsei Bank Limited and member of the supervisory board at Hamburg Commercial Bank[2]
Nationality	American
First appointment	2012
Current term of office expires	2021

Ms. A.G.Z. Kemna (1957)

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

Current principal position	None
Other positions:	Non-Executive Director and member of the Audit Committee of AXA Group and board member of RPMI Railpen Investments
Nationality	Dutch
First appointment	2018
Current term of office expires	2022

Ms. S.M. Zijderveld (1969)

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

Current principal position	Member of the Board and Chief Risk Officer Nederlandse Spoorwegen N.V.
Other positions:	Board member of the National Fund 4 and 5 May
Nationality	Dutch
First appointment	2018
Current term of office expires	2022

[1] This role has ended on 22 February 2019

[2] Subject to Bafin approval, formerly known as HSH Nordbank AG

CORPORATE GOVERNANCE

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

This chapter contains some highlights of our governance structure in 2018. The structures and processes we have developed provide an effective basis for making and implementing decisions across our organisation, with its hierarchical and functional reporting lines.

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

Two-tier board structure

As a large company, NIBC Holding N.V. is subject to the Large Company Regime (structuurregime), a regime that is obliged to install a supervisory board.

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

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

Managing Board

In 2018, NIBC had three Managing Board members. These members have thorough and in-depth knowledge of the financial sector in general and the banking sector in particular.

For the composition of the Managing Board as per 31 December 2018, refer to the following table:

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

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

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

Executive Committee

As at 1 January 2017 an Executive Committee was formed consisting of the three Managing Board members and three non-statutory members representing commercial roles. The Executive

Committee consists of two female members and four male members. The Managing Board and the Executive Committee, which meet weekly, represent and balance the interests of all stakeholders. The non-statutory Executive Committee members participate in the discussions in meetings, but are not entitled to a vote.

In 2018, there were no transactions in which the members of the Managing Board or the members of the Executive Committee had a conflict of interest. More information about the Managing Board and the Executive Committee, including short biographies, can be found on our website.

Managing Board Germany
NIBC Bank Deutschland AG is a full subsidiary of NIBC Bank N.V. At 31 December 2018, the Vorstand (Managing Board) of NIBC Bank Deutschland AG comprised Mr. T.A. Rasser and Mr. J.B. Spanjersberg. Mr. Buncsak stepped down from the Vorstand as per May 2018 and subsequently Mr. T.A. Rasser was appointed CEO of NIBC Bank Deutschland AG. Members of the Aufsichtsrat (Supervisory Board) of NIBC Bank Deutschland AG are Mr. H.H.J. Dijkhuizen, Ms. S.M. Hovers and Mr. P. Zippro.

Supervisory Board
On 31 December 2018, the Supervisory Board of NIBC consisted of seven members with extensive and international expertise in fields such as banking and finance, corporate governance and corporate management.

In 2018, three members of the Supervisory Board resigned as per the end of their respective terms. On 30 March 2018 Mr Veenhof resigned, on 19 August 2018 Ms Steel resigned and on 14 December 2018 Mr de Jong resigned from NIBC's Supervisory Board.

Because 2018 was a year of strategical importance, stability was key for NIBC's Supervisory Board. In January 2018, for that reason, Supervisory Board's chairman Mr van den Goorbergh was reappointed for maximum one more year till the AGM in 2019.

On 27 August 2018, Ms Zijderveld and Ms Kemna were appointed as Supervisory Board member and respectively chair of the Remuneration and Nominating Committee and chair of the Risk Policy & Compliance Committee.

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

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

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

The main deviation is that we do not comply with best practice provision 2.1.7 (iii), which requires that there is at most one supervisory board member who can be considered to be affiliated with a shareholder, or group of affiliated shareholders, who holds more than 10 per cent of the shares in a company. Four out of seven members of NIBC's Supervisory Board qualify as formally independent. The other three members are formally not independent, because they are representatives of our major shareholder (75%). This principle in the Dutch Corporate Governance Code deviates from the policy of the Dutch central bank (DNB) that came into force in 2012. DNB's policy is that at least 50% of the members of a Supervisory Board should be formally independent. NIBC complies with the DNB policy.

In addition, NIBC is not in compliance with best practice provision 2.2.2. This best practice provision requires that supervisory board members are reappointed for a period of two years in the event of a reappointment after an eight-year period, which appointment may be extended by at most two years. The Company's Supervisory Board members can be appointed for a period of four years after an eight-year period, provided that no Supervisory Board member shall hold office for more than three four-year terms or twelve years, as the case may be. Because 2018 was a year of strategic importance, stability was key for NIBC's Supervisory Board and both Mr de Jong and Mr van den Goorbergh were reappointed in 2017 and 2018 respectively for a maximum term of one year and as a result held office for more than twelve years. Mr de Jong's final term ended in December 2018 and Mr van den Goorbergh's final term will end in April 2019 at the AGM.

Dutch Banking Code

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

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

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

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

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

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

REMUNERATION REPORT

The Supervisory Board reviewed and amended NIBC's remuneration policy in 2018. The review took into account all relevant laws, regulations and guidelines: the Dutch Corporate Governance Code; the Dutch Banking Code; the *DNB Principles on Sound Remuneration Policies* (**DNB principles**), EBA Guidelines on Sound Remuneration; and CRD IV and the Dutch remuneration legislation for financial services companies (Wet beloningsbeleid financiële onderneming, Wbfo).

NIBC's remuneration policy and Managing Board remuneration for 2018 are outlined in this chapter. An overview of the remuneration of other staff and the Supervisory Board is also presented. Please see our website for further information about the remuneration policy.

To avoid unnecessary duplication, we refer to note 9 and 56 of the Consolidated Financial Statements in this Annual Report for all relevant tables. These are considered to be an integral part of this Remuneration Report.

Remuneration principles

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

Managing Board remuneration in 2018

In order to determine appropriate market levels of remuneration for the Managing Board, the Supervisory Board has identified a hybrid benchmark peer group, consisting of all AEX and AMX (both Euronext) listed companies. Given the specific circumstances and legislation for the (Dutch) financial institutions, more specifically banks, the Supervisory Board decided to also use a benchmark of other Dutch banks. The composition of these peer groups reflects the labour market in which NIBC competes for talent. As such, it is an objective measure outside NIBC's control.

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

Base salaries

In 2018, the base salary for the CEO was EUR 825,000 gross per year (2017: EUR 800,000). The base salary for the two other members of the Managing Board was EUR 600,000 gross per year (2017: EUR 550,000). Base salaries are paid in 12 equal monthly payments.

Variable compensation

According to the remuneration policy, the variable income component in 2018 for the Managing Board is set at 15% of base salary at target achievement, with a maximum of 20% of the base salary. Over 2018 the following incentive compensations of base salary were granted: Chief Executive Officer 20%, Chief Financial Officer 20% and Chief Risk Officer 20%. The Supervisory Board decided to award the maximum variable compensation in view of meeting all disclosed medium term objectives as well as the performance on the individual targets set and reviewed by the RNC. These individual targets include both financial and non-financial objectives.

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

Retention package

In the preparation for the IPO, various stakeholders (potential investors, selling shareholder who also remains a shareholder, Supervisory Board, but also e.g. regulators) deemed retention of the Executive Committee necessary, as the stakeholders would like to ensure stability at the highest level before, during and after the IPO. The retention package was designed in such a way that those interests are safeguarded and in line with applicable legislation and regulations. In the context of the IPO the Dutch Central Bank (DNB) has given its consent to award the retention package within the meaning of article 1:122 of the FMSA and in accordance with the procedure of article 94 (1)(g) under (ii) of CRD IV. Shareholders of NIBC approved the retention package. The retention package consists of two parts, the first (60%) subject to continued employment until the date of the IPO and the second (40%) subject to continued employment until the first anniversary of the IPO. Both parts are subject to the rules on deferral and retention (lock-up period). The retention packages amount to 180% of the annual base salary for the Members of the Managing Boards and to 165% of the annual base salary for the non-statutory members of the Executive Committee. The pay-out of the retention packages will be subject to the regular requirements on pay-out to Identified Staff, hence an ex-post risk analysis will be conducted prior to vesting and deferral will be applied, in line with 'Richtlijn Beheerst Beloningsbeleid 2017' and the EBA guidelines. Moreover a lock-up of 5 years, following the Dutch Corporate Governance Code, is applicable and is also applied to the retention package for the non-statutory members of the Executive Committee.

Pension

The CEO and other Managing Board members participate in the NIBC pension plan, in line with the arrangements available to all other employees. In 2018, the pension plan consisted of a) a *collective defined-contribution pension arrangement* (**CDC arrangement**) up to a maximum pensionable salary of EUR 105,075 maximum salary, and; b) an additional (gross) contribution up to their respective base salaries. The retirement age for the CEO and members of the Managing Board was 68 in 2018. There are no contractual early retirement provisions.

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

Other key benefits

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

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

Employment contracts

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

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

Amendments in 2019

The Supervisory Board reviews base salary levels regularly and may decide to adjust it. In 2018, the *Remuneration and Nominating Committee* (**RNC**) of the Supervisory Board thoroughly reviewed the Managing Board remuneration. Hereby it took into account all relevant benchmarks, such as the hybrid benchmark peer group in the relevant environment for NIBC, as well as a benchmark regarding the post-employment benefits. The benchmark of Dutch banks was also explicitly included in the assessment, in view of the recent developments with regard to salary and variable income. Based on this information, the Supervisory Board will present to the Annual General Meeting a proposal to put a system in place that determines the annual adjustment of the salaries of the members of the Managing Board.

Other staff remuneration

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

Total compensation funding

Each year, based on a proposal by the Managing Board, the Supervisory Board decides, at its discretion, on the overall amount of money available for total compensation, the amount of money available for variable compensation and the specific forms in which variable compensation may be awarded. The 2018 compensation ratio (total compensation costs as percentage of operating income) was 19.2%.

Variable compensation

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

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

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

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

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

For employees with a scale contract (in the Netherlands) it has been agreed upon that they will receive an on-off fixed amount of EUR 1,250 over 2018, which qualifies as variable compensation.

Special situations

Only in exceptional cases and only in the first year of employment the Managing Board can offer sign-on or guaranteed minimum bonuses to new employees and retention bonuses to existing employees. In the unlikely event that these bonuses amount to more than 100% of the base salary of the individual employee concerned, procedures will be followed in accordance with the regulations; the maximum ratio between fixed and variable remuneration will be respected. Beside the mentioned retention packages in light of the IPO, this has not occurred in 2018.

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

Pension amendments in 2018

The pension scheme for employees is amended as of 1 January 2018. The retirement age has become 68 years (2017: 67 years) to comply with the 2018 fiscal legislation. This is also applicable for all members of the Managing Board. As of 2018 the financial agreement has been renewed for three years (2018-2020). NIBC pays a standard flat rate contribution of 26.2% (2017: 22.0%) into the pension fund for the CDC arrangement. All employees (including the Managing Board) are required to make a personal contribution of 4.2% (2017: 4.0%) of their pensionable salary into the CDC arrangement as from 1 January 2018.

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

Supervisory Board remuneration in 2018

The Supervisory Board remuneration was adjusted in 2017 and was not changed in 2018.

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

In addition, the chair of the AC, RPCC and RNC of the Supervisory Board are entitled to an annual fee of EUR 15,000. Members of the Audit Committee are entitled to an annual fee of EUR 10,000 (2017: EUR 10,000). The members of the Risk Policy & Compliance Committee are also entitled to an annual fee of EUR 10,000 (2017: EUR 10,000). The members of the Remuneration and Nominating Committee are entitled to an annual fee of EUR 7,500 (2017: EUR 7,500). The members of the Related Party Transaction Committee are entitled to an annual fee of nil (2017: nil).

All members of the Supervisory Board are entitled to reimbursement of genuine business expenses incurred while fulfilling their duties. For the Supervisory Board a proposal will be put forward to the AGM to put a system in place that determines the annual adjustment of the annual fee of the members of the Supervisory Board.

Remuneration governance

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

The Supervisory Board discussed the performance and remuneration of Identified Staff, as well as the performance and remuneration of control functions. The Supervisory Board also discussed the highest proposed variable compensations in 2018. Scenario analyses were conducted by Risk Management to assess the possible outcomes of the variable remuneration components on an individual and collective basis. The internal annual report 'Harrewijn' is discussed in the RNC as well as with the Works Council. Amongst others the report covers an internal pay ratio analysis.

In line with the Dutch Corporate Governance Code, NIBC discloses the relevant elements related to the internal pay ratios. In 2018 the base salary pay ratio of the CEO (EUR 825,000) compared to the median full-time salary of all employees (EUR 77,775) was 11 (2017: 10).

Adjustments

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

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

Conclusion

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

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

Disclosure on Dutch remuneration legislation for financial services companies

The total amount of variable income granted in 2019, with respect to the performance over 2018, amounts to EUR 8.1 million. This grant consists of (direct and deferred) cash and (vested and unvested) share based instruments. In 2018 six employees (2017: one employee) were awarded a total compensation of more than EUR 1.0 million. The increase is related to the awarded retention package for the Executive Committee and may therefore be considered a one-time increase.

IN CONTROL REPORT

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

Risk management and control

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

- the Report of the Managing Board in the Annual Report 2018 of NIBC provides a fair overview of and insight into the effectiveness as well as shortcomings of the internal risk management and control systems;
- NIBC's internal risk management and control systems provide reasonable assurance that NIBC Bank N.V.'s Annual Report does not contain any errors of material importance. To address identified weaknesses, additional mitigating controls have been performed where necessary;
- there is a reasonable expectation that NIBC Holding N.V. will be able to continue in operation and meet its liabilities for at least twelve months, as evidenced by the details included in 'performance evaluation', therefore, it is appropriate to adopt the going concern basis in preparing the financial statements;
- there are no material risks or uncertainties that could reasonably be expected to have a material adverse effect on the continuity of NIBC Bank N.V.'s enterprise in the coming twelve months.

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

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

Responsibility statement

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

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

The Hague, 26 February 2019

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

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

for the years ended 31 December

in EUR millions	note	2018	2017
Interest income from financial instruments measured at amortised cost and fair value through other comprehensive income	2	590	423
Interest income from financial instruments measured at fair value through profit or loss	2	13	125
Interest expense from financial instruments measured at amortised cost	2	161	164
Interest expense from financial instruments measured at fair value through profit or loss	2	10	18
Net interest income		**432**	**366**
Fee and commission income	3	51	54
Fee and commission expense	3	-	-
Net fee and commission income		**51**	**54**
Investment income	4	74	67
Net trading income	5	(1)	29
Net gains or (losses) from assets and liabilities at fair value through profit or loss	6	(6)	(5)
Net gains or (losses) on derecognition of financial assets measured at amortised cost	7	(2)	1
Other operating income	8	2	-
Operating income		**550**	**512**
Personnel expenses and share-based payments	9	105	109
Other operating expenses	10	99	95
Depreciation and amortisation	11	5	5
Regulatory charges and levies	12	15	14
Operating expenses		**224**	**223**
Credit loss expenses / (recovery)	13	54	34
Profit before tax		**272**	**255**
Tax	14	31	42
Profit after tax		**241**	**213**
Attributable to:			
Shareholders of the parent company		229	213
Holders of capital securities (non-controlling interest)		12	-
Other non-controlling interests		-	-

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the years ended 31 December

in EUR millions	note	2018 Before tax	2018 Tax charge/ (credit)	2018 After tax	2017 Before tax	2017 Tax charge/ (credit)	2017 After tax
Profit for the year		**272**	**31**	**241**	**255**	**42**	**213**
Other comprehensive income							
Items that will not be reclassified to profit or loss							
Revaluation of property and equipment	31	-	-	-	2	-	2
Movement in the fair value of own credit risk of financial liabilities designated at fair value through profit or loss[1]		27	(17)	44	(67)	(16)	(51)
Items that may be reclassified subsequently to profit or loss							
Net result of hedging instruments		(14)	(4)	(10)	(18)	(5)	(13)
Financial assets at available-for-sale							
Revaluation of debt investments	23	-	-	-	6	1	5
Revaluation of equity investments	24	-	-	-	(1)	-	(1)
Revaluation of loans and receivables		-	-	-	(4)	(1)	(3)
Financial assets measured at fair value through other comprehensive income							
Movement in revaluation for debt investments at FVOCI	25	(6)	(1)	(5)	-	-	-
Total other comprehensive income		**7**	**(22)**	**29**	**(82)**	**(21)**	**(61)**
Total comprehensive income		**279**	**9**	**270**	**173**	**21**	**152**
Total comprehensive income attributable to:							
Shareholders of the parent company	45	267	9	258	173	21	152
Holders of capital securities (non-controlling interest)	46	12	-	12	-	-	-
Other non-controlling interests		-	-	-	-	-	-
Total comprehensive income		**279**	**9**	**270**	**173**	**21**	**152**

1 The remaining difference of the Own Credit risk reserve related to Structured Funding was treated as a one-off tax deductible expense at the end of 2018. The related one-off positive tax effect amounts to EUR 17 million.

CONSOLIDATED BALANCE SHEET

as at 31 December

in EUR millions	note	IFRS 9 2018	IAS 39 2017
Cash and balances with central banks	15	2,056	1,604
Due from other banks	16	568	962
Financial assets at fair value through profit or loss (including trading)			
Debt investments	17	77	31
Equity investments (including investments in associates)	18	187	287
Loans	19	148	181
Mortgage loans	20	-	4,581
Securitised mortgage loans	21	-	338
Derivative financial instruments	22	579	1,021
Financial assets available-for-sale			
Debt investments	23	-	823
Equity investments	24	-	36
Financial assets at fair value through other comprehensive income			
Debt investments	25	788	-
Financial assets at amortised cost (loans and receivables)			
Debt investments	26	-	59
Loans	27	7,770	7,749
Mortgage loans	28	8,990	4,412
Securitised mortgage loans	29	461	-
Other			
Investments in associates and joint ventures (equity method)	30	12	10
Property and equipment	31	44	44
Current tax assets	32	2	1
Deferred tax assets	33	8	8
Other assets	34	26	62
Total assets		**21,716**	**22,209**

Please refer to the accounting policies for the transition effect as per 1 January 2018 to IFRS 9.

as at 31 December

in EUR millions	note	*IFRS 9* 2018	*IAS 39* 2017
Due to other banks	35	1,511	1,835
Deposits from customers	36	11,267	11,535
Financial liabilities at fair value through profit or loss (including trading)			
Own debt securities in issue	37	39	38
Debt securities in issue structured	38	282	616
Derivative financial liabilities	22	210	863
Current tax liabilities	31	1	1
Deferred tax liabilities	32	7	4
Provisions	39	5	3
Accruals, deferred income and other liabilities	40	107	111
Financial liabilities at amortised cost			
Own debt securities in issue	41	5,451	4,392
Debt securities in issue related to securitised mortgages and lease receivables	42	447	267
Subordinated liabilities			
Fair value through profit or loss	43	162	167
Amortised cost	44	116	115
Total liabilities		**19,605**	**19,947**
Equity			
Share capital	45	80	80
Share premium	45	238	238
Other reserves	45	122	93
Retained earnings including profit for the period	45	1,471	1,651
Equity attributable to the shareholders		**1,911**	**2,062**
Capital securities	46	200	200
Total equity		**2,111**	**2,262**
Total liabilities and equity		**21,716**	**22,209**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to:							
in EUR millions	note	Share capital	Share pre- mium	Other reser- ves	Re- tained ear- nings	Profit after tax	Equity of the parent company	Capital securi- ties	Total equity
Balance at 1 January 2018 before the adoption of IFRS 9		**80**	**238**	**93**	**1,469**	**182**	**2,062**	**200**	**2,262**
Effect of adoption of IFRS 9[1]		-	-	-	(256)	-	(256)	-	(256)
Restated balance at 1 January 2018 after the adoption of IFRS 9		**80**	**238**	**93**	**1,213**	**182**	**1,806**	**200**	**2,006**
Transfer of net profit 2017 to retained earnings		-	-	-	146	(146)	-	-	-
Total comprehensive income for the period ended 31 December 2018		-	-	29	-	241	270	-	270
Transfer of realised depreciation revalued property and equipment	31	-	-	(1)	1	-	-	-	-
Adjustment deferred tax asset due to lower corporate income tax rate in 2020 and onwards		-	-	-	(8)	-	(8)	-	(8)
Other		-	-	1	(5)	-	(4)	-	(4)
Distributions:									
Paid coupon on capital securities	46	-	-	-	(4)	(9)	(13)		(13)
Dividend paid during the year	45	-	-	-	-	(140)	(140)	-	(140)
Balance at 31 December 2018		**80**	**238**	**122**	**1,343**	**128**	**1,911**	**200**	**2,111**

1 For further details on the effect of adoption of IFRS 9 reference is made to the transition tables in the accounting policies section.

in EUR millions	note	Share capital	Share premium	Other reserves	Retained earnings	Profit after tax	Equity of the parent company	Capital securities (non-controlling interests)	Total equity
		Attributable to:							
Balance at 1 January 2017		**80**	**238**	**156**	**1,393**	**102**	**1,969**	**-**	**1,969**
Transfer of profit after tax 2016 to retained earnings		-	-	-	102	(102)	-	-	-
Total comprehensive income for the period ended 31 December 2017		-	-	(61)	-	213	152	-	152
Transfer of realised depreciation revalued property and equipment	31	-	-	(2)	2	-	-	-	-
Other		-	-	-	(1)	-	(1)	-	(1)
Distributions:									
Issue of capital securities	46	-	-	-	-	-	-	200	200
Cost of capital securities	46	-	-	-	(2)	-	(2)	-	(2)
Paid coupon on capital securities		-	-	-	-	-	-	-	-
Dividend paid during the year	45	-	-	-	(25)	(31)	(56)	-	(56)
Balance at 31 December 2017		**80**	**238**	**93**	**1,469**	**182**	**2,062**	**200**	**2,262**

Available distributable amount as at 31 December

in EUR millions	2018	2017
Equity[1]	1,911	2,062
Share capital	(80)	(80)
Within retained earnings	-	(180)
Revaluation reserves	(29)	(43)
Legal reserve profit participation	(1)	(1)
Legal reserves	**(30)**	**(224)**
Available distribution amount	**1,801**	**1,758**

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

See note 45 Equity for more detailed information

CONSOLIDATED STATEMENT OF CASH FLOWS

in EUR millions	note	IFRS 9 2018	IAS 39 2017
Operating activities			
Profit before tax for the year		272	255
Tax[1]		(31)	(42)
Profit after tax for the year		**241**	**213**
Adjustments for non-cash items			
Depreciation, amortisation and impairment losses	11/13	60	(91)
Changes in employee benefits	39	-	-
Changes in operating assets and liabilities			
Derivative financial instruments	22	(211)	(347)
Operating assets[2]	15-21/24-29/ 32-34	247	1,344
Operating liabilities (including deposits from customers)[3]	35/36/31/ 32/40/45	(647)	118
Cash flows from operating activities		**(310)**	**1,237**
Investing activities			
Acquisition of subsidiaries, associated and joint ventures	30	(5)	(3)
Disposal of subsidiaries, associates and joint ventures	24/18/30	1	-
Acquisition of property and equipment	31	(3)	(3)
Proceeds from financial assets	4	-	-
Repayments of financial assets	4	(63)	(22)
Non-controlling interest		-	-
Cash flows from investing activities		**(70)**	**(28)**
Financing activities			
Proceeds from the issuance of own debt securities	41/37	2,348	716
Repayment of issued own debt securities	41/37	(1,288)	(178)
Proceeds from the issuance of subordinated liabilities	44/43	-	(22)
Repayment of issued subordinated liabilities	44/43	(11)	(125)
Proceeds from the issuance of debt securities structured	38	5	11
Repayment of issued debt securities structured	38	(343)	(29)
Repayment of issued debt securities related to securitised mortgages and lease receivables	42	447	(1,070)
Final and interim distribution	46	(66)	(56)
Proceeds from capital securities (net of issuance costs)	47	(7)	200
Cash flows from financing activities		**1,085**	**(553)**

1 Tax paid in 2018 amounts to EUR 2 million (2017: EUR 1 million).
2 2. Includes all assets except for derivatives, investment property, property and equipment, assets under investing activities and intangible assets. The cashflow is primarily explained by Due from other banks (note 16: EUR 473 million), Equity investments at FVtPL (note 18: EUR 211 million) and Debt investments AC (note 26: EUR 163 million) partly offset by mortgage loans (note 28: EUR -311 million), Securitised mortgage loans (note 29: EUR -144 million) and Debt investments at FVOCI (note 25: EUR -131 million).
3 3. Includes all liabilities excluding derivatives and consists mainly of Due to other banks (note 35: EUR -324 million) and Deposits from customers (note 36: EUR -268 million).

in EUR millions	note	2018	2017
Cash and cash equivalents at 1 January		**1,779**	**1,175**
Net foreign exchange difference		92	(6)
Net increase/(decrease) in cash and cash equivalents		438	610
Cash and cash equivalents at 31 December		**2,309**	**1,779**
Reconciliation of cash and cash equivalents:			
Cash and balances with central banks (maturity three months or less)	15	1,896	1,445
Due from other banks (maturity three months or less)	16	413	334
		2,309	**1,779**
Supplementary disclosure of operating cash flow information:			
Interest paid		171	182
Interest received		603	548

ACCOUNTING POLICIES

Authorisation of consolidated financial statements

The consolidated financial statements of *NIBC Bank N.V.* for the year ended 31 December 2018 were authorised for issue by the Supervisory Board and Managing Board on 26 February 2019. NIBC Bank N.V. is a public liability company, incorporated under Dutch law on 31 October 1945, and registered at Carnegieplein 4, 2517 KJ The Hague, the Netherlands (Chamber of Commerce number 27032036). NIBC Bank N.V. is a wholly-owned subsidiary of NIBC Holding N.V.

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

Summary of significant accounting policies

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

Statement of compliance

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

Basis of preparation

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

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

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

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

Changes in accounting policies in 2018

Changes in IFRS-EU

New standards and amendments to standards become effective at the date specified by IFRS-EU, but may allow companies to opt for an earlier application date. In 2018, the following standards or amendments to existing standards issued by the IASB, and relevant for NIBC, were implemented:

Application of new IFRS-EU accounting standards

Accounting standard/ amendment/interpretation	IASB effective date	Endorsed by EU	Early adopted by NIBC	Impact for NIBC
IFRS 9 Financial Instruments	1 January, 2018	Yes	Partially on 1 January, 2016[1]	See below for comments
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January, 2019	Yes	1 January, 2018	See below for comments
IFRS 15 Revenue from Contracts with Customers	1 January, 2018	Yes	-	See below for comments
Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January, 2018	Yes	-	See below for comments
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January, 2018	Yes	-	Low
IFRIC 23 Uncertaintly over Income Tax Treatments	1 January, 2019	Yes	1 January, 2018	Low
Amendments to IAS 40: Transfers of Investment Property	1 January, 2018	Yes	-	Low
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January, 2018	Yes	-	Low
Annual Improvements to IFRS Standards 2014- 2016 Cycle	1 January, 2018	Yes	-	Low

1 NIBC early applied the own credit requirements introduced by IFRS 9 in isolation, without applying the other requirements of IFRS 9 as from 1 January 2016.

IFRS 9 Financial instruments

Effective 1 January 2018, NIBC applied IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement and substantially changes accounting and financial reporting in three key areas: classification and measurement of financial assets, impairment and hedge accounting. NIBC has retained hedge accounting under IAS 39 as permitted and early applied the own credit requirements of IFRS 9 as from 1 January 2016 and onwards.

The introduction of IFRS 9 gave NIBC the one-off opportunity to revise the accounting classification made at initial recognition for certain financial instruments.

As permitted by the transitional provisions of IFRS 9, NIBC elected not to restate comparative figures. Any effect on the carrying amounts of financial assets and financial liabilities at the date of transition to IFRS 9 was recognised as an adjustment to retained earnings and/or the revaluation reserve of financial assets. The detailed effects of the application of IFRS 9 on 1 January 2018 are presented in this section as follows:

Transition impact IFRS 9

- Transition to classification and measurement requirements;
- Transition to expected credit loss (**ECL**) requirements;
- Reclassification and re-measurement of carrying amounts and recognition of ECL;
- Reconciliation of allowances and provisions on application date of IFRS 9;
- IFRS 9 transition impact on equity.

Transition to classification and measurement requirements

For NIBC, the most significant IFRS 9 classification and measurement changes on transition to IFRS 9 are as follows:

- the mortgage loans own book and securitised mortgage loans formerly designated at FVtPL are reclassified to AC;
- within the corporate loan portfolio certain loans formerly classified at FVtPL are reclassified to AC, and vice versa;
- debt investments formerly classified as available-for-sale are reclassified to FVOCI, AC or for a small part to FVtPL;
- equity investments formerly classified as available-for-sale are reclassified to FVtPL.

The accounting classification of the mortgage loans at FVtPL under IAS 39 was revisited at the introduction date of IFRS 9 as all mortgage loans are already managed under a business model that complies with the conditions for AC at that date. Furthermore the mortgage loans give rise to specific cash flows that are SPPI.

Except for the reclassification effect of mortgage loans designated at FVtPL to AC, NIBC notes there is a limited impact on equity related to changes in classification. The negative reclassification effect of mortgage loans designated at FVtPL to AC is EUR 331 million, which is the result of revoking the previous fair value designation. Consequently the reclassification effect is equal to the fair value adjustment after initial recognition of the relevant mortgage loans designated at FVtPL as per 31 December 2017. The impact was primarily driven by market interest rates as these have had a material impact on the fair value development of the portfolio. The reclassification effect of mortgage loans designated at FVtPL to AC on the regulatory capital leads to a decrease of the fully loaded CET 1 ratio of NIBC of approximately 3.4% at 1 January 2018.

The gross fair value loss that would have been recognised in the income statement over the year 2018 if the mortgage loans (own book and securitised) had not been reclassified from FVtPL to AC at 1 January 2018 amounts to EUR 66 million. Of this amount, EUR 53 million would have to be adjusted to net interest income as reported under IFRS 9. The remainder would be adjusted within net trading income.

The EIR of the different financial instruments is not significantly affected as a result of the reclassifications and re-measurements due to the application of IFRS 9.

The presentation of the comparative figures for interest income and interest expense, as a consequence of the introduction of IFRS 9, are aligned with the required presentation of IFRS 9.

NIBC voluntary changed the presentation of the interest expenses in the face of the income statement to align the presentation of interest expenses with the presentation of interest income as required under IAS 1.82(a).

Transition to expected credit loss (ECL) requirements
As set out in the 'Expected credit losses' section in the accounting policies, estimating ECL requires, amongst others, considerations of multiple forward-looking scenarios, whereby the final ECL is an average of the ECLs calculated under the different scenarios. As from 1 January 2018, key decisions were implemented into ECL models and risk management processes. All relevant ECL models have been validated by a third party. Furthermore risk and finance processes and systems have been adjusted to support the required ECL-calculations, administrative processing and reporting.

Following the transition to IFRS 9, a more volatile impairment charge is expected on the back of macroeconomic predictions.

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

Reclassification and re-measurement of carrying amounts and recognition of ECL

The following table provides a detailed overview of the IFRS 9 transition effects as of 1 January 2018. This includes:

- reclassification of IAS 39 carrying amounts to the new categories applicable under IFRS 9;
- remeasurement of carrying amounts due to reclassification;
- recognition of IFRS 9 ECL and reversal of IAS 39 allowances.

The following table also includes the effects recognised for deferred tax assets and therefore the total impact provided in equity in the table is net of tax effects.

Reclassification and remeasurement of carrying amounts and recognition of ECL

In EUR millions	31 December 2017 Carrying amount (IAS 39)	Reclassification (of IAS39 carrying amount)	Remeasurement due to reclassification	Recognition of ECL	1 January 2018 Carrying amount (IFRS 9)
Financial assets at amortised cost (AC)					
Cash and balances with central banks	1,604	-	-	0	1,603
Due from other banks	962	-	-	0	961
Loans and receivables					
Loans	**7,749**	**68**	**13**	**(9)**	**7,822**
From: Financial assets at FVtPL		180	13	(9)	
To: Financial assets at FVtPL		(111)	-	-	
Mortgage loans own book	**4,412**	**4,582**	**(310)**	**(13)**	**8,671**
From: Financial assets at FVtPL		4,582	(310)	(13)	
Securitised mortgage loans		**338**	**(22)**	**-**	**317**
From: Financial assets at FVtPL		338	(22)	-	
Debt investments	**59**	**98**	**6**	**-**	**163**
To: Financial assets at FVOCI		(14)	-	-	
To: Financial assets at FVtPL		(46)	-	-	
From: Financial assets AFS		158	6	-	
Financial asset available for sale (AFS)					
Equity investments	**36**	**(36)**	**-**	**-**	**-**
To: Financial assets at FVtPL	-	(36)	-	-	
Debt investments	**823**	**(823)**	**-**	**-**	**-**
To: Financial assets at AC		(158)	-	-	
To: Financial assets at FVOCI		(651)	-	-	
To: Financial assets at FVtPL		(14)	-	-	
Financial assets at fair value through other comprehensive income (FVOCI)					
Debt investments		**664**	**0**	**(1)**	**664**
From: Financial assets at AC		14	0	(1)	
From: Financial assets AFS		651	0	0	

In EUR millions	31 December 2017 Carrying amount (IAS 39)	Reclassification (of IAS39 carrying amount)	Remeasurement due to reclassification	Recognition of ECL	1 January 2018 Carrying amount (IFRS 9)
Financial assets at fair value through profit or loss (FVtPL) (including trading)					
Loans	**181**	**(68)**	**(14)**	**-**	**99**
From: Financial assets at AC		111	(14)	-	
To: Financial assets at AC		(180)	-	-	
Mortgage loans own book	**4,581**	**(4,581)**	**-**	**-**	**-**
To: Financial assets at AC		(4,581)	-	-	
Securitised mortgage loans	**338**	**(338)**	**-**	**-**	**-**
To: Financial assets at AC		(338)	-	-	
Equity Investments (including investments in associates)	**287**	**36**	**-**	**-**	**323**
From: Financial assets AFS		36	-	-	
Debt investments	**31**	**60**	**(1)**	**-**	**90**
From: Financial assets at AC		46	(1)	-	
From: Financial assets AFS		14	-	-	
Derivative financial assets	**1,021**	**-**	**-**	**-**	**1,021**
Other					
Investments in associates and joint ventures (equity method)	10	-	-	-	10
Property, plant and equipment	44	-	-	-	44
Current tax	1	-	-	-	1
Deferred tax	8	-	81	6	95
Other assets	62	-	-	-	62
Total assets	**22,209**	**0**	**(247)**	**(16)**	**21,945**

In EUR millions	31 December 2017 Carrying amount (IAS 39)	Reclassification (of IAS39 carrying amount)	Remeasurement due to reclassification	Recognition of ECL	1 January 2018 Carrying amount (IFRS 9)
Financial liabilities at AC[1]					
Due to other banks	1,834	-	-	-	1,834
Deposits from customers	11,535	-	-	-	11,535
Own debt securities in issue	4,392	-	-	-	4,392
Debt securities in issue related to securitised mortgages and lease receivables	267	-	-	-	267
Financial liabilities at FVtPL (including trading)					
Own debt securities in issue	38	-	-	-	38
Debt securities in issue structured	616	-	-	-	616
Derivative financial liabilities	863	-	-	-	863
Other					
Provisions	-	-	-	3	3
Other liabilities	110	-	(11)	-	99
Current tax	1	-	-	-	1
Deferred tax	4	-	-	-	4
Employee benefits	3	-	-	-	3
Subordinated liabilities					
AC	115	-	-	-	115
FVtPL	167	-	-	-	167
Total liabilities	**19,946**	**-**	**(11)**	**3**	**19,938**
Equity					
Share capital	80	-	-	-	80
Share premium	237	-	-	-	237
Other reserves	93	-	(1)	1	93
Retained earnings including profit for the period	1,651	-	(235)	(21)	1,395
Equity attributable to the parent company	**2,062**	**-**	**(236)**	**(20)**	**1,806**
Capital securities (non-controlling interest)	200	-	-	-	200
Equity attributable to other non-controlling interests	0	-	-	-	0
Equity attributable to the parent company	**2,263**	**-**	**(236)**	**(20)**	**2,006**
Total liabilities and equity	**22,209**	**-**	**(247)**	**(16)**	**21,945**

1 The assets and liabilities are in the logical order as presented in the consolidated balance sheet in NIBC Holding's annual report 2017.

Reconciliation of allowances and provisions on application date of IFRS 9;

The following table provides a reconciliation from the IAS 39 (incurred) credit loss allowances to the IFRS 9 (expected) credit loss allowances recognised as of 1 January 2018 upon adoption of IFRS 9.

In EUR million	31 December 2017 Credit loss allowances (IAS 39)	Financial instruments reclassified from AC to FVtPL	Recognition of ECL (IFRS 9) including ECL on reclassification from FVtPL to AC and reversals of IAS 39 allowances	1 January 2018 Credit loss allowances (IFRS 9)
Impairment allowance for				
Cash and balances with central banks	-	-	0	0
Due from other banks	-	-	0	0
Loans AC	146	(4)	8	150
Mortgages AC	2	47	13	62
Debt investments AFS per IAS 39 to Debt investments at FVOCI under IFRS 9	4	(4)	0	0
Debt Investments AC per IAS 39 to Debt investments at FVOCI under IFRS 9	-	-	1	1
Debt Investments AC per IAS 39 to Debt investments at FVtPL under IFRS 9	20	(20)	-	-
	172	**19**	**23**	**213**
Provisions for undrawn commitments and other financial guarantees	-		3	3
	172	**19**	**26**	**216**

IFRS 9 transition impact on equity

The following table presents the transition effects recognised in equity upon application of IFRS 9.

In EUR million	
Revaluation reserves	
Balance as at 31 December 2017 (IAS 39)	**93**
Debt Investments: remeasurement effect following reclassification	
from AFS to AC	6
from AC to FVOCI	0
from AFS to FVOCI	-
from AFS to FVtPL	-
Debt Investments: ECL recognition for debt investments at FVOCI	1
Equity investments: remeasurement effect following reclassification from AFS to FVtPL	(7)
Deferred tax: in relation to the above	0
Balance as at 1 January 2018 (IFRS 9)	**93**

In EUR million	
Retained earnings	
Balance as at 31 December 2017 (IAS 39)	**1,651**
Remeasurement effect from reclassification of financial assets	(341)
from FVtPL to AC	(330)
from AC to FVtPL	(15)
from AFS to FVtPL	4
Recognition of ECL including those measured at FVOCI	(3)
Deferred tax: in relation to the above	88
Balance as at 1 January 2018 (IFRS 9)	**1,395**
Total change in equity due to adopting IFRS 9	**(256)**

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The IASB issued amendments to IFRS 9 addresses pre-payable financial assets that would otherwise meet the *solely payments of principal and interest* (**SPPI**) criterion would be eligible to be measured at AC or FVOCI –subject to the business model assessment – if the following conditions are met: the instrument is inconsistent with the SPPI-criterion only because the party that chooses (or causes) to terminate the contract early may receive reasonable additional compensation for doing so (first eligibility condition); and the fair value of the prepayment feature is insignificant on initial recognition of the financial asset (second eligibility condition). The amendments are effective for annual periods beginning on or after 1 January 2019. NIBC early adopted the amendments to IFRS 9 as per 1 January 2018. These amendments to IFRS 9 did not have a significant impact on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

Effective from 1 January 2018, NIBC applied *IFRS 15 'Revenue from Contracts with Customers'* **(IFRS 15)**, which replaces IAS 18 'Revenue' and establishes principles for revenue recognition that apply to all contracts with customers except those relating to financial instruments and insurance or lease contracts and requires an entity to recognise revenue as performance obligations are satisfied. NIBC applied the modified retrospective approach. The cumulative effect of initial application of IFRS 15 is nil.

Clarifications to IFRS 15 Revenue from Contracts with Customers

On 12 April 2016, the IASB has issued amendments to its new revenue standard, IFRS 15. The amendments address implementation questions that were discussed by the Joint Transition Resource Group for Revenue Recognition on: identifying performance obligations; application guidance on principal versus agent and licenses of intellectual property; and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying it.

NIBC applied these amendments as from the effective date of 1 January 2018.

IFRIC 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 non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018. The adoption of this IFRS Interpretation did not have a material effect on the consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. NIBC early adopted this IFRS interpretation with no material effect on the consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property. Under the amended IAS 40, a property asset is transferred when, and only when, there is evidence of an actual change in its use. The amendments apply for annual periods beginning on or after 1 January 2018. The adoption of the amendments to IAS 40 did not have a material effect 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. The adoption of these amendments did not have a material effect on the consolidated financial statements.

Annual Improvements to IFRS Standards 2014- 2016 Cycle

IFRS	Subject of amendment
IFRS 1 First-time Adoption of International Financial Reporting Standards	Deletion of short-term exemptions, because they have served their intended purpose
IFRS 12 Disclosure of Interests in Other Entities	Clarification of the scope of the standard by specifying that disclosure requirements in the standard apply to an entity's interests that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
IAS 28 Investments in Associates and Joint Ventures	Clarified that the election to measure at FVtPL an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition

Only IFRS 12 Disclosure of Interests in Other Entities (effective as from 1 January 2017) and IAS 28 Investments in Associates and Joint Venture (effective as from 1 January 2018) are relevant for NIBC. Both amendments do not have significant impact on the consolidated financial statements.

Upcoming changes after 2018

Below standards and amendments to existing standards, published prior to 31 December 2018, were not early adopted by NIBC but will be applied in future years. Note that only the amendments to IFRSs that are relevant for NIBC are presented below.

New and/or amended standards endorsed but not yet effective

Accounting standard/ amendment/ interpretation	IASB effective date	Impact for NIBC
IFRS 16 Leases IFRS 16 requires lessees to recognise leases on the balance sheet reflecting a right to use an asset for a period of time and the associated liability for payments.	1 January, 2019	See below for comments

IFRS 16 Leases

NIBC will apply IFRS 16 retrospectively with the cumulative effect recognised in retained earnings on 1 January 2019. The introduction of the right of use asset concept under IFRS 16, will mainly affect the foreign offices currently rented. The impact on the performance and financial position, and capital ratios is considered low.

New and/or amended standards not yet endorsed

Accounting standard/ amendment/ interpretation	IASB effective date	Impact for NIBC
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures In this amendment the IASB clarified that the exclusion of long term interests in associates and joint ventures in IFRS 9 applies only to interests a company accounts for using the equity method.	1 January, 2019	Low
Annual Improvements to IFRS Standards 2015-2017 Cycle These improvements include the following amendments: • IFRS 3 Business Combinations and IFRS 11 Joint Arrangements — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. • IAS 12 Income Taxes — The amendments clarify that the requirements to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised apply to all income tax consequences of dividends irrespective of different tax rates for distributed and undistributed profits. • IAS 23 Borrowing Costs — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	1 January, 2019	Low
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are: • If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. • In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.	1 January, 2019	Low
Amendments to References to the Conceptual Framework in IFRS Standards The revised conceptual framework includes comprehensive changes in e.g. definitions, recognition criteria and clarifies some important concepts.	1 January, 2020	Low
Amendment to IFRS 3 Business Combinations Revision of the definition of a business	1 January, 2020	Under investigation
Amendments to IAS 1 and IAS 8: Definition of Material The amendments clarify the definition of material and make IFRSs more consistent.	1 January, 2020	Low

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

Basis of consolidation

The consolidated financial statements are comprised of the financial statements of NIBC and its subsidiaries as at and for the years ended 31 December 2018 and 2017.

Subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

Changes in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries

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

Investment in associates and joint ventures

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

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

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

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

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

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

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

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

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

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

Segment reporting

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

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

Group companies

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

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

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

Financial instruments

Recognition and classification and measurement

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

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

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

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

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

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

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

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

Business model assessment

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

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

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

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

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

Contractual cash flow characteristics

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

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

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

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

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

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

Financial assets classification		Significant items included	Measurement and presentation
Measured at FVtPL	Held for trading	Financial assets held for trading include: o all derivatives with a positive replacement value; o other financial assets acquired principally for the purpose of selling or repurchasing in the near term, or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.	Measured at fair value with changes recognised in profit or loss. Upfront (closing) fees on financial assets measured at FVtPL are recognised in the income statement within Net fee and commission income. Interest income from financial assets measured at FVtPL is included in Net interest income. Back-ended fees or other gains and or losses than above mentioned on financial assets (not held for trading) mandatory measured at FVtPL are recognised in the income statement within Net gains or (losses) from assets and liabilities at FVtPL.
	Mandatorily measured at FVtPL – Other	A financial asset is mandatorily measured at FVtPL if: o it is not held in a business model whose objective is to hold assets to collect contractual cash flows or to hold them to collect contractual cash flows and sell; and / or o the contractual terms give rise to cash flows that are not SPPI; and / or o it is not held for trading.	Back-ended fees or other gains or losses than above mentioned on financial assets held for trading mandatory measured at FVtPL are recognised in the income statement within Net trading income. The presentation of fair value changes on derivatives that are designated and effective as hedging instruments depends on the type of hedge relationship (refer to 'Derivative financial instruments and hedging' in this 'Accounting Policies' section). Financial assets held for trading and other financial assets mandatorily measured at FVtPL are presented under Financial assets at FVtPL.

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

Derecognition, restructured and modified financial assets

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

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

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

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

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

Fair value estimation

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

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

Determination of fair value of financial instruments

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

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

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

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

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

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

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

See note 47 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 47 for the fair values of NIBC's financial instruments that are not carried at fair value in the balance sheet.

Offsetting

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

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

Collateral

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

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

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

Derivative financial instruments and hedging

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

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

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

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

Hedge accounting

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

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

NIBC discontinues hedge accounting prospectively when:

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

Fair value hedge

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

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

Portfolio fair value hedge

NIBC applies portfolio fair value hedge accounting to the interest rate risk arising on portfolios of fixed-interest rate loans (classified as available for sale financial assets (until 31 December 2017) 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 FVOCI (formerly available-for-sale) and fixed-interest rate funding.

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

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

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

Cash flow hedge

Cash flow hedge accounting is applied to hedge the variability arising on expected future cash flows due to interest rate risk on loans at amortised cost and/or available for sale loans (until 31 December 2017) with floating interest rates. As interest rates fluctuate, the future cash flows on these instruments also fluctuate. NIBC uses interest rate swaps to hedge the risk of such cash flow fluctuations. Cash flow hedges are always on portfolio level.

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

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

Hedge effectiveness testing

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

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

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

Sale and repurchase transactions

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

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

Expected credit losses (ECL)

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

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

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

Recognition of expected credit losses

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

ECL are recognised on the following basis:

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

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

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

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

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

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

Default and credit impairment

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

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

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

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

Write-off

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

Measurement of ECL

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

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

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

The measurement of the ECL is summarised as follows:

ECL	Measurement
Stage 1	The 12M-ECL is calculated as the portion of LT-ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months or a shorter period if applicable after the reporting date. NIBC calculates the 12M-ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.
Stage 2	When a loan has shown a SICR since origination, NIBC records an allowance for the LT-ECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but ECL calculations are summed over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR. The EIR calculation for the corporate exposures comprises of the current base rate plus an add-on. This rate is fixed to discount the cash-flows over the remaining life of the loan until its legal maturity. This rate applies to all financial instruments, including undrawn loan commitments and financial guarantees. The EIR calculation for retail mortgage loans is based on the current coupon rate. The rate is fixed over the remaining life of the loan until its contractual maturity date.
Stage 3	For loans considered credit-impaired, NIBC recognises the LT-ECL, based on facility level individual cash flow estimates determined by Restructuring & Distressed Assets (RDA). RDA applies at least three scenarios (unless it is 100% impaired) and assigns probabilities to each of these scenarios. Focus is on recovery of the client, while in parallel an enforcement strategy, a loan trade or sale of the company are considered as alternative scenarios. The method is conceptually similar to that for Stage 2 assets, but requires an individual assessment. For the purpose of impairment calculation, the EIR is approximated by the sum of the applicable swap curve plus the original contractual margin.
POCI	POCI assets are financial assets that are credit impaired on initial recognition. NIBC only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit-adjusted EIR.
Loan commitments and letters of credit	When estimating LT-ECLs for undrawn loan commitments, NIBC estimates the expected portion of the loan commitment that will be drawn down over its contractual life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For loan commitments relating to revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For fully undrawn loan commitments and letters of credit, the ECL is recognised within *Provisions*.
Financial guarantee contracts	NIBC's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, NIBC estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within *Provisions*.

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

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

Scenarios and scenario weights

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

Economic scenarios and weights applied

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

Macro-economic and other factors

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

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

Macro-economic variables in percentages for the period 2018-2020	**Average**	**Minimum**	**Maximum**
NL House Price Index (y-o-y change)	2.62%	1.39%	7.03%
NL GDP (y-o-y change)	1.84%	1.55%	2.57%
GB GDP (y-o-y change)	1.63%	1.39%	1.81%
DE GDP (y-o-y change)	1.29%	1.03%	2.02%
EU GDP (y-o-y change)	1.68%	1.43%	2.31%
Crude Oil WTI ($ per barrel)	65.66	63.51	69.53

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

The following table discloses the macro-economic variables for the period 2018-2020 used in the ECL calculation:

ECL Measurement period

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

Significant increase in credit risk (SICR)

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

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

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

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

Impairment of non-financial assets

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

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

There were no impairments on non-financial assets in the years 2018 and 2017.

Intangible assets

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

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

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

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

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

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

Tangible assets

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

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

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

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Depreciation
Buildings	30 - 50 years
Machinery	4 - 10 years
Furniture, fittings and equipment	3 - 10 years
Assets under operating leases	1 - 5 years

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

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

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

Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes or sale in the ordinary course of business.

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in the income statement.

Where the group disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the income statement within net gain from fair value adjustment on investment property.

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, NIBC issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received and subsequently measured at the higher of the amount of the loss allowance; and the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15. Any increase in the liability relating to financial guarantees is recorded in the income statement in credit loss expenses. The premium received is recognised in the income statement in fee and commission income on a straight line basis over the life of the guarantee.

Cash and cash equivalents

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

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

Non-current assets (or disposal groups) held for sale and discontinued operations

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

An impairment loss is recognised for any initial or subsequent write-down of the asset in the scope of IFRS 15 (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

When an operation is classified as a discontinued operation, if material, the comparative income statement and cash flow statement are represented as if the operation had been discontinued from the start of the comparative period.

Provisions

Provisions contains:

- ECL allowances for off-balance sheet financial instruments;
- Restructuring and/or reorganisation provisions;
- Employee benefits;
- Other provisions.

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

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

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

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

Provisions for restructuring costs and legal claims are recognised when:
- The group has a present legal or constructive obligation as a result of past events;
- It is more likely than not that an outflow of resources will be required to settle the obligation;
- The amount has been reliably estimated.

A constructive obligation to restructure arises only when the group has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken;
- when the plan will be implemented; and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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

Employee benefits

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

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

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

Equity-settled transactions
The group operates a number of equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (shares or options) of the group. The fair value of the employee services received in exchange for the grant of the shares or

options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares or options granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions;
- Excluding the impact of any non-vesting conditions.

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

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

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

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

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

Cash-settled transactions

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

Profit-sharing and bonus plans

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

Accruals, deferred income and other liabilities

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

Income tax

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

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

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

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

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

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

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

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

Equity

Share capital

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

Capital securities

As there is no formal obligation to (re)pay the principal or to pay a dividend the capital securities are recognised as equity and dividends paid on capital securities are recognised directly in equity.

Issue costs of shares and capital securities
Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares and capital securities
Dividends on ordinary shares and capital securities are recognised as a liability in the period that the obligation for payment has been established, being in the period in which they are approved by the shareholder.

Revenue recognition
As detailed in the sub-sections below, NIBC recognises the revenue on financial instruments in:
- net interest income;
- investment income;
- net trading income;
- net gains or (losses) from assets and liabilities at FVtPL;
- net gains or (losses) on derecognition of financial assets measured at AC

in accordance with IFRS 9 Financial Instruments (until 31 December 2017 IAS 39 Financial Instruments).

In accordance with IAS 17 Leases, revenue from finance lease contracts are included in interest income and revenue from operating lease contracts in other operating income.

NIBC recognises revenue in relation to:
- net fee and commission income;
- other operating income,

in accordance with IFRS 15 Revenue from Contracts with Customers, when (or as) a performance obligation is satisfied by transferring a promised service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

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

Net interest income
Interest income and expense from financial instruments measured at AC and FVOCI are recognised in the income statement applying the EIR method. In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit-impaired) or the AC of a financial liability, based on estimated future cash flows that take into account all contractual cash flows. However, when a financial asset becomes credit-impaired after initial recognition, interest income is determined by applying EIR to the net carrying amount of the instrument. Furthermore, for financial assets that were credit-impaired on initial recognition, interest is determined by applying a credit-adjusted EIR to the AC of the instrument.

Penalty interest is directly recognised under interest income in case of early redemption ((partly) derecognition of the related financial instrument). Penalty interest is directly recognised under interest income in case of an interest reset.

Interest income from financial assets measured at FVtPL is recognised applying the contractual interest rates. Deviations between the contractual interest rates and the prevailing market rates of interest for a similar instrument (e.g. caused by performance related fees) are recognised in *Net gains or (losses) from assets and liabilities at FVtPL*.

Interest income on financial instruments measured at AC and financial assets measured at FVOCI are presented separately within *Interest income from financial instruments measured at AC and FVOCI and Interest expense from financial instruments measured at AC,* with interest on financial instruments at FVtPL presented in *Interest income (or expense) from financial instruments measured at FVtPL*.

Net fee and commission income

NIBC earns fee income from a diverse range of services it provides to its clients. Fee income can be divided into two broad categories:

- fees earned from services that are provided over a certain period of time, such as (originate to manage) asset or investment management,
- fees earned from point in time services such as underwriting and brokerage fees, structuring – and advisory fees, and performance linked fees from investment management activities.

Over time services

Fees earned from services that are provided over a certain period of time are recognised ratably over the service period provided the fees are not contingent on successfully meeting specified performance criteria that are beyond the control of NIBC (see measurement below).

Costs to fulfil over time services are recorded in the income statement immediately because such services are considered to be a series of services that are substantially the same from day to day and have the same pattern of transfer.

Point in time services

Fees earned from providing transaction-type services are recognised when the service has been completed provided such fees are not highly probable subject to refund or another contingency beyond the control of NIBC.

Measurement

Fee and commission income is measured based on consideration specified in a legally enforceable contract with a customer, excluding amounts such as taxes collected on behalf of third parties. Consideration can include both fixed and variable amounts. Variable consideration includes refunds, discounts, performance bonuses and other amounts that are contingent on the occurrence or non-occurrence of a future event. Variable consideration that is contingent on an uncertain event can only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue for a contract will not occur.

In the following table the recognition of revenue under IFRS 15 per main fee revenue earned by NIBC is listed.

Fee revenue	Timing of satisfaction of performance obligation	Measuring progress toward complete satisfaction of a performance obligation
Investment management fees – Originate to manage asset management fees	The performance obligation is satisfied over time. The customer simultaneously receives and consumes the benefits proved by NIBC's performance as it performs.	Straight line over time as the service is provided.
Underwriting fees - Loan syndication fees	Performance obligation is not satisfied over time. As such the revenue recognition is point in time.	Recognition when the service has been completed.
Advisory fees	Performance obligation is not satisfied over time. As such the revenue recognition is point in time.	Recognition when the service has been completed.
Brokerage fees	Performance obligation is not satisfied over time. As such the revenue recognition is point in time.	Recognition when the service has been completed.
Structuring fees not IFRS 9 related such as setting up or advising in SPV structures	Performance obligation is not satisfied over time. As such the revenue recognition is point in time.	Recognition when the service has been completed.
Performance linked fees from asset or investment management activities	Performance obligation is not satisfied over time. As such the revenue recognition is point in time.	Recognition when the service has been completed.

Presentation of fee and commission income and expense
Fee and commission income and expense are presented gross on the face of the income statement.

Investment income
Investment income includes the following income items:

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

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

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

Net trading income
At the introduction of IFRS 9 NIBC decided to alter the presentation of net trading income classification. Net trading income is split into two new income lines in the face of the income statement;

- Net trading income (only trading book related Net trading income) and
- Net gains or (losses) from assets and liabilities at fair value through profit or loss.

For comparison purposes, the 2017 figures are also presented using the new income structure.

Net trading income comprises:
- all gains and losses from financial assets held for trading, as well as
- realised gains and losses on financial liabilities held for trading, and
- foreign exchange gains and losses.

Net gains or (losses) from assets and liabilities at FVtPL.
Net gains or (losses) from assets and liabilities at FVtPL comprises
- all gains and losses from financial assets and financial liabilities measured at fair value through profit or loss,
- excluding those presented under
  - investment income,
  - net trading income, and
  - other comprehensive income (the results from movements in the fair value of financial liabilities that are attributable to changes in NIBC Holding's own credit risk).

Net gain or (losses) on derecognition of financial assets measured at AC
The line item Net gain or (losses) on derecognition of *financial* assets measured at AC includes the differences between the carrying value just before derecognition and total consideration received at the sale of a financial asset measured at AC.

Rental income
The group manages a portfolio of German Residential and Commercial Property. Rental income from operating leases from the German Residential and Commercial Property is recognised in income on a straight line basis over the lease term net of discounts and other deductions.

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

Fiduciary activities
NIBC acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets are excluded from these financial statements as they are not assets of the group. Related fee and commission income arising thereon is recognised under fee and commission income.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimates and judgements are principally made in the following areas:

- Fair value of certain financial instruments;

- Expected credit losses of financial instruments not measured at FVtPL;

- Income taxes, and

- Consolidation of structured entities.

Fair value of certain financial instruments

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

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

Changes in assumptions could affect the reported fair value of financial instruments. For the identification of assumptions used in the determination of fair value of financial instruments and for estimated sensitivity information for level 3 financial instruments, except for own liabilities (see note 47).

Own liabilities designated at fair value through profit or loss

At 31 December 2018, the fair value of these liabilities was estimated to be EUR 483 million (31 December 2017: EUR 821 million). This portfolio is designated at fair value through profit or loss and is reported on the face of the balance sheet under the following headings:

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

The portion of fair value changes on these liabilities designated at fair value through profit or loss during 2018 attributable to the movement in credit spreads as reported in notes 37, 38 and 43 reflects gross amounts, excluding pull-to-par and model refinement effects.

The bank estimates its own credit risk from market observable data such as NIBC senior unsecured issues, NIBC subordinated issues and secondary prices for its traded debt.

The valuation of all the above classes of financial liabilities designated at fair value through profit or loss is sensitive to the estimated credit spread used to discount future expected cash flows. A 10 basis point change in the weighted average credit spread used to discount future expected cash flows would increase or decrease the fair value of these own financial liabilities at 31 December 2018 by EUR 2 million (31 December 2017: EUR 3 million).

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

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

Fair value of equity investments

The group estimates the fair value of its equity investments using valuation models, and it applies the valuation principles set forth by the International Private Equity and Venture Capital Valuation Guidelines to the extent that these are consistent with IFRS 9.

On 31 December 2018, the fair value of this portfolio was estimated to be EUR 187 million (31 December 2017: EUR 323 million). This portfolio is reported as equity investments (including investments in associates) at fair value through profit or loss (31 December 2018: EUR 187 million; 31 December 2017: EUR 287 million) and until 31 December 2017 under IAS 39 as equity investments at available for sale (31 December 2017: EUR 36 million).

For the determination of the fair value of equity investments and for estimated sensitivity to key assumptions in the valuation, see note 47.

Expected credit losses (ECL) of financial instruments not measured at FVtPL

The calculation of ECL requires management to apply significant judgment and make estimates and assumptions that involve significant uncertainty at the time they are made. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECL to be recognised. Reference is made to the corresponding notes for the nature and carrying amounts of the ECL of financial instruments not measured at FVtPL.

Determination of a significant increase of credit risk (SICR)

IFRS 9 does not include a definition of what constitutes SICR. NIBC assesses whether an SICR has occurred since initial recognition based on qualitative and quantitative reasonable and supportable forward-looking information that includes significant management judgment. More stringent criteria could significantly increase the number of instruments migrating to stage 2.

Scenarios, scenario weights and macroeconomic factors

ECL reflect an unbiased and probability-weighted amount, which NIBC determines by evaluating a range of possible outcomes. Management selects forward-looking scenarios and judges the suitability of respective weights to be applied. Changes in the scenarios and weights, the corresponding set of macroeconomic variables and the assumptions made around those variables for the forecast horizon would have a significant effect on the ECL.

The macroeconomic projections in the baseline scenario are the most important determinant of the final ECL amount. The combined impact of MES, applied to the corporate loan and mortgage loan portfolios, on the ECL is limited (1% of Stage 1 and Stage 2 ECL).

ECL measurement period

Lifetime ECL are determined based upon the contractual maturity of the transaction (other than revolving facilities), which significantly affects ECL. The ECL calculation is therefore sensitive to any extension of contractual maturities triggered by business decisions, consumer behaviour and an increased number of stage 2 positions.

Modelling and management adjustments

A number of complex models have been developed or modified to calculate ECL. Internal counterparty rating changes, new or revised models and data may significantly affect ECL. Management adjustments, based on counterparty details, can be applicable to resolve technical issues in the processing of stage 1 and stage 2 ECL. The models are governed by NIBC's risk department, which aims to ensure independent verification.

Changes to the assumptions in the models are subject to approval by the *Risk Management Committee* (**RMC**) or ALCO of NIBC.

Income taxes

Deferred tax assets are included only if it is probable that taxable profits will be realised in the near future against which these temporary differences can be offset. When determining future taxable profits, estimates are used since these are subject to uncertainty. If an amount of EUR 10 million less or more future taxable profits can be offset against unused carry forward losses within the term to maturity of these carry forward losses, that varies between two and nine years, an additional tax loss or gain should be recognised in the profit or loss of EUR 2.5 million at the currently applicable income tax rate of 25%.

Consolidation of structured entities

The consolidation of structured entities is a critical estimate that requires judgement and is described in note 59.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Segment report

Segment information is presented in these consolidated financial statements on the same basis as used for internal management reporting within NIBC. Segment reporting puts forth a presentation of the segment results based on management reporting methods and a reconciliation between the results of the operating segments and the consolidated financial statements. The Managing Board is the Group's chief operating decision-maker.

Operating segments

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

Corporate client offering

Corporate client offering provides advice and debt, mezzanine and equity financing solutions to mid-sized companies and entrepreneurs in the Netherlands, Germany and the UK. Sectors in which we are active include Commercial Real Estate, Food, Agriculture, Retail & Health, Infrastructure & Renewables, Industries & Manufacturing, Telecom, Media, Technology & Services. Furthermore, we are active in two global sectors in which we have longstanding expertise: Offshore Energy and Shipping & Intermodal. This segment also includes NIBC Markets.

Retail client offering

Retail client offering offers savings products and mortgages to consumers who are seeking to actively manage their financial objectives. Savings products are offered in the Netherlands, Germany and Belgium, and mortgages are offered in the Netherlands. We also offer brokerage services in Germany under our label 'NIBC Direct.'

Treasury and Group Functions

Treasury and Group functions includes the bank's treasury function, asset and liability management, risk management and the bank's Corporate Centre which includes HR & Corporate Communications, Internal Audit, Legal & Compliance, Sustainability, Operations & Facilities, Technology, and Finance, Tax & Strategy. A substantial part of the operating expenses as well as the full time equivalents of Group Functions are allocated to corporate and retail client offering.

No operating segments have been aggregated to form the above-mentioned segments. Transfer prices between operating segments are at an arm's length basis in a manner similar to transactions with third parties.

Certain financial assets and liabilities are not allocated to Corporate client offering and Retail client offering as they are managed on a group basis. These financial assets and liabilities are held within the segment Treasury and Group Functions and mainly comprise cash, debt investments, derivative assets and liabilities as well as majority of the bank's funding. As the assets of Corporate Banking and Retail Banking are largely funded internally with transfer pricing, majority of NIBC's external funding is held within Treasury and Group Functions.

Inter-segment income and expenses are eliminated on consolidation level.

Reconciliation with consolidated income statement

The accounting policies of the segments are the same as those described in our Accounting Policies section.

NIBC operates in four geographical locations namely the Netherlands, Germany, the UK and Belgium. The income and expenses incurred at each location are disclosed in a separate table.

The following table presents the Segment report comprising of a summary of our internal management report and the reconciliation to the consolidated results under IFRS for the year ended 31 December 2018.

in EUR millions	Corporate client offering	Retail client offering	Treasury & Group functions	Total Bank (consolidated financial statements)
	For the year ended 31 December 2018			
Net interest income	202	130	101	432
Net fee and commission income	40	11	-	51
Investment income	74	-	-	74
Net trading income	(6)	-	5	(1)
Net gains or (losses) from assets and liabilities at fair value through profit or loss	4	-	(10)	(6)
Net gains or (losses) on derecognition of financial assets measured at amortised cost	(2)	-	-	(2)
Other operating income	-	-	1	2
Operating income	**312**	**141**	**97**	**550**
Other operating expenses[1]	119	54	36	209
Regulatory charges and levies	-	9	6	15
Operating expenses	**119**	**63**	**41**	**224**
Credit loss expense / (recovery)	62	(8)	(1)	54
Profit before tax	**131**	**85**	**56**	**272**
Tax	15	22	(6)	31
Profit after tax	**116**	**63**	**62**	**241**
Attributable to:				
Shareholders of the company				229
Holders of capital securities (non-controlling interests)				12
Other non-controlling interests				-
Total FTEs	479	131	47	657
EC Usage (start of the year)	914	206	227	1,347
Available capital (start of the year)				1,738
ROE (SBU based on EC Usage)	12.7%	30.8%	29.3%	17.0%
ROE (on available capital)				13.2%
Cost/income ratio	38%	45%		41%
Segment assets	8,070	9,274	4,372	21,716
Investments in associates and joint-ventures accounted for by the equity method	12	-	-	12
Return on assets	1.4%	0.7%	1.4%	1.1%
Risk-weighted assets	5,758	1,248	718	7,723

1 Other operating expenses includes all operating expenses except regulatory charges and levies.

The following table presents the income and expenses incurred at each location:

	For the year ended 31 December 2018				
in EUR millions	The Netherlands	Germany	United Kingdom	Belgium	Total
Operating income	455	76	15	4	550
Operating expenses	166	39	16	3	224
Credit loss expense / (recovery)	41	15	(2)	-	54
Profit before tax	**248**	**22**	**1**	**1**	**272**
Tax	27	3	1	-	31
Profit after tax	**221**	**19**	**1**	**1**	**241**
FTEs	538	82	32	5	657

Operating income per sector per country

	For the year ended 31 December 2018				
in EUR millions	The Netherlands	Germany	United Kingdom	Belgium	Total
Corporate Client Offering					
Commercial Real Estate (CRE)	55	-	-	-	55
Food, Agriculture, Retail & Health (FAR&H)	16	9	-	-	25
Industries & Manufacturing (I&M)	23	11	-	-	35
Infrastructure & Renewables (I&R)	25	5	4	-	33
Offshore Energy (OE)	20	-	-	-	20
Shipping & Intermodal (S&I)	21	-	-	-	21
Telecom, Media, Technology & Services (TMT&S)	19	15	-	-	34
Other Corporate Client Offering	81	1	6	-	88
Retail Client Offering	104	29	-	9	141
Treasury	86	6	5	-	97
	450	**76**	**15**	**9**	**550**

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 year ended 31 December 2017.

in EUR millions	Corporate client offering	Retail client offering	Treasury & Group functions	Total Bank (consolidated financial statements)
	For the year ended 31 December 2017			
Net interest income	204	127	35	366
Net fee and commission income	50	4	-	54
Investment income	66	-	1	67
Net trading income	29	-	-	29
Net gains or (losses) from assets and liabilities at fair value through profit or loss	7	(2)	(10)	(5)
Net gains or (losses) on derecognition of financial assets measured at amortised cost	1	-	-	1
Other operating income	-	-	-	-
Operating income	**357**	**130**	**25**	**512**
Other operating expenses[1]	121	54	34	209
Regulatory charges and levies	-	9	5	14
Operating expenses	**121**	**63**	**39**	**223**
Impairments of financial assets	34	-	-	34
Profit before tax	**201**	**67**	**(13)**	**255**
Tax	35	16	(10)	42
Profit after tax	**166**	**50**	**(4)**	**213**
Attributable to:				
Shareholders of the parent company				213
Holders of capital securities (non-controlling interests)				-
Other non-controlling interests				-
Total FTEs	461	126	79	666
EC Usage (start of the year)	1,242	365	184	1,792
Available capital (start of the year)				1,944
ROE (SBU based on EC Usage)	13.4%	13.8%	-2.0%	12.7%
ROE (on available capital)				10.8%
Cost/income ratio	34%	48%		44%
Segment assets	8,308	9,095	4,806	22,209
Investments in associates and joint-ventures accounted for by the equity method	10			10
Return on assets	2.0%	0.6%	-0.1%	0.9%
Risk-weighted assets	6,516	1,158	871	8,546

1 Other operating expenses includes all operating expenses except regulatory charges and levies.

The following table presents the income and expenses incurred at each location:

in EUR millions	For the year ended 31 December 2017 The Netherlands	Germany	United Kingdom	Belgium	Total
Operating income	433	63	10	5	512
Operating expenses	179	30	(10)	3	223
Impairments of financial assets	34	-	-	-	34
Profit before tax	**220**	**33**	**-**	**2**	**255**
Tax	34	7	-	1	42
Profit after tax	**186**	**27**	**-**	**1**	**213**
FTEs	552	78	31	5	666

Operating income per sector per country

in EUR millions	For the year ended 31 December 2017 The Netherlands	Germany	United Kingdom	Belgium	Total
Corporate Client Offering					
Commercial Real Estate (CRE)	84	-	-	-	84
Food, Agriculture, Retail & Health (FAR&H)	30	11	-	-	41
Industries & Manufacturing (I&M)	25	13	-	-	38
Infrastructure & Renewables (I&R)	20	4	2	-	26
Offshore Energy (OE)	19	-	-	-	19
Shipping & Intermodal (S&I)	21	-	-	-	21
Telecom, Media, Technology & Services (TMT&S)	22	12	-	-	34
Other Corporate Client Offering	89	(1)	3	-	92
Retail Client Offering	92	30	-	10	131
Treasury	26	(6)	5	-	25
	428	**63**	**10**	**10**	**512**

2 Net interest income

in EUR millions	2018	2017
Interest and similar income		
Interest income from financial instruments measured at amortised cost and fair value through other comprehensive income	590	423
Interest income from financial instruments measured at fair value through profit or loss	13	125
	603	**548**
Interest expense and similar charges		
Interest expense from financial instruments measured at amortised cost	161	164
Interest expense from financial instruments measured at fair value through profit or loss	10	18
	171	**182**
	432	**366**

The changes in 2018 net interest income compared to 2017 mainly relate to the following developments:

- With the reclassification of the fair value mortgage portfolio to amortised cost, as part of the implementation of IFRS 9, the interest income of this portfolio is now included in the interest income from financial instruments measured at amortised cost;
- In 2017, the existing hedging portfolio of the fair value mortgage portfolio (with relatively high interest rates) has been unwound and replaced with new swaps at current (low) interest rates, a.o. to prepare for hedge accounting after implementation of IFRS 9. As a consequence, the interest expenses related to these derivatives (net between the pay and receive leg) has decreased, which is presented in interest income for financial instruments at amortised cost. This has increased net interest income by EUR 28 million;
- The average funding costs have decreased, leading to lower interest expenses. The effect has impacted the interest expense from financial instruments measured at amortised cost and as well as financial instruments measured at fair value through profit or loss.

Interest income includes negative interest from liabilities for an amount of EUR 28 million (2017: EUR 35 million).

For the year ended 31 December 2018, interest expense related to deposits from customers amounted to EUR 88 million (31 December 2017: EUR 113 million).

Interest expense includes negative interest from financial assets for an amount of EUR 76 million (2017: EUR 62 million).

3 Net fee and commission income

in EUR millions	2018	2017
Fee and commission income of major service lines:		
Investment management	15	14
Lending related fees	11	18
M&A fees	11	11
Originate-to-Manage	11	4
Brokerage fees	3	7
Total fee and commission income from contracts with customers	**51**	**54**
Fee and commission expense		
Other non-interest related	-	-
	-	**-**
	51	**54**

The decrease in Brokerage fees is mainly the result of the discontinuation of the non-core part of the business.

The EUR 7 million increase in originate-to-manage fee income in 2018 compared to 2017 is explained by an increased portfolio under management.

4 Investment income

in EUR millions	2018	2017
Equity investments (fair value through profit or loss)		
Gains less losses from associates	75	63
Gains less losses from other equity investments	(1)	4
	74	**67**

5 Net trading income

in EUR millions	2018	2017
Financial instruments mandatory measured at fair value through profit or loss		
Assets and liabilities held for trading	3	6
Debt investments	(3)	-
Other net trading income	(1)	23
	(1)	**29**

Results in net trading income relate to trading assets and liabilities, and the associated fair value movements. The fair value movements are influenced by changes in market conditions, such as stock prices, interest rates and currency exchange rates. The 2017 result in 'Other net trading income' relate to a change in fair value of a loan classified as 'Available for Sale', which was part of the Vijlma structure.

6 Net income from assets and liabilities at fair value through profit or loss

in EUR millions	2018	2017
Financial instruments		
Financial instruments mandatory at fair value through profit or loss other than those included in net trading income		
Derivatives held for hedging		
Fair value hedges of interest rate risk	(6)	(1)
Cash flow hedges of interest rate risk	-	(5)
Interest rate instruments (economic hedge)	(1)	(4)
Loans	(5)	-
Mortgage loans and securitised mortgage loans	-	5
Debt investments	-	-
Debt securities	1	-
Other		
Foreign exchange	5	-
	(6)	**(5)**

Fair value hedges of interest risk rate decreased from a loss of EUR 1 million in 2017 to a loss of EUR 6 million in 2018 and can be attributed to a gain of EUR 21 million on the hedged items (2017: gain of EUR 1 million) and a loss of EUR 27 million on the hedging instruments (2017: loss of

EUR 4 million). Cash flow hedges report a gain of EUR 1 million, an improvement compared to the loss of EUR 5 million in 2017.

Interest rate instruments (economic hedge) resulted in a loss of EUR 1 million (2017: a loss of EUR 4 million), mainly related to CVA adjustments and the accounting mismatch between economic hedges of the underlying exposures.

Loans report a loss of EUR 5 million, which includes a credit loss of EUR 3 million, in addition to fair value movements.

As the mortgage portfolio and the debt investments have been reclassified from fair value through profit or loss to amortised cost, these items equal nil in 2018.

Debt securities report a gain of EUR 1 million, related to repurchased securities.

Currency revaluations have led to a gain of EUR 5 million (2017: nil) on foreign exchange.

7 Net income on derecognition of financial assets measured at amortised cost

in EUR millions	2018	2017
Loans	(2)	1
	(2)	**1**

The financial assets were derecognised as a result of a sales transaction of the financial asset against a price lower than the carrying value.

8 Other operating income

in EUR millions	2018	2017
Other operating income	2	-
	2	**-**

9 Personnel expenses and share-based payments

in EUR millions	2018	2017
Salaries	71	73
Variable compensation:		
Cash bonuses	5	11
Share-based and deferred bonuses including expenses relating to previous years' grants	3	3
One-off retention package	5	0
Pension and other post-retirement charges:		
Defined-contribution plan	13	14
Other post-retirement charges/(releases) including own contributions of employees	(2)	(1)
Social security charges	8	8
Other staff expenses	1	2
	105	**109**

Salaries

The number of FTEs decreased from 666 at 31 December 2017 to 657 at 31 December 2018. The average employed number of FTE decreased from 685 in 2017 to 658 in 2018. Salaries in 2018 includes an amount EUR 4.3 million for a one-off expense due to various staff changes in the organisational structure during 2018 (2017: EUR 6.1 million). Salary increases are more or less compensated by the effect of the lower average FTEs.

The number of FTEs employed outside of the Netherlands increased from 115 at 31 December 2017 to 120 at 31 December 2018.

Variable compensation

The variable compensation in cash charged to the income statement decreased in 2018. In view of strategic decisions an additional amount of EUR 4.4 million was provided for in 2017. The total amount of variable income paid in 2018, with respect to the performance over 2017, amounts to EUR 13.1 million. In April 2018 an IPO-bonus to the amount of one monthly gross salary was paid to all staff, excluding Executive Committee members, employed by NIBC. This grant consists of (direct and deferred) cash and (vested and unvested) share based instruments. In 2018, as a consequence of the granted one-off retention package, six employees were awarded a total compensation of more than EUR 1 million (2017: one employee).

As per 23 March 2018, the date of the initial public offering of NIBC Holding, a one-off retention package of in total EUR 5.4 million (gross) was granted to the six members of the ExCo. The net amount after income tax needs to be invested in *Common Depositary Receipts* (**CDRs**) by the ExCo-members with a standard lock-up period of five years on 23 March 2018 (first tranche of 60%) and 23 March 2019 (second tranche of 40%) respectively. The first tranche has been unconditionally awarded to the ExCo members. The second tranche will be unconditionally awarded if and when the ExCo-members are still employed by NIBC on 23 March 2019. Barring unforeseen circumstances, the granted one-off retention package to the ExCo members can no longer be withdrawn on continuation of the employment contract on 23 March 2019.

As a consequence of the standard lock-up period of five years the ExCo members are entitled to a fiscal discount of 18,5% of the share price at the investment date, i.e. on 23 March 2018 and on 23 March 2019 respectively. The one-off retention package related total fiscal discount that will be carried by NIBC amounts to EUR 0.6 million. The total expenses related to this one-off retention package amounts to EUR 5.1 million in 2018.

Information on the pension charges is included in note 39 Provisions.

Information on the remuneration of the members of the Statutory Board and Supervisory Board can be found in note 56.

Expenses related to Statutory Board and Supervisory Board Remuneration

in EUR	2018	2017
The breakdown of the total remuneration of the Statutory Board is as follows:[1]		
Cash compensation (base salary)	2,025,000	1,900,000
Short-term incentive compensation (cash bonus)	121,500	114,000
Short-term incentive compensation (phantom share units)	121,500	114,000
One-off retention package	3,461,383	-
Vesting of prior years short-term deferred share awards compensation[2]	134,118	106,023
Vesting of 2009-2014 co-investment related deferred share awards compensation[2]	-	263,247
Pension costs	533,287	366,710
Other remuneration elements	267,642	189,684
	6,664,430	**3,053,663**

1 Statutory Board is equal to Managing Board.
2 Expensed through the income statement in the current year, related to remuneration in prior year(s).

As at 31 December 2018, current members of the Statutory Board held 241,490 Common Depositary Receipts (CDRs) (31 December 2017: 70,788). In 2018 the current members did not held any Conditional Common Depositary Receipts (CCDRs) (31 December 2017: 49,534) and did not held any Conditional Restricted Depositary Receipts (CRDRs) (31 December 2017: 21,254).

in EUR	2018	2017
Total remuneration of the Supervisory Board is as follows:		
Annual fixed fees, committee fees	535,833	572,500
VAT liable on Supervisory Board remuneration	53,944	51,450
	589,777	**623,950**

Components of variable compensation - NIBC Choice

NIBC Choice is NIBC's share-based and deferred compensation plan and governs all variable compensation components in the form of equity, equity-related and deferred cash compensation. In addition to this, variable compensation can consist of a discretionary short- term cash bonus. NIBC Choice is only open to management and employees and includes conditions relating to termination of employment or certain corporate events, such as restructurings, affecting the rights that would otherwise accrue to them.

The following table gives an overview of the different existing NIBC Choice instruments and their main characteristics:

NIBC Choice instrument	Share based	Equity/Cash-settled	Vesting conditions
Current outstanding instruments			
Common Depositary Receipt (CDR)	Yes	Equity-settled	None
CDRs awarded under one-off retention package ExCo	Yes	Equity-settled	1 year vesting
CDRs under Depository Receipt Purchase Plan (DRPP) (entire Staff)	Yes	Equity-settled	None
Phantom Share Unit (PSU)	Yes	Cash-settled	None
Restricted Phantom Share Unit (RPSU)	Yes	Cash-settled	3 years pro rata vesting
Deferred cash	No	Cash-settled	3 years pro rata vesting
Former outstanding instruments			
Conditional Common Depositary Receipt (CCDR)	Yes	Equity-settled	None
Conditional Restricted Depositary Receipt (CRDR)	Yes	Equity-settled	4 years pro rata vesting

Depositary receipts

The *Depositary Receipts* (**DRs**), consisting of CDRs and RDRs, are issued by Stichting Administratiekantoor NIBC (the Foundation) in accordance with its relevant conditions of administration (administratievoorwaarden). Prior to the IPO the conditions of administration have been slightly adjusted to declare a generic lock-up period of six months for holders of DRs. The generic lock-up period of six months ended on 23 September 2018 (i.e. six months after the IPO).

The Foundation issues a DR for each ordinary share it holds in NIBC 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 Holding 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 December 2017 it was proposed by the Statutory Board and subsequently approved by the Remuneration and Nominating Committee and Supervisory Board to change the Plan Rules Variable Compensation (NIBC Choice) in order to allow delivery of DRs for outstanding CCDRs in lieu of the occurrence of a change of control of NIBC Holding. Furthermore it was decided that all unvested CRDRs outstanding at 1 January 2018 will vest immediately (accelerated vesting) into CCDRs. This applied to 3.558 CRDRs (net after tax basis) related to the cancellation of the Long Term Incentive arrangement for certain Statutory Board members. Following this change of the Plan Rules 317,200 (net after tax basis) outstanding CCDRs were released into CDRs in January 2018.

As of 1 January 2015 a short-term variable income component at target of 15% of base salary (with a maximum of 20%) is applicable for Statutory Board members. The variable compensation is delivered in a pre-defined mix: 30% in cash, 20% in deferred cash, 30% in PSUs and 20% in RPSUs.

One-off retention package ExCo members

On 23 March 2018, the date of the IPO, NIBC granted a retention package of DRs to the members of the ExCo. For Statutory Board members of the ExCo, the monetary value of the retention package will be set at 180 per cent of their fixed annual gross salary. The fixed annual gross salary is EUR 825,000 for the CEO and EUR 600,000 for each of the CFO and CRO, therefore the gross monetary value of the retention package is EUR 1,485,000 for the CEO and EUR 1,080,000 for each of the CFO and CRO. For non-statutory members of the ExCo, the monetary value of the retention package set at 165 per cent of their fixed annual gross salary. The fixed annual gross salary for each of the non-statutory members of the ExCo is EUR 350,000 and therefore the gross monetary value of the retention package EUR 577,500.

Under the one-off retention package, DRs were granted and will be vested in accordance to a predefined vesting schedule.

The number of DRs is calculated by converting the gross monetary amount of the retention package into the number of DRs corresponding to ordinary shares at the initial offering price of EUR 8.75. The number of DRs to be issued pursuant to the retention package awarded at the first anniversary of the IPO date shall be calculated by converting the gross monetary amount of the retention package into the number of DRs corresponding to the ordinary shares at the share price of the ordinary shares at 23 March 2019. In addition, for a period of five years from the date of award, being either the IPO date or the first anniversary thereof, the members of the ExCo may not dispose of any DRs received pursuant to the retention package. The lock-up period cannot be waived and the retention package arrangement does not provide for any circumstances which may result in automatic waiver of the lock-up period. Following the expiry of the applicable lock-up period, the ExCo member (i) may request the Foundation to convert the DRs into ordinary shares and transfer the ordinary shares to a third party investment account; or (iii) may offer all or part of their entire holding of DRs for sale to the Foundation against cancellation of such DRs with the sale being settled in cash and the value of the cash payments being calculated by multiplying the number of DRs cancelled by the price of one ordinary share on Euronext Amsterdam as at the date of cancellation. After the lock-up period of five years, the underlying shares of the DRs will be delivered by the STAK to the personal securities accounts of the ExCo members or the underlying shares of the DRs will be sold on the stock exchange on behalf of the respective ExCo member.

The retention package is subject to the holdback and claw back provisions as set out in the remuneration policy of NIBC and as set out in article 2:135 of the Dutch Civil Code and article 1:126 and 1:127 of the Dutch Financial Supervision Act.

Depositary Receipts Purchase Plan (DRPP)

In view of the IPO at 23 March 2018, all employees of NIBC (including members of Statutory Board and other members of the Executive Committee) were offered to participate in the DRPP to purchase CDRs in NIBC Holding.

The ExCo and staff members of NIBC are entitled to a tax discount between 5.5 per cent and 18.5 per cent on the initial offering price at 23 March 2018, corresponding with a lock-up period for disposal between one and five years. The related tax expense of EUR 1.0 million is borne by NIBC.

Phantom Share Units (PSUs) and Restricted Phantom Share Units (RPSUs)
The short-term compensation in share-related awards consists of PSUs and/or RPSUs. RPSU awards are subject to a three-year vesting with one third vesting each year on 1 April. All PSUs and RPSUs are subject to a one-year retention period as measured from the date of vesting. For the Statutory Board the lock-up period of the equity-linked instruments is five years. The 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. After IPO the fair value is based on the listed share price of NIBC Holding. This short-term compensation can be converted into cash immediately after the retention period and therefore is recognised as cash-settled.

Share plans

Common Depositary Receipts

	Depositary Receipt (in numbers)		Fair value at balance sheet date (in EUR)	
	2018	2017	**2018**	2017
Balance at 1 January	**2,083,120**	**2,083,120**		
CDRs converted from CCDRs	317,200	-		
Sold CDRs on date of IPO	(1,649,976)	-		
Investments from own funds under DRPP	419,582			
Granted (one-off retention package, 1st tranche)	217,395	-		
Decertification CDRs in ordinary shares[1]	(514,571)	-		
Balance at 31 December	**872,750**	**2,083,120**	**8.31**	**10.32**
Of which relates to investment from own funds at 31 December	**419,582**	**904,363**		

1 Former employees of NIBC requested in 2018 to transfer underlying ordinary shares of CDRs, not subject to any lock-up, to their own securities account.

Until the IPO the fair market value per CDR was calculated based on price-to-book ratios observed in the market at grant date based on net asset value (31 December 2017: EUR 10.32). After the IPO the fair value of CDRs is equal to the share price of NIBC Holding. The fair value at balance sheet date was EUR 8.31.

Conditional Common Depositary Receipts (CCDRs) and Conditional Restricted Depositary Receipts (CRDRs)
At year-end 2018, no CCDRs and CRDRs are outstanding to current Statutory Board members (CCDRs 2017: 49,534, CRDRs 2017: 21,254).

In 2017 it was decided that all unvested CRDRs outstanding at 1 January 2018 will vest immediately (accelerated vesting) into CCDRs. This applied to 3.558 CRDRs (net after tax basis) related to the cancellation of the Long Term Incentive arrangement for certain Statutory Board members.

According to the change of the Plan Rules in 2017, 317,200 (net after tax basis) outstanding CCDRs were released into CDRs in January 2018 of which 70,788 were held by current Statutory Board members.

	Conditional Common Depositary Receipts (in numbers)		Weighted average fair value at grant date (in EUR)	
	2018	2017	2018	2017
Changes in conditional common depositary receipts:				
Balance at 1 January	**287,905**	**268,812**	**9.06**	**9.11**
Vesting of one-off matching shares awarded in 2012 and 2014 on investment from own funds	14,138	14,138	8.28	8.28
Vesting of cancellation LTI arrangement in 2014	7,116	4,955	8.60	8.60
CCDRs from dividend compensation	8,041	-	10.32	-
CCDRs converted to CDRs	(317,200)	-	10.32	-
Balance at 31 December	**-**	**287,905**	**-**	**9.06**

Until the IPO the fair market value per CCDR was calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expecting dividends (31 December 2017: EUR 10.32).

	Conditional Restricted Depositary Receipts (in numbers)		Weighted average fair value at grant date (in EUR)	
	2018	2017	2018	2017
Changes in conditional restricted depositary receipts:				
Balance at 1 January	**21,254**	**43,138**	**8.39**	**8.39**
Forfeited	-	(2,791)	8.60	8.60
Vested into CCDRs	(21,254)	(19,093)	8.38	8.36
Balance at 31 December	**-**	**21,254**	**-**	**8.39**

Until the IPO the fair market value per CRDR was calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expecting dividends (31 December 2017: EUR 10.32).

Phantom Share Units

As at year-end 2018, 330,511 (2017: 256,765) PSUs had been issued to employees. The total outstanding position is cash-settled.

	Phantom Share Units (in numbers)		Weighted average fair value at grant date (in EUR)	
	2018	2017	**2018**	2017
Changes in phantom share units:				
Balance at 1 January	**256,765**	**225,012**	**9.03**	**8.34**
Granted	144,387	102,818	8.31	10.32
Vesting of RPSUs	57,478	39,067	8.36	8.63
Exercised	(128,119)	(108,201)	8.15	8.68
Forfeited	-	(1,931)	-	8.63
Balance at 31 December	**330,511**	**256,765**	**8.94**	**9.03**

Until the IPO the fair market value per PSU was 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 (31 December 2017: EUR 10.32). After the IPO the fair value of PSUs is equal to the share price of NIBC Holding. The fair value at balance sheet date was EUR 8,31.

Restricted Phantom Share Units

As at year end 2018, 245,612 (2017: 206,150) RPSUs had been issued to employees. The total outstanding position is cash-settled.

	Restricted Phantom Share Units (in numbers)		Weighted average fair value at grant date (in EUR)	
	2018	2017	**2018**	2017
Changes in restricted phantom share units:				
Balance at 1 January	**206,150**	**165,747**	**9.14**	**8.38**
Granted	118,177	85,731	8.31	10.32
Vesting of RPSUs	(57,478)	(39,067)	8.36	8.63
Forfeited	(21,237)	(6,261)	8.18	8.18
Balance at 31 December	**245,612**	**206,150**	**9.01**	**9.14**

Until the IPO the fair market value per RPSU was 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 (31 December 2017: EUR 10.32). After the IPO the fair value of PSUs is equal to the share price of NIBC Holding. The fair value at balance sheet date was EUR 8.31.

Result recognition

With respect to all instruments relating to NIBC Choice (CDRs, CCDRs, CRDRs, PSUs, RPSUs and deferred cash), an amount of EUR 8 million was expensed through personnel expenses in 2018 (2017: EUR 3 million), of which EUR 2 million (2017: EUR 3 million) refers to cash-settled instruments (deferred cash and vested PSUs) and 6 million (2017: nil) to equity-settled instruments (including fiscal discount borne by NIBC related to one-off retention package and DRPP).

With respect to the cash-settled instruments (PSUs, RPSUs and deferred cash), the amount expensed during the vesting period through the income statement is based on the number of instruments originally granted outstanding at balance sheet date, their fair value at balance sheet date, the vesting period and estimates of the number of instruments that will forfeit during the remaining vesting period. The liability in the balance sheet with respect to cash-settled instruments is EUR 5 million (2017: EUR 5 million).

With respect to the equity-settled instruments (CDRs, CCDRs and CRDRs), the amount expensed during the vesting period through the income statement is based on the number of instruments granted outstanding at balance sheet date, their fair value at grant date, the vesting period and estimates of the number of instruments that will forfeit during the remaining vesting period. The liability in the balance sheet relating to the cumulative expenses with respect to equity-settled instruments is EUR 2 million (2017: EUR 4 million).

The current account position with NIBC Holding includes a receivable related to the capital contribution received from NIBC Holding in relation to the granted equity settled NIBC Holding share-based instruments (NIBC Choice) by NIBC. The share-based expenses are borne by NIBC and the after payroll tax amounts were paid to the Foundation with subsequent delivery of CDRs and/or RDRs by the Foundation to the employees.

10 Other operating expenses

in EUR millions	2018	2017
Other operating expenses		
Building-, housing & services expenses	5	5
Car-, travel- and accommodation expenses	5	4
Project expenses & consultants	32	25
Control and supervision	3	3
Corporate brand, brochures, (re-)presentation expenses	5	5
General personal expenses	4	4
ICT expenses	17	22
Office costs	4	5
Other general expenses	20	19
Fees of external independent auditor	4	3
	99	**95**

In 2018 further investments were made to strengthen the IT landscape, which led to high spend on consultants to maintain a minimum operational level and to start outsourcing to a third party at the same time.

Audit fees 2018

in EUR thousands	External auditor	Other network	Other audit firms	Total
Fees of the external independent auditors:				
Audit of financial statements NIBC	2,500	-	-	2,500
Audit of financial statements Subsidiaries	524	361	95	980
Other audit-related services NIBC	103	-	2	105
Other audit-related services Subsidiaries	-	-	121	121
Other non-audit related services NIBC	-	-	37	37
Other non-audit related services Subsidiaries	-	-	-	-
	3,127	**361**	**255**	**3,743**

Audit fees 2017

in EUR thousands	External auditor	Other network	Other audit firms	Total
Fees of the external independent auditors:				
Audit of financial statements NIBC	2,249	-	-	2,249
Audit of financial statements Subsidiaries	476	150	-	626
Other audit-related services NIBC	-	-	-	-
Other audit-related services Subsidiaries	-	-	35	35
Other non-audit related services NIBC	-	38	192	230
Other non-audit related services Subsidiaries	-	66	-	66
	2,725	**254**	**227**	**3,206**

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 2018 and 2017 annual reports, as invoiced. The difference between the Audit fees 2018 in the table above and the reported Fees of the external independent auditor is the accrual related to the financial statements audit of 2018, amounting to EUR 0.8 million.

11 Depreciation and amortisation

in EUR millions	2018	2017
Property and equipment	5	5
	5	**5**

12 Regulatory charges and levies

in EUR millions	2018	2017
Resolution levy	5	4
Deposit Guarantee Scheme	10	10
	15	**14**

13 Credit loss expenses / (recovery)

Financial assets

in EUR millions	2018	2017
Financial assets at amortised cost/fair value through other comprehensive income		
Debt investments (see note 25)	(1)	(2)
Loans (see note 27)	63	35
Mortgage loans (see note 28)	(9)	-
Other	1	1
Total for on-balance sheet financial assets (in scope of ECL requirements)	**54**	**34**
Off-balance sheet financial instruments and credit lines		
Committed facilities with respect to mortgage loans (see note 28)	1	-
Irrevocable loan commitments (see note 39)	(1)	-
Total for off-balance sheet financial assets (in scope of ECL requirements)	**-**	**-**
	54	**34**

14 Tax

in EUR millions	2018	2017
Current tax	48	57
Deferred tax	(17)	(15)
	31	**42**

Further information on deferred tax is presented in note 33. 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	2018	2017
Tax reconciliation:		
Profit before tax	**272**	**255**
Tax calculated at the nominal Dutch corporate tax rate of 25.0% (2017: 25.0%)	68	64
Impact of income not subject to tax	(21)	(15)
Effect of different tax rates other countries	1	1
Actualisation including true-ups and revaluations[1]	(17)	(8)
	31	**42**

1 The EUR 17 million mainly consists of true up of prior year tax positions, Deferred tax assets temporary differences and revaluation of the Deferred tax assets losses carry forward.

The impact of income not subject to tax mainly relates to income from equity investments and investments in associates, in which NIBC has a stake of more than 5%, being income that is tax exempt under Dutch tax law. NIBC Bank N.V. is part of the fiscal entity with NIBC Holding N.V.

NIBC Bank N.V. is part of the fiscal entity with NIBC Holding N.V.

The effective tax rate for the year ended December 2018 was 11.3% (2017: 16.5%).

NIBC Holding N.V. is the parent company of NIBC Bank N.V., NIBC Investments N.V. and NIBC Investment Management N.V., which are all part of the same fiscal entity.

15 Cash and balances with central banks

in EUR millions	IFRS 9 2018	IAS 39 2017
Cash and balances with central banks (amortised cost)	2,056	1,604
	2,056	**1,604**
Cash and balances with central banks can be categorised as follows:		
Receivable on demand	1,896	1,445
Not receivable on demand	160	159
	2,056	**1,604**
Legal maturity analysis of cash and balances with central banks not receivable on demand:		
Three months or less	-	-
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	8	8
Longer than five years	-	-
Assets with central banks due to mandatory reserve deposits	152	151
	160	**159**

Cash and balances with central banks included EUR 1,502 million on the current account balance held with Dutch Central Bank (2017: EUR 1,224 million).

Balances held with central banks are interest-bearing.

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature of the underlying assets.

The total credit loss allowance for cash and balances with central banks is limited to stage 1, and amounts to nil (2017: nil).

16 Due from other banks

in EUR millions	*IFRS 9* **2018**	*IAS 39* *2017*
Current accounts	413	334
Deposits with other banks	155	628
	568	**962**
Due from other banks can be categorised as follows:		
Receivable on demand	413	334
Cash collateral placements posted under CSA agreements	155	627
Not receivable on demand	-	1
	568	**962**

There were no subordinated loans outstanding due from other banks in 2018 and 2017.

Cash collateral decreased to EUR 155 million in 2018 mainly caused by the transfer from *collatorised-to-markets* (**CTM**) to *settle-to-markets* (**STM**).

The interest income includes a positive amount of EUR 5 million related to the Targeted Long-Term Refinancing Operations programme (TLTRO II) of the ECB, as NIBC expects to meet the minimum net lending amount in the reference period, needed to receive the applicable discount rate of 40bps.

Due from other banks categorised as 'not receivable on demand' all have a legal maturity of three months or less on 31 December 2018.

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature of the underlying assets.

The total credit loss allowance for due from other banks is limited to stage 1, and amounts to nil (2017: nil).

17 Debt investments (fair value through profit or loss, including trading)

in EUR millions	*IFRS 9* **2018**	*IAS 39* *2017*
Held for trading (mandatory fair value through profit or loss)	77	31
	77	**31**
Held for trading and effect of adoption of IFRS 9:		
Balance at 1 January	**31**	**31**
Effect of adoption of IFRS 9 per 1 January 2018	59	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**90**	

The maximum exposure to credit risk without taking into account any collateral or other credit enhancement for this financial asset amounts to EUR 77 million as per 31 December 2018 (2017: EUR 31 million). This credit risk exposure is (partly) mitigated by the collateral held as security and other credit enhancements on these assets, for which the fair value amounts to nil as per 31 December 2018 (2017: nil).

18 Equity investments (fair value through profit or loss, including investments in associates)

in EUR millions	IFRS 9 2018	IAS 39 2017
Investments in associates	92	246
Other equity investments	93	39
Long position in listed and actively traded equities	2	2
	187	**287**

in EUR millions	IFRS 9 2018	IAS 39 2017
Held for trading and effect of adoption of IFRS 9:		
Balance at 1 January	**287**	**287**
Effect of adoption of IFRS 9 per 1 January 2018	36	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**323**	
Movement schedule of investments in associates:		
Balance at 1 January	**246**	**185**
Additions	9	5
Disposals	(238)	(5)
Changes in fair value	75	61
Balance at 31 December	**92**	**246**
Movement schedule of other equity investments:		
Balance at 1 January	**39**	**17**
Effect of adoption of IFRS 9 per 1 January 2018	36	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**75**	
Additions	41	30
Disposals	(22)	(7)
Changes in fair value	(2)	1
Other (including exchange rate differences)	1	(2)
Balance at 31 December	**93**	**39**
Movement schedule of long position in listed and actively traded equities:		
Balance at 1 January	**2**	**2**
Additions	114	62
Disposals	(113)	(63)
Other (including exchange rate differences)	(1)	1
Balance at 31 December	**2**	**2**

The traded equity investments have a maturity shorter than twelve months and the other equity investments longer than twelve months.

At the end of 2018 and 2017, all investments in associates and other equity instruments were unlisted. Other disclosure requirements for associates are presented in note 54 Principal subsidiaries and associates.

Long positions in listed and actively traded equities consist of trading positions. Additions and disposals relate to trading activities at NIBC Markets.

19 Loans (fair value through profit or loss)

in EUR millions	*IFRS 9* **2018**	*IAS 39* *2017*
Loans	148	181
	148	**181**
Legal maturity analysis of loans:		
Three months or less	1	-
Longer than three months but not longer than one year	31	-
Longer than one year but not longer than five years	93	47
Longer than five years	23	134
	148	**181**
Movement schedule of loans:		
Balance at 1 January	**181**	**210**
Effect of adoption of IFRS 9 per 1 January 2018	(82)	
Balance at 1 January 2018 after the adoption of IFRS 9	**99**	
Additions	101	-
Disposals	(46)	(24)
Changes in fair value	(6)	1
Other (including exchange rate differences)	-	(6)
Balance at 31 December	**148**	**181**

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 (at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to a loss of EUR 21 million (2017: EUR 8 million).

The portion of fair value changes in 2018 included in the balance sheet amount (at fair value through profit or loss) as at 31 December 2018 relating to the movement in credit spreads amounted to nil (2017: nil).

The maximum credit risk exposure including undrawn credit facilities amounted to EUR 187 million (2017: EUR 181 million).

The maximum exposure to credit risk without taking into account of any collateral or other credit enhancement for this financial asset amounts to EUR 187 million as per 31 December 2018 (2017: EUR 181 million). This credit risk exposure is mitigated by the collateral held as security and other credit enhancements on these assets, for which the fair value amounts as per 31 December 2018 to EUR 148 million (2017: EUR 181 million).

The most significant types of collateral securing these loans are tangible assets, such as real estate, vessels, rigs and equipment.

20 Mortgage loans (fair value through profit or loss)

in EUR millions	*IFRS 9* 2018	*IAS 39* 2017
Mortgage loans own book	-	4,581
	-	**4,581**
Legal maturity analysis of mortgage loans own book:		
Three months or less	-	15
Longer than three months but not longer than one year	-	26
Longer than one year but not longer than five years	-	87
Longer than five years	-	4,453
	-	**4,581**
Movement schedule of mortgage loans own book:		
Balance at 1 January	**4,581**	**4,124**
Effect of adoption of IFRS 9 per 1 January 2018	(4,581)	
Balance at 1 January 2018 after the adoption of IFRS 9	**-**	
Additions (including transfers from consolidated SPEs)	-	1,035
Disposals (sale and/or redemption, including replenishment of consolidated SPEs)	-	(570)
Changes in fair value	-	(8)
Balance at 31 December	**-**	**4,581**

Please refer to the IFRS 9 transition tables in the accounting policies section for details of the reclassification and measurement effect.

21 Securitised mortgage loans (fair value through profit or loss)

in EUR millions	*IFRS 9* **2018**	*IAS 39* *2017*
Securitised mortgage loans	-	338
	-	**338**
Legal maturity analysis of securitised mortgage loans:		
Three months or less	-	1
Longer than three months but not longer than one year	-	2
Longer than one year but not longer than five years	-	10
Longer than five years	-	325
	-	**338**
Movement schedule of securitised mortgage loans:		
Balance at 1 January	**338**	**1,550**
Effect of adoption of IFRS 9 per 1 January 2018	(338)	
Balance at 1 January 2018 after the adoption of IFRS 9	**-**	
Additions	-	-
Disposals (sale and/or redemption including transfers to own book)	-	(1,129)
Changes in fair value	-	(83)
Balance at 31 December	**-**	**338**

Please refer to the IFRS 9 transition tables in the accounting policies section for details of the reclassification and measurement effect.

22 Derivative financial instruments (fair value through profit or loss)

in EUR millions	*IFRS 9* **2018**	*IAS 39* *2017*
Derivative financial assets:		
Derivative financial assets used for hedge accounting	14	79
Derivative financial assets - other	565	942
	579	**1,021**
Derivative financial liabilities:		
Derivative financial liabilities used for hedge accounting	6	38
Derivative financial liabilities - other	204	825
	210	**863**

Derivative financial assets and liabilities used for hedge accounting are derivatives designated in hedge accounting relationships as defined in IAS 39.

The derivatives financial assets and liabilities in the category 'other' are classified as held for trading according to IAS 39.

The derivatives in this category consist of:
- Interest rate swaps to hedge the interest rate risk of the mortgage portfolio;
- Interest rate swaps to transform fixed rate funding into floating rate funding;

- FX and cross-currency swaps to fund the non-euro loans to customers or to transform non-euro funding into euros;
- Client-driven derivative transactions and hedges resulting from this activity;
- Limited money market trading.

Economically all these derivatives, with the exception of the limited money market trading, are used to hedge interest rate or FX risk. The limited money market trading is controlled by a small facilitating VAR limit of EUR 2.25 million. For further details see note 59 Market risk (Key risk statistics Trading portfolio excluding NIBC Markets).

Sources of ineffectiveness are the behavior of the curve shift, the volatility of the basis spread over the curve and the distribution of cash flows of assets and liabilities compared to the hedging derivatives.

Derivative financial instruments used for hedge accounting at 31 December 2018

Hedge accounting - fair value hedges

The following table provides information about the hedging instruments included in the derivative financial instruments line items of NIBC's consolidated balance sheet.

	Carrying amount	
in EUR millions	Assets	Liabilities
Micro fair value hedges		
Interest rate swaps	5	-
	5	**-**
Portfolio fair value hedges		
Interest rate swaps	9	6
	9	**6**

In the following table, NIBC sets out the accumulated fair value adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

		Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items	
in EUR millions	Hedged items	Assets	Liabilities	Assets	Liabilities
Micro fair value hedges					
Micro fair value hedge of plain vanilla funding	Own debt securities in issue at AC	-	1,823	-	7
Micro fair value hedge of the Liquidity portfolio debt investments	Debt investments at FVOCI	56	-	-	-
		56	**1,823**	**-**	**7**
Portfolio fair value hedges					
Portfolio fair value hedge of loans	Loans at AC	54	-	7	-
Portfolio fair value hedge of plain vanilla funding	Own debt securities in issue at AC	-	70	-	12
Portfolio fair value hedge of Assets & Liabilities	Deposits from customers and Mortgage loans	1,793	333	43	(2)
		1,847	**403**	**50**	**10**
		1,903	**2,226**	**50**	**17**

The following table sets out the changes in the fair value of the hedged items and hedging instruments in the current year, used as the basis for recognising ineffectiveness.

in EUR millions	Gains/(losses) attributable to the hedged risk		
Hedged items (hedge instruments)	Hedged items	Hedging instruments	Hedge ineffectiveness
Micro fair value hedge relationships hedging assets			
Micro fair value hedge of the Liquidity portfolio debt investments (interest rate swaps)	-	-	-
	-	**-**	**-**
Micro fair value hedge relationships hedging liabilities			
Micro fair value hedge of plain vanilla funding (interest rate swaps)	(15)	11	(4)
	(15)	**11**	**(4)**
Total micro fair value hedge	**(15)**	**11**	**(4)**

in EUR millions	Gains/(losses) attributable to the hedged risk		
Hedged items (hedge instruments)	Hedged items	Hedging instruments	Hedge ineffectiveness
Portfolio fair value hedges hedging assets			
Portfolio fair value hedge of assets (interest rate swaps)	42	(35)	7
	42	**(35)**	**7**
Portfolio fair value hedges hedging liabilities			
Portfolio fair value hedge of plain vanilla funding (interest rate swaps)	1	(1)	-
Portfolio fair value hedge of liabilities (interest rate swaps)	(1)	1	-
	-	**-**	**-**
Total portfolio fair value hedge	**42**	**(35)**	**7**

Hedge accounting - cash flow hedges

The following table sets out the outcome of NIBC's hedging strategy, in particular, the notional and the carrying amounts of the derivatives NIBC uses as hedging instruments and the their changes in fair values used for measuring hedge ineffectiveness separately showing the effective and ineffective portions.

	Carrying value[1]		Changes in fair value of hedging instruments used for measuring hedge ineffectiveness			Reclassified into income statement as	
			In total	Effective portion	Hedge ineffectiveness		
in EUR millions	Assets	Liabilities		Recognised in OCI	Recognised in the income statement in gains or (losses) from assets and liabilities at FVtPL	Interest expense calculated using the effective interest method	Gains or (losses) from assets and liabilities at FVtPL
Cash flow hedges							
Interest rate swaps	-	-	3	(2)	(1)	-	-
	-	**-**	**3**	**(2)**	**(1)**	**-**	**-**

1 The underlying hedged item of the cash flow hedges are Corporate Loans.

in EUR millions	Change in fair value of hedged item in the year used for ineffectiveness measurement	Cash flow hedge reserve	
		Continuing hedges	Discontinued hedges
Cash flow hedges			
Floating rate notes	2	(7)	(19)
	2	**(7)**	**(19)**

Hedge accounting impact on equity

in EUR millions	Cash flow hedging reserve
Opening balance as at 1 January 2018	**(40)**
Cash flow hedges	
Effective portion of changes in fair value arising from:	
Cross currency interest rate swaps	-
Interest rate swaps	2
Net amount reclassified to profit or loss into	
Other interest expense	9
Gains or (losses) from assets and liabilities at FVtPL	3
Closing balance as at 31 December 2018	**(26)**

At year-end 2018 the cash flow hedge reserve consists of an amount of EUR 7 million relating to continuing hedges and an amount of EUR 19 million to hedging relationships for which hedge accounting is no longer applied.

in EUR millions	Notional amount with remaining life of			Total	Carrying value	
	Less than three months	Between three months and one year	More than one year		Assets	Liabilities
Derivatives accounted for as fair value hedges of interest rate risk						
OTC products:						
Average fixed rate	-	2%	1%	1%		
Interest rate swaps	-	1,021	4,165	5,186	14	6
	-	**1,021**	**4,165**	**5,186**	**14**	**6**
Derivatives accounted for as cash flow hedges of interest rate risk						
OTC products:						
Average fixed rate	-	-	2%	2%		
Interest rate swaps	-	-	156	156	-	-
	-	**-**	**156**	**156**	**-**	**-**
Total derivatives used for hedge accounting	**-**	**1,021**	**4,321**	**5,342**	**14**	**6**

Derivative financial instruments used for hedge accounting at 31 December 2017

Hedge accounting - fair value hedges

The following table provides information about the hedging instruments included in the derivative financial instruments line items of NIBC's consolidated balance sheet.

in EUR millions	Notional amount with remaining life of Less than three months	Between three months and one year	More than one year	Total	Carrying value Assets	Liabilities
Derivatives accounted for as fair value hedges of interest rate risk						
OTC products:						
Average fixed rate	2%	1%	1%	1%		
Interest rate swaps	1	1,845	8,049	9,895	60	40
Interest currency rate swaps	-	-	17	17	5	-
	1	**1,845**	**8,066**	**9,912**	**65**	**40**
Derivatives accounted for as cash flow hedges of interest rate risk						
OTC products:						
Average fixed rate	1%	1%	1%	1%		
Interest rate swaps	95	25	479	599	14	(2)
	95	**25**	**479**	**599**	**14**	**(2)**
Total derivatives used for hedge accounting	**96**	**1,870**	**8,545**	**10,511**	**79**	**38**

Derivative financial instruments - other at 31 December 2018

in EUR millions	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Carrying value: Assets	Liabilities
Interest rate derivatives						
OTC products:						
Interest rate swaps[1]	965	3,451	15,564	19,980	464	100
Interest rate options (purchase)	100	116	896	1,112	1	-
Interest rate options (sale)	100	38	853	991	-	-
	1,165	**3,605**	**17,313**	**22,083**	**465**	**100**
Currency derivatives						
OTC products:						
Interest currency rate swaps	264	770	1,616	2,650	68	66
Currency/cross-currency swaps	100	-	-	100	1	2
	364	**770**	**1,616**	**2,750**	**69**	**68**
Other derivatives (including credit derivatives)						
OTC products:						
Credit default swaps (guarantees received)	-	-	4	4	-	1
Other swaps	-	-	40	40	31	35
	-	**-**	**44**	**44**	**31**	**36**
Total derivatives - other	**1,529**	**4,375**	**18,973**	**24,877**	**565**	**204**

1 The relatively significant notional amount of these derivatives can largely be explained by past market practice, when it used to be more beneficial to hedge interest rate risk by entering into a new swap position rather than to unwind existing swaps.

Derivative financial instruments - other at 31 December 2017

in EUR millions	Notional amount with remaining life of			Total	Carrying value	
	Less than three months	Between three months and one year	More than one year		Assets	Liabilities
Interest rate derivatives						
OTC products:						
Interest rate swaps[1]	1,206	3,474	19,943	24,623	709	771
Interest rate options (purchase)	333	278	431	1,042	2	-
Interest rate options (sale)	350	294	446	1,090	-	1
	1,889	**4,046**	**20,820**	**26,755**	**711**	**772**
Currency derivatives						
OTC products:						
Interest currency rate swaps	328	787	1,901	3,016	200	15
Currency/cross-currency swaps	190	-	-	190	1	2
	518	**787**	**1,901**	**3,206**	**201**	**17**
Other derivatives (including credit derivatives)						
OTC products:						
Credit default swaps (guarantees received)	4	-	-	4	-	1
Other swaps	-	-	14	14	30	35
	4	**-**	**14**	**18**	**30**	**36**
Total derivatives - other	**2,411**	**4,833**	**22,735**	**29,979**	**942**	**825**

1 The relatively significant notional amount of these derivatives can largely be explained by past market practice, when it used to be more beneficial to hedge interest rate risk by entering into a new swap position rather than to unwind existing swaps.

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	*IFRS 9* 2018	*IAS 39* 2017
Fair value pay - fixed swaps (hedging assets) | assets	-	(2)
Fair value pay - fixed swaps (hedging assets) | liabilities	(6)	(37)
	(6)	**(39)**
Fair value pay - floating swaps (hedging liabilities) | assets	14	66
Fair value pay - floating swaps (hedging liabilities) | liabilities	-	(3)
	14	**63**

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	IFRS 9 2018	IAS 39 2017
Fair value receive - fixed swaps | assets	-	15
Fair value receive - fixed swaps | liabilities	-	2
	-	**17**
Fair value receive - floating swaps | assets	-	-
Fair value receive - floating swaps | liabilities	-	-
	-	**-**

The average remaining maturity (in which the related cash flows are expected to enter into the determination of profit or loss) is six years (2017: four years).

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 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 2018 was EUR 7 million debit (2017: EUR 16 million debit). The losses on the hedging instruments were EUR 1 million (2017: EUR 2 million). The gains on the hedged items attributable to the hedged risk were EUR 1 million (2017: 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 Assets & Liabilities

According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate asset and liability activities such as mortgages and retail deposits above certain limits prescribed by the ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on these primairly fixed rate mortgages and retail deposits. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the assets and liabilities with a contractual duration longer than three months and the corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2018 was EUR 1 million debit (2017: EUR 29 million credit). The losses on the hedging instruments were EUR 34 million (2017: gain of EUR 35 million). The gains on the hedged items attributable to the hedged risk were EUR 41 million (2017: loss of EUR 36 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness and hedging of committed facilities with respect to mortgage loans.

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 2018 was EUR 5 million debit (2017: EUR 30 million debit). The gains on the hedging instruments were EUR 11 million (2017: loss of EUR 34 million). The losses on the hedged items attributable to the hedged risk were EUR 15 million (2017: gain of EUR 31 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 2018 was EUR 5 million credit (2017: EUR 9 million credit). Gains on the hedging instruments were EUR 1 million (2017: gain of EUR 3 million). The losses on the hedged items attributable to the hedged risk were nil (2017: loss of 2 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

Micro fair value hedge accounting of the Liquidity portfolio debt investments

According to NIBC's hedging policy, NIBC should not be exposed to fair value interest rate risk from its fixed rate debt investments held in the Liquidity portfolios above certain limits prescribed by ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate debt investments. To mitigate any accounting mismatches, NIBC has defined a micro fair value hedge for fixed rate debt investments and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2018 was nil. (2017: nil). The losses on the hedging instruments were nil (2017: nil). The gains on the hedged items attributable to the hedged risk were nil (2017: 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 nil (2017: EUR 17 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 six years. In 2018 the ineffectiveness recognised in the income statement that arose from cash flow hedges was a loss of EUR 1 million (2017: loss of EUR 5 million).

Some macro cash flow hedging relationships ceased to exist during 2018 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 2018 was EUR 2 million debit (2017: EUR 10 million debit). The amount that was transferred from equity to the income statement in 2018 was a gain of EUR 12 million net of tax (2017: gain of EUR 7 million).

23 Debt investments (available-for-sale)

in EUR millions	IFRS 9 2018	IAS 39 2017
Debt investments	-	823
	-	**823**

For 2017, all debt investments are non-government, except for EUR 38 million.

in EUR millions	IFRS 9 2018	IAS 39 2017
Debt investments analysed by listing:		
Listed	-	808
Unlisted	-	15
	-	**823**
Legal maturity analysis of debt investments:		
Three months or less	-	7
Longer than three months but not longer than one year	-	89
Longer than one year but not longer than five years	-	636
Longer than five years	-	91
	-	**823**
Movement schedule of debt investments:		
Balance at 1 January	**823**	**1,028**
Effect of adoption of IFRS 9 per 1 January 2018	(823)	
Balance at 1 January 2018 after the adoption of IFRS 9	**-**	
Additions	-	276
Disposals	-	(462)
Changes in fair value	-	6
Other (including exchange rate differences)	-	(25)
Balance at 31 December	**-**	**823**
Movement schedule of impairment losses on debt investments:		
Balance at 1 January	**4**	**11**
Effect of adoption IFRS 9 - reclassification	(4)	
Balance at 1 January 2018 after the adoption of IFRS 9	**-**	
Write-offs	-	(7)
Balance at 31 December	**-**	**4**

Please refer to the IFRS 9 transition tables in the accounting policies section for details of the reclassification and measurement effect.

24 Equity investments (available-for-sale)

in EUR millions	IFRS 9 2018	IAS 39 2017
Equity investments	-	36
	-	**36**
Movement schedule of equity investments:		
Balance at 1 January	**36**	**41**
Effect of adoption of IFRS 9 per 1 January 2018	(36)	
Balance at 1 January 2018 after the adoption of IFRS 9	**-**	
Additions	-	-
Disposals (sales and/or capital repayments)	-	(3)
Impairments	-	-
Changes in fair value	-	(1)
Other (including exchange rate differences)	-	(1)
Balance at 31 December	**-**	**36**
Movement schedule of impairment losses on equity investments:		
Balance at 1 January	**73**	**79**
Effect of adoption IFRS 9 - reclassification	(73)	
Balance at 1 January 2018 after the adoption of IFRS 9	**-**	
Additions allowances	-	-
Write-offs	-	-
Other (including exchange rate differences)	-	(6)
Balance at 31 December	**-**	**73**

Please refer to the IFRS 9 transition tables in the accounting policies section for details of the reclassification and measurement effect.

25 Debt investments (fair value through other comprehensive income)

in EUR millions	IFRS 9 2018	IAS 39 2017
Debt investments	788	-
	788	**-**

For 2018, all debt investments are non-government, except for EUR 39 million.

in EUR millions	IFRS 9 2018	IAS 39 2017
Listed	775	-
Unlisted	13	-
	788	**-**
Legal maturity analysis of debt investments:		
Three months or less	19	-
Longer than three months but not longer than one year	75	-
Longer than one year but not longer than five years	645	-
Longer than five years	49	-
	788	**-**

The debt investments (FVOCI) relate to the liquidity portfolio for which the low credit risk exemption is applied

The following table shows the credit quality and the maximum exposure to credit risk based on NIBC's internal credit rating system and year-end stage classification. Details of NIBC's internal grading system are in explained in note 57 Credit Risk.

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	IFRS 9 Total 2018	IAS 39 Total 2017
Internal rating grade						
Investment	784	-	-	-	784	
Sub-investment	-	-	-	-	-	
Sub-investment (highly vulnerable)	-	4	-	-	4	
	784	**4**	**-**	**-**	**788**	**-**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	IFRS 9 Total 2018	IAS 39 Total 2017
Movement schedule of carrying value debt investments:						
Balance at 1 January					**-**	**-**
Effect of adoption of IFRS 9 per 1 January 2018					664	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**660**	**4**	**-**	**-**	**664**	
New financial assets originated or purchased	391	-	-	-	391	-
Financial assets that have been derecognised	(263)	-	-	-	(263)	-
Changes in fair value	(6)	-	-	-	(6)	-
Foreign exchange and other movements	2	-	-	-	2	-
Balance at 31 December	**784**	**4**	**-**	**-**	**788**	**-**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	*IFRS 9* Total 2018	*IAS 39* Total 2017
Movement schedule of credit loss allowances on debt investments:						
Balance at 1 January					**-**	**-**
Effect of adoption IFRS 9 - expected loss impairment model					1	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**1**	**-**	**-**	**-**	**1**	
Movements with impact on credit loss allowances of financial assets in the income statement						
New financial assets originated or purchased	-	-	-	-	-	-
Financial assets that have been derecognised	(1)	-	-	-	(1)	-
Movements with impact on credit loss allowances of financial assets in the income statement	**(1)**	**-**	**-**	**-**	**(1)**	**-**
Balance at 31 December	**-**	**-**	**-**	**-**	**-**	**-**

There are no contractual amounts outstanding on debt investments that were written off and are still subject to enforcement activity for 2018 and 2017.

26 Debt investments (amortised cost)

in EUR millions	*IFRS 9* 2018	*IAS 39* 2017
Debt investments	-	59
	-	**59**
Legal maturity analysis of debt investments:		
Three months or less	-	-
Longer than three months but not longer than one year	-	9
Longer than one year but not longer than five years	-	8
Longer than five years	-	42
	-	**59**

All debt investments at amortised cost in 2017 are listed.

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	*IFRS 9* Total 2018	*IAS 39* Total 2017
Movement schedule of carrying value debt investments:						
Balance at 1 January					**59**	**287**
Effect of adoption of IFRS 9 per 1 January 2018					104	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**163**	**-**	**-**	**-**	**163**	
New financial assets originated or purchased	-	-	-	-	-	4
Financial assets that have been derecognised	(163)	-	-	-	(163)	(233)
Net remeasurement of loss allowance	-	-	-	-	-	2
Foreign exchange and other movements	-	-	-	-	-	(1)
Balance at 31 December	**-**	**-**	**-**	**-**	**-**	**59**

The derecognition of financial assets in the previous table reflects the sale of one USD asset (EUR 163 million).

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	*IFRS 9* Total 2018	*IAS 39* Total 2017
Movement schedule of credit loss allowances on debt investments:						
Balance at 1 January					**20**	**43**
Effect of adoption IFRS 9 - reclassification					(20)	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**-**	**-**	**-**	**-**	**-**	
Movements with no impact on credit loss allowances of financial assets in the income statement						
Write-offs	-	-	-	-	-	(21)
Movements with no impact on credit loss allowances of financial assets in the income statement	**-**	**-**	**-**	**-**	**-**	**(21)**
Movements with impact on credit loss allowances of financial assets in the income statement						
Net remeasurement of loss allowance	-	-	-	-	-	(2)
Movements with impact on credit loss allowances of financial assets in the income statement	**-**	**-**	**-**	**-**	**-**	**(2)**
Balance at 31 December	**-**	**-**	**-**	**-**	**-**	**20**

There are no contractual amounts outstanding on debt investments that were written off and are still subject to enforcement activity for 2018 and 2017.

27 Loans (amortised cost)

in EUR millions	*IFRS 9* 2018	*IAS 39* 2017
Loans	7,052	7,185
Loans on group companies	665	475
Lease receivables	53	89
	7,770	**7,749**
Legal maturity analysis of loans:		
Three months or less	526	419
Longer than three months but not longer than one year	634	872
Longer than one year but not longer than five years	4,831	4,463
Longer than five years	1,726	1,906
	7,717	**7,660**

NIBC believes that the legal maturity analysis based upon the earliest contractual cash flows best represents the short and long term nature of the cash flows. The contractual maturity may be extended over a longer period. The expected prepayments within the coming twelve months varies in the range between 9% and 21% of the outstanding exposure.

The following table shows the credit quality and the maximum exposure to credit risk based on NIBC's internal credit rating system and year-end stage classification. Details of NIBC's internal grading system are explained in note 57 Credit Risk.

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	*IFRS 9* Total 2018	*IAS 39* Total 2017
Internal rating grade of loans:						
Investment	1,152	-	-	-	1,152	
Sub-investment	4,847	794	-	-	5,641	
Default	-	-	277	1	278	
Default grade (bankruptcy filing)	-	-	4	-	4	
Unrated	587	55	-	-	642	
	6,586	**849**	**281**	**1**	**7,717**	

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	*IFRS 9* Total 2018	*IAS 39* Total 2017
Movement schedule of carrying value loans:						
Balance at 1 January					**7,660**	**8,269**
Effect of adoption of IFRS 9 per 1 January 2018					72	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**6,391**	**1,114**	**227**	**-**	**7,732**	
Reclassification to lease receivables	-	-	-	-	-	(89)
New financial assets originated or purchased	2,631	61	8	5	2,705	2,036
Financial assets that have been derecognised	(2,286)	(355)	(155)	-	(2,796)	(2,232)
Write-offs	-	1	47	-	48	
Recoveries of amounts previously written off	-	-	1	-	1	
Net remeasurement of loss allowance	1	(9)	(36)	(4)	(48)	
Foreign exchange and other movements	53	21	3	-	77	(324)
Transfers:					-	
Transfer from stage 1 to stage 2	(449)	446	-	-	(3)	
Transfer from stage 1 to stage 3	(17)	-	17	-	-	
Transfer from stage 2 to stage 1	262	(261)	-	-	1	
Transfer from stage 2 to stage 3	-	(233)	233		-	
Transfer from stage 3 to stage 2	-	64	(64)	-	-	
Balance at 31 December	**6,586**	**849**	**281**	**1**	**7,717**	**7,660**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	*IFRS 9* Total 2018	*IAS 39* Total 2017
Movement schedule of credit loss allowances on loans:						
Balance at 1 January					**146**	**179**
Effect of adoption IFRS 9 - reclassification					(4)	
Effect of adoption IFRS 9 - expected loss impairment model					8	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**9**	**16**	**125**	**-**	**150**	
Movements with no impact on credit loss allowances of financial assets in the income statement						
Transfers:						
Transfer from stage 2 to stage 3	-	(12)	12	-	-	
Write-offs	-	-	(47)	-	(47)	(74)
Unwind of discount due to passage of time stage 3 within interest income	-	-	(10)	-	(10)	(7)
Foreign exchange and other movements	-	-	7	-	7	(9)
Movements with no impact on credit loss allowances of financial assets in the income statement	**-**	**(12)**	**(38)**	**-**	**(50)**	**(90)**
Movements with impact on credit loss allowances of financial assets in the income statement						
New financial assets originated or purchased	5	2	-	-	7	61
Financial assets that have been derecognised	(3)	(1)	-	-	(4)	(11)
Net remeasurement of loss allowance	(1)	9	36	4	48	
Unwind of discount due to passage of time stage 1 and stage 2	-	-	10	-	10	7
Transfers:						
Transfer from stage 1 to stage 2	(2)	5	-	-	3	
Transfer from stage 2 to stage 1	1	(2)	-	-	(1)	
Movements with impact on credit loss allowances of financial assets in the income statement	**-**	**13**	**46**	**4**	**63**	**57**
Balance at 31 December	**9**	**17**	**133**	**4**	**163**	**146**

The compensating effect of collateral for credit losses in stage 3 relating to corporate loan exposure amounts to EUR 206 million.

There are no contractual amounts outstanding on loans that were written off and are still subject to enforcement activity for 2018 and 2017.

The maximum credit risk exposure including undrawn credit facilities arising on loans at amortised cost amounted to EUR 9,275 million (2017: EUR 9,372 million).

The total amount of subordinated loans in this item amounted to EUR 146 million in 2018 (2017: EUR 128 million).

As per 31 December 2018, EUR 21 million (2017: EUR 32 million) was guaranteed by the Dutch State.

in EUR millions	*IFRS 9* **2018**	*IAS 39* *2017*
Legal maturity analysis of gross investment in lease receivables financing:		
One year or less	48	34
Longer than one year but no longer than five years	5	56
Longer than five years	-	-
	53	**90**
Unearned future finance income on finance leases	-	1
Net investment in finance leases	**53**	**89**
Legal maturity analysis of net investment in lease receivables financing:		
One year or less	48	3
Longer than one year but no longer than five years	5	86
Longer than five years	-	
	53	**89**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	*IFRS 9* Total 2018	*IAS 39* Total 2017
Movement schedule of carrying value on lease receivables:						
Balance at 1 January					**89**	**-**
Effect of adoption of IFRS 9 per 1 January 2018					-	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**89**	**-**	**-**	**-**	**89**	
Reclassification from loans	-	-	-	-	-	89
Financial assets that have been derecognised	(36)	-	-	-	(36)	-
Balance at 31 December	**53**	**-**	**-**	**-**	**53**	**89**

28 Mortgage loans (amortised cost)

in EUR millions	IFRS 9 2018	IAS 39 2017
Owner occupied mortgage loans	8,358	3,795
Buy-to-Let mortgage loans	632	617
	8,990	**4,412**
Legal maturity analysis of mortgage loans:		
Three months or less	18	-
Longer than three months but not longer than one year	23	1
Longer than one year but not longer than five years	114	4
Longer than five years	8,835	4,407
	8,990	**4,412**

NIBC believes that the legal maturity analysis based upon the earliest contractual cash flows best represents the short and long term nature of the cash flows. The contractual maturity may be extended over a longer period. The expected prepayments within the coming twelve months varies in the range between 7% and 15% of the outstanding exposure.

The following table shows the credit quality and the maximum exposure to credit risk based on NIBC's internal credit rating system and year-end stage classification. Details of NIBC's internal grading system are explained in note 57 Credit Risk.

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	IFRS 9 Total 2018	IAS 39 Total 2017
Probability of default						
<= 1%	8,786	43	-	-	8,829	
1%> <=2%	34	-	-	-	34	
2%> <=5%	17	2	-	-	19	
5%> <100%	54	27	-	-	81	
100%	-	10	17	-	27	
Unrated	-	-	-	-	-	
	8,891	**82**	**17**	**-**	**8,990**	**-**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	*IFRS 9* Total 2018	*IAS 39* Total 2017
Movement schedule of carrying value mortgage loans:						
Balance at 1 January					**4,412**	**3,346**
Effect of adoption of IFRS 9 per 1 January 2018					4,259	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**8,541**	**99**	**31**	**-**	**8,671**	
New financial assets originated or purchased (including transfers from consolidated SPEs)	2,003	10	1	-	2,014	1,498
Financial assets that have been derecognised (sale and/or redemption, including replenishment of consolidated SPEs)	(1,667)	(24)	(11)	-	(1,702)	(432)
Net remeasurement of loss allowance	8	-	(1)	-	7	
Transfers:					-	
Transfer from stage 1 to stage 2	(22)	21	-	-	(1)	
Transfer from stage 1 to stage 3	(5)	-	6		1	
Transfer from stage 2 to stage 3	-	(1)	1	-	-	
Transfer from stage 3 to stage 2	-	1	(1)	-	-	
Transfer from stage 3 to stage 1	9	-	(9)	-	-	
Transfer from stage 2 to stage 1	24	(24)	-	-	-	
Balance at 31 December	**8,891**	**82**	**17**	**-**	**8,990**	**4,412**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	*IFRS 9* Total 2018	*IAS 39* Total 2017
Movement schedule of credit loss allowances on mortgage loans:						
Balance at 1 January					**2**	**2**
Effect of adoption IFRS 9 - reclassification					46	
Effect of adoption IFRS 9 - expected loss impairment model					13	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**6**	**2**	**7**	**-**	**61**	
Movements with no impact on credit loss allowances of financial assets in the income statement						
Transfers:						
Transfer from stage 2 to stage 3	-	(2)	2	-	-	
Transfer from stage 3 to stage 2	-	3	(3)	-	-	
Transfer from stage 3 to stage 1	4	-	(4)	-	-	
Write-offs	-	-	-	-	(46)	-
Movements with no impact on credit loss allowances of financial assets in the income statement	**4**	**1**	**(5)**	**-**	**(46)**	**-**
Movements with impact on credit loss allowances of financial assets in the income statement						
New financial assets originated or purchased	4	-	-	-	4	-
Financial assets that have been derecognised	(3)	-	(1)	-	(4)	-
Net remeasurement of loss allowance	(8)	-	-	-	(8)	-
Transfers:						
Transfer from stage 1 to stage 2	(1)	1	-	-	-	
Transfer from stage 2 to stage 1	3	(3)	-	-	-	
Movements with impact on credit loss allowances of financial assets in the income statement	**(5)**	**(2)**	**(1)**	**-**	**(8)**	**-**
Balance at 31 December	**5**	**1**	**1**	**-**	**7**	**2**

Relating to committed facilities with respect to mortgage loans a credit loss of EUR 1 million has been recognised in 2018.

The contractual amount outstanding on mortgage loans that were written off and are still subject to enforcement activity amounts to EUR 46 million (2017: EUR 47 million).

The maximum credit exposure including committed but undrawn facilities was EUR 9,743 million at 31 December 2018 (31 December 2017: EUR 4,799 million).

29 Securitised mortgage loans (amortised cost)

in EUR millions	*IFRS 9* 2018	*IAS 39* 2017
Securitised mortgage loans	461	-
	461	**-**
Legal maturity analysis of securitised mortgage loans:		
Three months or less	-	-
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	-	-
Longer than five years	461	-
	461	**-**

The following table shows the credit quality and the maximum exposure to credit risk based on NIBC's internal credit rating system and year-end stage classification. Details of NIBC's internal grading system are explained in note 57 Credit Risk.

in EUR millions	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	*IFRS 9* Total 2018	*IAS 39* Total 2017
Internal rating grade						
<= 1%	459	1	-	-	460	
1%> <=2%	-	-	-	-	-	
2%> <=5%	-	-	-	-	-	
5%> <100%	1	-	-	-	1	
100%	-	-	-	-	-	
Unrated	-	-	-	-	-	
	460	**1**	**-**	**-**	**461**	**-**

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	*IFRS 9* Total 2018	*IAS 39* Total 2017
Movement schedule of carrying value securitised mortgage loans:						
Balance at 1 January					**-**	
Effect of adoption of IFRS 9 per 1 January 2018					317	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**314**	**2**	**1**	**-**	**317**	
New financial assets originated or purchased (including transfers from consolidated SPEs)	521	-	-	-	521	
Financial assets that have been derecognised (sale and/or redemption, including replenishment of consolidated SPEs)	(375)	(1)	(1)	-	(377)	
Transfers:						
Transfer from stage 1 to stage 2	(1)	1	-	-	-	
Transfer from stage 1 to stage 3	(1)	-	1	-	-	
Transfer from stage 3 to stage 1	1	-	(1)	-	-	
Transfer from stage 2 to stage 1	1	(1)	-	-	-	
Balance at 31 December	**460**	**1**	**-**	**-**	**461**	**-**

In 2018 no expected credit losses were recognised.

30 Investments in associates and joint ventures (equity method)

in EUR millions	*IFRS 9* 2018	*IAS 39* 2017
Investments in associates	9	7
Investments In joint ventures	3	3
	12	**10**
Movement schedule of investments in associates:		
Balance at 1 January	**7**	**7**
Purchases and additional payments	3	1
Disposals	(1)	(1)
Balance at 31 December	**9**	**7**
Movement schedule of joint ventures:		
Balance at 1 January	**3**	**-**
Purchases and additional payments	-	3
Balance at 31 December	**3**	**3**

At the end of 2018 and 2017, all investments in associates and joint ventures were unlisted.

There is no unrecognised share of losses of an associate, either for the period or cumulatively.

The cumulative impairment losses amounted to nil for 2018 and 2017.

Other disclosure requirements for associates which are equity accounted are included in note 54 Principal subsidiaries and associates.

31 Property and equipment

in EUR millions	IFRS 9 2018	IAS 39 2017
Land and buildings	42	41
Other fixed assets	2	3
	44	**44**
Movement schedule of land and buildings:		
Balance at 1 January	**41**	**40**
Additions	4	2
Revaluation	-	2
Depreciation	(3)	(3)
Impairments	-	-
Disposals	-	-
Balance at 31 December	**42**	**41**
Gross carrying amount	105	101
Accumulated depreciation	(63)	(60)
Accumulated impairments	-	-
	42	**41**
Movement schedule of revaluation surplus:		
Balance at 1 January	**11**	**11**
Revaluation	-	2
Depreciation	(1)	(2)
Balance at 31 December	**10**	**11**
Movement schedule of other fixed assets:		
Balance at 1 January	**3**	**4**
Additions	1	1
Revaluation	-	-
Depreciation	(2)	(2)
Impairments	-	-
Disposals	-	-
Balance at 31 December	**2**	**3**
Gross carrying amount	28	28
Accumulated depreciation	(26)	(25)
Accumulated impairments	-	-
	2	**3**

NIBC's land and buildings in own use were revalued as of 31 December 2017 based on an external appraisal (a valuation is carried out at least every three years).

Buildings in use by NIBC are insured for EUR 81 million (2017: EUR 75 million). Other fixed assets are insured for EUR 24 million (2017: EUR 37 million).

The fair value of the property, plant and equipment does not materially deviates from the carrying amount.

32 Current tax

in EUR millions	IFRS 9 2018	IAS 39 2017
Current tax assets	2	1
	2	**1**

in EUR millions	IFRS 9 2018	IAS 39 2017
Current tax liabilities	1	1
	1	**1**

It is expected that the current tax will be settled within 12 months.

33 Deferred tax

in EUR millions	IFRS 9 2018	IAS 39 2017
Deferred tax assets	8	8
Deferred tax liabilities	7	4
	1	**4**
Amounts of deferred income tax assets, without taking into consideration the offsetting of balances within the same jurisdiction:		
Debt investments	1	9
Tax losses carried forward	8	7
	9	**16**
Amounts of deferred income tax liabilities, without taking into consideration the offsetting of balances within the same jurisdiction:		
Equity investments	-	1
Cash flow hedges	6	10
Property and equipment	-	-
Temporary tax differences	2	1
	8	**12**
	1	**4**

in EUR millions	IFRS 9 2018	IAS 39 2017
Gross movement on the deferred income tax account may be summarised as follows:		
Balance at 1 January	**4**	**(3)**
Debt investments:		
Fair value remeasurement charged/(credited) to revaluation reserve	(8)	6
Equity investments:		
Fair value remeasurement charged/(credited) to revaluation reserve	1	1
Cash flow hedges:		
Fair value remeasurement charged/(credited) to hedging reserve	4	5
Property and equipment (reported at fair value):		
Fair value remeasurement charged/(credited) to revaluation reserve	-	4
Temporary tax differences		
IFRS - HGB deferred tax	(1)	-
Tax losses carried forward	1	(9)
Balance at 31 December	**1**	**4**

Deferred tax assets and liabilities are measured for all temporary differences using the liability method.

Deferred tax assets recognised in respect of carry forward losses can only be utilized if taxable profits are realised in the future. To measure deferred tax assets, NIBC takes a management best estimate regarding future compensation of carry forward losses. On 31 December 2018 there was a realistic expectation that sufficient taxable profits would be generated within the applicable periods for the recognised deferred tax asset based on internal (medium term) forecasts.

34 Other assets

in EUR millions	IFRS 9 2018	IAS 39 2017
Accrued interest	2	3
Other accruals and receivables	14	51
Pending settlements	10	8
	26	**62**

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature of its related assets.

Pending settlements are related to brokerage activities. These transitory amounts are settled within 3 days.

The change in other accruals and receivables is explained by the exit of MBF IB in 2018, which represented a receivable of EUR 30 million in previous year.

35 Due to other banks

in EUR millions	IFRS 9 2018	IAS 39 2017
Due to other banks	372	491
Due to central banks	1,139	1,344
	1,511	**1,835**
Due to other banks:		
Payable on demand	-	8
Not payable on demand	1,511	1,827
	1,511	**1,835**
Legal maturity analysis of due to other banks not payable on demand:		
Three months or less	137	114
Longer than three months but not longer than one year	46	334
Longer than one year but not longer than five years	1,241	1,277
Longer than five years	87	102
	1,511	**1,827**

Interest is recognised in interest expense from financial instruments measured at AC.

At 31 December 2018, an amount of EUR 123 million (2017: EUR 248 million) relates to cash collateral received from third parties.

Amounts drawn under *Targeted Longer Term Refinancing Operation* (**TLTRO II**) equal EUR 1,139 million (2017: EUR 1,343 million). The remaining maturity of TLTRO II is two years and interest payments will be settled in arrears. The collateral for the TLTRO-program consists of DNB eligible debt investments and securitised mortgage loans. The interest rate, which is fixed for the entire maturity of the TLTRO II, was set in June 2018.

The fair value of this balance sheet item does not materially differ from its face value, due to the short-term nature.

36 Deposits from customers

in EUR millions	IFRS 9 2018	IAS 39 2017
Retail deposits	9,128	9,324
Institutional/corporate deposits	2,139	2,211
	11,267	**11,535**
Deposits from customers:		
On demand	5,709	5,418
Term deposits	5,558	6,117
	11,267	**11,535**
Legal maturity analysis of term deposits:		
Three months or less	821	1,024
Longer than three months but not longer than one year	2,317	2,345
Longer than one year but not longer than five years	1,713	2,208
Longer than five years	707	540
	5,558	**6,117**

Interest is recognised in interest expense and similar charges on an effective interest basis.

37 Own debt securities in issue (designated at fair value through profit or loss)

in EUR millions	IFRS 9 2018	IAS 39 2017
Bonds and notes issued	39	38
	39	**38**
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	39	38
Longer than five years	-	-
	39	**38**
Movement schedule of own debt securities in issue:		
Balance at 1 January	**38**	**37**
Additions	2	1
Disposals	-	-
Changes in fair value	(1)	-
Other (including exchange rate differences)	-	-
Balance at 31 December	**39**	**38**

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 37 million at 31 December 2018 (2017: EUR 36 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 1 million and the change for the current year amounts to nil recognised in other comprehensive income following early adoption of IFRS 9 Own credit risk (2017: loss of 1 million). See note 47.7 for further information with respect to IFRS 9 Own credit risk.

EUR 2 million relates to cash inflow items included in the consolidated statement of cash flows.

38 Debt securities in issue structured (designated at fair value through profit or loss)

in EUR millions	IFRS 9 2018	IAS 39 2017
Bonds and notes issued	282	616
	282	**616**
Legal maturity analysis of debt securities in issue structured:		
Three months or less	-	-
Longer than three months but not longer than one year	5	21
Longer than one year but not longer than five years	62	280
Longer than five years	215	315
	282	**616**
Movement schedule of debt securities in issue structured:		
Balance at 1 January	**616**	**620**
Additions	5	39
Disposals	(352)	(29)
Changes in fair value	9	22
Other (including exchange rate differences)	4	(36)
Balance at 31 December	**282**	**616**

The disposals of debt securities in issue designated at fair value through profit or loss for 2018 include redemptions at the scheduled maturity date to an amount of EUR 21 million (2017: EUR 29 million) and repurchases of debt securities before the legal maturity date to an amount of EUR 331 million (2017: nil). The changes in fair value reflects movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these liabilities, the movement due to interest rate changes is compensated with results on financial derivatives.

The contractual amounts of these liabilities payable at maturity, including unpaid but accrued interest at the balance sheet date, amounted to EUR 323 million at 31 December 2018 (2017: EUR 624 million).

The cumulative change in fair value included in the balance amount (designated at fair value through profit or loss) attributable to changes in interest rates and credit risk amounts to nil and the change for the current year is a gain of EUR 15 million recognised in other comprehensive income following early adoption of IFRS 9 Own credit risk (2017: loss of EUR 30 million). See note 47.7 for further information with respect to IFRS 9 Own credit risk.

EUR 5 million relates to cash inflow items, EUR 352 million relates to cash outflow items and EUR 4 million relates to net foreign exchange differences included in the consolidated statement of cash flows.

39 Provisions

in EUR millions	2018	2017
ECL allowances for off-balance sheet financial instruments	2	-
Employee benefits	3	3
	5	**3**

Under IFRS 9 a credit loss provision is calculated for the off-balance sheet financial instruments The credit loss provision is recorded as a liability on the balance sheet.

in EUR millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Purchased credit-impaired	*IFRS 9* Total 2018	*IAS 39* Total 2017
Movement schedule of credit loss allowances on provisions:						
Balance at 1 January					-	-
Effect of adoption IFRS 9 - expected loss impairment model					3	
Restated balance at 1 January 2018 after the adoption of IFRS 9	**1**	**2**	**-**	**-**	**3**	
Movement schedule of ECL allowances for off-balance sheet financial instruments in the income statement						
New committed off-balance balance sheet financial instruments	1	-	-	-	1	-
Off-balance sheet financial instruments that have been derecognised	(1)	(1)	-	-	(2)	-
Net remeasurement of loss allowance	-	(1)	-	-	(1)	-
Transfer from stage 1 to stage 2	-	1	-	-	1	
	-	**(1)**	**-**	**-**	**(1)**	**-**
Balance at 31 December	**1**	**1**	**-**	**-**	**2**	**-**

in EUR millions	2018	2017
Movement schedule of employee benefits:		
Balance at 1 January	**3**	**3**
Paid	-	-
Increase	-	-
Releases	-	-
Balance at 31 December	**3**	**3**

in EUR millions	2018	2017
Movement schedule of employee benefits:		
Balance at 1 January	**3**	**3**
Paid	-	-
Increase	-	-
Releases	-	-
Balance at 31 December	**3**	**3**

Employee benefit obligations of EUR 3 million at 31 December 2017 are related to payments to be made in respect of other leave obligations (2017: EUR 3 million).

in EUR millions	2018	2017
The amounts of pension charges recognised in personnel expenses in the income statement were as follows:		
Collective Defined Contribution plans		
Employer's contribution	13	13
Participants' contributions	(2)	(1)
Administrative expenses	-	1
One-off employers pension contribution		1
	11	**14**

Employer's contributions in 2018 includes EUR 3 million (2017: EUR 2 million) intended to compensate for the pension gap that arose as a result of changed tax rules that became effective as of 1 January 2015.

In 2017, in negotiation with the Works Council, new appointments were made for the annual pension contribution for the period 2018 - 2020. As part of the negotiations the Employer agreed to pay a one-off pension contribution of EUR 1 million to the premium reserve of the Pension Fund before the end of December 2017.

Obligations and expense under pension plans

A collective defined-contribution plan (CDC-plan) is a pension plan under which NIBC each year pays a fixed percentage of the salaries of the members into the scheme. The size of the fund on retirement will be determined by how much was contributed to the scheme and the investment return achieved.

For defined-contribution plans, NIBC pays contributions directly into the member's scheme. NIBC has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The CDC-plan is based on an average salary plan. The retirement age is set at 68 years as per 1 January 2018. The contribution payable by participants in the CDC-plan is maximised at 4% per annum. Under the CDC-plan the annual pension contributions are calculated according to a fixed contribution calculation mechanism. The annual pension contribution of NIBC is maximised at 26% of the pensionable salary (salary minus a social security deductible). By paying the agreed fixed annual contribution NIBC Holding is released from all its obligations.

An analysis of changes the provisions arising from financial guarantees and letters of credit and other undrawn commitments under IFRS 9 is, as follows:

40 Accruals, deferred income and other liabilities

in EUR millions	2018	2017
Payables	63	50
Other accruals	30	40
Pending settlements	3	8
Taxes and social securities	11	13
	107	**111**

Pending settlements are related to the brokerage activities and settled within 3 days.

Taxes and social securities relate to EUR 5 million VAT (2017: EUR 5 million) and EUR 6 million withholding tax (2017: EUR 8 million).

41 Own debt securities in issue (amortised cost)

in EUR millions	*IFRS 9 2018*	*IAS 39 2017*
Bonds and notes issued	5,451	4,392
	5,451	**4,392**
Legal maturity analysis of own debt securities in issue:		
Three months or less	-	1
Longer than three months but not longer than one year	1,262	1,111
Longer than one year but not longer than five years	2,266	2,288
Longer than five years	1,923	992
	5,451	**4,392**
Movement schedule of own debt securities in issue:		
Balance at 1 January	**4,392**	**3,855**
Additions	2,347	729
Disposals	(1,288)	(178)
Other (including exchange rate differences)	-	(14)
Balance at 31 December	**5,451**	**4,392**

In 2018 NIBC issued two EUR 500 million ten year covered bond transactions, as well as a EUR 500 million fixed rate senior unsecured transaction with a maturity of five year. The total additions also include a EUR 16 million increase of the cumulative hedge adjustment (2017: decrease of EUR 33 million).

The disposals of own debt securities in issue at amortised cost for 2018 include redemptions at the scheduled maturity date and repurchases to an amount of EUR 1,168 million (2017: EUR 123 million) and buyback of positions for EUR 120 million (2017: EUR 55 million).

EUR 2,347 million relates to cash inflow items and EUR 1,288 million relates to cash outflow items included in the consolidated statement of cash flows.

42 Debt securities in issue related to securitised mortgages and lease receivables (amortised cost)

in EUR millions	IFRS 9 2018	IAS 39 2017
Bonds and notes issued	447	267
	447	**267**
Legal maturity analysis of debt securities in issue related to securitised mortgage loans and lease receivables:		
Three months or less	-	267
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	-	-
Longer than five years	447	-
	447	**267**
Movement schedule of debt securities in issue related to securitised mortgage loans and lease receivables:		
Balance at 1 January	**267**	**1,337**
Additions	447	-
Disposals	(267)	(1,070)
Other (including exchange rate differences)	-	-
Balance at 31 December	**447**	**267**

The disposals of own debt securities at amortised cost for 2018 include repurchases of debt securities before the legal maturity date to an amount of EUR 267 million (2017: EUR 1,070 million).

43 Subordinated liabilities - designated at fair value through profit or loss

in EUR millions	IFRS 9 2018	IAS 39 2017
Non-qualifying as grandfathered additional Tier 1 capital	53	60
Subordinated loans other	109	107
	162	**167**
Legal maturity analysis of subordinated liabilities:		
One year or less	-	-
Longer than one year but not longer than five years	-	-
Longer than five years but not longer than ten years	-	1
Longer than ten years	162	166
	162	**167**
Movement schedule of subordinated liabilities:		
Balance at 1 January	**167**	**276**
Additions	2	1
Disposals	-	(126)
Changes in fair value	(11)	40
Other (including exchange rate differences)	4	(24)
Balance at 31 December	**162**	**167**

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 payable at maturity, including unpaid but accrued interest at the balance sheet date, amounted to EUR 257 million at 31 December 2018 (2017: EUR 249 million).

The cumulative change in fair value included in the balance amount attributable to changes in credit risk amounts to a loss of EUR 102 million and the change for the current year amounts to a gain of EUR 12 million recognised in other comprehensive income following early adoption of IFRS 9 Own credit risk (2017: loss of EUR 38 million). See note 47.7 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 11 million was recognised on subordinated liabilities during the year 2018 (2017: EUR 15 million). In 2018 and 2017, 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 2018 or 2017.

EUR 2 million relates to cash inflow and EUR 4 million relates to foreign currency differences included in the consolidated statement of cash flows.

44 Subordinated liabilities - amortised cost

in EUR millions	IFRS 9 2018	IAS 39 2017
Subordinated loans other	116	115
	116	**115**
Legal maturity analysis of subordinated liabilities:		
One year or less	-	-
Longer than one year but not longer than five years	-	1
Longer than five years but not longer than ten years	63	63
Longer than ten years	53	51
	116	**115**
Movement schedule of subordinated liabilities:		
Balance at 1 January	**115**	**122**
Additions	-	-
Disposals	(2)	-
Other (including exchange rate differences)	3	(7)
Balance at 31 December	**116**	**115**

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 53 million (2017: EUR 51 million). Interest expense of EUR 5 million was recognised on subordinated liabilities during the year 2018 (2017: EUR 5 million).

EUR 2 million relates to cash outflow items and EUR 3 million related to foreign exchange differences included in the consolidated statement of cash flows.

45 Equity

The ultimate company is NIBC Holding N.V., a listed company incorporated in the Netherlands.

Share capital

in EUR millions	IFRS 9 2018	IAS 39 2017
Paid-up capital	80	80
	80	**80**

	IFRS 9 2018	IAS 39 2017
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 dividend or otherwise to the parent company. Refer to note 8 of the Company Financial Statements for detailed information regarding the Legal reserves.

Share premium and other reserves

in EUR millions	IFRS 9 2018	IAS 39 2017
Share premium	238	238
Other reserves are as follows:		
Revaluation reserve - hedging revaluation	20	30
Revaluation reserve - equity investments (FVOCI)	-	5
Revaluation reserve - debt investments (FVOCI)	(2)	(2)
Revaluation reserve - property and equipment	8	8
Revaluation reserves	**26**	**41**
Own credit risk reserve	96	52
	122	**93**
	360	**331**

in EUR millions	Share premium	Revaluation reserve - Hedging revaluation	Other revaluation reserves	Own credit risk reserve	Total
Balance at 1 January 2018	**238**	**30**	**11**	**52**	**331**
Net result on hedging instruments	-	(10)	-	-	(10)
Revaluation/remeasurement (net of tax)	-	-	(5)	44	39
Total recognised directly through other comprehensive income in equity	**238**	**20**	**6**	**96**	**360**
Transfer to retained earnings	-	-	-	-	-
Balance at 31 December 2018	**238**	**20**	**6**	**96**	**360**

in EUR millions	Share premium	Revaluation reserve - Hedging revaluation	Other revaluation reserves	Own credit risk reserve	Total
Balance at 1 January 2017	**238**	**43**	**10**	**103**	**394**
Net result on hedging instruments	-	(13)	-	-	(13)
Revaluation/remeasurement (net of tax)	-	-	1	(51)	(50)
Total recognised directly through other comprehensive income in equity	**238**	**30**	**11**	**52**	**331**
Transfer to retained earnings	-	-	-	-	-
Balance at 31 December 2017	**238**	**30**	**11**	**52**	**331**

Share premium
The proceeds from rights issues and options exercised received net of any directly attributable transaction costs and less the nominal value are credited to share premium.

Other reserves

Revaluation reserve - Hedging revaluation
This reserve comprises the portion of the gains or losses on hedging instruments in a cash flow hedge that is determined to be an effective hedge (net of tax).

Revaluation reserve - equity investments (fair value through other comprehensive income formerly available-for-sale)
This reserve comprises changes in fair value of available-for-sale equity investments (net of tax).

Revaluation reserve - debt investments (fair value through other comprehensive income formerly available-for-sale)
This reserve comprises changes in fair value of available-for-sale debt investments (net of tax).

Revaluation reserve - property and equipment
This reserve comprises changes in fair value of land and buildings (net of tax).

Own credit risk reserve
This reserve includes the cumulative changes in the fair value of the financial liabilities designated as at FVtPL that are attributable to changes in the credit risk of these liabilities other than those recognised in profit or loss (net of tax).

In 2018 an amount of EUR 5 million (net of tax) has been realised from the own credit risk reserve in other comprehensive income following a partial buy back of structured funding at a price below par.

Retained earnings including profit after tax for the year

Retained earnings reflect accumulated earnings less dividends accrued and paid to shareholders and transfers from other reserves.

46 Capital securities

in EUR millions	*IFRS 9* **2018**	*IAS 39* *2017*
Capital securities issued by NIBC	200	200
	200	**200**
Movement schedule of capital securities issued by NIBC:		
Balance at 1 January	**200**	**-**
Additions	-	200
Balance at 31 December	**200**	**200**

The capital securities are perpetual and have no expiry date. The distribution on the Capital Securities issued in September 2017 is as follows: the coupon is 6% per year and is made payable every six months in arrears as of the issue date (29 September 2017), for the first time on 29 March 2018. The capital securities are perpetual and first redeemable on 29 September 2026. As of 29 September 2026, and subject to capital securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the 5 year euro swap rate +5.564 %. Any payments including coupon payments are fully discretionary.

The coupon payments on capital securities amounts to EUR 13 million in 2018 .

The principal amount of the capital securities will be written down if the CET1 ratio of NIBC falls below 5.125%. Following such reduction, the principal amount may, at NIBC's discretion, be written-up to the original principal amount if certain conditions are met. In addition, the capital securities may be subject to a permanent write-down or conversion into equity in circumstances where the competent resolution authority would determine that NIBC has reached the point of non-viability or the occurrence of a bail-in.

47 Fair value of financial instruments

This note describes the fair value measurement of both financial and non-financial instruments and is structured as follows:

47.1 Valuation principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as follows:

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

47.2 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.

47.3 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	2018
Financial assets at fair value through profit or loss (including trading)				
Debt investments	-	75	2	77
Equity investments (including investments in associates)	3	-	184	187
Loans	-	99	49	148
Derivative financial assets	-	579	-	579
	3	**753**	**235**	**991**
Financial assets at fair value through other comprehensive income				
Debt investments	779	9	-	788
	779	**9**	**-**	**788**
	782	**762**	**235**	**1,779**

in EUR millions	Level 1	Level 2	Level 3	2018
Financial liabilities at fair value through profit or loss (including trading)				
Own debt securities in issue	-	39	-	39
Debt securities in issue structured	-	282	-	282
Derivative financial liabilities	-	210	-	210
Subordinated liabilities	-	162	-	162
	-	**693**	**-**	**693**

in EUR millions	Level 1	Level 2	Level 3	2017
Financial assets at fair value through profit or loss (including trading)				
Debt investments	-	31	-	31
Equity investments (including investments in associates)	2	-	285	287
Loans	-	181	-	181
Mortgage loans	-	-	4,581	4,581
Securitised mortgage loans	-	-	338	338
Derivative financial assets	-	1,021	-	1,021
	2	**1,233**	**5,204**	**6,439**
Financial assets available-for-sale				
Debt investments	639	183	1	823
Equity investments (unlisted)	-	-	36	36
	639	**183**	**37**	**859**
	641	**1,416**	**5,241**	**7,298**

in EUR millions	Level 1	Level 2	Level 3	2017
Financial liabilities at fair value through profit or loss (including trading)				
Own debt securities in issue	-	38	-	38
Debt securities in issue structured	-	616	-	616
Derivative financial liabilities	-	863	-	863
Subordinated liabilities	-	167	-	167
	-	**1,684**	**-**	**1,684**

47.4 Valuation techniques

The following is a description of the determination of fair value for financial instruments that are recorded at fair value using either quoted prices or valuation techniques. These incorporate NIBC's interpretation of valuation assumptions (qualitative) that a market participant would consider when valuing the instruments.

Financial assets at fair value through profit or loss

Equity investments - level 1

The level 1 portfolio consists of unadjusted, quoted prices for assets in an active market. The assets have been valued at the market's closing price of 31 December 2018.

Debt investments - level 2

For the determination of fair value at 31 December 2018, NIBC applied market-observable prices (including broker quotes), interest rates and credit spreads derived from market-observable data. NIBC has determined fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

Loans - level 2

In an active market environment, these assets are marked-to-market by applying market bid quotes observed on the secondary market. The quotes received from other banks or brokers and applied in the marked-to-market process are calibrated to actual market trades whenever possible.

In certain instances, where the market is inactive, a discounted cash flow model is used based on various assumptions including market interest rates, market credit spread levels and assumptions regarding market liquidity, where relevant. Additional pricing reference points have been obtained by collecting spreads using primary transactions that are comparable with the relevant loans.

Derivatives financial assets and liabilities (held for trading and used for hedging) - level 2

Derivative products valued using a valuation technique with market-observable inputs are mainly interest rate swaps, currency swaps, credit default swaps and foreign exchange contracts. The most frequently applied valuation techniques include swap models using present value calculations. The models incorporate various inputs including foreign exchange rates, credit spread levels and interest rate curves. Credit derivative valuation models also require input as to the estimated probability of default and recovery value.

Debt investments - level 3

For the level 3 debt investments, NIBC uses valuation models that apply discounted cash flow analysis that incorporates both observable and unobservable data. Observable inputs include interest rates and collateral values; unobservable inputs include assumptions regarding credit spreads and market liquidity discounts.

Equity investments (including investments in associates) - level 3

The fair value of investments in equity funds is determined based on the net asset value reported by the managers of these funds. These net asset values are analysed for reasonableness, so as to ascertain that the reported net asset value has been appropriately derived using proper fair value principles as part of a robust process. 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' 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.

Mortgage loans (own book and securitised) - level 3

NIBC determines the fair value of mortgage loans (both those NIBC holds on its own book and those NIBC has securitised) by using a valuation model developed by NIBC. To calculate the fair value, NIBC discounts expected cash flows (after expected prepayments) to present value using inter-bank zero-coupon rates, adjusted for a spread that principally takes into account the credit spread risk of the mortgages and uncertainty relating to prepayment estimates.

The RMBS spread is determined by collecting RMBS spreads from publicly issued Dutch RMBS-transactions. The discount spread is derived by adding related RMBS costs to the RMBS spread.

Sensitivity analysis carried out on the prepayment rates used in the valuation model of the mortgage loans showed that the variability in these rates does not have a significant impact on the total value of the Mortgage Loan portfolio.

Financial assets at fair value through other comprehensive income

Debt investments - level 1

For the determination of fair value at 31 December 2018, 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 2018, NIBC used market-observable prices (including broker quotes), interest rates and credit spreads derived from market-observable data. NIBC has determined the fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

Financial liabilities at fair value through profit or loss (including trading)

Own liabilities designated at fair value through profit or loss - level 2
This portfolio was designated at fair value through profit or loss and is reported on the face of the balance sheet under the following headings:
- Own debt securities in issue (financial liabilities at fair value through profit or loss);
- Debt securities in issue structured (financial liabilities at fair value through profit or loss);
- Subordinated liabilities (financial liabilities at fair value through profit or loss).

Debt securities in issue structured consist of notes issued with embedded derivatives that are tailored to specific investors' needs. The return on these notes is dependent upon the level of certain underlying equity, interest rate, currency, credit, commodity or inflation-linked indices. The embedded derivative within each note issued is fully hedged on a back-to-back basis, such that effectively synthetic floating rate funding is created. Because of this economic hedge, the income statement is not sensitive to fluctuations in the price of these indices.

In the case of debt securities in issue structured and subordinated liabilities, the fair value of the notes issued and the back-to-back hedging swaps is determined using valuation models developed by a third party employing Monte Carlo simulation, lattice valuations or closed formulas, depending on the type of embedded derivative. These models use market-observable inputs (e.g. interest rates, equity prices) for valuation of these structures.

For each class of own financial liabilities at fair value through profit or loss, the expected cash flows are discounted to present value using interbank zero-coupon rates. The resulting fair value is adjusted for movements in the credit spread applicable to NIBC issued funding.

47.5 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 asset 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 asset 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 data market data.

47.6 Impact of valuation adjustments
The following table shows the amount recorded in the income statement:

in EUR millions	IFRS 9 2018	IAS 39 2017
Type of adjustment		
Risk related	-	-
Credit value adjustment / Debit value adjustment	-	4
Totally Risk related	**-**	**4**
Bid-offer adjustment	(1)	(3)
Day-1 profit (see the following table)	7	3
	6	**4**

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	IFRS 9 2018	IAS 39 2017
Movement schedule of day-1 profit		
Balance at 1 January 2018 before the adoption of IFRS 9	**11**	**14**
Effect of adoption of IFRS 9	(11)	-
Restated balance at 1 January 2018 after the adoption of IFRS 9	**-**	**14**
Deferral of profit on new transactions	-	-
Recognised in the income statement during the period:		
Subsequent recognition due to amortisation	7	(3)
Derecognition of the instruments	-	-
Exchange differences	-	-
Balance at 31 December	**7**	**11**

47.7 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 or loss related to own credit are recognised in other comprehensive income and presented in the statement of comprehensive income, and no longer in net trading income within the income statement. The following table summarises the effects of own credit adjustments related to financial liabilities designated at fair value. Life-to-date amounts reflect the cumulative unrealised change since initial recognition.

in EUR millions	IFRS 9 2018	IAS 39 2017
	Included in OCI	
Recognised during the period (before tax):		
Unrealised gain/(loss)	27	(67)
	27	**(67)**
Unrealised life-to-date gain/(loss)	96	69
	96	**69**

47.8 Transfers between level 1 and level 2

Except for changes due to the introduction of IFRS 9, during 2018, there were no transfers between level 1 and level 2 fair value measurements.

In 2017 debt investments at fair value through profit or loss for an amount of EUR 166 million has been transferred from level 1 to level 2. The level 2 classification in the fair value hierarchy better reflected the underlying valuation methodology.

Transfers between levels are reviewed semi-annually at the end of the reporting period.

47.9 Movements in level 3 financial instruments measured at fair value

In 2018 debt investments at fair value through profit or loss for an amount of EUR 2 million has 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	Balance at 1 January 2018 before the adoption of IFRS 9	Effect of adoption of IFRS 9	Restated balance at 1 January 2018 after the adoption of IFRS 9	Amounts recognised in the income statement	Purchases/ Additions	Sales	Settle-ments/ Disposals	Transfers into level 3	At 31 December 2018
Financial assets at fair value through profit or loss (including trading)									
Debt investments	-	1	1	1	-	-	(2)	2	2
Equity investments (including investments in associates)	285	36	320	74	50	-	(260)		184
Loans	-	-	-	(6)	-	-	-	55	49
Mortgage loans	4,581	(4,581)	-						
Securitised mortgage loans	338	(338)	-						
Financial assets at fair value through other comprehensive income									
Debt investments	1	(1)	-	-	-	-	-	-	-
Equity investments	36	(36)	-						
	5,241	**(4,919)**	**321**	**69**	**50**	**-**	**(262)**	**57**	**235**

in EUR millions	At 1 January 2017	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 2017
Financial assets at fair value through profit or loss (including trading)									
Debt investments	1	-	-	-	(1)	-	-	-	-
Equity investments (including investments in associates)	202	60	-	35	-	(12)	-	-	285
Mortgage loans	4,124	(8)	-	1,035	-	(570)	-	-	4,581
Securitised mortgage loans	1,550	(83)	-	-	-	(1,129)	-	-	338
Financial assets available-for-sale									
Debt investments	1	-	-	-	-	-	-	-	1
Equity investments	41	(1)	(1)	-	-	(3)	-	-	36
	5,919	**(32)**	**(1)**	**1,070**	**(1)**	**(1,714)**	**-**	**-**	**5,241**

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	For the years ended 31 December 2018: Net trading income	Net income from other financial instruments at fair value through profit or loss	Investment income	Revaluation reserve	Total	31 December 2017: Net trading income	Investment income	Revaluation reserve	Total
Financial assets at fair value through profit or loss (including trading)									
Debt investments	1	-	-	-	1	-	-	-	-
Equity investments (including investments in associates)	-	-	74	-	74	-	60	-	60
Loans	-	(6)	-	-	(6)	-	-	-	-
Mortgage loans	-	-	-	-	-	(8)	-	-	(8)
Securitised mortgage loans	-	-	-	-	-	(83)	-	-	(83)
Financial assets at fair value through other comprehensive income									
Equity investments	-	-	-	-	-	-	(1)	(1)	(2)
	1	**(6)**	**74**	**-**	**69**	**(91)**	**59**	**(1)**	**(33)**

The amount in total gains or losses presented in the income statement for the period relating to the assets and liabilities held in level 3 until the end of the reporting period is given in the following table:

	For the years ended			
	31 December 2018		31 December 2017	
in EUR millions	Held at balance sheet date	Derecognised during the period	Held at balance sheet date	Derecognised during the period
Financial assets at fair value through profit or loss (including trading)				
Debt investments	-	1	-	-
Equity investments (including investments in associates)	72	2	60	-
Loans	(6)	-	-	-
Mortgage loans	-	-	(8)	-
Securitised mortgage loans	-	-	(83)	-
Financial assets at fair value through other comprehensive income				
Equity investments	-	-	(1)	-
	66	**3**	**(32)**	**-**

Recognition of unrealised gains and losses in Level 3

Amounts recognised in the profit and loss account relating to unrealised gains and losses during the year that relates to Level 3 assets and liabilities are included in the profit and loss account as follows:

	For the years ended						
	31 December 2018				31 December 2017		
in EUR millions	Net trading income	Net income from other financial instruments at fair value through profit or loss	Invest-ment income	Total	Net trading income	Invest-ment income	Total
Financial assets at fair value through profit or loss (including trading)							
Equity investments (including investments in associates)	-	-	-	-	-	75	75
Loans	-	(6)	-	(6)	-	-	-
Mortgage loans	-	-	-	-	(8)	-	(8)
Securitised mortgage loans	-	-	-	-	(83)	-	(83)
Financial assets at fair value through other comprehensive income							
Equity investments	-	-	-	-	-	(2)	(2)
	-	**(6)**	**-**	**(6)**	**(91)**	**73**	**(18)**

47.10 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 47.11 Sensitivity of fair value measurements to changes in observable market data.

	At 31 December 2018					
	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 at fair value through profit or loss (including trading)						
Debt investments[1]	2	-	Bid price	Price %	0%	100%
Equity investments (including investments in associates)[1]	184	-	Discounted cash flow	Financial statements	n.a.	n.a.
Loans	49	-	Discounted cash flow	Discount Spresd (bps)	0%	5%
	186	**-**				

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 2017					
	in EUR millions					
	Fair value of level 3 assets	Fair value of level 3 liabilities	Valuation technique	Significant unobservable inputs	Lower range	Upper range
Financial assets at fair value through profit or loss (including trading)						
Debt investments[1]	-	-	Bid price	Price %	0%	100%
Equity investments (including investments in associates)[1]	285	-	Discounted cash flow	Financial statements	n.a.	n.a.
			Multiplier method	Observable Market Factors	n.a.	n.a.
			Comparable transactions	-	n.a.	n.a.
Mortgage loans	4,581	-	Discounted projected cash flows	Discount Spread (bps)	111	146
			Discounted projected cash flows	CPR	8%	10%
Securitised mortgage loans	338	-	Discounted projected cash flows	Discount Spread (bps)	111	146
			Discounted projected cash flows	CPR	8%	10%
Financial assets available-for-sale						
Debt investments[1]	1	-	Expected cash flows	Expected cash flow from collateral	0%	100%
Equity investments[1]	36	-	Discounted cash flow	Financial statements	n.a.	n.a.
			Multiplier method	Observable Market Factors	n.a.	n.a.
			Comparable transactions	-	n.a.	n.a.
	5,241	**-**				

1 Given the wide range of diverse investments and the correspondingly large differences in prices, NIBC does not disclose the ranges as it believes it would not provide meaningful information without a full list of the underlying investments, which would be impractical.

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 dependent on the projected sales prices of the underlying assets. The lower level assumes actual sales prices of 75% of the projected sales prices the higher level assumes actual salesprices of 125%.

Price
For securities where market prices are not available fair value is measured by comparison with observable pricing data from similar instruments. Prices of 0% are distressed to the point that no recovery is expected, while prices significantly in excess of 100% or par are expected to pay good yield.

Debt investments AFS
Level 3 AFS debt investments are valued based on the expected cashflows of the instrument flowing from the collateral.

47.11 Sensitivity of fair value measurements to changes in observable market data

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument:

	For the years ended			
	31 December 2018		31 December 2017	
in EUR millions	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Financial assets at fair value through profit or loss (including trading)				
Loans	49	3	-	-
Debt investments	2	-	-	-
Equity investments (including investments in associates)	184	9	285	14
Mortgage loans	-	-	4,581	14
Securitised mortgage loans	-	-	338	1
Financial assets at fair value through other comprehensive income				
Debt investments	-	-	1	-
Equity investments (unlisted)	-	-	36	2

In order to determine the reasonably possible alternative assumptions, NIBC adjusted key unobservable valuation technique inputs as follows:

- For equity investments, the material unobservable input parameters, such as capitalisation multiple, that are applied to the maintainable earnings to determine fair value are adjusted by 5%;

- For the mortgage loans classified at fair value through profit or loss (both those NIBC holds on its own book and those NIBC has securitised), NIBC adjusted the discount spread with 10bp as a reasonably possible alternative outcome;
- For the debt investments, NIBC adjusted the weighted average calculated model price by 100 basis points as a reasonably possible alternative outcome. The primary unobservable input in the calculated model price is the applicable credit spread;

In 2017, 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.

47.12 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 2018				
in EUR millions	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial assets at amortised cost					
Debt investments	-	-	-	-	-
Loans	-	7,770	-	7,770	7,691
Mortgage loans[1,2]	-	-	8,990	8,990	9,379
Securitised mortgage loans[1,2]	-	-	461	461	495
Financial liabilities at amortised cost					
Own debt securities in issue	-	5,451	-	5,451	5,721
Debt securities in issue related to securitised mortgages and lease receivables	-	-	447	447	446
Subordinated liabilities	-	116	-	116	154

1 The portfolio of mortgage loans previously classified at fair value through profit or loss, which was reclassified to amortised cost during the transition to IFRS 9, has a carrying value of EUR 4,217 million per 31 December 2018. The fair value per 31 December 2018 equals EUR 4,455 million.
2 The fair value disclosed for the mortgage loans is determined in a manner consistent with the valuation per 31 December 2017, applying a discount spread based on the observed RMBS spread, adjusted for related RMBS costs. If the fair value of the mortgage loans is (own book plus securitised) determined applying the observed retail spread, the fair value equals EUR 9,767 million per 31 December 2018.

	Fair value information at 31 December 2017				
in EUR millions	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial assets at amortised cost					
Debt investments	-	57	2	59	55
Loans	-	7,749	-	7,749	7,760
Mortgage loans	-	-	4,412	4,412	4,725
Financial liabilities at amortised cost					
Own debt securities in issue	-	4,392	-	4,392	4,466
Debt securities in issue related to securitised mortgages and lease receivables	-	-	267	267	267
Subordinated liabilities	-	115	-	115	135

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.

47.13 Non-financial assets valued at fair value

Property and equipment
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 2018 was EUR 42 million (31 December 2017: EUR 41 million). The land and buildings were last revalued as of 31 December 2017 based on external appraisal.

48 Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	At 31 December 2018					
				Related amounts not set off in the balance sheet		
in EUR millions	Gross amount of recognised financial assets	Gross amount of recognised financial 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	579		579		123	456
	579	**-**	**579**	**-**	**123**	**456**

	At 31 December 2018					
				Related amounts not set off in the balance sheet		
in EUR millions	Gross amount of recognised financial liabilities	Gross amount of recognised financial 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	210		210		155	55
	210	**-**	**210**	**-**	**155**	**55**

	At 31 December 2017					
				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	1,353	332	1,021	-	248	773
	1,353	**332**	**1,021**	**-**	**248**	**773**

	At 31 December 2017					
				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	1,195	332	863	-	627	236
	1,195	**332**	**863**	**-**	**627**	**236**

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.

Cash collateral pledged decreased to EUR 155 million in 2018 mainly caused by the transfer from collatorised-to-markets to settle-to-markets.

49 Repurchase and resale agreements and transferred financial assets

NIBC has a programme to borrow and lend securities and to sell securities under agreements to repurchase ('repos') and to purchase securities under agreements to resell ('reverse repos'). The securities lent or sold under agreements to repurchase are transferred to a third party and NIBC receives cash, or other financial assets in exchange. The counterparty is allowed to sell or repledge those securities lent or sold under repurchase agreements in the absence of default by NIBC, but has an obligation to return the securities at the maturity of the contract. These transactions are conducted under terms based on the applicable ISDA Collateral Guidelines. If the securities increase or decrease in value, NIBC may in certain circumstances, require, or be required, to pay additional cash collateral. NIBC has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

Similarly NIBC may sell or repledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently the securities are not recognised by NIBC, which instead records a separate asset for the cash collateral given.

NIBC conducts these transactions under terms agreed in Global Master Repurchase Agreements. As per year-end 2018 NIBC did not have any repurchase and resale agreement related positions as described in this note (2017: nil).

Transferred financial assets

This disclosure provides insight into the relationship between these transferred financial assets and associated financial liabilities in order to understand which risks the bank is exposed to when the assets are transferred.

If transferred financial assets continue to be recognised on the balance sheet, NIBC is still exposed to changes in the fair value of the assets.

Transferred financial assets that are not derecognised in their entirety
The following table shows transferred financial assets that are not derecognised in their entirety.

	2018		2017	
	RMBS programme	Covered Bond programme	RMBS programme	Covered Bond programme
in EUR millions	Securitised mortgage loans (FVtPL)	Mortgage loans own book (AC and FVtPL)	Securitised mortgage loans (FVtPL)	Mortgage loans own book (AC and FVtPL)
Securitisations				
Carrying amount transferred assets	461	3,171	338	2,926
Carrying amount associated liabilities	447	1,500	267	2,007
Fair value of assets	461	3,333	338	3,049
Fair value of associated liabilities	446	1,504	267	2,009
Net position	**15**	**1,829**	**71**	**1,040**

RMBS programme
NIBC uses securitisations as a source of funding whereby the *Structured Entity* (**SE**) issues debt securities. Pursuant to a securitisation transaction utilising true sale mechanics, NIBC transfers the title of the assets to SEs. When the cash flows are transferred to investors in the notes issued by consolidated securitisation vehicles, the assets (residential mortgage loans) are considered to be transferred.

The Covered Bond programme
Under NIBC's Covered Bond programme, notes are issued by NIBC from its own balance sheet. Bond holders are protected from suffering a loss even in the event that NIBC defaults because at the point the notes were issued, NIBC also transferred the legal title of a portfolio of mortgages to a *Structured Entity* (**SE**) to act as collateral for the covered bond investors. From a legal perspective, the SE guarantees the repayment of the Covered Bonds. The title transfer of the mortgages has been achieved by NIBC providing an inter-company loan on the same terms and conditions as the external bonds to the SE. The SE used the proceeds to purchase the mortgage portfolio. The net result is that the SE retains the legal title, but proceeds from the mortgages are passed through the intercompany loan to the covered bond holders. NIBC consolidates the SE on the basis that, in addition to having power as the sole owner, NIBC also is entitled to substantial variable returns through the over-collateralised portion of the sold mortgages.

Continuing involvement in transferred financial assets that are derecognised in their entirety
NIBC does not have any material transferred assets that are derecognised in their entirety, but where NIBC has continuing involvement.

50 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	2018	2017
Contract amount		
Committed facilities with respect to corporate loan financing	1,704	1,533
Committed facilities with respect to mortgage loans	503	158
Capital commitments with respect to equity investments	20	12
Guarantees granted (including guarantees related to assets held for sale)	56	65
Irrevocable letters of credit	64	35
	2,347	**1,803**

Refer to note 39 for the ECL-allowances on off-balance sheet financial instrument positions.

in EUR millions	2018
Remaining legal maturity analysis of issued financial guarantees	
One year or less	561
Longer than one year but not longer than five years	157
Longer than five years but not longer than ten years	1,355
Longer than ten years	274
	2,347

The following tables show the credit quality and the maximum exposure to credit risk based on the NIBC's internal credit rating system and year-end stage classification.

Outstanding exposure - Financial guarantees & Irrevocable letters of credit

in EUR millions	Stage 1	Stage 2	Stage 3	*IFRS 9* Total 2018
`				
Internal rating grade				
Investment	3	-	-	3
Sub-investment	97	18	-	115
Sub-investment (highly vulnerable)	-	-	2	2
Default	-	-	-	-
	100	**18**	**2**	**120**

An analysis of changes in the outstanding exposures - financial guarantees and letters of credit and the corresponding ECLs is, as follows:

in EUR millions	Stage 1	Stage 2	Stage 3	*IFRS 9* Total 2018
Outstanding as at 1 January 2018	**63**	**25**	**3**	**91**
New exposures	30	-	-	30
Exposures recognised of matured/lapsed	-	(1)	(1)	(2)
Transfers from stage 1 to stage 2	(1)	1	-	-
Transfers from stage 2 to stage 1	7	(7)	-	-
Foreign exchange adjustments	1	-	-	1
At 31 December 2018	**100**	**18**	**2**	**120**

Oustanding exposure - Other undrawn

in EUR millions	Stage 1	Stage 2	Stage 3	Fair value	*IFRS 9* Total 2018
Internal rating grade					
Investment	210	-	-	-	210
Sub-investment	1,372	52	-	39	1,463
Default	-	-	2	-	2
	1,582	**52**	**2**	**39**	**1,675**

An analysis of changes in the outstanding exposures - other undrawn commitments and the corresponding ECLs is, as follows:

in EUR millions	Stage 1	Stage 2	Stage 3	Fair value	*IFRS 9* Total 2018
Outstanding as at 1 January 2018	**1,430**	**81**	**1**	**21**	**1,533**
New exposures	150	-	-	19	169
Exposures recognised of matured/lapsed (excluding write-offs)	-	(29)	(1)	-	(30)
Transfers from stage 1 to stage 2	(38)	38		-	-
Transfers from stage 2 to stage 1	38	(38)		-	-
Foreign exchange adjustments	2	-	1	-	3
At 31 December 2018	**1,582**	**52**	**1**	**40**	**1,675**

These commitments and contingent liabilities have off-balance sheet credit risk because only commitment/origination fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

Details of concentrations of credit risk including concentrations of credit risk arising from commitments and contingent liabilities as well as NIBC's policies for collateral for loans are set out in note 56 Credit risk.

Contingent liabilities related to income tax

The European Commission has addressed questions related to the Dutch Government about article 29a of the Dutch Corporate Income Tax Code. If the European Commission would decide to start a formal investigation and ultimately would conclude that this is a case of state aid, NIBC may have to repay tax benefits it will enjoy from 208 onwards Article 29a of the Dutch Corporate Income Tax Code was included in the Dutch Corporate Income Tax Code so that capital instruments issued by credit institutions and which are covered by EU regulation 575/2013 would be considered tax deductible. In this context NIBC issued Capital Securities in September 2017, amounting EUR 200 million at a fixed interest rate of 6%. The contingent liability related to this matter may start at the (fully discretionary) first coupon payment date (scheduled in March 2018).

Claims, investigations, litigation or other proceedings or actions may have a material adverse effect on NIBC's business, results of operations, financial condition and prospects.

NIBC is involved in a number of proceedings and settlement negotiations that arise with customers, counterparties, current or former employees or others arising in the ordinary course of business. Proceedings may relate to, for example, alleged violations of NIBC's duty of care (zorgplicht) vis-a-vis its (former) customers, the provision of allegedly inadequate investment advice or the provision of allegedly inadequate services. Negative publicity associated with certain sales practices, compensation payable in respect of such issues or regulatory changes resulting from such issues could have a material adverse effect on NIBC's reputation, business, results of operations, financial condition and prospects. Dutch financial services providers are increasingly exposed to collective claims from groups of customers or consumer organisations seeking damages for an unspecified or indeterminate amount or involving unprecedented legal claims in respect of assumed mis-selling or other violations of law or customer rights.

While NIBC has made considerable investment in reviewing and assessing historic sales and "know your customer' practices and in the maintenance of risk management, legal and compliance procedures to monitor current sales practices, there can be no assurance that all of the issues associated with current and historic sales practices have been or will be identified, nor that any issues already identified will not be more widespread than presently estimated. Assessments of the likelihood of claims arising from former activities are often difficult to accurately assess, due to the difficulties in applying more recent standards or court judgements to past practices. Furthermore many individual transactions are heavily fact-specific and the likelihood of applicability to more transactions of a court decision received on one particular transaction, is difficult to predict until a claim actually materialises and is elaborated. Changes in customer protection regulations and in interpretation and perception by both the public at large and governmental authorities of acceptable market practices might also influence client expectations. One example of past practice that is currently being subjected to a current review of the correctness of such behaviour relates to EURIBOR-based mortgages. In 2017 NIBC acquired a portfolio of mortgages and, as part of such acquisition, took over a number of such EURIBOR-based mortgages. Such types of mortgages are currently the subject of individual and class action claims towards another financial institution within the Netherlands. The claimants contest the contractual right of such mortgage lender to have adjusted the margin and allege that the mortgage lender violated its duty of care towards the relevant customers. These claims are currently the subject of an appeal to the Supreme Court, with a verdict being expected in early 2019. Given the similarity of the facts to the EURIBOR-based mortgages within the portfolio acquired by NIBC, NIBC is monitoring such developments and has notified the relevant clients that it will apply the outcome of these court proceedings to the EURIBOR-based loans acquired by NIBC. The risks related to this legal issue were taken into account at the time of acquisition of this mortgage portfolio and factored into the consideration paid by NIBC at the time.

It is difficult for NIBC to predict the outcome of many of the pending or future claims, regulatory proceedings and other adversarial proceedings. The costs and staffing capacity required to defend against future actions may be significant. Counterparties in these proceedings may also seek publicity, over which NIBC will have no control, and this publicity could lead to reputational harm to NIBC and potentially decrease customer acceptance of NIBC's services, regardless of whether the allegations are valid or whether NIBC is ultimately found liable. In addition, NIBC's provisions for defending these claims may not be sufficient.

In cases where the potential financial outcomes of expected settlements can be reliably estimated, NIBC has made such estimates. NIBC has recognised an aggregated provision based on those estimates. The associated loss has been recognised in 'Other operating expenses'. Any settlements resulting in economic benefits are recognised in the same line item, if and when these become virtually certain. During 2018 NIBC was involved in a legal procedure with a former IT outsourcing service provider. In January 2019 the legal proceedings have been terminated by a settlement on mutual satisfactory terms. NIBC does not disclose detailed information regarding such provisions and/or settlements as such disclosures could seriously prejudice its position and/or disclosures are not allowed based on the settlement agreements. The settlement has no material impact on the financial performance of NIBC.

On the basis of legal advice, taking into consideration the facts known at present NIBC is of the opinion that the outcome of these proceedings is unlikely to have a material adverse effect on the consolidated financial position and the consolidated results.

51 Assets transferred or pledged as collateral

in EUR millions	2018	2017
Assets have been pledged as collateral in respect of the following liabilities and contingent liabilities:		
Liabilities		
Due to other banks/Own debt securities in issue	3,732	3,443
Debt securities in issue related to securitised loans and mortgages	823	691
Derivative financial liabilities	112	566
	4,667	**4,700**
Details of the carrying amounts of assets pledged as collateral:		
Assets pledged		
Debt investments/Mortgage loans own book	4,525	4,085
Securitised loans and mortgages	864	944
Cash collateral (due from other banks)	155	669
	5,544	**5,698**

As part of NIBC's funding and credit risk mitigation activities, the cash flows of selected financial assets are transferred or pledged to third parties. Furthermore, NIBC pledges assets as collateral for derivative transactions. Substantially all financial assets included in these transactions are Mortgage loans, other loan portfolios, debt investments and cash collateral. The extent of NIBC's continuing involvement in these financial assets varies by transaction.

The asset encumbrance ratio (encumbered assets and total collateral received re-used divided by total assets and total collateral re-used) at year end 2018 was 26% (2017: 26%).

52 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	2018	2017
Assets held and managed by NIBC on behalf of customers	3,311	1,600
	3,311	**1,600**

Assets under management consist of the following activities:
- NIBC Leveraged Finance Markets (LFM) manages external investors' funds invested in sub-investment grade secured and unsecured debt. LFM focuses predominantly on European leveraged loans, infrastructure debt and high yield bonds;
- NIBC Infrastructure and Renewables manages external investors' funds invested in Infrastructure debt mainly located in the United Kingdom;
- The NIBC European Infrastructure Fund was established for institutional clients, and in addition acts directly for pension fund investors, assisting them with the acquisition and on-going management of infrastructure investments. Core sectors, reflecting the expertise and experience of the NIBC team, include PPP projects, waste management projects, energy storage and distribution assets and renewable energy projects in the wind, solar and waste-to-energy sectors;
- Under Originate-to-manage mandates, NIBC's retail client offering manages external investors' funds invested in Dutch mortgages;

Refer to note 3 Net fee and commission income for related investment management and originate-to-manage fee income.

NIBC's sustainability policy framework, including applicable sector policies, is also applicable to the investments made under these programmes.

For more information please see our website.

53 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	2018	2017
Transactions involving NIBC's shareholder		
Assets	275	203
Liabilities	-	-
Off-balance sheet commitments	-	-
Income received	1	1
Expenses paid	-	-

Transactions with other entities controlled by the parent company

in EUR millions	2018	2017
Transactions involving NIBC's shareholder		
Assets	390	268
Liabilities	(34)	(26)
Off-balance sheet commitments	29	90
Income received	13	56
Expenses paid	-	-

All intended deals with related parties, including the JC Flowers Fund IV related to the majority shareholder of NIBC, are (pre)discussed in the Related Party Transaction Committee. The transaction with J.C. Flowers Fund IV is at arm's length.

At 2 November 2018 NIBC Bank committed to a co-investment of EUR 30 million in HSH Nordbank along with the 'Flowers Fund IV'. NIBC Bank's exposure to HSH Nordbank at 31 December 2018 is EUR 30 million. Due to the existing relationship with the J.C. Flowers Funds a waiver has been obtained for certain fees.

In 2018, EUR 7 million fee related to the purchase of HSH Nordbank by a consortium led by J.C. Flowers Funds, where NIBC acted as the M&A advisor for the buyer has been received.

In March 2016, NIBC Holding N.V. (the parent company of NIBC Bank N.V.) 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 2018 amounted to EUR 368 million (31 December 2017: EUR 208 million).

In May 2015, NIBC obtained control of Vijlma B.V. with a view to resale to NIBC Investments N.V. (a subsidiary of the parent company of NIBC). Subsequently Vijlma B.V. was sold to NIBC Investments N.V. on 30 June 2015. NIBC's exposure to Vijlma B.V. at 31 December 2018 and 31 December 2017 is nihil.

Transactions within the group

Transactions within the group are as described in 'transactions with other entities controlled by the parent company'. No other transactions occurred in 2018.

Transactions related to associates

in EUR millions	2018	2017
Transactions related to associates		
Assets	104	82
Liabilities	-	-
Off-balance sheet commitments	38	4
Income received	6	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 54 Principal subsidiaries and associates.

NIBC did not earn fees on the loans from these associates in 2018 and 2017.

Key management personnel investments

NIBC's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of NIBC (directly or indirectly). In 2018 key management personnel was brought in line with the internal management reporting. Consequently key management personnel of NIBC consist of the ExCo members (including Statutory Board members) instead of the Identified staff group as of 2018. The comparative disclosures for 2017 were adjusted accordingly.

Details of the remuneration of the Statutory Board members and Supervisory Board members are disclosed in note 56. For details of the holdings of Statutory Board members and other staff in NIBC Choice instruments reference is made to note 9 Personnel expenses and share-based payments.

Other transactions with key management personnel and related parties

In 2018 key management personnel (ExCo members) were granted CDRs under the one-off retention package and some of them personally invested at the IPO date in CDRs under the DRPP (for further details see note 56).

Details of the remuneration of the Statutory Board members and Supervisory Board members are disclosed in note 56. For details of the holdings of Statutory Board members in NIBC Choice instruments reference is also made to note 56.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation (i.e. ExCo, including the Statutory Board).

Compensation of ExCo members over the year 2018

in EUR	Short term incentive compensation					
	Base salary	Cash bonus	Deferred cash	Pension related short term allowance[1]	Other remuneration elements	Total short term incentive compen-sation
Current Statutory Board (3)	2,025,000	121,500	81,000	427,664	156,448	2,811,611
Current Executive Board members, not Statutory board (3)	1,050,000	94,500	63,000	183,914	94,164	1,485,578
	3,075,000	**216,000**	**144,000**	**611,577**	**250,612**	**4,297,189**

1 A collective allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 105,075.

in EUR	Long term (incentive) compensation	Share based payments	Share based payments[1]	
	Post employment contribution	One-off retention package	(Restricted) Phantom Share Units	Total
Current Statutory Board (3)	105,623	3,645,000	202,500	6,764,735
Current Executive Board members, not Statutory board (3)	98,253	1,732,500	157,500	3,473,831
	203,877	**5,377,500**	**360,000**	**10,238,566**

1 Phantom share units.

Compensation of ExCo members over the year 2017

in EUR	Short term incentive compensation					
	Base salary	Cash bonus	Deferred cash	Pension related short term allowance[1]	Other remuneration elements	Total short term incentive compen-sation
Current Statutory Board (3)	1,900,000	114,000	76,000	275,878	189,684	2,555,561
Current Executive Board members, not Statutory board (3)	900,000	87,750	58,500	83,915	88,185	1,218,350
	2,800,000	**201,750**	**134,500**	**359,793**	**277,868**	**3,773,911**

1 A collective allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 103,317.

in EUR	Long term (incentive) compensation	Share based payments	Share based payments[1]	
	Post employment contribution	One-off retention package	(Restricted) Phantom Share Units	Total
Current Statutory Board (3)	90,832	-	190,000	2,836,393
Current Executive Board members, not Statutory board (3)	77,119	-	146,250	1,441,718
	167,950	**-**	**336,250**	**4,278,111**

1 Phantom share units.

Holdings of NIBC Choice instruments and NIBC Ordinary Shares of ExCo members at 31 December 2018

	Pre-IPO number of CDRs (vested)	Number of CCDRs (vested)	Number of CRDRs (unvested)	Number of phantom share units	Number of restricted phantom share units	Number of CDRs granted under the one-off retention package (vested)	Number of CDRs granted under the one-off retention package (unvested)	Number of CDRs acquired via the DRPP	Number of ordinary shares (own investments before and after the IPO date)
Current Statutory Board (3)	-	-	-	55,711	26,739	58,944	88,413	94,133	652,626
Current Executive Board members, not Statutory board (3)	-	-	-	27,708	20,799	28,017	42,021	33,332	-
	-	**-**	**-**	**83,419**	**47,538**	**86,961**	**130,434**	**127,465**	**652,626**

Holdings of NIBC Choice instruments and NIBC Shares of ExCo members at 31 December 2017

	Pre-IPO number of CDRs (vested)	Number of CCDRs (vested)	Number of CRDRs (unvested)	Number of phantom share units	Number of restricted phantom share units	Number of CDRs granted under the one-off retention package (vested)	Number of CDRs granted under the one-off retention package (unvested)	Number of CDRs acquired via the DRPP	Number of ordinary shares (own investments before and after the IPO date)[1]
Current Statutory Board (3)	70,788	49,534	21,254	33,402	19,543	-	-	-	602,326
Current Executive Board members, not Statutory board (3)	32,738	2,107	-	5,461	10,803	-	-	-	-
	103,526	**51,641**	**21,254**	**38,863**	**30,346**	**-**	**-**	**-**	**602,326**

1 For the acquisition of ordinary shares NIBC Holding by Statutory Board members loans were provided by the Shareholders of NIBC Holding.

Loans provided by shareholders NIBC Holding N.V.

Statutory Board member	Loans provided by shareholders of NIBC Holding N.V.	Number of shares
	EUR	
P.A.M. de Wilt (CEO)	1,200,000	258,140
H.H.J. Dijkhuizen (CFO)	800,000	172,093
R.D.J. van Riel (CRO)	800,000	172,093
	2,800,000	**602,326**

- The loans provided by shareholders of NIBC Holding N.V. are bearing interest at 5 per cent, including the premium of the put options. The term of the loans is five years;
- The ordinary shares have been pledged to the providers of the loans;
- The voting rights of the ordinary shares have been transferred to the providers of the loans;

- The management participants have a put option with an exercise price at 80% of the purchase price, adjusted for the accrued and capitalised interest and an exercise date five years after the purchase date;
- The providers of the loans have a call option with an exercise price at 80% of the purchase price, adjusted for the accrued and capitalised interest and an exercise date five years after the purchase date;
- Any future transactions in shares will be executed at fair value.

The ordinary shares purchased cannot be sold for five years, except in the situation of a change of control of NIBC Holding N.V. In that case the loans including capitalised and accrued interest must be repaid. If a member of the Statutory Board ceases employment during the five year period, the ordinary shares may not be sold.

NIBC Holding N.V. ordinary shares held by Supervisory Board Members

Supervisory board members are permitted to hold NIBC Holding N.V. ordinary shares as a long term investment. The table below shows the holdings by members of the Supervisory Board at 31 December 2018 and 31 December 2017 respectively.

Supervisory Board member	Number of ordinary shares	
	2018	2017
M. Christner	10,000	-
	10,000	**-**

Ordinary shares held by Supervisory Board members are only disclosed for the period for which they have been part of the Supervisory Board.

Mr. J.C. Flowers is a beneficial owner of certain interests of some of the vehicles which are shareholders of NIBC.

54 Principal subsidiaries and associates

Information on subsidiaries

Composition of NIBC

NIBC consists of 42 (2017: 50) consolidated entities, including 11 (2017: 15) consolidated structured entities (for further details see note 55). 31 (2017: 33) of the entities controlled by NIBC are directly or indirectly held by NIBC at 100% of the ownership interests (share of capital). Third parties also hold ownership interests in 11 (2017: 17) of the consolidated entities (non-controlling interests).

Accounting for investment in subsidiaries

In the company financial statements of NIBC, investments in subsidiaries are stated at net asset value.

Principal subsidiaries

NIBC's principal subsidiaries are set out in the following table. This includes those subsidiaries that are most significant in the context of NIBC's business, results or financial position.

	Principal place of business	Country	Nature of relationship	Percentage of voting rights held
Subsidiaries of NIBC Bank N.V.				
NIBC Bank Deutschland AG	Frankfurt	Germany	Banking	100%
Parnib Holding N.V.	The Hague	Netherlands	Financing	100%
B.V. NIBC Mortgage-Backed Assets	The Hague	Netherlands	Financing	100%
NIBC Principal Investments B.V.	The Hague	Netherlands	Financing	100%

Significant judgements and assumptions used to determine the scope of the consolidation
Determining whether NIBC has control of an entity is generally straightforward, based on ownership of the majority of the voting rights. However, in certain instances this determination will involve significant judgement, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over the relevant activities. This judgement may involve assessing the purpose and design of the entity. It will also often be necessary to consider whether NIBC, or another involved party with power over the relevant activities, is acting as a principal in its own right or as an agent on behalf of others.

There is also often considerable judgement involved in the ongoing assessment of control over structured entities. In this regard, where market conditions have deteriorated such that the other investors' exposures to the structure's variable returns have been substantively eliminated, NIBC may conclude that the managers of the structured entity are acting as its agent and therefore NIBC will consolidate the structured entity.

An interest in equity voting rights exceeding 50% (or in certain circumstances large minority shareholding) would typically indicate that NIBC has control of an entity. However certain entities are excluded from consolidation because NIBC does not have exposure to their variable returns and/or are managed by external parties and consequently are not controlled by NIBC. Where appropriate, interests relating to these entities are included in note 55 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 2018		At 31 December 2017	
in EUR millions	Total assets	Restricted assets	Total assets	Restricted assets
Cash and balances with central banks	2,056	124	1,604	151
Due from other banks	568	449	962	917
Financial assets at fair value through profit or loss (including trading)				
Debt investments	77	-	31	-
Equity investments (including Investments in associates)	187	102	287	209
Loans	148	-	181	120
Mortgage loans	-	-	4,581	3,283
Securitised mortgage loans	-	-	338	318
Financial assets at available-for-sale				
Debt investments	-	-	823	
Equity investments	-	-	36	25
Financial assets at fair value through other comprehensive income				
Debt investments	788	-	-	-
Financial assets at amortised cost				
Debt investments	-	-	59	
Loans	7,770	715	7,749	633
Mortgages own book	8,990	6,394	4,412	3,128
Securitised mortgage loans	461	461		
Other				
Investments in associates and joint ventures (equity method)	12	10	10	10
	21,057	**8,255**	**21,073**	**8,794**

The previous table excludes assets which are solely subject to restrictions in terms of their transferability within NIBC, caused by e.g. local lending requirements or similar regulatory restrictions. Regulatory minimum liquidity requirements are also excluded from the table. NIBC identifies the volume of liquidity reserves in excess of local stress liquidity outflows. The aggregate amount of such liquidity reserves that are considered restricted for this purpose is EUR 124 million and EUR 150 million as per 31 December 2018 and 2017, 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 26 (2017: 32) 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	2018	2017
Investments in associates (fair value through profit or loss)	92	245
Investments in associates and joint ventures (equity method)	12	10
	104	**255**

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[1]	The Hague	Netherlands	Investment company	53%
NEIF	The Hague	Netherlands	Investment company	29%
GCF II	The Hague	Netherlands	Investment company	11%
Arles I B.V.	Vianen	Netherlands	Hotel	38%
FINCO FUEL BENELUX B.V.	Dordrecht	Netherlands	Oil company	30%

1 Despite a 53% equity stake in MBF Equity IB, NIBC Holding has no existing rights that give it the current ability to direct the relevant activities of MBF Equity IB.

The amounts shown in the following table are of the investees, not just NIBC's share for the year ended 31 December 2018. These associates are highly leveraged with debt.

in EUR millions	Assets	Liabilities	Operating income	Other comprehensive income	Total comprehensive income[1]
MBF Equity 1B	86	-	144	-	144
NEIF	38	1	53	-	53
GCF II	75	3	14	-	14
Arles I B.V.	189	154	12	-	12
FINCO FUEL BENELUX B.V.	92	76	1	-	1

1 The figures are based on the latest publicity available financial information of the investee.

NIBC received no dividends from above significant associates in 2018 and 2017.

Investments in associates and joint ventures (equity method)

NIBC's investments in associates and joint ventures (equity method) are EUR 12 million for the year ended 31 December 2018 (31 December 2017: EUR 10 million).

Aggregated carrying amount of associates that are individually immaterial to NIBC

in EUR millions	2018	2017
Profit or loss from continuing operations	3	-
Other comprehensive income/(loss)	-	-
	3	**-**

Unrecognised share of the losses of individually immaterial associates was nil in 2018 and 2017.

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 2018 and 2017.

55 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 2018 and 2017, 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 2018 and 2017 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 2018 off-balance sheet instruments amounts to EUR 20 million (2017: EUR 14 million). There were no derivatives linked to structured unconsolidated entities.

Size of structured entities
NIBC provides a different measure for the size of structured entities depending on their type. The following measures have been considered as appropriate indicators for evaluating the size of structured entities:
- Securitisations – notional of notes in issue when NIBC derives its interests through notes its holds and notional of derivatives when NIBC's interests is in the form of derivatives; and
- Third party fund entities – total assets in entities. For third party fund entities, size information is based on the latest available investor reports and financial statements.

Summary of interests in unconsolidated structured entities
The following table shows, by type of unconsolidated structured entity, the carrying amounts of NIBC's interests recognised in the consolidated statement of financial position as well as the maximum exposure to loss resulting from these interests. It also provides an indication of the size of the structured entities. The carrying amounts presented in the following table do not reflect the

maximum exposure to loss because the mitigating effects of collateral and hedges are not taken into consideration.

in EUR millions	Securitisations	Third party fund entities	2018
Financial assets at fair value through profit or loss (including trading)			
Equity investments (including investments in associates)	-	85	85
Financial assets at fair value through other comprehensive income			
Debt investments	221		221
Equity investments	-		-
Financial assets at amortised cost			
Debt investments			-
Loans		1	1
Total assets	**221**	**86**	**307**
Off-balance sheet exposure	-		-
Total maximum exposure to loss	**221**	**86**	**307**
Size of structured entities	13,547	61,139	74,686

in EUR millions	Securitisations	Third party fund entities	2017
Financial assets at fair value through profit or loss (including trading)			
Equity investments (including investments in associates)	-	206	206
Financial assets at available-for-sale			
Equity investments	-	25	25
Debt investments	110	-	110
Financial assets at amortised cost			
Loans	-	1	1
Debt investments	18	-	18
Total assets	**128**	**232**	**360**
Off-balance sheet exposure	-	14	14
Total maximum exposure to loss	**128**	**246**	**374**
Size of structured entities	8,521	3,268	11,789

Loans of EUR 1 million (2017: EUR 1 million) consist of investments in securitisation tranches and financing to third party fund entities. NIBC's financing to third party fund entities is collateralised by the assets in those structured entities.

No debt investments are collateralised by the assets contained in these entities.

Equity investments of EUR 105 million (2017: EUR 231 million) primarily consist of investments in associates of EUR 30 million, EUR 12 million and EUR 13 million in JCF IV Coinvest Neptun I L.P., JC Flowers IV LP and NIBC European Infrastructure Fund I C.V. respectively.

Exposure to losses

NIBC's exposure to losses related to securitisations depends on the level of subordination of the interest which indicates the extent to which other parties are obliged to absorb credit losses before NIBC. This is summarised in the following table. There is no significant level of subordination relating to third-party funding.

in EUR millions	Subordinated interests	Mezzanine interests	Senior interests	Most senior interests	2018
Securitisations:					
I) Maximum exposure to loss	-	-	-	221	221
II) Potential losses held by other investors	-	244	924	12,159	13,327

in EUR millions	Subordinated interests	Mezzanine interests	Senior interests	Most senior interests	2017
Securitisations:					
I) Maximum exposure to loss	-	-	-	128	128
II) Potential losses held by other investors	-	247	625	7,521	8,393

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	2018
Net income unconsolidated structured entities:			
Net interest income	-	-	-
Net fee and commission income	-	9	9
Investment income	-	58	58
	-	**67**	**67**

in EUR millions	Securitisations	Third party entities	2017
Net income unconsolidated structured entities:			
Net interest income	-	4	4
Net fee and commission income	-	6	6
Investment income	-	45	45
	-	**55**	**55**

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 2018 comprised to nil (31 December 2017: nil) interest earned from bonds recognised within interest income.

Assets transferred to unconsolidated sponsored structured entities
The carrying amounts of assets transferred to unconsolidated sponsored structured entities during the period were nil.

56 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 2018. 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 CRD IV and the Dutch remuneration legislation for Financial Service Companies (Wet beloning Financiële ondernemingen - Wbfo).

Regular annual remuneration
In 2018, the average number of members of the Statutory Board appointed under the articles of association was 3 (2017: 3). For the total regular annual remuneration costs (including pension costs) for members of the Statutory Board, appointed under the articles of association, reference is made to note 9 Personnel expenses and share-based payments. During 2018 no changes occurred in the Statutory Board.

Base salary and short-term incentive compensation (cash bonus)
In 2018, the base salary for the Chairman and for members of the Statutory Board increased with respectively 3% and 9%. 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 2018 the following incentive compensation (excluding one-off retention package) of base salary was granted: The Chief Executive Officer 20%, The Chief Financial Officer 20% and the Chief Risk Officer 20%.

The compensation awards per member of the Statutory Board at 31 December 2018:

in EUR	Short term (incentive) compensation Base salary	Cash bonus	Granted Deferred cash[1]	Pension related short term allowance[2]	Other remuneration elements	Total short term incentive compen-sation
Mr. Paulus de Wilt	825,000	49,500	33,000	180,055	55,424	1,142,979
Mr. Herman Dijkhuizen	600,000	36,000	24,000	123,805	54,312	838,116
Mr. Reinout van Riel	600,000	36,000	24,000	123,805	46,712	830,517
	2,025,000	**121,500**	**81,000**	**427,664**	**156,448**	**2,811,611**

1 These granted remuneration elements will be expensed based upon pre-agreed vesting criteria.
2 A collective allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 105,075 (2017: EUR 103,317).

in EUR	Long term (incentive) compensation Post employment contribution	Share based payments one-off retention package	Share based payments Phantom Share Units	Share based payments Restricted Phantom Share Units[1]	Total
Mr. Paulus de Wilt	36,497	1,485,000	49,500	33,000	2,746,975
Mr. Herman Dijkhuizen	35,303	1,080,000	36,000	24,000	2,013,419
Mr. Reinout van Riel	33,824	1,080,000	36,000	24,000	2,004,340
	105,623	**3,645,000**	**121,500**	**81,000**	**6,764,735**

1 These granted remuneration elements will be expensed based upon pre-agreed vesting criteria.

The compensation awards per member of the Statutory Board at 31 December 2017:

in EUR	Short term (incentive) compensation Base salary	Cash bonus	Deferred cash[1]	Pension related short term allowance[2]	Other remuneration elements	Total short term incentive compen-sation
Mr. Paulus de Wilt	800,000	48,000	32,000	119,881	79,743	1,079,624
Mr. Herman Dijkhuizen	550,000	33,000	22,000	92,525	65,222	762,747
Mr. Reinout van Riel	550,000	33,000	22,000	63,472	44,719	713,191
	1,900,000	**114,000**	**76,000**	**275,878**	**189,684**	**2,555,561**

1 These granted remuneration elements will be expensed based upon pre-agreed vesting criteria.
2 A collective allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 105,075 (2017: EUR 103,317).

in EUR	Long term (incentive) compensation Post employment contribution	Share based payments[1] Phantom Share Units	Share based payments[1] Restricted Phantom Share Units[2]	Total
Mr. Paulus de Wilt	31,574	48,000	32,000	1,191,198
Mr. Herman Dijkhuizen	30,144	33,000	22,000	847,891
Mr. Reinout van Riel	29,113	33,000	22,000	797,303
	90,832	**114,000**	**76,000**	**2,836,393**

1 Phantom share units.
2 These granted remuneration elements will be expensed based upon pre-agreed vesting criteria.

The short term compensation share related awards ((restricted) phantom share units) per member of the Statutory Board:

	Number of phantom share units		Number of restricted phantom share units	
	2018	2017	2018	2017
Mr. Paulus de Wilt	5,957	4,651	3,971	3,101
Mr. Herman Dijkhuizen	4,332	3,198	2,888	2,132
Mr. Reinout van Riel	4,332	3,198	2,888	2,132
	14,621	**11,047**	**9,747**	**7,365**

The information below reconciles the compensation granted and the related expenses in the income statement for Statutory Board members as disclosed in note 9. Under the current remuneration structure, rewards are paid out over a number of years, or in case of shares, deferred cash and RPSUs, vest over a number of years.

Remuneration expenses per member of the Statutory Board over 2018

	Short term (incentive) compensation					
in EUR	Base salary	Cash bonus	Deferred cash	Pension related short term allowance	Other remuneration elements	Total short term incentive compen-sation
Mr. Paulus de Wilt	825,000	49,500	28,515	180,055	119,800	1,202,869
Mr. Herman Dijkhuizen	600,000	36,000	19,433	123,805	101,131	880,369
Mr. Reinout van Riel	600,000	36,000	19,111	123,805	46,712	825,628
	2,025,000	**121,500**	**67,059**	**427,664**	**267,642**	**2,908,865**

in EUR	Long term (incentive) compensation Post employment contribution	Share based payments one-off retention package	Share based payments Phantom Share Units	Share based payments Restricted Phantom Share Units	Total
Mr. Paulus de Wilt	36,497	1,410,193	49,500	28,515	2,727,573
Mr. Herman Dijkhuizen	35,303	1,025,595	36,000	19,433	1,996,699
Mr. Reinout van Riel	33,824	1,025,595	36,000	19,112	1,940,158
	105,623	**3,461,383**	**121,500**	**67,059**	**6,664,430**

Remuneration expenses per member of the Statutory Board at 31 December 2017

	Short term (incentive) compensation					
in EUR	Base salary	Cash bonus	Deferred cash	Pension related short term allowance	Other remuneration elements	Total short term incentive compen-sation
Mr. Paulus de Wilt	800,000	48,000	31,704	119,881	254,266	1,253,851
Mr. Herman Dijkhuizen	550,000	33,000	14,710	92,525	153,945	844,181
Mr. Reinout van Riel	550,000	33,000	11,458	63,472	44,719	702,649
	1,900,000	**114,000**	**57,872**	**275,878**	**452,930**	**2,800,681**

in EUR	Long term (incentive) compensation Post employment contribution	Share based payments one-off retention package	Share based payments Phantom Share Units	Share based payments Restricted Phantom Share Units	Total
Mr. Paulus de Wilt	31,574	-	48,000	21,982	1,355,408
Mr. Herman Dijkhuizen	30,144	-	33,000	14,709	922,033
Mr. Reinout van Riel	29,113	-	33,000	11,459	776,221
	90,832	**-**	**114,000**	**48,150**	**3,053,663**

Remuneration of the Supervisory Board members

The remuneration of the (former) Supervisory Board members relates to their position within NIBC Holding and NIBC Bank.

	2018			2017		
in EUR	Before tax	Value Added Tax	Incl. tax	Before tax	Value Added Tax	Incl. tax
Members:						
Mr. W.M. van den Goorbergh	102,500	21,525	124,025	102,500	21,525	124,025
Mr. D.R. Morgan	-	-	-	38,750	-	38,750
Mr. M.J. Christner	60,000	-	60,000	60,000	-	60,000
Mr. J.C. Flowers	50,000	-	50,000	50,000	-	50,000
Mr. A. de Jong[1]	62,292	-	62,292	65,000	-	65,000
Ms. S.A. Rocker	-	-	-	28,750	-	28,750
Mr. D.M. Sluimers	87,500	18,375	105,875	77,500	16,275	93,775
Ms. K.M.C.Z. Steel[2]	46,667	-	46,667	70,000	-	70,000
Mr. A.H.A. Veenhof[3]	16,250	3,412	19,662	65,000	13,650	78,650
Mr. R.L. Carrión	60,000	-	60,000	15,000	-	15,000
Ms. A.G.Z. Kemna[4]	26,250	5,513	31,763	-	-	-
Ms. S.M. Zijderveld[5]	24,375	5,119	29,494	-	-	-
Total remuneration	**535,833**	**53,944**	**589,778**	**572,500**	**51,450**	**623,950**

1 Mr. A. de Jong stepped down as a member of the Supervisory Board at the end of his term on 14 December 2018.
2 Ms. K.M.C.Z. Steel stepped down as a member of the Supervisory Board at the end of her term on 19 August 2018.
3 Mr. A.H.A. Veenhof stepped down as a member of the Supervisory Board at the end of his term on 30 March 2018.
4 Ms. A.G.Z. Kemna was appointed as a member of the Supervisory Board as from 27 August 2018 in the Extraordinary General Meeting of Shareholders on 27 August 2018.
5 Ms. S.M. Zijderveld was appointed as a member of the Supervisory Board as from 27 August 2018 in the Extraordinary General Meeting of Shareholders on 27 August 2018.

The remuneration of the Supervisory Board members consists of annual fixed fees and committee fees. As at 31 December 2018 and 31 December 2017, no loans, advance payments or guarantees had been provided by the company to Supervisory Board members.

Depositary receipts

Common Depositary Receipts

The following tables show the holdings by current members of the Statutory Board:

Number of common depositary receipts (investment under DRPP/co-investment programme)	2018	2017
Mr. Paulus de Wilt	54,498	47,198
Mr. Herman Dijkhuizen	39,635	23,590
Total number of common depositary receipts (investment from own funds)	**94,133**	**70,788**

Number of common depositary receipts (one-off retention package, 1st tranche)	2018	2017
Mr. Paulus de Wilt	60,035	-
Mr. Herman Dijkhuizen	43,661	-
Mr. Reinout van Riel	43,661	-
Total number of common depositary receipts (one-off retention package)	**147,357**	**-**

Conditional Common Depositary Receipts and Conditional Restricted 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)	2018	2017
Mr. Paulus de Wilt	-	33,236
Mr. Herman Dijkhuizen	-	16,298
Total number of conditional common depositary receipts (vested one-off matching shares	**-**	**49,534**

Number of conditional restricted depositary receipts (one-off matching shares)	2018	2017
Mr. Paulus de Wilt	-	13,962
Mr. Herman Dijkhuizen	-	7,292
Total number of conditional restricted depositary receipts (one-off matching shares)	**-**	**21,254**

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 matching shares were subject to four-year vesting with one quarter vesting each year on 1 January, but they will immediately vest upon a change of control of NIBC Holding N.V. in which case they (i) will become fully unconditional and (ii) be legally transferred.

In December 2017 it was decided that all unvested CRDR outstanding at 1 January 2018 will vest immediately (accelerated vesting) into CCDRs. The accelerated vesting applied to 3.558 CRDRs (net after tax basis) related to the cancellation of the Long Term Incentive arrangement for certain Statutory Board members.
According to the change of the Plan Rules in 2017, the 70,788 outstanding CCDRs of certain Statutory Board members were released into 70,788 CDRs in January 2018.

(Restricted) Phantom Share Units

Phantom Share Units
In 2010, 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	2018	2017
Mr. Paulus de Wilt	24,632	15,243
Mr. Herman Dijkhuizen	16,898	10,249
Mr. Reinout van Riel	14,181	7,910
Total number of phantom share units	**55,711**	**33,402**

Restricted Phantom Share Units

The following table shows the holdings by members of the Statutory Board:

Number of restricted phantom share units	2018	2017
Mr. Paulus de Wilt	11,208	8,506
Mr. Herman Dijkhuizen	7,822	5,764
Mr. Reinout van Riel	7,709	5,273
Total number of restricted phantom share units	**26,739**	**19,543**

57 Credit risk

This section includes all financial assets subject to credit risk. Non-credit obligations fall under other risk types, such as market risk, and equity is subject to investment risk. Figures may not always add up due to rounding. The following portfolios that contain credit risk have been identified:

- Corporate/Investment Loans;
- Lease receivables;
- Mortgage loans;
- Debt Investments;
- Cash Management;
- Derivatives.

57-1 Credit risk exposure breakdown per portfolio

In EUR millions	IFRS 9 2018	IAS 39 2017
Corporate / investment loans	9,652	9,612
Corporate loans	9,413	9,393
Investment loans	240	220
Lease receivables	52	60
Mortgage loans	9,275	9,146
Debt investments	825	822
Debt from financial institutions and corporate entities	248	324
Securitisations	577	498
Cash management	2,601	2,021
Derivatives	578	1,021
Total	**22,984**	**22,682**

Table 57-1 presents the maximum credit risk exposure per portfolio, without taking collateral or any other credit risk reduction into consideration. For all portfolios except derivatives, this is generally the total commitment of NIBC, which also includes off-balance sheet commitments such as guarantees and undrawn credit lines.

The figures in table 57-1 are not directly comparable to the figures on the balance sheet. Mortgage loans are recognised on the balance sheet under mortgage loans own book and securitised mortgage loans. Debt investments (securitisations) differ from the figure on the balance sheet due to off-balance sheet exposures as disclosed in the Risk Management notes.

NIBC employs an internally-developed methodology under the *Advanced Internal Ratings Based* (**AIRB**) approach for quantifying the credit quality of corporate, retail 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 57-2 and 57-3 are based on internal NIBC sector organisation. NIBC steers its business on internal sector classification, however it can be mapped to the industry sectors of NACE classification, if necessary. For comparability purposes portfolio breakdown based on NACE codes is also provided in a separate document published on NIBC's annual report website.

Tables 57-2 and 57-3 display a breakdown of the Corporate Loan portfolio among regions and industry sectors, at year-end 2018 and 2017. The Corporate Loan portfolio increased by EUR 20 million in 2018 to EUR 9,413 million mainly due to exposure increases in the industry sectors: *Industries & Manufacturing* (**I&M**) and *Shipping & Intermodal* (**S&I**). The relative weight of NIBC's core growth market the Netherlands increased, and the weight of Rest of Europe slightly increased. The corporate loan portfolio in the Netherlands increased to 45% of the total exposure at 31 December 2018 (31 December 2017: 42%).

57-2 Corporate loan exposure per industry sector and region, 31 December 2018

in %	Commercial Real Estate	Food, Agri, Retail & Health	Industries & Manu-facturing	Infra-structure & Renewables	Offshore Energy	Shipping & Intermodal	Telecom, Media, Technology & Services	Total	Total (in EUR millions)
The Netherlands	13	7	13	2	1	3	5	45	4,243
Germany	1	4	6	4	-	1	5	20	1,882
United Kingdom	-	1	1	9	2	2	2	17	1,555
Rest of Europe	-	-	-	1	3	5	1	10	987
Asia / Pacific	-	-	-	-	1	1	-	2	235
North America	-	-	-	-	1	2	-	3	300
Other	-	1	-	-	1	1	-	2	211
Total	**14**	**13**	**20**	**16**	**10**	**15**	**13**	**100**	**9,413**
Total (in EUR millions)	**1,309**	**1,203**	**1,913**	**1,481**	**902**	**1,370**	**1,235**		**9,413**
Expected Recovery[1]	**1,151**	**988**	**1,555**	**1,296**	**739**	**1,277**	**1,046**		**8,050**

1 Including the financial effect of collateral.

57-3 Corporate loan exposure per industry sector and region, 31 December 2017

in %	Commercial Real Estate	Food, Agri, Retail & Health	Industries & Manu-facturing	Infra-structure & Renewables	Offshore Energy	Shipping & Intermodal	Telecom, Media, Technology & Services	Total	IAS 39 Total (in EUR millions)
The Netherlands	13	7	12	2	1	2	4	42	3,931
Germany	2	4	5	4	-	1	6	22	2,089
United Kingdom	-	1	1	10	3	2	2	18	1,712
Rest of Europe	-	-	1	1	3	4	1	9	882
Asia / Pacific	-	-	-	-	1	1	-	2	186
North America	-	-	-	-	1	3	-	4	356
Other	-	1	-	-	1	1	-	3	237
Total	**15**	**13**	**18**	**17**	**10**	**14**	**13**	**100**	**9,393**
Total (in EUR millions)	**1,391**	**1,216**	**1,730**	**1,626**	**934**	**1,297**	**1,198**		**9,393**
Expected Recovery[1]	**1,209**	**989**	**1,388**	**1,400**	**770**	**1,178**	**975**		**7,908**

1 Including the financial effect of collateral.

CRR/CRD IV and credit approval process

NIBC employs an internally-developed methodology under AIRB approach for quantifying the credit quality of its Corporate Loan portfolio. In line with CRR/CRD IV regulations, the methodology consists of three elements:

- CCR, reflecting the through-the-cycly PD of the borrower. The default definition is in line with the CRR/CRD IV definition[1]
- LGD, defined as an anticipated loss in the event of default and under an economic downturn assumption, which takes into account the presence and the value of collateral;
- EAD, which is the amount that is expected to be outstanding at the moment a counterparty defaults.

The CRR/CRD IV PDs, LGDs and EADs that are calculated through NIBC's internal models are used for the calculation of *expected loss* (**EL**) and *regulatory capital* (**RC**). *Economic capital* (**EC**), *risk-adjusted return on capital* (**RAROC**), limit setting and stress testing are additional areas which make use of these parameters, although the values and methodologies for both EC and stress testing differ from those employed in Pillar 1. PDs, LGDs and EADs are also used in the CRR/CRD IV solvency report to the regulator.

Annual backtests of the internal rating framework are carried out to assess the quality and the performance of the models. The internal CCRs and LGDs are also benchmarked periodically with the scales of external rating agencies.

NIBC enforces strict separation of responsibilities with respect to its internal rating methodologies and rating process, model development, model validation and internal audit. The roles and responsibilities of each department involved are explicitly set out in internal policies and manuals, also in conformity with the stipulations of CRR/CRD IV on model governance.

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.

IFRS9 for expected credit loss determination

In order to calculate the Expected Credit Losses (ECL), NIBC has transformed the CRDIV/CRR PD/LGD/EAD to unbiased and point-in-time best-estimates by applying probability-weighted forward-looking scenarios for relevant macroeconomic factors. The ECL consists of three elements:

- Point-in-time PD of the borrower, which is an estimate of the default rate over any specified horizon based on the current state of the credit cycle and the anticipated macroeconomic scenarios.
- Point-in-time LGD, defined as the unbiased loss estimate at a future default date, which takes into account the presence and the value of collateral;
- Point-in-Time EAD, which is the estimation of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments and prepayments of principal and interest, and expected drawdowns on undrawn committed facilities.

Credit approval process

All approvals of individual credit proposals are granted after risk management has made a credit risk assessment and has analysed proposals by taking into consideration, among others, aggregate limits set per country, per industry segment, and per individual counterparty. The total one obligor exposure and related exposure are also taken into account. Individual credit and transaction proposals are then approved in the *Transaction Committee* (**TC**). Proposals, credit reviews and amendments of smaller scale can be approved outside the TC by risk management. All counterparties and, subsequently, all facilities, are reviewed at least once a year.

Credit ratings

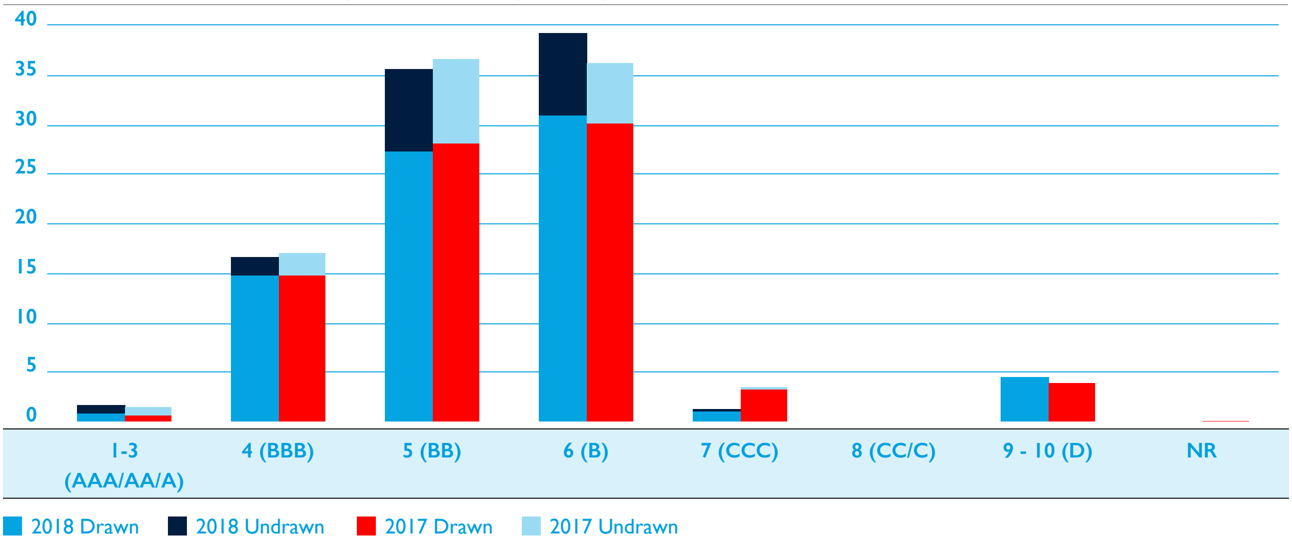
NIBC uses an internal through-the-cycle CCR rating scale which consists of 10 grades (1-10) and a total of 22 notches. This internal rating table relates to the tables in note 25 and note 27 showing the credit quality and the maximum exposure to credit risk. The CCRs 9 and 10 are assigned to counterparties that have already defaulted and therefore carry a PD of 100%.

	Internal rating grade				Equivalent rating scale of Standard & Poor's	
Internal rating description	from	to	Low PD%	High PD%	from	to
Investment grade	1	4-	0.00%	0.425%	AAA	BBB-
Sub-investment grade	5+	8-	0.425%	100%	BB+	C
Default grade	9	9			D	D
Default grade (bankruptcy filing)	10	10			D	D

The weighted average CCR of the non-defaulted clients remained stable during 2018 to 6+ with an average PD of 1.8% at 31 December 2018 (31 December 2017: 1.9%). 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 57-4 shows the distribution of the drawn and undrawn corporate loan exposure per CCR. The numbers on the horizontal axis refer to NIBC's internal rating scale, whereas the letters in parentheses refer to the equivalent rating scale of Standard & Poor's. NR stands for not ratable, which was a negligible portion of the corporate loans (0.1% at 31 December 2018; 0.2% at 31 December 2017). NR is assigned to entities for which NIBC's corporate rating tools were not suitable at the time of rating.

57-4 Drawn and undrawn corporate loan exposure per CCR rating

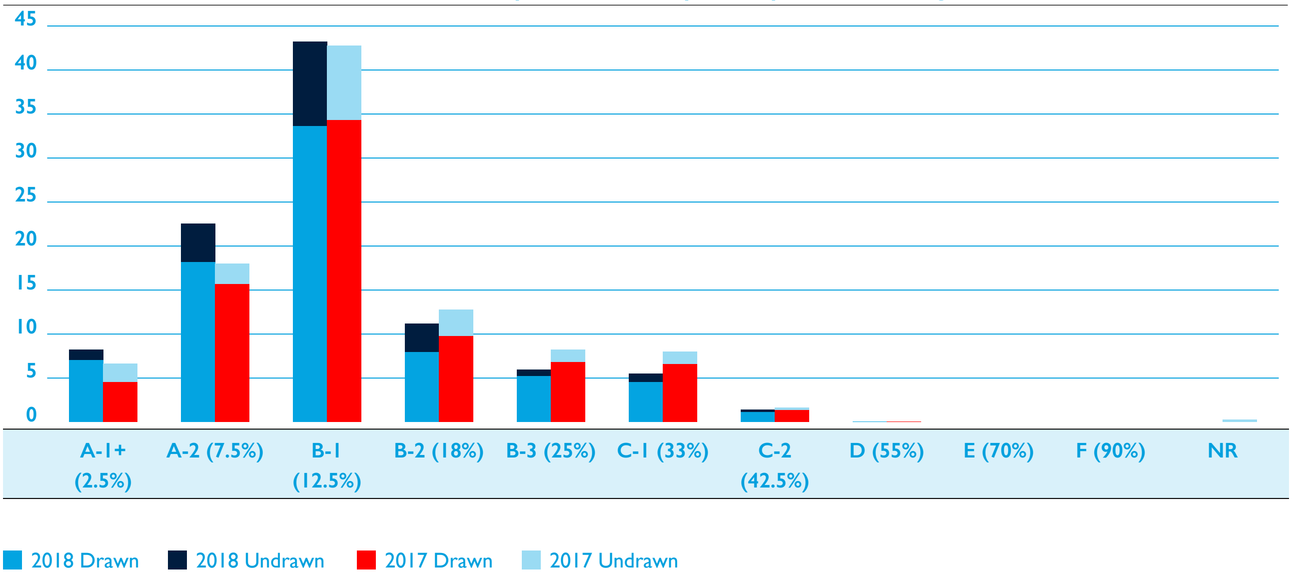


Collateral and LGD

NIBC's internal LGD scale consists of 7 grades (A-F) and 10 notches, each of which represents a different degree of recovery prospects and loss expectations. LGD ratings are facility-specific. The weighted average LGD remained stable at B-1 grade with improved average LGD of 13.8% at 31 December 2018 (31 December 2017: 15.3%). The weighted average LGD is calculated for non-defaulted loans and is weighted by exposure. Nearly all facilities within NIBC have some form of collateralisation, resulting in LGDs concentrated (at inception) in those LGD categories which correspond to high recoveries in the range of 80% and 90%.

Graph 57-5 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 2018; 0.4% at 31 December 2017).

57-5 Drawn and undrawn non-defaulted corporate loan exposure per LGD rating



Note that the corporate loan exposure of graph 57-5 refers to non-defaulted exposure as the LGD is a measure of anticipated loss for facilities of a non-defaulted counterparty.

The most significant types of collateral securing the loan and derivative portfolios are tangible assets, such as real estate, vessels, rigs and equipment. Exposures in the shipping and offshore energy sectors are primarily secured by moveable assets such as vessels and drilling vessels. The commercial real estate portfolio is primarily collateralised by mortgages on financed properties. The fair value of collateral affects the LGD and therefore indirectly affects the calculation of '*expected credit loss*' (ECL) and is generally assessed at inception and periodically re-assessed thereafter. Collateral value on a going concern basis is estimated using third-party appraisers, whenever possible, or valuation techniques based on common market practice. Realisable collateral value is determined as collateral value after haircuts for factors such as business cycle, location, asset construction status or guarantor counterparty rating. For example, loan-to-value ratios are regularly tested and vessels are appraised semi-annually by external parties. Other commercial exposures are, to a large extent, collateralised by assets such as inventory, debtors, lease and other receivables and third-party credit protection (e.g. guarantees).

Arrears

The total arrears in the Corporate Loan portfolio to the total outstanding increased to 0.9% at 31 December 2018 (31 December 2017: 0.6%). An overview of the amounts in arrear per arrear bucket is provided in tables 57-6 and 57-7. 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 2018 and 31 December 2017. The column labelled 'Impairment Amount' includes IFRS 9 stage 3 assets only (31 December 2018: EUR 129 million), which can be compared to IAS 39 on-balance sheet impairment amount (31 December 2017: EUR 126 million) with inclusion of *Incurred but not Reported* (**IBNR**) impairment amounts (31 December 2017: EUR 17million). Loans that are impaired but do not have payment arrears represent restructured loans which are now current on its payment obligations. Tables 57-11 and 57-12 provide more information on impairment amounts.

Note that 31 December 2018 figures are compared with 31 December 2017 figures, although the basis of presentation for some figures was different due to the implementation of IFRS 9. Due to IFRS9 classification, the IAS 39 impairments are compared with the IFRS 9 stage 3 impairments.

57-6 Corporate loan amounts in arrear, 31 December 2018

	IFRS 9 Exposure				IFRS 9 Outstanding				IFRS 9 Amount in arrear		
in EUR millions	Total	% of Exposure	Stage 3 ECL	Stage 1 Stage 2 ECL	Total	% of On-balance	Stage 3 ECL	Stage 1 Stage 2 ECL	Total	% of On-balance	Impairment amount[1]
Age of payment in arrear											
1- 5 days	215	2.3%	46	169	46	0.6%	45	1	4	-	13
6 - 30 days	49	0.5%	-	49	35	0.5%	-	35	30	0.4%	-
31 - 60 days	23	0.2%	20	4	20	0.3%	19	-	16	0.2%	1
61 - 90 days	-	-	-	-	-	-	-	-	-	-	-
Subtotal less than 90 days	**287**	**3.0%**	**65**	**222**	**100**	**1.3%**	**64**	**36**	**50**	**0.7%**	**14**
Over 90 days	80	0.8%	66	14	78	1.0%	66	12	19	0.2%	30
No payment in arrear	9,046	96.1%	269	8,777	7,421	97.7%	268	7,153	-	-	85
Total	**9,413**	**100%**	**400**	**9,013**	**7,599**	**100%**	**398**	**7,201**	**69**	**0.9%**	**129**

1 Impairment amount includes IFRS 9 Stage 3 assets only.

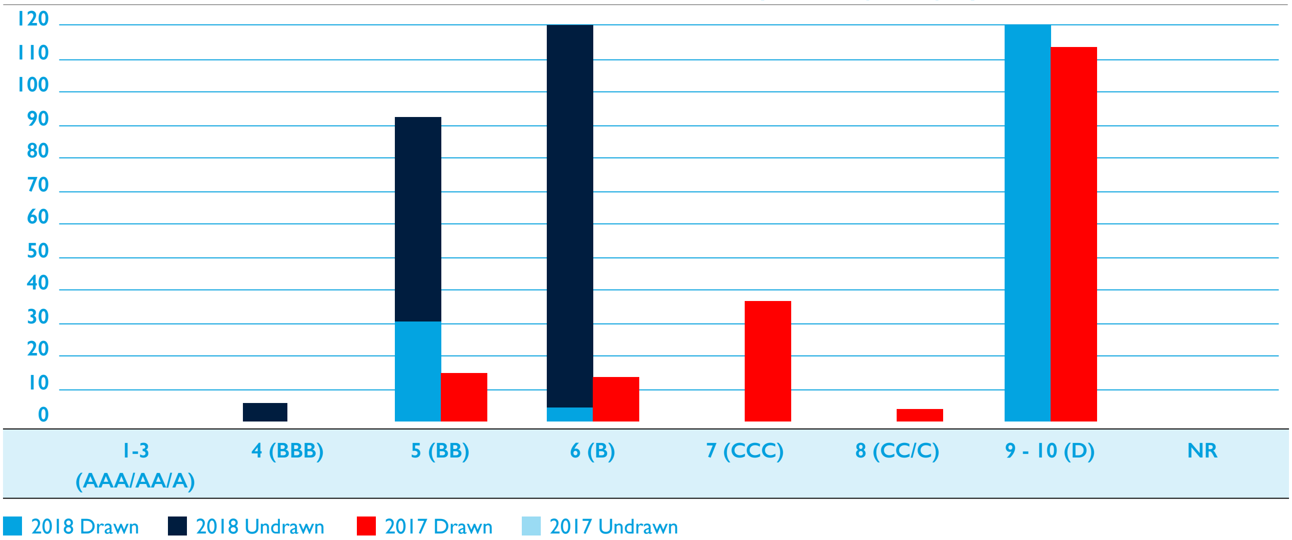
57-7 Corporate loan amounts in arrear, 31 December 2017

	IAS 39 Exposure				IAS 39 Outstanding				IAS 39 Amount in arrear		
in EUR millions	Total	% of Exposure	Impaired	Not impaired	Total	% of On-Balance	Impaired	Not impaired	Total	% of On-Balance	Impairment amount
Age of payment in arrear											
1- 5 days	5	0.1%	-	5	5	0.1%	-	5	1	-	-
6 - 30 days	15	0.2%	-	15	15	0.2%	-	15	5	-	-
31 - 60 days	9	-	-	9	9	-	-	9	1	-	-
61 - 90 days	-	-	-	-	-	-	-	-	-	-	-
Subtotal less than 90 days	**29**	**0.3%**	**-**	**29**	**29**	**0.4%**	**-**	**29**	**7**	**0.1%**	**-**
Over 90 days	155	1.6%	82	73	154	2.0%	81	73	42	0.5%	32
No payment in arrear	9,209	98.0%	223	8,985	7,533	97.6%	222	7,311	-	-	111
Total	**9,393**	**100.0%**	**305**	**9,088**	**7,717**	**100.0%**	**303**	**7,414**	**49**	**0.6%**	**143**

NIBC applies a threshold for determining whether a loan carries a non-material arrear. If the total of the sum of all individual arrears on facility level is lower than 1% of the loan amount outstanding and EUR 500, and the oldest due date of individual counterparty is less than 90 days, then the arrear is considered insignificant. If arrears fall within the threshold, the exposure is placed on the 'no payment in arrear' line on tables 57-6 and 57-7. The application of this threshold does not influence the total arrears, which amounted to EUR 69 million at 31 December 2018 (31 December 2017: EUR 49 million).

Graph 57-8 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 2018 was EUR 367 million (31 December 2017: EUR 184 million) and the total drawn amount at 31 December 2018 was EUR 178million (31 December 2017: EUR 184 million).

57-8 Distribution of drawn and undrawn amounts with an arrear per rating category



Forbearance and non-performing Corporate Loans

NIBC considers a client to be forborne if:

1. NIBC considers the obligor to be in financial difficulties, and

2. NIBC grants a concession to the obligor

Financial difficulties are defined as a debtor facing or about to face difficulties meeting financial obligations. Concession refers to one of the following (per facility):
- Modification of terms or conditions of a troubled facility to allow sufficient debt service capacity (that would not be granted if the obligor were not in financial difficulties);
- (partial) Refinancing of a troubled facility (that would not be granted without financial difficulties).

An obligor is considered non-performing if one or more of the following criteria are applicable:
- Material exposures are more than 90 days past due;
- The obligor is unlikely to pay its credit obligations in full, without realisation of collateral;
- A performing forborne facility under probation is extended additional forbearance measures or becomes more than 30 days past due.

The first two criteria are the same as the default criteria and therefore a defaulted obligor is always non-performing as well.

Tables 57-9 and 57-10 provide the total forborne outstanding in NIBC's Corporate Loan portfolio per industry sector and per region as at 31 December 2018. 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 2018, EUR 70 million non-performing outstanding was not forborne. Comparable figures for 2017 can be seen in Tables 57-11 and 57-12.

Table 57-9 Forborne exposure per industry sector, 31 December 2018

	Exposure		Total Exposure	IFRS 9 Impairment amount[1]
in EUR millions	Non-performing	Performing		
Commercial Real Estate	65	46	111	21
Food, Agri, Retail & Health	21	6	28	7
Industries & Manufacturing	46	22	68	8
Infrastructure & Renewables	57	5	62	1
Offshore Energy	69	90	158	15
Shipping & Intermodal	109	66	174	21
Telecom, Media, Technology & Services	34	12	46	14
Total	**401**	**246**	**647**	**88**

1 Impairment amount includes IFRS 9 Stage 3 assets only.

Table 57-10 Forborne exposure per region, 31 December 2018

in EUR millions	Exposure Non-performing	Exposure Performing	Total Exposure	IFRS 9 Impairment amount[1]
The Netherlands	125	87	212	21
Germany	158	64	222	36
United Kingdom	33	-	33	13
Rest of Europe	75	72	147	14
Asia / Pacific	10	-	10	5
North America	-	-	-	-
Other	-	24	24	-
Total	**401**	**246**	**647**	**88**

1 Impairment amount includes IFRS 9 Stage 3 assets only.

Table 57-11 Forborne exposure per industry sector, 31 December 2017

in EUR millions	Exposure Non-performing	Exposure Performing	Total Exposure	IAS 39 Impairment Amount
Commercial Real Estate	97	81	178	38
Food, Agri, Retail & Health	10	7	17	3
Industries & Manufacturing	4	78	82	2
Infrastructure & Renewables	50	4	53	14
Offshore Energy	173	153	326	50
Shipping & Intermodal	46	168	213	15
Telecom, Media, Technology & Services	19	14	33	-
Total	**398**	**504**	**903**	**122**

Table 57-12 Forborne exposure per region, 31 December 2017

in EUR millions	Exposure Non-performing	Exposure Performing	Total Exposure	IAS 39 Impairment Amount
The Netherlands	49	140	188	8
Germany	146	120	266	52
United Kingdom	43	66	109	24
Rest of Europe	62	153	215	7
Asia / Pacific	22	-	22	17
North America	32	25	57	-
Other	44	-	44	15
Total	**398**	**504**	**903**	**122**

IFRS 9 impairments of forborne facilities amounted to EUR 88 million at 31 December 2018, which represented 14% of the total forborne balances. The total impairments of the Corporate Loan portfolio, mostly related to specific files in stage 3, amounted to EUR 129 million at 31 December 2018, which represented 1.4% of the total Corporate Loan portfolio of EUR 9.4 billion.

Table below provides an overview of the total forborne facilities with expected credit losses (ECL) amounts under three stages:

Table 57-13 Forborne exposure per ECL stages, 31 December 2018

	IFRS 9 2018		
in EUR millions	Exposure amount	Expected credit loss	Write-offs
Stage 1			
Commercial Real Estate	-	-	
Food, Agri, Retail & Health	-	-	
Industries & Manufacturing	3	-	
Infrastructure & Renewables	-	-	
Offshore Energy	21	-	
Shipping & Intermodal	24	-	
Telecom, Media, Technology & Services	-	-	
Total stage 1	**47**	**-**	
Stage 2			
Commercial Real Estate	46	1	
Food, Agri, Retail & Health	2	-	
Industries & Manufacturing	41	1	
Infrastructure & Renewables	5	-	
Offshore Energy	69	2	
Shipping & Intermodal	42	-	
Telecom, Media, Technology & Services	12	-	
Total stage 2	**217**	**3**	
Stage 3			
Commercial Real Estate	65	21	
Food, Agri, Retail & Health	21	7	
Industries & Manufacturing	22	8	
Infrastructure & Renewables	11	1	
Offshore Energy	69	15	
Shipping & Intermodal	109	21	
Telecom, Media, Technology & Services	34	14	
Total stage 3	**330**	**88**	
Total of stages 1, 2 and 3			
Commercial Real Estate	111	22	
Food, Agri, Retail & Health	23	7	
Industries & Manufacturing	66	9	
Infrastructure & Renewables	16	1	
Offshore Energy	158	17	
Shipping & Intermodal	174	21	
Telecom, Media, Technology & Services	46	14	
Total stages 1, 2 and 3	**595**	**92**	
No Stage			
Other loans (FVtPL, POCI)	52	-	
Total amounts	**647**	**92**	

Expected credit losses amounts

With the exception of purchased or originated credit impaired financial assets, ECL is determined under the following three stages:

- Stage 1 – For newly originated loans and loans with no significant increase in their credit risk, the ECL is determined on a 12-month horizon;
- Stage 2 – For loans with a significant increase in credit risk (SICR), ECL is determined on a (remaining) lifetime basis. The assessment of SICR incorporates forward-looking information and is performed on a regular basis at an obligor level.
- Stage 3 - For defaulted and credit-impaired loans, the ECL is determined on a (remaining) lifetime basis and based on facility-specific cash flow scenarios. The loss amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If collateral is present, then the present value of the future cash flows reflects the foreclosure of collateral. More information on the method impairments are calculated is included in the Accounting Policies section.

NIBC determines a default on a borrower level, whereas the credit-impaired definition is applied at facility level. When a default occurs, the entire exposure and outstanding amount of the borrower are classified as defaulted. If, however, stage 3 expected credit loss amount is taken on a facility, only the exposure amount of that particular facility is classified as credit-impaired.

In 2018, the total write-offs (EUR 48 million) decreased compared to 2017 (EUR 52 million), mainly in Shipping & Intermodal and Telecom, media, technology & services sectors. The stock of impairments (related to stage 3 assets) decreased and amounted to EUR 129 million at year-end 2018 (year-end 2017: EUR 143 million).

Tables 57-14 and 57-15 display an overview of IFRS 9 stage 1, stage 2 and stage 3 ECL amounts at 31 December 2018 and IAS 39 impairments amount 31 December 2017, subdivided in industry sectors and regions, respectively. Note that it is relevant to compare IFRS 9 stage 3 ECL amount in 2018 with IAS 39 impairment amount in 2017. The column labelled 'Exposure' includes both drawn and undrawn amounts.

57-14 Expected credit losses per industry sector

	IFRS 9 2018		
in EUR millions	Exposure amount	Expected credit loss	Write-offs
Stage 1			
Commercial Real Estate	1,088	1	
Food, Agri, Retail & Health	1,093	2	
Industries & Manufacturing	1,692	3	
Infrastructure & Renewables	1,378	1	
Offshore Energy	533	1	
Shipping & Intermodal	1,070	1	
Telecom, Media, Technology & Services	1,148	2	
Total stage 1	**8,001**	**10**	
Stage 2			
Commercial Real Estate	46	1	
Food, Agri, Retail & Health	76	2	
Industries & Manufacturing	194	4	
Infrastructure & Renewables	31	1	
Offshore Energy	237	5	
Shipping & Intermodal	190	1	
Telecom, Media, Technology & Services	53	2	
Total stage 2	**826**	**15**	
Stage 3			
Commercial Real Estate	65	21	18
Food, Agri, Retail & Health	21	7	4
Industries & Manufacturing	26	10	8
Infrastructure & Renewables	11	1	-
Offshore Energy	131	53	19
Shipping & Intermodal	111	22	-
Telecom, Media, Technology & Services	34	14	-
Total stage 3	**399**	**129**	**48**
Total of stages 1, 2 and 3			
Commercial Real Estate	1,199	23	18
Food, Agri, Retail & Health	1,190	11	4
Industries & Manufacturing	1,911	16	8
Infrastructure & Renewables	1,420	4	-
Offshore Energy	902	59	19
Shipping & Intermodal	1,370	23	-
Telecom, Media, Technology & Services	1,235	18	-
Total stages 1, 2 and 3	**9,226**	**155**	**48**
No Stage			
Other loans (FVtPL, POCI)	187	-	-
Total amounts	**9,413**	**155**	**48**

Impairment per industry sector

in EUR millions	IFRS 9 2018 Exposure	IFRS 9 2018 Impaired exposure	IFRS 9 2018 Impairment amount	IFRS 9 2018 Write-offs	IAS 39 2017 Exposure	IAS 39 2017 Impaired exposure	IAS 39 2017 Impairment amount	IAS 39 2017 Write-offs
Commercial Real Estate	1,309	65	21	18	1,391	98	39	5
Food, Agri, Retail & Health	1,203	21	7	4	1,216	10	3	3
Industries & Manufacturing	1,913	26	10	8	1,730	6	3	11
Infrastructure & Renewables	1,481	11	1	-	1,626	51	15	-
Offshore Energy	902	132	53	19	934	92	50	16
Shipping & Intermodal	1,370	111	22	-	1,297	48	16	11
Telecom, Media, Technology & Services	1,235	34	14	-	1,198	-	-	6
IBNR Corporate Loans			-				17	
Total	**9,413**	**400**	**129**	**48**	**9,393**	**305**	**143**	**52**

57-15 Expected credit losses per region

	IFRS 9 2018		
in EUR millions	Exposure amount	Expected credit loss	Write-offs
Stage 1			
The Netherlands	3,757	5	
Germany	1,549	3	
United Kingdom	1,355	1	
Rest of Europe	694	1	
Asia / Pacific	194	-	
North America	283	-	
Other	169	-	
Total stage 1	**8,001**	**10**	
Stage 2			
The Netherlands	247	5	
Germany	169	3	
United Kingdom	147	4	
Rest of Europe	173	2	
Asia / Pacific	30	-	
North America	18	-	
Other	42	2	
Total stage 2	**826**	**15**	
Stage 3			
The Netherlands	100	21	2
Germany	116	37	19
United Kingdom	53	30	8
Rest of Europe	120	37	-
Asia / Pacific	10	5	10
North America	-	-	-
Other	-	-	9
Total stage 3	**399**	**129**	**48**
Total of stages 1, 2 and 3			
The Netherlands	4,104	30	2
Germany	1,835	43	19
United Kingdom	1,555	35	8
Rest of Europe	987	40	-
Asia / Pacific	234	5	10
North America	300	-	-
Other	211	2	9
Total stages 1, 2 and 3	**9,226**	**154**	**48**
No Stage			
Other loans (FVtPL, POCI)	187	-	-
Total amounts	**9,413**	**154**	**48**

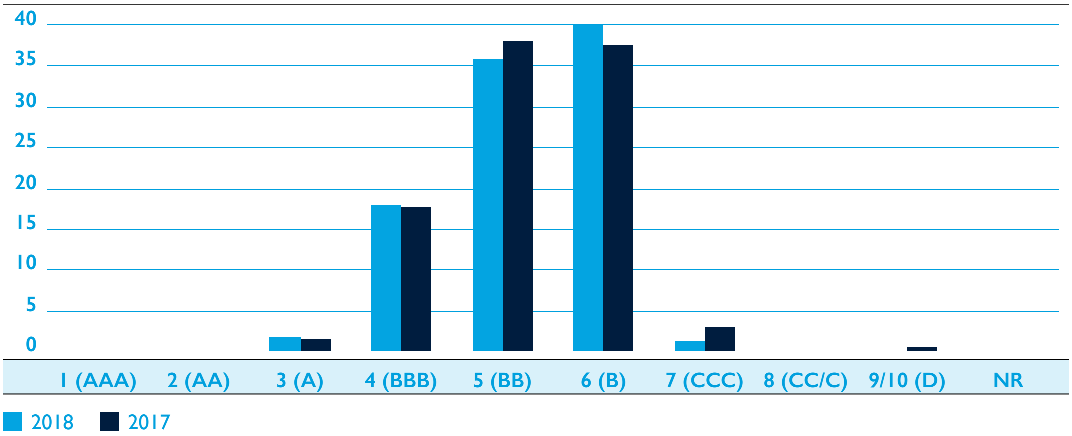
Impairments per region

	IFRS 9 2018				IAS 39 2017			
in EUR millions	Exposure	Impaired exposure	Impairment amount	Write-offs	Exposure	Impaired exposure	Impairment amount	Write-offs
The Netherlands	4,243	100	21	2	3,931	31	9	16
Germany	1,882	116	37	19	2,089	148	53	9
United Kingdom	1,555	53	30	8	1,712	45	24	14
Rest of Europe	987	120	37	-	882	37	8	-
Asia / Pacific	235	10	5	10	186	22	17	11
North America	300	-	-	-	356	-	-	2
Other	211	-	-	9	237	22	15	-
IBNR Corporate Loans			-				17	
Total	**9,413**	**400**	**129**	**48**	**9,393**	**305**	**143**	**52**

Corporate loans without impairments or arrears

At 31 December 2018, the size of the corporate loan exposure carrying stage 1 and stage 2 credit losses equalled EUR 8,072 million or 96% of the total Corporate Loan portfolio (31 December 2017: EUR 8,592 million or 96%). Graph 57-16 displays the distribution of exposure amounts without (stage 3) impairments or arrears, at 31 December 2018 and 31 December 2017. Of this exposure 94% is rated in CCR categories 4, 5 and 6 (BBB, BB and B categories in external rating agencies' scales). NR represents a negligible part of the portfolio (31 December 2018: 0.1% of all loans without stage 3 credit losses or amounts in arrear; 31 December 2017: 0.2%).

57-16 Distribution of exposure amount without impairments or arrears per rating category



Country risk

Country risk is the risk that an entity defaults due to political, social, economical or financial turmoil in its applicable jurisdiction(s). Country risk can potentially be an important cause of increased counterparty default risk since a large number of individual debtors could default at the same time. NIBC did not experience any counterparty defaults from this risk in 2018.

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. Note that not all investment loans are meeting SPPI requirements on the balance sheet. Those that meet the SPPI requirements are subject to ECL and those that fail SPPI requirements are classified at FVTPL as at 1 January 2018.

The investment loan can be divided into indirect investments and direct investments. Indirect investments are investments made through *funds* (**NIBC Funds**). Direct investments are all other investments.

Direct investments or commitments in NIBC Funds are approved by the *Investment Committee* (**IC**) of NIBC. Indirect investments are approved by the investment committees of the NIBC Funds, subject to the investment guidelines stipulated in the fund agreements between the manager of the NIBC Fund and the investors.

Investment officers monitor the quality of counterparties in the portfolio on a regular basis. On a quarterly basis, the entire Investment Loan portfolio is assessed for impairment. All existing impairments are reviewed. Impairments of indirect investments are determined by the manager of the NIBC Fund. All impairments are reviewed and approved by the IC.

The total size of investment loans at 31 December 2018 was EUR 240 million (31 December 2017: EUR 220 million), of which 98% had been drawn (31 December 2017: 91%). In line with the characteristics of the asset class, investment loans typically carry riskier internal CCRs and often a higher LGD than corporate loans. At 31 December 2018, the weighted average *counterparty credit rating* (**CCR**) of non-defaulted investment loans remained stable at an internal rating 6 (31 December 2017: 6) on NIBC's internal rating scale (equivalent to B on external rating agencies' scales).

Tables 57-17 and 57-18 display a breakdown of investment loans per region and industry sector at 31 December 2018 and 31 December 2017.

57-17 Breakdown of investment loans per region

	IFRS 9 2018		IAS 39 2017	
in EUR millions	Exposure	%	Exposure	%
Commercial Real Estate	16	6%	22	10%
Food, Agri, Retail & Health	107	45%	99	45%
Industries & Manufacturing	55	23%	28	13%
Infrastructure & Renewables	3	1%	22	10%
Offshore Energy	17	7%	17	8%
Shipping & Intermodal	-	-	-	-
Telecom, Media, Technology & Services	42	17%	32	14%
Total	**240**	**100%**	**220**	**100%**

57-18 Breakdown of investment loans per industry sector

	IFRS 9 2018		IAS 39 2017	
in EUR millions	Exposure	%	Exposure	%
The Netherlands	230	96%	216	98%
Germany	2	1%	2	1%
United Kingdom	6	3%	1	-
Rest of Europe	1	-	-	-
North America	-	-	-	-
Total	**240**	**100%**	**220**	**100%**

Arrears

The amounts in arrear as a percentage of exposure at year-end 2018 was 1.2% which is an increase from 0.8% at year-end 2017.

57-19 Investment loan amounts in arrear, 31 December 2018

	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	7	3.0%	5	2%	1	0.3%	-
> 90 days	13	5.3%	12	5%	2	0.9%	1
no payment arrear	220	91.7%	206	92%	-	-	7
Total	**240**	**100%**	**224**	**100%**	**3**	**1.2%**	**8**

57-20 Investment loan amounts in arrear, 31 December 2017

	IAS 39 Exposure		IAS 39 Outstanding		IAS 39 Amount in arrear		
In EUR millions	Total	% of Exposure	Total	% of On-balance	Total	% of On-balance	Impairment amount
Age of payment in arrear							
1 - 5 days	8	3.8%	8	4%	1	0.5%	-
> 90 days	12	5.4%	12	6%	1	0.3%	-
no payment arrear	200	90.9%	181	90%	-	-	3
Total	**220**	**100%**	**201**	**100%**	**2**	**0.8%**	**3**

Expected credit loss amounts

At 31 December 2018, stage 3 credit losses on investment loans increased to EUR 4 million (31 December 2017: EUR 3 million). Table 57-21 shows the breakdown of expected credit losses and write-offs in industry sectors at 31 December 2018 and IAS 39 impairments at 31 December 2017. The column labelled 'Exposure' includes both drawn and undrawn amounts, and the column labelled 'Impairment Amount' refers to drawn amounts of impaired facilities.

57-21 Impairment per industry sector

in EUR millions	IFRS 9 2018		
	Exposure amount	Expected credit loss	Write-offs
Stage 1			
Commercial Real Estate	16	-	
Food, Agri, Retail & Health	41	-	
Industries & Manufacturing	42	-	
Infrastructure & Renewables	2	-	
Offshore Energy	17	-	
Shipping & Intermodal	-	-	
Telecom, Media, Technology & Services	1	-	
Total stage 1	**119**	**-**	
Stage 2			
Commercial Real Estate	-	-	
Food, Agri, Retail & Health	48	1	
Industries & Manufacturing	5	-	
Infrastructure & Renewables	-	-	
Offshore Energy	-	-	
Shipping & Intermodal	-	-	
Telecom, Media, Technology & Services	5	-	
Total stage 2	**59**	**1**	
Stage 3			
Commercial Real Estate	-	-	
Food, Agri, Retail & Health	13	1	
Industries & Manufacturing	-	-	
Infrastructure & Renewables	1	1	
Offshore Energy	-	-	
Shipping & Intermodal	-	-	
Telecom, Media, Technology & Services	10	3	
Total stage 3	**24**	**4**	
Total of stages 1, 2 and 3			
Commercial Real Estate	16	-	-
Food, Agri, Retail & Health	103	2	-
Industries & Manufacturing	47	-	-
Infrastructure & Renewables	3	1	-
Offshore Energy	17	-	-
Shipping & Intermodal	-	-	-
Telecom, Media, Technology & Services	17	3	-
Total stages 1, 2 and 3	**202**	**5**	**-**
No Stage			
Other loans (FVtPL, POCI)	37	4	-
Total amounts	**240**	**9**	**-**

	IAS 39 2017			
in EUR millions	Exposure	Impaired exposure	Impairment amount	Write-offs
Commercial Real Estate	22	-	-	-
Food, Agri, Retail & Health	99	6	-	22
Industries & Manufacturing	28	-	-	-
Infrastructure & Renewables	22	-	-	-
Offshore Energy	17	-	-	-
Shipping & Intermodal	-	-	-	-
Telecom, Media, Technology & Services	32	9	3	-
Total	**220**	**16**	**3**	**22**

At 31 December 2018, the investment loans that carried stage 1 and stage 2 credit losses equalled EUR 178 million or 88% of total (31 December 2017: EUR 184 million or 84% of total).

Lease receivables

In 2014, NIBC obtained a leasing portfolio as a result of the acquisition of Gallinat-Bank AG in Germany. This is a static portfolio and strict criteria were in place to determine the eligibility of lease contracts for this programme. These were entered into with German lessees to finance moveable objects such as trucks and trailers. The contracts are to commercial clients in the German SME market and consist of hire purchase contracts, partially amortising and fully amortising lease contracts. The servicing of this portfolio remains with the leasing company. The portfolio is financed by NIBC via a ring-fenced structure benefiting from credit enhancement. At the end of December 2018, the leasing portfolio continues to decrease from the original EUR 221 million to EUR 21 million.

EUR 32 million of leases on the balance sheet are related to one single counterparty.

Mortgage loans

The composition of the Mortgage loan portfolio at year-end 2018 and at year-end 2017 is displayed in Table 57-22.

57-22 Breakdown of Mortgage loan portfolio

in EUR millions	2018	2017
Dutch Own Book portfolio	8,786	8,755
Dutch Securitised portfolio	461	338
German Own Book portfolio	29	53
Total[1]	**9,275**	**9,146**

1 The collateral value related to NIBC's Mortgage loans amounts to EUR 13.6 billion (EUR 13.0 billion (Own book), EUR 0.6 billion (Securitised) and 95 million for Germany)

Dutch Mortgage loan portfolio

The Dutch Mortgage loan portfolio largely consists of owner occupied mortgages. These contain NIBC Direct loans originated by business partners since 2013, as well as white label mortgage loans that were also originated by business partners till 2009 or acquired through third parties. Buy-to-Let (NIBC Vastgoed Hypotheek) mortgages for investors were started in January 2015.This niche currently comprises approximately 7% of the total mortgage portfolio. Servicing and administration of the mortgage portfolio is outsourced to third-party servicers. Acceptance and special servicing is performed in-house.

At 31 December 2018, 24% of the Mortgage loan portfolio (31 December 2017: 29%) had a *Dutch government guarantee* (**NHG guarantee**) in accordance with the general terms and conditions set by the *Stichting Waarborgfonds Eigen Woningen* (**WEW**, Social Housing Guarantee Fund).

A part of the Dutch Mortgage loan portfolio has been securitised to obtain external funding. NIBC generally retains the junior notes As a result the securitisation programmes are consolidated on NIBC's balance sheet. The total amount of the retained positions at 31 December 2018 was EUR 33.6 million (31 December 2017: EUR 26.5 million).

Risk governance Dutch Mortgages loans

In order to control the credit risk in the origination of residential mortgage loans, an acceptance policy framework was formulated to screen residential mortgage applications. Acceptance depends on the following underwriting criteria:

- Conformity with the Code of Conduct on Mortgage Credits of the Dutch Bankers Association where applicable;
- A check of an applicant's credit history with the Dutch National Credit Register (*Bureau Krediet Registratie* or **BKR**), a central credit agency used by financial institutions in the Netherlands, which records five years of financial commitments and negative credit events;
- Mortgage loans are secured by first-ranking mortgage rights;
- Other criteria, such as type of property, maximum *Loan-To-Market Value* (**LTMV**), maximum *Loan-to-Income* (**LTI**) and minimum *Debt Service Coverage Ratio* (**DSCR**);
- Underwriting criteria for mortgages with an NHG guarantee are set in accordance with the general terms and conditions set by the WEW. The WEW finances itself by a one-off up-front charge to the borrower as a percentage of the principal amount of the mortgage loan. The NHG guarantee covers losses on the outstanding principal, accrued unpaid interest, and disposal costs, caused by foreclosure.

In 2018, the following amendments were implemented:

- The maximum NHG guaranteed loan amount increased to EUR 265 thousand.
- Maximum Loan-to-Value decreased to 100% in 2018 for owner occupied mortgages. For Buy-to-Let mortgages, maximum LTMV in rented state is currently 70% (not regulated by law).

Management of loans in arrears Dutch Mortgages loans

In order to control the credit risk in the Dutch Mortgage loan portfolio, NIBC has established procedures to manage all loan amounts in arrears. All amounts in arrears are managed in-house. This ensures a dedicated team focused on preventing and minimising credit losses. The Special Servicing Mortgages team is responsible for arrears, client retention, foreclosures, collecting remaining debts and visiting clients and properties that serve as collateral.

The special servicing at NIBC is focused on intensive contact with its mortgage clients and tailor-made solutions. When amounts in arrears occur, the borrower receives a letter after the first day of arrears. Within one week, the client is contacted by phone. Depending on the outcome of these contacts, a customer-specific approach is formulated on a case-by-case basis. Customer visits are made if arrears reach two months. In case of defaults, the Special Servicing team has to submit the file to the Arrears Management Committee for approval of the strategy to be followed. The Arrears Management Committee includes members from Risk Management, Operations, Portfolio Management and the Special Servicing team. NIBC bids for own foreclosed properties at auctions to ensure the proceeds are at arm's length. If needed, NIBC acquires these properties.

NIBC has introduced a programme where vulnerable customers that may face potential future financial difficulties are approached pro-actively with the intention of identifying and resolving difficulties before actual arrears arise.

Table 57-23 shows the arrears overview of the total Dutch Mortgage loan portfolio at 31 December 2018 and 31 December 2017. Overall, the notional amount in arrears decreased compared to year end 2017 while the portfolio volume has grown with 2%.

57-23 Arrears overview, Dutch Mortgage loan portfolio

	Arrears allocation		IFRS 9 Stage 3 ECL	IAS 39 impairments	IFRS 9 Stage 1 and Stage 2 ECL	IAS 39 impairments
in EUR millions	2018	2017	2018	2017	2018	2017
No payment in arrear	9,121	8,900	4.4	0.4	9,117	8,900
0-30 days	79	111	0.7	0.2	78	110
31-60 days	19	11	0.2	0.4	19	10
61-90 days	9	30	0.1	0.2	9	30
Over 90 days	19	42	1.2	0.3	17	41
Total	**9,247**	**9,093**	**6.6**	**1.4**	**9,240**	**9,093**

Forbearance Dutch Mortgage loans

NIBC has developed a forbearance policy for mortgage clients experiencing financial difficulties and who consequently are unable to meet the original terms and conditions of the contract. The forbearance policy is defined, formalised and implemented in the standard working routines and processes and is similar to the policy applied for the corporate loan portfolio.

NIBC has been providing a forbearance program to its mortgagers who are experiencing financial difficulties since May 2013. The Client Retention team of the Special Servicing department has the responsibility of assessing the nature and the expected duration of a client's financial distress, and will determine necessity of providing forbearance measures to that client and the conditions that should apply. The team considers forbearance solutions for clients who do not fully meet their financial obligations to NIBC. Forbearance solutions are also submitted to the Arrears Management Committee for further approval. At 31 December 2017, EUR 43 million was forborne of which EUR 29 million was performing and EUR 15 million non-performing. At 31 December 2018, EUR 50 million was reported as forborne of which EUR 35 million was performing and EUR 16 million non-performing.

Risk measurement Dutch Mortgage loans

NIBC's rating methodology for residential mortgage loans has been used for determining regulatory capital requirements since 2008. The calculation of PD, LGD and EAD for owner- occupied mortgages is performed by an internally-developed CRR/CRD IV AIRB model (for Buy-to-Let mortgages, Basel standardised approach for credit risk is used).

The PD estimates are dependent on a variety of factors, of which the key factors are debt- to-income and loan-to-value ratios. Minor factors that play a role in the PD estimates are several other mortgage loan characteristics, borrower characteristics and payment performance information. The PD scale is based on a continuous scale ranging from 0-100%.

The validation of these estimates is performed on historical data and is carried out annually. For the PD, the estimates are back tested against realised defaults and realised losses. In this way, it is ensured that the model functions correctly in a changing economic environment. Moreover, NIBC is closely following recent regulatory proposals regarding the adjusted capital requirements under standardised approach and introducing of capital floors also known as Basel IV.

Table 57-24 shows the PD distribution of the Dutch Mortgage loan portfolio at 31 December 2018 and 31 December 2017. A PD of 100% means that a borrower is close to or more than 90 days in arrears.

57-24 PD allocation of Dutch mortgage loans

	Own book Dutch mortgages loans[1]		Securitised Dutch mortgage loans	
in %	2018	2017	2018	2017
Probability of default				
<= 1%	98.1	97.5	99.7	97.4
1%> <=2%	0.4	0.3	-	0.2
2%> <=5%	0.2	0.2	0.1	0.1
5%> <100%	1.0	1.4	0.2	1.9
100%	0.3	0.6	-	0.5
Total	**100**	**100**	**100**	**100**

1 Excluding buy-to-let mortgages

Impairment amounts under IFRS9 or Expected Credit Losses (ECL) are calculated on individual residential mortgage loans.

For ECL for mortgages the staging can be summarised as follows:

- Stage 1 – For newly originated loans and loans with no significant increase in their credit risk, the ECL is determined on a 12-month horizon;
- Stage 2 – For loans with a significant increase in credit risk (SICR), ECL is determined on a lifetime basis.
- Stage 3 - For defaulted loans the ECL is determined on a lifetime basis and based on facility-specific cash flow scenarios. The expected loss is measured as the difference between the exposure at default and the sale proceeds of the collateral through private sale or auction.

Taking into account probability weighted scenarios for the forward looking macro economy, the ECL per individual mortgage loan consists of three risk parameters:

- Point-in-time PD of the borrower, which is an estimate of the default rate over any specified horizon based on the current state of the credit cycle and the anticipated macroeconomic scenarios.
- Point-in-time LGD, defined as the unbiased loss estimate at a future default date, which takes into account the presence and the value of collateral;
- Point-in-Time EAD, which is the estimation of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments and prepayments of principal and interest and arrears

Risk mitigation and collateral management Dutch Mortgage loans

Credit losses are mitigated in a number of ways:

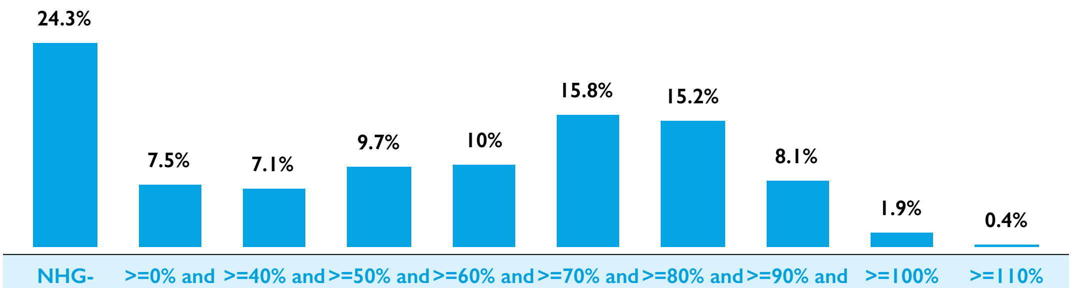
- The underlying property is pledged as collateral;

- 29% of the Dutch Own Book portfolio and 8% of the Securitised portfolio are covered by the NHG programme;
- For the part of the Dutch portfolio that has been securitised, credit losses higher than the retained positions, excess spread and reserve accounts are attributable to investors in the securitisation programmes.

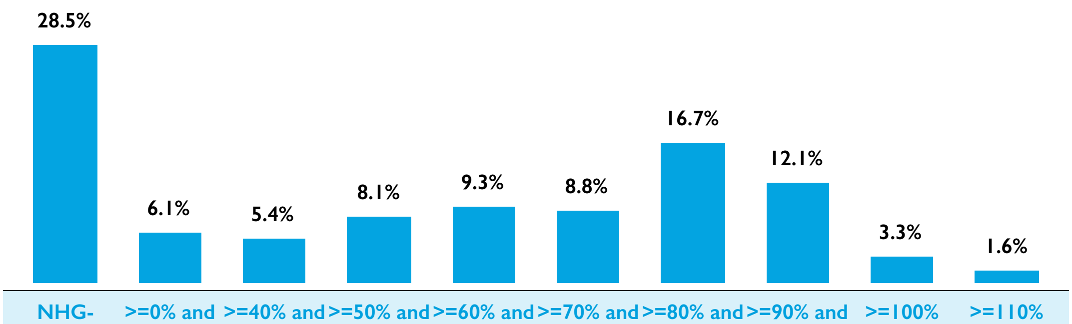
For the portfolio not covered by the NHG programme, the underlying property is the primary collateral for any mortgage loan granted, though savings, life insurance and investment deposits may also serve as additional collateral.

An indicator for potential losses, taking into account indexation of house prices and seasoning, is the *Loan-to-Indexed-Market-Value* (**LTIMV**). The indexation is made by using the CBS/Kadaster index, which is based on market observables. The Kadaster (national property register) is a public government register of real estate and their vested rights (e.g. ownership and mortgages). This register contains transaction data as well as CBS (Statistics Netherlands) data, which are used to construct a pricing index. Graphs 57-25 and 57-26 show a breakdown of the LTIMV for the total Dutch Mortgage loan portfolio at 31 December 2018 and 31 December 2017. The average seasoning of the total portfolio is approximately 7 years, 2% of the total portfolio has an LTIMV above 100%. For the remainder of the portfolio, the indexed collateral value is less than or equal to the nominal loan balance outstanding or is a NHG guaranteed mortgage.

57-25 LTIMV of Dutch Mortgage loan portfolio (EUR9,093 million), 31 December 2018



57-26 LTIMV of Dutch Mortgage loan portfolio (EUR 8,747 million), 31 December 2017



German Mortgage loan portfolio

The German Mortgage loan portfolio amounted to EUR 29 million at 31 December 2018 (31 December 2017: EUR 53 million). The collateral value of this portfolio amounted to

EUR 57 million at 31 December 2018 (31 December 2017: EUR 95 million). The majority of this portfolio was acquired from third parties via two portfolio purchases. The purchased portfolios contain highly seasoned loans with low LTMV.

As is the case in the Netherlands, the underlying property is the primary collateral for the granted mortgage loan. The majority of mortgage loans in Germany contain an annuity debt profile, leading to a lower outstanding balance during the lifetime of the loan.

Debt investments

NIBC defines credit risk in debt investments as issuer risk, which is the credit risk of losing the principal amount on products such as bonds. Issuer risk is calculated based on the book value.

Risk monitoring and measurement

Risk is controlled by setting single issuer limits and, in some cases, programme limits. All single issuer limits are approved by the TC or by delegated authority to the FMCR department. Apart from single issuer limits, risk is also monitored by assessing credit spread risk. Both sensitivity analysis (*basis point values,* **BPV**s) and Value at Risk (**VaR**) numbers are used[2].

Note 58 on Market Risk contains more information on these variables.
In the remainder of this section, the exposure has been divided into the following two sub-portfolios:

- Debt from financial institutions, corporate entities and sovereigns; and
- Securitisations.

Debt from financial institutions and corporate entities

NIBC invests in debt (bonds) issued by financial institutions and corporate entities. The size of this sub-portfolio decreased in the course of 2018 to EUR 248 million at 31 December 2018 (31 December 2017: EUR 324 million). Of the total exposure, 39% (31 December 2017: 30%) were covered bonds. The remaining 61% (31 December 2017: 70%) 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 248 million at 31 December 2018 represents the maximum credit risk exposure, without taking into account the presence of any collateral that could be repossessed in case of default. The portfolio did not contain any credit default swap exposures.

57-27 Debt of financial institutions and corporate entities, 31 December 2018

In EUR millions	AAA	AA	A	BBB	BB	<BB	NR	Total[1]
Financial institutions	145	-	51	14	-	-	-	210
Corporate entities	-	-	-	-	-	-	-	-
Sovereigns	22	17	-	-	-	-	-	39
Total	**166**	**17**	**51**	**14**	**-**	**-**	**-**	**248**

1 Source ratings: internal rating model (excluding sovereigns), based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1.

2 Sensitivity Analysis for NIBC Markets is accounted for in Note 59 Market Risk

57-28 Debt of financial institutions and corporate entities, 31 December 2017

In EUR millions	AAA	AA	A	BBB	BB	<BB	NR	Total[1]
Financial institutions	103	-	126	15	-	3	-	247
Corporate entities	39	-	-	-	-	-	-	39
Sovereigns	21	17	-	-	-	-	-	38
Total	**162**	**17**	**126**	**15**	**-**	**3**	**-**	**324**

1 Source ratings: internal rating model (excluding sovereigns), based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1.

At both 31 December 2018 and 31 December 2017, the portfolio of debt from financial institutions and corporate entities had no credit losses and contained no arrears.

Securitisations

NIBC has been an active participant on the securitisation market in the past decade, both as an originator and investor in securitisations.

Tables 57-29 and 57-30 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 57 on credit risk in the corporate loans or mortgage loans sections. NIBC's total exposure as an originator to consolidated securitisations was EUR 215 million at 31 December 2018 (31 December 2017: EUR 206 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) increased to EUR 577 million at 31 December 2018 (31 December 2017: EUR 498 million), mainly due to an increase of the Liquidity portfolio.

The portfolio of investments in Western European securitisations contains NIBC's investor securitisations in Western Europe as well as all investments in NIBC's own non-consolidated securitisations. All investments in NIBC's own securitisations are subject to approval from both Risk Management and Finance. The total amount of the portfolio of investments in Western Europe decreased to EUR 65 million at 31 December 2018 (31 December 2017: EUR 74 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 512 million at 31 December 2018 (31 December 2017: EUR 424 million). The underlying assets in the collateral pools of NIBC's securitisation investments comprise Dutch residential mortgage loans (NL-RMBS AAA Liquidity Portfolio) and French and German car loans and credit card receivables (EU-ABS AAA Liquidity Portfolio).

57-29 Exposure to securitised products, 31 December 2018

Book value, in EUR millions	AAA	AA	A	BBB	BB	<BB	Total[1]
EU - ABS	-	-	-	-	-	1	1
EU - CDO	-	-	-	-	-	29	29
EU - CMBS	-	-	-	-	-	4	4
EU - RMBS	2	4	22	-	-	3	32
Total Western European securitisations	**2**	**4**	**22**	**-**	**-**	**37**	**65**
NL - RMBS AAA Liquidity portfolio	383	-	3	-	-	-	386
EU- ABS AAA Liquidity portfolio	126	-	-	-	-	-	126
Total securitisation exposure	**511**	**4**	**26**	**-**	**-**	**37**	**577**

1 Source: external ratings, sourced form S&P, Moody's and Fitch, whereby typically the 2nd highest ranked rating is selected.

57-30 Exposure to securitised products, 31 December 2017

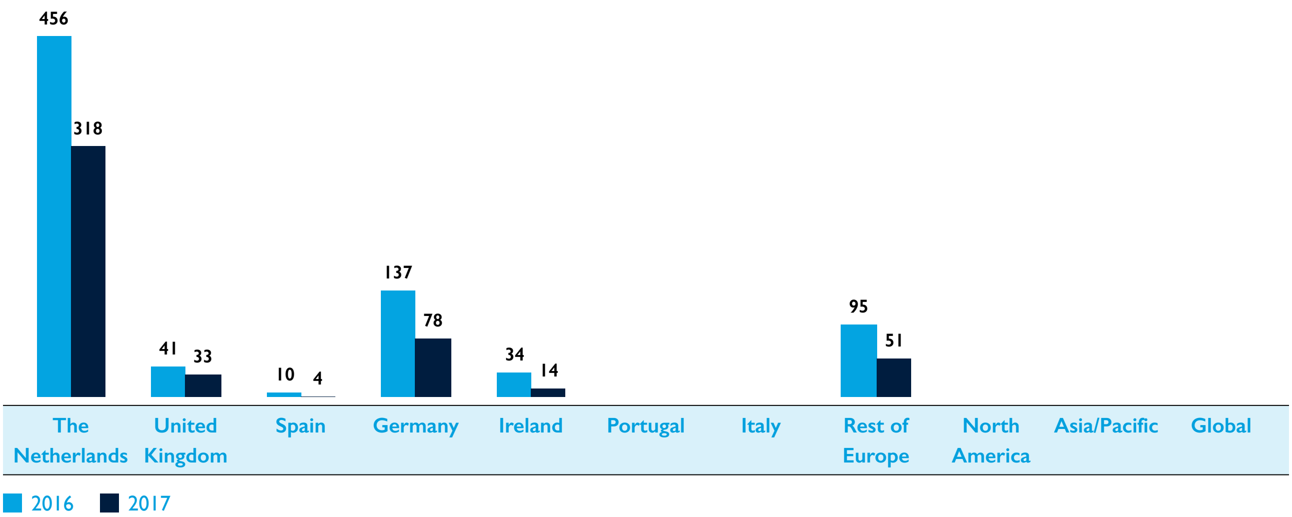
Book value, in EUR millions	AAA	AA[1]	A	BBB	BB	<BB[1]	Total[2]
EU - ABS	-	-	-	-	-	-	1
EU - CDO	1	-	2	-	3	14	21
EU - CMBS	-	-	-	-	-	11	11
EU - RMBS	2	8	28	-	-	4	42
Total Western European securitisations	**3**	**8**	**30**	**-**	**3**	**29**	**74**
NL - RMBS AAA Liquidity portfolio	302	-	4	-	-	-	307
EU- ABS AAA Liquidity portfolio	117	-	-	-	-	-	117
Total securitisation exposure	**422**	**8**	**34**	**-**	**3**	**29**	**498**

1 Of AA related exposure of EUR 23 million and < BB related exposure of EUR 157 million an amount of respectively EUR 2 million and EUR 131 million relates to NIBC's own non-consolidated securitisations.
2 Source: external ratings, sourced form S&P, Moody's and Fitch, whereby typically the 2nd highest ranked rating is selected.

Geographic distribution of securitisations

Graph 57-31 presents the distribution of the Securitisations portfolio by geographic region at 31 December 2018 and 31 December 2017. 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 (62%), Germany (14%) and the United Kingdom (5%). NIBC's exposure in Ireland, Italy, Spain and Portugal is limited and had decreased to EUR 5 million at 31 December 2018 (31 December 2017: EUR 18 million). Approximately 94% of this exposure is investment grade exposure. NIBC had no exposure in Greece at 31 December 2018 or 2017.

57-31 Distribution of securitisations per region, 31 December 2018 (EUR 577 million) and 31 December 2017 (EUR 498 million)



Expected credit losses on securitisations

The majority of the Securitisations portfolio is reported at amortised cost or Fair Value for accounting purposes and the respective assets are subject to a quarterly credit-impaired analysis. Expected credit losses related to stage 3 are taken when the expected future cashflows are insufficient to meet the payment obligations. The stock of IFRS 9 stage 3 credit losses decreased to EUR 0.5 million at 31 December 2018 (31 December 2017: EUR 1 million IAS 39 impairments).

Table 57-32 presents the rating breakdown of securitisation exposure that did not carry stage 3 credit losses amount at 31 December 2018 (EUR 566 million). The total amount of securitisations without impairments at 31 December 2017 was EUR 495 million.

57-32 Distribution of securitisation exposure without impairments per rating category, 31 December 2018

Book value, in EUR millions	AAA	AA	A	BBB	BB	<BB	Total[1]
Securitisation exposure without impairments	511	4	23	-	-	29	566

1 Source: external ratings, sourced form S&P, Moody's and Fitch, whereby typically the 2nd highest ranked rating is selected.

57-33 Distribution of securitisation exposure without impairments per rating category, 31 December 2017

Book value, in EUR millions	AAA	AA	A	BBB	BB	<BB	Total[1]
Securitisation exposure without impairments	422	8	34	-	3	27	495

1 Source: external ratings, sourced form S&P, Moody's and Fitch, whereby typically the 2nd highest ranked rating is selected.

Cash management

NIBC is exposed to credit risk as a result of cash management activities. In 2018, 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 2018, NIBC's total cash amounted EUR 2,601 million (31 December 2017: EUR 2,021 million). EUR 2,169 million of the cash was held at DNB and Deutsche Bundesbank, EUR 432 million at financial institutions and no exposure at corporate entities (securitisation-related liquidity facilities).

57-34 Cash, 31 December 2018

In EUR millions	AAA	AA	A	≤BBB	Total[1]
Cash and balances with central banks	2,169	-	-	-	2,169
Financial institutions	-	-	431	1	432
Corporate entities	-	-	-	-	-
Total	**2,169**	**-**	**431**	**1**	**2,601**

1 Source ratings: internal rating model (excluding Cash and balances with central banks), based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

57-35 Cash, 31 December 2017

In EUR millions	AAA	AA	A	≤BBB	Total[1]
Cash and balances with central banks	1,604	-	-	-	1,604
Financial institutions	-	25	306	71	403
Corporate entities	4	-	10	-	14
Total	**1,608**	**25**	**316**	**71**	**2,021**

1 Source ratings: internal rating model (excluding Cash and balances with central banks), based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

At year-end 2018, EUR 155 million cash collateral has been excluded from the cash management exposure (year-end 2017: EUR 627 million) as this amount is restricted cash that relates to derivatives with a negative fair value. At both 31 December 2018 and 31 December 2017, 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 2018 NIBC offsetted assets and liabilities with central clearing members. Derivatives with the same characteristics, being counterparty, maturity bucket and currency are netted. In 2018, EUR 2 million of NIBC's derivative portfolio including netting, but excluding collateral and PFE has been centrally cleared. For corporate counterparties, both the loan and derivative are treated as a single package whereby the derivative often benefits from the security/ collateral supporting the loan exposure.

Exposures

Tables 57-36 and 57-37 display NIBC exposures from credit risk in derivatives allocated across the rating class of the underlying counterparty. Exposure is the sum of the positive marked-to-market value of derivative contracts, excluding the effect of netting and collateral exchange. The total derivative exposure excluding netting and collateral decreased in 2018 to EUR 578 million at 31 December 2018 (31 December 2017: EUR 1,023 million). This decrease can be explained by the fact that during 2018, NIBC has conversed its cleared interest rate swap (IRS) positions from *collateralised-to-market* (**CTM**) to *settled-to-market* (**STM**). From an accounting perspective, this means that changes in the value of the IRS positions are no longer paid and received in a collateral account reflecting the total *marked-to-market* (**MTM**), but rather daily changes are settled in the cash account. This conversion leads to a shortening of the balance sheet.

57-36 Derivative exposure excluding netting and collateral, 31 December 2018

In EUR millions	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total[1]
Financial institutions		24	119	43							186
Corporate entities	17		1	247	49	62	4		11	1	392
Total	**17**	**24**	**120**	**290**	**49**	**62**	**4**	**-**	**11**	**1**	**578**

1 Source ratings: internal rating model, based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

57-37 Derivative exposure excluding netting and collateral, 31 December 2017

In EUR millions	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total[1]
Financial institutions	-	24	462	73	-	-	-	-	-	-	559
Corporate entities	22	-	-	281	70	80	-	-	11	-	464
Total	**22**	**24**	**462**	**354**	**70**	**80**	**-**	**-**	**11**	**-**	**1,023**

1 Source ratings: internal rating model, based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

Collateral

To the extent possible, NIBC attempts to limit credit risk arising from derivatives. NIBC enters into bilateral collateral agreements with financial institutions to mitigate credit risk in OTC derivatives by means of CSAs. Positive marked-to-market values can be netted with negative marked-to-market values and the remaining exposure is mitigated through bilateral collateral settlements (as in tables 57-38 and 57-39). Accepted collateral is mainly cash collateral, which is usually exchanged on a daily basis. The primary counterparties in these CSAs are large international banks with ratings of A or higher. NIBC generally carries out daily cash collateral exchanges to account for changes in the market value of the contracts included in the CSA.

Terms and conditions of these CSAs are in line with general *International Swaps and Derivatives Association* (**ISDA**) credit support documents. Collateral from CSAs significantly decreases the credit exposure on derivatives, as presented in table 57-38 at 31 December 2018 and in table 57-39 at December 2017.

57-38 Derivative exposure including netting and collateral, 31 December 2018

In EUR millions	AAA	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total[1]
Financial institutions	-		2	39	5							46
Corporate entities	-	17		1	238	49	62	4		11	1	382
Total	-	17	2	39	243	49	62	4	-	11	1	428

1 Source ratings: internal rating model, based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

57-39 Derivative exposure including netting and collateral, 31 December 2017

In EUR millions	AAA	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total[1]
Financial institutions	-	-	1	26	5	-	-	-	-	-	-	32
Corporate entities	-	22	-	-	271	69	80	-	-	11	-	453
Total	**-**	**22**	**1**	**26**	**276**	**69**	**80**	**-**	**-**	**11**	**-**	**485**

1 Source ratings: internal rating model, based on estimated PD and LGD parameters, which are also deployed in NIBC's AIRB models used for the calculation of expected loss and Pillar-1 regulatory capital.

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 2018 and 2017.

Table 57-40 displays an overview of the arrears for corporate derivatives at 31 December 2018 and 31 December 2017 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 57-40, at 31 December 2018, no marked-to-market exposure in arrear (31 December 2017: no marked-to-market exposure in arrear).

57-40 Arrears overview, corporate derivative exposure

	2018		2017	
In EUR millions	Exposure (MtM)[1]	Amount in arrear	Exposure (MtM)[1]	Amount in arrear
Age of payment in arrear				
1- 5 days	-	-	-	-
6 - 30 days	-	-	-	-
31 - 60 days	-	-	-	-
61 - 90 days	-	-	-	-
Subtotal less than 90 days	**-**	**-**	**-**	**-**
Over 90 days	-	-	-	-
No payment in arrear	382	-	453	-
Total	382	-	453	-

1 MtM: Marked-to-Market value.

Interest rate risk in the Banking book

NIBC defines interest rate risk in the Banking book (IRRBB) as the risk of losses from interest rate sensitive positions in non-trading activities due to movements in interest rates. Interest rate risk is measured both from an economic value perspective and an earnings perspective. The first perspective considers the impact on the market value, while the latter considers the impact on the net interest income.

NIBC's banking book consists of:

- Corporate treasury
- Commercial Treasury
- Corporate banking
- Retail banking

Risk appetite

The risk appetite for IRRBB from an economic value perspective is measured by the modified duration of equity and equal to 5 (with a tolerance of 7.5), while the risk appetite from an earnings perspective is measured by the impact on 1Y earnings and equal to EUR 18 million (assuming a shift in interest rates of 100 bps).

Risk monitoring and measurement

From an economic value perspective the impact of an instantaneous shift in interest rates on a static portfolio is considered. Interest *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 (EaR) is calculated by means of the following measure:

- 12 months earnings impact due to a 200 bps gradual upwards or downwards interest rate shock per currency

EaR as displayed in the tables 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 stabilise earnings. We call this our strategic mismatch exposure. If we would not have this exposure and hedge all our interest bearing assets and liabilities to 3-months Euribor/Libor, our (non-interest bearing) capital will effectively be financing very short-term assets and the interest return on our (non-interest bearing) capital will fluctuate with these short term rates earned on those assets.

The Mismatch book exclusively contains swaps in EUR and GBP as these are, next to USD, the major currencies in which also lending activities take place. The Mismatch book contained no USD position in 2018. At year-end of 2018 the total notional position is EUR 511 million, with 69% of the mismatch position held in EUR, 31% in GBP and 0% in USD. Duration based the relative positions would be 77% in EUR, 23% in GBP, 0% in USD.

The Mortgage loan book consists of:

- The White Label portfolio which has a size of 4.0 billion EUR at year-end 2018; with 29 million EUR in Germany.
- The NIBC Direct portfolio, which was launched in 2013 and has significantly grown since then. At year-end 2017 this portfolio's size was EUR 4.4 billion and at year-end 2018 the size of this portfolio is EUR 5.2 billion.

The mortgages portfolios are accounted on amortised cost and notional hedging is applied to hedge the interest rate risk.

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 58-1 and 58-2 illustrate in EUR the interest rate sensitivity for EUR, USD and GBP in the Mismatch and remaining Banking book at year-end 2018 and 2017. For other currencies, the interest rate risk is minimal.

58-1 Interest rate statistics Banking book, 31 December 2018

	Economic value perspective (BPV)			Earnings perspective (EaR)		
in EUR thousands	Mismatch	Other	Total	Mismatch	Other	Total
EUR	(166)	437	271	(2,798)	16,643	13,845
USD	-	(6)	(6)	-	(192)	(192)
GBP	(51)	6	(45)	(1,031)	(1,257)	(2,288)
Other	-	-	-	-	973	973
Total	**(217)**	**437**	**220**	**(3,830)**	**16,167**	**12,338**

58-2 Interest rate statistics Banking book, 31 December 2017

	Economic value perspective (BPV)			Earnings perspective (EaR)		
in EUR thousands	Mismatch	Other	Total	Mismatch	Other	Total
EUR	(91)	291	199	(1,954)	16,046	14,092
USD	-	(4)	(4)	-	(343)	(343)
GBP	(68)	8	(60)	(1,377)	445	(932)
Other	-	-	-	-	296	296
Total	**(159)**	**294**	**135**	**(3,331)**	**16,445**	**13,114**

From the economic value perspective more detailed statistics with respect to the Mismatch book are presented in the following table.

58-3 Interest rate statistics Mismatch book

	2018		2017	
in EUR thousands	Interest rate BPV	Interest rate VaR	Interest rate BPV	Interest rate VaR
Max[1]	(261)	1,753	(283)	2,334
Average	(235)	1,520	(232)	1,722
Min[2]	(158)	1,033	(159)	1,060
Year-end	**(217)**	**1,225**	**(159)**	**1,060**

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.

58-4 Interest rate BPV statistics Banking book

	2018			2017		
in EUR thousands	Mismatch	Other	Total	Mismatch	Other	Total
Max[1]	(261)	564	302	(283)	525	245
Average	(235)	388	154	(232)	298	67
Min[2]	(158)	3	(155)	(159)	180	(1)
Year-end	**(217)**	**436**	**220**	**(159)**	**294**	**135**

1 Max: value farthest from zero.
2 Min: value closest to zero.

58 Market risk

NIBC defines market risk as:

- the risk of losses in the Trading book arising from adverse movements in market rates and;
- the risk of losses in the Banking Book from NIBC's credit spread risk position and;
- the risk of losses in both the banking and trading book from adverse movements in currencies with respect to the Euro.

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

In Money Markets & Trading, NIBC takes short-term positions in the EUR, GBP and USD yield curves. This book also contains interest rate risk related to derivative transactions of NIBC's clients. All positions within NIBC Markets are part of the Trading book. The Trading book of NIBC Markets contains bonds and a relatively small equity portfolio in those equities, for which NIBC markets is liquidity provider.

Risk appetite

The risk appetite for market risk is moderate. For all market risk types limits are set and monitored on a daily basis.

Risk monitoring and measurement

From an economic value perspective the impact of an instantaneous shift in interest rates on a static portfolio is considered. Interest and credit spread *Basis Point Value* (**BPV**) and interest and credit spread and equity *Value at Risk* (**VaR)** measures are calculated on a daily basis and reviewed by the Market Risk department. VaR is calculated using 4 years of historical data and a confidence level of 99%.

The market risk analysis is complemented by a set of scenarios, including scenarios intended as stress testing and vulnerability identification, both based on historical events and on possible future events.

Limits are set on the above measures. The limits and utilisation are reported to the ALCO once every two weeks. Any major breach of market risk limits is reported to the CRO immediately.

Interest rate risk, credit spread risk and equity risk

Money Markets & Trading contains plain vanilla interest rate derivatives only. Figures per year-end 2018 versus 2017 are displayed below.

59-1 Interest rate statistics Trading book NIBC excluding NIBC Markets, 31 December 2018

	2018		2017	
in EUR thousands	Interest rate BPV	Interest rate VaR	Interest rate BPV	Interest rate VaR
Max[1]	(107)	411	(80)	415
Average	(72)	189	(25)	193
Min[2]	(10)	81	1	67
Year-end	**(18)**	**82**	**(40)**	**128**

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 2018 figures are displayed in the following table.

59-2 Interest rate & credit spread risk statistics Trading book NIBC Markets, 31 December 2018

	2018			2017		
in EUR thousands	Interest BPV	Credit spread BPV	VaR	Interest BPV	Credit spread BPV	VaR
NIBC Markets	(21)	(38)	258	(16)	(46)	150

The VaR in this table includes both interest rate risk and credit spread risk.

The year-end 2018 equity VaR of NIBC Markets is 78 thousand EUR while in 2017 equity VaR was 61thousand EUR per end of year.

NIBC's Banking book has credit spread risk mainly in the Liquidity portfolio, Collateral portfolio, the Structured Credits portfolio and the fair value mortgages portfolio. Year-end 2018 credit spread risk figures versus 2017 are displayed below.

59-3 Credit spread risk statistics Banking book, 31 December 2018

	2018		2017	
in EUR thousands	Credit spread BPV	Credit spread VaR	Credit spread BPV	Credit spread VaR
Liquidity/Collateral	(200)	1,202	(230)	1,370
Structured Credits	(36)	755	(46)	679
Mortgages (fair value)[1]	-	-	(1,540)	1,806

1 For 2018 Mortgages fair value is not relevant due to IFRS9 implementation

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 5.7 million at year-end 2018. This currency position is the position prior to hedging, which is always done shortly after month-end. Regulatory capital for currency risk is equal to 0.4 million EUR per end of 2018.

Furthermore, the impact of a *reasonably possible* yearly change (in absolute terms) of EUR against other currencies was calculated. Per end of 2018 the impact of these reasonably possible changes is as follows for NIBC Holding (only currencies with the larger exposures are displayed).

59-4 Currency Risk Analysis, 31 December 2018

2018			2017		
Currency	Change in currency in %	Impact P&L in million EUR	Currency	Change incurrency in %	Impact P&L in million EUR
USD	+08	0.6	USD	+08	0.8
GPB	+14	0.2	GPB	+11	(0.3
JPY	+09	0.1	JPY	+09	0.0
CHF	+09	0.0	CHF	+09	(0.1)

The sum of the absolute values of the impact for all currencies is equal to around 1.2 million EUR.

59 Liquidity risk

NIBC defines liquidity risk as the inability of NIBC to fund its assets and meet its obligations as they become due, at acceptable cost.

Maintaining a sound liquidity and funding profile is one of NIBC's most important risk management objectives. NIBC analyses its funding profile by mapping all assets and liabilities into time buckets that correspond to their maturities. Based on projections prepared by the business units and reviewed by Risk Management, and the current asset and liability maturity profiles, several liquidity stress tests are prepared and presented once every two weeks to the ALCO, in order to create continuous monitoring of the liquidity position.

Assumptions
One of the stress scenarios, the market-wide stress test, assumes a world-wide liquidity shortage in which no new market funding can be attracted by NIBC. Furthermore, it is assumed that assets cannot be sold, but that they can only be made liquid by making them eligible for collateralised and ECB funding. In addition, the following assumptions are made:

- In order to maintain NIBC's business franchise, it is assumed that new corporate loan production continues at a level where the current books are maintained constant;
- Conservative assumptions with respect to for example collateral cash outflows (payments from CSAs) and drawdowns of undrawn commitments are made; and
- A one notch downgrade is assumed.

The projection of NIBC's liquidity in this way is necessarily a subjective process and requires management to make assumptions about, for example, the fair value of eligible collateral and potential outflow of cash collateral placed by NIBC with derivative counterparties.

In light of these projections, NIBC is confident that sufficient liquidity is available to meet maturing obligations over the next 12 months.

Maturity calendar consolidated balance sheet

The following tables present the cash flows payable by NIBC in respect of non-derivative financial liabilities relevant for liquidity risk by the remaining contractual maturities at 31 December. The amounts disclosed in the tables for the non-derivative financial liabilities are contractual future undiscounted cash flows. Financial liabilities at fair value through profit or loss are therefore restated to future nominal amounts. The financial assets relevant for managing liquidity risk are based on the fair value (discounted cash flows) for those assets which are classified at FVOCI.

The differences between the table and the stress scenario are caused mainly by the following items that are included in the stress scenario analysis but not in the maturity calendar of the consolidated balance sheet:

- New asset production;
- Collateralised funding capacity of internal securitisations and individual bonds; and
- Conservative assumptions with respect to possible cash outflows (e.g. CSA collateral, callable funding).

59.1 Liquidity maturity calendar, 31 December 2018

in EUR millions	Not dated	Payable on demand	Due within three months	Due between three and twelve months	Due between one and five years	Due after five years	Total
Liabilities (undiscounted future cash flows)							
Due to other banks	-	92	13	45	1,247	2	1,399
Deposits from customers	-	5,610	997	2,314	1,708	447	11,076
Financial liabilities at fair value through profit or loss (including trading)							
Own debt securities in issue	-	-	-	-	37	-	37
Debt securities in issue structured	-	-	-	5	46	362	413
Liabilities held for sale	13	-	-	-	-	-	13
Deferred tax liabilities	-	-	-	-	7	-	7
Provisions	-	-	-	-	-	3	3
Accruals, deferred income and other liabilities	-	-	-	107	-	-	107
Financial liabilities at amortised cost							
Own debt securities in issue	-	-	-	1,249	2,243	1,543	5,035
Debt securities in issue related to securitised mortgages and lease receivables	-	-	-	-	-	447	447
Subordinated liabilities							
Fair value through profit or loss	-	-	-	-	-	336	336
Amortised cost	-	-	-	-	-	215	215
Total liabilities (excluding derivatives and interest cash flows	**13**	**5,702**	**1,010**	**3,720**	**5,288**	**3,355**	**19,088**
Total assets relevant for managing liquidity risk at fair value (excluding derivatives and interest cash flows)	**477**	**2,461**	**564**	**850**	**5,713**	**11,094**	**21,159**

59.2 Liquidity maturity calendar, 31 December 2017

in EUR millions	Not dated	Payable on demand	Due within three months	Due between three and twelve months	Due between one and five years	Due after five years	Total
Liabilities (undiscounted future cash flows)							
Due to other banks	-	257	4	218	1,207	2	1,688
Deposits from customers	-	5,418	812	2,347	2,230	618	11,425
Financial liabilities at fair value through profit or loss (including trading)							
Own debt securities in issue	-	-	-	-	37	-	37
Debt securities in issue structured	-	-	-	20	449	697	1,166
Deferred tax liabilities	-	-	-	-	4	-	4
Provisions	-	-	-	-	-	3	3
Accruals, deferred income and other liabilities	-	-	-	113	-	-	113
Financial liabilities at amortised cost							
Own debt securities in issue	-	-	-	1,095	2,270	579	3,944
Debt securities in issue related to securitised mortgages and lease receivables	-	-	267	-	-	-	267
Subordinated liabilities							
Fair value through profit or loss	-	-	-	-	-	330	330
Amortised cost	-	-	-	2	-	112	114
Total liabilities (excluding derivatives and interest cash flows)	**-**	**5,675**	**1,083**	**3,795**	**6,197**	**2,341**	**19,091**
Total assets relevant for managing liquidity risk at fair value (excluding derivatives and interest cash flows)	**1,035**	**1,930**	**443**	**1,064**	**5,349**	**11,358**	**21,179**

59.3 Liquidity maturity calendar of derivatives, 31 December 2018

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 2018 and 2017. 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	345	826	2,059	610	3,840
Outflow	(340)	(780)	(1,971)	(571)	(3,662)
Credit derivatives					
Inflow	-	-	-	1	1
Outflow	-	-	-	-	-
Derivatives used for hedging					
Interest rate derivatives (net settled)					
Inflow	1	104	105	-	210
Outflow	(1)	(114)	(116)	(1)	(232)
FX forwards					
Inflow	1,002	33	-	-	1,035
Outflow	(1,004)	(33)	-	-	(1,037)
Total inflow	**1,348**	**963**	**2,164**	**611**	**5,086**
Total outflow	**(1,345)**	**(927)**	**(2,087)**	**(572)**	**(4,931)**

59.4 Liquidity maturity calendar of derivatives, 31 December 2017

in EUR millions	Less than three months	Between three months and one year	One to five years	Five years or more	Total
Derivatives held for trading					
Interest rate derivatives (net settled)					
Inflow	411	867	2,285	671	4,234
Outflow	(417)	(1,005)	(2,543)	(922)	(4,887)
Credit derivatives					
Inflow	-	-	-	1	1
Outflow	-	-	-	-	-
Derivatives used for hedging					
Interest rate derivatives (net settled)					
Inflow	11	110	249	25	395
Outflow	(9)	(84)	(306)	(218)	(617)
Total inflow	**422**	**977**	**2,534**	**696**	**4,630**
Total outflow	**(426)**	**(1,089)**	**(2,849)**	**(1,140)**	**(5,504)**

59.5 Liquidity maturity calendar off-balance sheet, 31 December 2018

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	1,704	-	-	-	1,704
Committed facilities with respect to residential mortgages financing	503	-	-	-	503
Capital commitments	20	-	-	-	20
Guarantees granted	56	-	-	-	56
Irrevocable letters of credit	64	-	-	-	64
	2,347	**-**	**-**	**-**	**2,347**

59.6 Liquidity maturity calendar off-balance sheet, 31 December 2017

in EUR millions	Less than three months	Between three months and one year	One to five years	Five years or more	Total
Contract amount					
Committed facilities with respect to corporate loan financing	1,533	-	-	-	1,533
Committed facilities with respect to residential mortgages financing	158	-	-	-	158
Capital commitments	12	-	-	-	12
Guarantees granted	65	-	-	-	65
Irrevocable letters of credit	35	-	-	-	35
	1,803	**-**	**-**	**-**	**1,803**

60 Capital management

Overview

It is NIBC's policy to maintain a strong capital base, to meet regulatory capital requirements at all times and to support the development of its business by allocating capital efficiently. Allocation of capital to the business is based on an EC approach. EC is the amount of capital which NIBC allocates as a buffer against potential losses from business activities, based upon its assessment of risks. The EC that NIBC allocates to each business is based on the assessment of risk of its activities. It differs from the CRR/CRDIV capital requirements, i.e. regulatory capital, as in certain cases NIBC assesses the specific risk characteristics of its business activities in a different way than the CRR/CRDIV method. Total regulatory capital however, in combination with a minimum benchmark Tier 1 ratio, does form a limit to the maximum amount of EC that can be allocated to the business.

Comparing the risk-based EC of each business to its profit delivers a RAROC for each business. EC and RAROC are key tools in NIBC's capital allocation and usage process, assisting in allocating Own Funds as efficiently as possible, based on expectations of both risks and return. Usage of EC is assessed once every two weeks in the ALCO. The ALCO resets the maximum allocation level of EC to and within each business, taking into account business expectations, NIBC's desired risk profile and the regulatory requirements.

Methodology
NIBC uses the business model of each activity as the basis for determining the EC. If the business model of an activity is trading, distribution or investing for a limited period, a market risk approach based upon VaR and scaled to a one-year horizon is used to calculate the EC usage. A business model based on 'buy-to-hold' or investing to maturity leads to a credit risk approach being applied, based upon estimations of PD and LGD. Add-ons for operational risk and country risk are also calculated. Furthermore, NIBC allocates EC for business risk, reputation risk and model risk on a group-wide level.

The EC approach differs from the CRR/CRDIV approach in which only the trading books are assigned a market risk approach. In the CRR/CRDIV framework, activities that are not trading but have a business model based on distribution or investment for a limited period are often assigned a credit risk approach, following CRR/CRDIV regulations or regulatory industry practice, whereas in the EC framework NIBC applies a market risk approach similar to that of the trading activities. Risks and EC are monitored accordingly.

The main differences between the EC capital and CRR/CRDIV framework come from the Residential Mortgage portfolio, the Securitisations portfolio and NIBC’s interest rate mismatch position. EC is determined by a market risk approach for these activities. The CRR/CRDIV approach is either a credit risk approach (mortgage loans and securitisations) or is not part of the CRR/CRD IV Pillar 1 at all (mismatch position).

Capital allocation
NIBC allocates EC to all its business activities in the form of limits set by the ALCO and calculates the amount of EC usage of each business based on the risk of its activities:
- For the Corporate Loan portfolio, NIBC calculates EC usage by means of a credit risk approach largely based upon the CRR regulatory capital formula and an add-on for concentration risk;
- For the Debt Investments and Trading portfolios, the Residential Mortgage portfolio and the interest rate mismatch position, NIBC uses a market risk approach to determine EC usage. EC usage for these portfolios is calculated using VaR, calculated with four years of historical data and scaled to a one-year horizon;
- For the Investment loans, NIBC calculates EC usage by applying a credit approach based upon the CRR regulatory capital formula. NIBC uses fixed percentages for the equity investments.

CRR/CRDIV regulatory capital
The objective of CRR/CRDIV is to enhance the capital adequacy of the banking industry by making it more responsive to risk. CRR/CRDIV is structured on three pillars:
- Pillar 1 describes the capital adequacy requirements for three risk types; credit risk, market risk and operational risk;
- Pillar 2 describes the additional *supervisory review and evaluation process* (**SREP**), where regulators analyse the *internal capital adequacy assessment process* (**ICAAP**) of the individual banks. Since the end of 2011, Dutch Central Bank also analyses the *internal liquidity adequacy assessment process* (**ILAAP**);

- In Pillar 3 the required risk reporting standards are displayed, supporting additional market discipline in the international capital markets.

Under CRR/CRDIV and subject to approval from the regulator, banks have the option to choose between various approaches, each with a different level of sophistication in risk management, ranging from 'standardised' to 'advanced'.

For credit risk, NIBC adopted the AIRB approach as further specified in CRR/CRDIV for its corporate, retail and institutional exposure classes. NIBC started using the AIRB approach at 1 January 2008. A small residue of exposures is measured on the standardised approach.

For market risk, NIBC adopted an internal model VaR approach.

For measuring operational risk, NIBC adopted the standardised approach, which is based on prescribed business-line activities.

The basis for Pillar 2 is NIBC's ICAAP, which is NIBC's self-assessment of risks sufficiently captured by Pillar 1, i.e. the link between NIBC's risk profile, its risk management and risk mitigation, and NIBC's capital planning.

Under Pillar 3, NIBC publishes its regulatory disclosures regarding its capital structure, capital adequacy, liquidity risk, risk management objectives/policies and risk-weighted assets each year. The Pillar 3 disclosures are published on the same date as the Annual Report on our website.

The following table displays the composition of regulatory capital as at 31 December 2018 and 31 December 2017.The regulatory capital is based on the CRR/CRDIV scope of consolidation, calculated for NIBC Bank consolidated on a fully loaded base and including the full year profit after of the year. The full year profit after tax is included without permission of DNB. NIBC Bank complies with the CRR/CRDIV capital requirements, which formally requires a minimum Common Equity ratio (including capital buffer) of 9.75%, a minimum Tier 1 ratio (including capital buffer) of 11.25% and a minimum Total Capital ratio (including capital buffer) of 13.50%.

in EUR millions	2018	2017
Tier 1		
Called-up share capital	80	80
Share premium	237	237
Eligible reserves	1,660	1,746
Profit after tax not included in CET 1 capital	(241)	(97)
Regulatory adjustments	(142)	(139)
Common equity Tier 1 capital	**1,594**	**1,827**
Additional Tier 1 capital	200	200
Total Tier 1 capital	**1,794**	**2,027**
Tier 2		
Qualifying subordinated liabilities	308	301
Total Tier 2 capital	**308**	**301**
Total BIS capital	**2,102**	**2,328**

COMPANY FINANCIAL STATEMENTS

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COMPANY INCOME STATEMENT

for the years ended 31 December

in EUR millions	note	2018	2017
Interest and similar income	1	613	506
Interest expense and similar charges	1	321	284
Net interest income		**292**	**222**
Fee and commission income	2	33	41
Fee and commission expense	2	-	-
Net fee and commission income		**33**	**41**
Income from equity investments	13	5	3
Income from interests in group companies	16	150	152
Income from group companies and (other) equity investments		**155**	**155**
Results from financial transactions	3	(4)	2
Total operating income		**476**	**420**
Personnel expenses	4	92	84
Depreciation, amortisation and value adjustments of tangible assets and intangible assets	5	4	4
Other operating expenses	6	78	70
Credit loss expenses / (recovery)		43	20
Regulatory charges and levies	8	14	12
Total operating expenses		**231**	**190**
Profit from ordinary operations before tax		**245**	**230**
Tax	9	4	17
Profit after tax		**241**	**213**

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the years ended 31 December

			2018			2017
in EUR millions	Before tax	Tax charge/ (credit)	After tax	Before tax	Tax charge/ (credit)	After tax
Profit for the year	**245**	**4**	**241**	**230**	**17**	**213**
Other comprehensive income						
Items that will not be reclassified to profit or loss						
Revaluation of property and equipment	-	-	-	2	-	2
Revaluation of own credit risk reserve	27	(17)	44	(67)	(16)	(51)
Items that may be reclassified subsequently to profit or loss						
Net result on hedging instruments	(14)	(4)	(10)	(18)	(5)	(13)
Revaluation of equity investments	-	-	-	(4)	(1)	(3)
Revaluation of loans and advances to customers	-	-	-	(1)	-	(1)
Revaluation of interest-bearing securities	-	-	-	6	1	5
Financial assets measured at fair value through other comprehensive income						
Movement in revaluation for debt investments at FVOCI	(6)	(1)	(5)	-	-	-
Total other comprehensive income	**7**	**(22)**	**29**	**(82)**	**(21)**	**(61)**
Total comprehensive income	**252**	**(18)**	**270**	**148**	**(4)**	**152**
Total comprehensive income attributable to:						
Shareholder of the company	240	(18)	258	148	(4)	152
Holders of capital securities	12	-	12	-	-	-
Non-controlling interests	-	-	-	-	-	-
Total comprehensive income	**252**	**(18)**	**270**	**148**	**(4)**	**152**

COMPANY BALANCE SHEET

before profit appropriation, as at 31 December

in EUR millions	note	2018	2017
Assets			
Cash and balances with central banks	10	1,660	1,416
Due from other banks	11	399	844
Loans and advances to customers	12	18,292	20,461
Interest-bearing securities	13	969	1,004
Equity investments	14	32	3
Derivative financial instruments	15	893	1,340
Interests in group companies	16	1,181	1,339
Property and equipment	17	28	28
Other assets	18	31	57
Total assets		**23,485**	**26,492**
Liabilities and equity			
Due to other banks	19	1,609	1,968
Customer deposits and other fund on deposit	20	13,387	15,960
Debt securities in issue	21	5,773	5,046
Derivative financial instruments	15	261	909
Other liabilities	22	56	61
Provisions	23	10	5
Subordinated liabilities	24	278	281
Total liabilities		**21,374**	**24,230**
Equity			
Share capital	25	80	80
Share premium	25	238	238
Revaluation reserves	25	122	93
Retained earnings	25	1,230	1,438
Profit for the year	25	241	213
Equity attributable to shareholder of the company		**1,911**	**2,062**
Capital securities	26	200	200
Total parent equity		**2,111**	**2,262**
Total liabilities and equity		**23,485**	**26,492**
Contingent liabilities	27	84	70
Irrevocable liabilities	27	1,537	1,377

COMPANY STATEMENT OF CHANGES IN EQUITY

	Attributable to:						
in EUR millions	Share capital	Share premium	Revaluation reserves	Retained earnings	Equity of the parent company	Capital securities	Total equity
Balance at 1 January 2018 before the adoption of IFRS 9	**80**	**238**	**93**	**1,651**	**2,062**	**200**	**2,262**
Effect of adoption IFRS 9	-	-	-	(256)	(256)	-	(256)
Restated balance at 1 January 2018 after the adoption of IFRS 9	**80**	**238**	**93**	**1,395**	**1,806**	**200**	**2,006**
Result current year	-	-	-	241		-	
Total comprehensive income for the period ended 31 December 2018	-	-	29	-	270		270
Transfer of realised depreciation revalued property and equipment	-	-	(1)	1	-	-	-
Adjustment deferred tax asset due to lower corporate income tax rate in 2020 and onwards		-	-	(8)	(8)	-	(8)
Issue of capital securities	-	-	-	-	-		-
Cost of capital securities	-	-	-		-		-
Paid coupon on capital securities	-	-	-	(13)	(13)		(13)
Other	-	-	1	(5)	(4)	-	(4)
Final and interim dividend	-	-	-	(140)	(140)		(140)
Balance at 31 December 2018	**80**	**238**	**122**	**1,471**	**1,911**	**200**	**2,111**

in EUR millions	Attributable to: Share capital	Share premium	Revaluation reserves	Other reserves	Shareholder of the company	Capital securities	Total equity
Balance at 1 January 2017	**80**	**238**	**156**	**1,495**	**1,969**	**-**	**1,969**
Result current year	-	-	-	213	-	-	-
Total comprehensive income for the period ended 31 December 2017	-	-	(61)	-	152	-	152
Transfer of realised depreciation revalued property, plant and equipment	-	-	(2)	2	-	-	-
Issue of capital securities	-	-	-	-	-	200	200
Cost of capital securities	-	-	-	(2)	(2)		(2)
Paid coupon on capital securities	-	-	-	-	-		-
Other	-	-	-	(1)	(1)	-	(1)
Final and interim dividend	-	-	-	(56)	(56)		(56)
Balance at 31 December 2017	**80**	**238**	**93**	**1,651**	**2,062**	**200**	**2,262**

COMPANY ACCOUNTING POLICIES

Basis of preparation

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

The company financial statements have been prepared in accordance with the legal requirements for financial statements contained in Title 9 of Book 2 of the Netherlands Civil Code. NIBC applies the provisions in Section 362, paragraph 8, Title 9 of Book 2 of the Netherlands Civil Code that make it possible to prepare the company financial statements in accordance with the accounting policies (including those for the presentation of financial instruments as equity or liability) used in its consolidated financial statements.

The company financial statements are presented in euros rounded to the nearest million. The euro is the functional and presentation currency of NIBC .

Summary of significant accounting policies

Except as set forth below, the accounting policies applied in the company financial statements are the same as those for the consolidated financial statements.

Interests in group companies

Interests in group companies, as defined in the Subsidiaries section in the basis of consolidation in the notes to the consolidated financial statements, are measured at net asset value. Net asset value is determined by measuring the assets, provisions, liabilities and income based on the accounting policies used in the consolidated financial statements. The company's share of its group companies profits or losses is recognised in the income statement. The bank applies paragraph 107a of the Dutch Accounting Standard 100. Under this paragraph the bank eliminates the expected credit losses on loans to subsidiaries in the same line item.

If losses of group companies that are attributable to the company exceed the carrying amount of the interest in the group company (including separately presented goodwill, if any, and including other unsecured receivables), further losses are not recognised unless the company has incurred obligations or made payments on behalf of the group company to satisfy obligations of the group company. In such a situation, NIBC recognises a provision up to the extent of its obligation.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For a specification of segment information, please see note 1 of the consolidated financial statements.

1 Net interest income

Interest income consists of interest income on loans and advances to customers, interest-bearing securities and other interest and similar income.

Interest expense consists of interest expense on liabilities, whether or not embodied in debt securities, and derivatives, as well as commissions having an interest nature, penalty interest on early redemptions, premiums and discounts. Premiums and discounts on debts, whether or not embodied in debt securities, not stated at fair value are recognised using the effective interest method, together with the relevant interest expense.

in EUR millions	2018	2017
Interest and similar income:		
Interest from loans and advances to customers and interest-bearing securities - fair value through profit or loss	14	67
Interest income from other assets	599	439
	613	**506**
Interest expense and similar charges:		
Interest expense from liabilities - fair value through profit or loss	10	18
Interest expense from other liabilities	311	266
	321	**284**
	292	**222**

Interest income from debt and other fixed-income instruments at fair value through profit or loss is recognised in interest and similar income at the effective interest rate.

The interest income includes a positive amount of EUR 5 million related to the Targeted Long-Term Refinancing Operations programme (TLTRO II) of the ECB, as NIBC expects to meet the minimum net lending amount in the reference period, needed to receive the applicable discount rate of 40bps.

Interest income includes negative interest from liabilities for an amount of EUR 28 million (2017: EUR 35 million).

For the year ended 31 December 2018, interest expense related to deposits from customers amounted to EUR 88 million (31 December 2017: EUR 113 million).

Interest expense includes negative interest from financial assets for an amount of EUR 76 million (2017: EUR 62 million).

2 Net fee and commission income

in EUR millions	2018	2017
Fee and commission income of major service lines		
Investment management	9	13
Lending related fees	9	15
M&A fees	8	10
Originate-to-Manage	4	1
Brokerage fees	3	2
	33	**41**
Fee and commission expense:		
Other non-interest related	-	-
	-	**-**
	33	**41**

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	2018	2017
Debt investments (fair value through profit or loss)	(3)	-
Mortgage loans own book and securitised mortgage loans	1	(9)
Loans (fair value through profit or loss)	1	-
Assets and liabilities held for trading	3	2
Interest rate Instruments (derivatives)	(7)	(2)
Foreign exchange	7	(7)
Fair value hedges of interest rate risk	(5)	1
Cash flow hedges of interest rate risk	-	(5)
Other net trading income	(1)	22
	(4)	**2**

4 Personnel expenses

in EUR millions	2018	2017
Salaries	63	55
Social security charges	8	6
Other personnel expenses		
Variable compensation:		
Cash bonuses	4	10
Share-based and deferred bonuses including expenses relating to previous years' grants	3	3
One-off retention bonus package	5	-
Pension and other post-retirement charges:		
Defined-contribution plan	13	12
Other post-retirement charges/(releases) including own contributions of employees	(2)	(1)
Other staff expenses	(2)	(1)
	92	**84**

The number of FTEs decreased from 603 at 31 December 2017 to 589 at 31 December 2018. The number of FTEs employed outside of the Netherlands reamained at the same level of 51 at 31 December 2017 and 31 December 2018.

5 Depreciation

in EUR millions	2018	2017
Property and equipment	4	4
	4	**4**

6 Other operating expenses

in EUR millions	2018	2017
Other operating expenses		
Building-, housing & services expenses	6	5
Car-, travel- and accommodation expenses	4	3
Consultants	32	24
Control and supervision	3	3
Corporate brand, brochures, (re-)presentation expenses	5	5
General personal expenses	3	3
ICT expenses	17	19
Office costs	4	4
Other general expenses	1	2
Fees of external independent auditor	3	2
	78	**70**

Audit fees 2018

in EUR thousands	External auditor	Other network	Other audit firms	Total
Fees of the external independent auditors can be categorised as follows:				
Audit of financial statements	3,041	-	-	3,041
Other audit-related services	19	250	-	269
Other non-audit related services	-	-	-	-
Tax services	-	-	-	-
	3,060	**250**	**-**	**3,310**

Audit fees 2017

in EUR thousands	External auditor	Other network	Other audit firms	Total
Fees of the external independent auditors can be categorised as follows:				
Audit of financial statements	1,641	-	-	1,641
Other audit-related services	-	-	21	21
Other non-audit related services	-	-	209	209
Tax services	-	-	-	-
	1,641	**-**	**230**	**1,871**

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 2018 and 2017 annual reports, regardless of whether the work was performed during the financial year.

7 Credit loss expenses / (recovery)

This item relates to credit loss expenses / (recovery) of loans and advances to customers and banks, interest-bearing securities classified at amortised cost or at fair value through other comprehensive income. In addition it is also related to expected credit losses of off-balance sheet commitments.

Financial assets

in EUR millions	2018	2017
Credit loss expenses:		
Loans and advances to customers		
Loans classified at amortised cost	48	62
Recovery of credit losses:		
Loans and advances to customers		
Loans classified at amortised cost	(5)	(40)
Mortgage loans own book classified at amortised cost	-	-
Interest-bearing interests		
Debt investments classified at amortised cost	-	(2)
	(5)	**(42)**
	43	**20**

8 Regulatory charges and levies

in EUR millions	2018	2017
Resolution levy	5	3
Deposit Guarantee Scheme	9	9
	14	**12**

9 Tax

in EUR millions	2018	2017
Current tax	5	18
Deferred tax	(1)	(1)
	4	**17**

10 Cash and balances with central banks

This item consists of balances with De Nederlandsche Bank N.V. (the Dutch Central Bank) as well as balances with foreign central banks in countries where NIBC operates.

in EUR millions	2018	2017
Cash and balances with central banks	1,660	1,416
	1,660	**1,416**
Cash and balances with central banks can be categorised as follows:		
Receivable on demand	1,502	1,225
Not receivable on demand	158	191
	1,660	**1,416**
Legal maturity analysis of cash and balances with central banks not receivable on demand:		
Three months or less	-	-
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	8	8
Longer than five years	-	-
Assets with central banks due to mandatory reserve deposits	150	183
	158	**191**

Cash and balances with central banks included EUR 1,502 million on the current account balance held with Dutch Central Bank (2017: EUR 1,224 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	2018	2017
Current accounts with other banks	96	72
Deposits with other banks	155	628
Due from group companies	148	144
	399	**844**
Due from other banks can be categorised as follows:		
Receivable on demand	244	216
Cash collateral placements posted under CSA agreements	155	627
Not receivable on demand	-	1
	399	**844**

There were no subordinated loans outstanding due from other banks in 2018 and 2017.

The fair value of this balance sheet item does not materially differ from its face value due to the short-term nature of the underlying assets and the credit quality of the counterparties.

No credit losses were recognised in 2018 and 2017 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 49 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	2018	2017
Amortised cost	5,468	5,644
Fair value through profit or loss	124	234
Group companies - amortised cost	12,700	14,583
	18,292	**20,461**
Legal maturity analysis of loans:		
On demand or undated	2,959	1,171
Three months or less	9,419	810
Longer than three months but not longer than one year	462	1,863
Longer than one year but not longer than five years	3,948	10,331
Longer than five years	1,504	6,286
	18,292	**20,461**
Movement schedule of loans:		
Balance at 1 January	**20,461**	**23,620**
Effect of adoption of IFRS 9 per 1 January 2018	(7)	-
Balance at 1 January 2018 after the adoption of IFRS 9	**20,454**	**23,620**
Additions	2,061	1,838
Disposals	(4,304)	(2,216)
Other (including exchange rate differences)	81	(2,781)
Balance at 31 December	**18,292**	**20,461**
Movement schedule of credit loss allowances on loans:		
Balance at 1 January	**138**	**186**
Effect of adoption of IFRS 9 per 1 January 2018	3	-
Balance at 1 January 2018 after the adoption of IFRS 9	**141**	**186**
Additional allowances	48	62
Write-offs / disposals	(45)	(52)
Amounts released	(4)	(39)
Unwinding of discount adjustment	(10)	(7)
Other (including exchange rate differences)	6	(12)
Balance at 31 December	**136**	**138**

Concentration of loans (excluding loans to group companies) in specific business sectors (in %):	2018	2017
Commercial Real Estate	16	17
Food, Agriculture, Retail & Health	10	9
Industrials & Manufacturing	14	16
Infrastructure & Renewables	19	19
Offshore Energy	12	13
Shipping & Intermodel	21	19
Telecom, Media, Technology & Services	7	7
Other	1	-
	100	**100**

The total amount of subordinated loans in this item amounted to EUR 68 million in 2018 (2017: EUR 55 million).

As a policy, NIBC does not provide loans to its key management personnel (see note 31).

13 Interest-bearing interests

This item represents loans and advances to other banks, other than in the form of interest-bearing securities.

in EUR millions	2018	2017
Amortised cost	-	156
Available-for-sale	-	817
Fair value through other comprehensive income	786	-
Fair value through profit or loss	-	28
Held for trading	183	3
	969	**1,004**

The previous table displays the IFRS accounting classification of interest bearing securities. All interest-bearing securities are non-government, except for EUR 14 million, and are issued by third parties.

in EUR millions	2018	2017
Interest-bearing securities analysed by listing:		
Listed	955	989
Unlisted	14	15
	969	**1,004**
Legal maturity analysis of interest-bearing securities:		
Three months or less	20	23
Longer than three months but not longer than one year	77	99
Longer than one year but not longer than five years	686	655
Longer than five years	186	227
	969	**1,004**
Movement schedule of interest-bearing securities:		
Balance at 1 January	**1,004**	**1,316**
Additions	4,523	1,124
Disposals	(4,564)	(1,416)
Gains/(losses) from changes in fair value recognised in the income statement	1	6
Other (including exchange rate differences)	5	(26)
Balance at 31 December	**969**	**1,004**

There were no subordinated loans outstanding in interest-bearing interests in 2018 and 2017.

As at 31 December 2018, interest-bearing interests amounts from group companies of EUR 140 million (2017: EUR 96 million).

14 Equity investments

This item consists of shares and other non-interest-bearing securities, including temporary other investments.

in EUR millions	2018	2017
Fair value through profit or loss	32	3
	32	**3**
Movement schedule of equity investments:		
Balance at 1 January	**3**	**1**
Additions	143	62
Disposals (sales and/or capital repayments)	(119)	(63)
Changes in fair value through income statement	5	3
Balance at 31 December	**32**	**3**

The traded equity investments have a maturity shorter than twelve months and the other equity investments longer than twelve months.

15 Derivative financial instruments

in EUR millions	2018	2017
Derivative financial assets:		
Derivative financial assets used for hedge accounting	14	79
Derivative financial assets - other	879	1,261
	893	**1,340**
Derivative financial liabilities can be broken down as follows:		
Derivative with third parties	579	1,021
Derivative with group companies	314	319
	893	**1,340**
Derivative financial liabilities:		
Derivative financial liabilities used for hedge accounting	6	38
Derivative financial liabilities - other	255	871
	261	**909**
Derivative financial liabilities can be broken down as follows:		
Derivative with third parties	178	861
Derivative with group companies	83	48
	261	**909**

Derivative financial assets and liabilities used for hedge accounting are derivatives designated in hedge accounting relationships as defined in IAS 39.

The derivatives financial assets and liabilities in the category 'other' are classified as held for trading according to IAS 39.

The derivatives in this category consist of:
- Interest rate swaps to hedge the interest rate risk of the mortgage portfolio;
- Interest rate swaps to transform fixed rate funding into floating rate funding;
- FX and cross-currency swaps to fund the non-euro loans to customers or to transform non-euro funding into euros;
- Client-driven derivative transactions and hedges resulting from this activity;
- Limited money market trading.

Economically all these derivatives, with the exception of the limited proprietary trading, are used to hedge interest rate or FX risk. The limited proprietary trading is controlled by a small facilitating VaR limit of EUR 2.25 million. For further details see note 59 Market risk of the consolidated financial statements.

Derivative financial instruments used for hedge accounting at 31 December 2018

	Notional amount with remaining life of					
in EUR millions	Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
Derivatives accounted for as fair value hedges of interest rate risk						
OTC products:						
Interest rate swaps	-	1,021	4,165	5,186	14	6
Interest currency rate swaps	-		-	-	-	-
	-	**1,021**	**4,165**	**5,186**	**14**	**6**
Derivatives accounted for as cash flow hedges of interest rate risk						
OTC products:						
Interest rate swaps	-	-	156	156	-	-
	-	**-**	**156**	**156**	**-**	**-**
Total derivatives used for hedge accounting	**-**	**1,021**	**4,321**	**5,342**	**14**	**6**

Derivative financial instruments used for hedge accounting at 31 December 2017

	Notional amount with remaining life of					
in EUR millions	Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
Derivatives accounted for as fair value hedges of interest rate risk						
OTC products:						
Interest rate swaps	1	1,845	8,049	9,895	60	40
Interest currency rate swaps	-	-	17	17	5	-
	1	**1,845**	**8,066**	**9,912**	**65**	**40**
Derivatives accounted for as cash flow hedges of interest rate risk						
OTC products:						
Interest rate swaps	95	25	479	599	14	(2)
	95	**25**	**479**	**599**	**14**	**(2)**
Total derivatives used for hedge accounting	**96**	**1,870**	**8,545**	**10,511**	**79**	**38**

Derivative financial instruments- other at 31 December 2018

in EUR millions	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
Interest rate derivatives						
OTC products:						
Interest rate swaps	1,440	5,778	27,824	35,042	793	166
Interest rate options (purchase)	100	116	896	1,112	1	-
Interest rate options (sale)	100	38	853	991	-	-
	1,640	**5,932**	**29,573**	**37,145**	**794**	**166**
Derivatives accounted for as cash flow hedges of interest rate risk						
OTC products:						
Interest rate swaps	264	770	1,616	2,650	68	66
Currency/cross-currency swaps	100	-	-	100	1	2
	364	**770**	**1,616**	**2,750**	**69**	**68**
Other derivatives (including credit derivatives)						
OTC products:						
Credit default guarantees received	-	-	4	4	-	-
Other swaps	-	-	43	43	16	21
	-	**-**	**47**	**47**	**16**	**21**
Total derivatives - other	**2,004**	**6,702**	**31,236**	**39,942**	**879**	**255**

Derivative financial instruments- other at 31 December 2017

in EUR millions	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
Interest rate derivatives						
OTC products:						
Interest rate swaps	1,733	5,284	30,064	37,081	1,046	836
Interest rate options (purchase)	333	278	431	1,042	2	-
Interest rate options (sale)	350	294	446	1,090	-	2
	2,416	**5,856**	**30,941**	**39,213**	**1,048**	**838**
Derivatives accounted for as cash flow hedges of interest rate risk						
OTC products:						
Interest rate swaps	328	787	1,901	3,016	200	15
Currency/cross-currency swaps	190	-	-	190	1	2
	518	**787**	**1,901**	**3,206**	**201**	**17**
Other derivatives (including credit derivatives)						
OTC products:						
Credit default guarantees received	4	-	-	4	-	1
Other swaps	-	-	97	97	-	15
	4	**-**	**97**	**101**	**12**	**16**
Total derivatives - other	**2,938**	**6,643**	**32,939**	**42,520**	**1,261**	**871**

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	2018	2017
Fair value pay - fixed swaps (hedging assets) | assets	-	(2)
Fair value pay - fixed swaps (hedging assets) | liabilities	(6)	(37)
	(6)	**(39)**
Fair value pay - floating swaps (hedging liabilities) | assets	14	66
Fair value pay - floating swaps (hedging liabilities) | liabilities	-	(3)
	14	**63**

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	2018	2017
Fair value receive - fixed swaps | assets	-	15
Fair value receive - fixed swaps | liabilities	-	2
	-	**17**
Fair value receive - floating swaps | assets	-	-
Fair value receive - floating swaps | liabilities	-	-
	-	**-**

The average remaining maturity (within which the related cash flows are expected to enter into the determination of profit and loss) is six years (2017: four years).

16 Interests in group companies

in EUR millions	2018	2017
Interests in group companies	1,181	1,339
	1,181	**1,339**
Movement schedule of interests in group companies:		
Balance at 1 January	**1,339**	**1,209**
Purchases and investments	-	-
Disposals	(42)	(15)
Revaluation	(5)	-
Results of group companies	150	152
Dividends received	(14)	(7)
IFRS 9 adoption	(247)	-
Balance at 31 December	**1,181**	**1,339**

NIBC Bank Deutschland AG, Frankfurt	100%
Parnib Holding N.V., The Hague	100%
Counting House B.V., The Hague	100%
B.V. NIBC Mortgage Backed Assets, The Hague	100%
NIBC Principal Investments B.V., The Hague	100%
NIBC Financing N.V., The Hague	100%

17 Property and equipment

in EUR millions	2018	2017
Land and buildings	27	26
Other fixed assets	1	2
	28	**28**
Movement schedule of land and buildings:		
Balance at 1 January	**26**	**24**
Additions	3	3
Revaluation	-	1
Depreciation	(2)	(2)
Balance at 31 December	**27**	**26**
Gross carrying amount	68	65
Accumulated depreciation	(41)	(39)
	27	**26**
Movement schedule of revaluation surplus:		
Balance at 1 January	**6**	**7**
Depreciation	(1)	(1)
Balance at 31 December	**5**	**6**
Movement schedule of other fixed assets:		
Balance at 1 January	**2**	**4**
Additions	-	1
Depreciation	(1)	(3)
Balance at 31 December	**1**	**2**
Gross carrying amount	26	26
Accumulated depreciation	(25)	(24)
Accumulated impairments	-	-
	1	**2**

Buildings in use by NIBC are insured for EUR 81 million (2017: EUR 75 million).

There is no property and equipment pledged as security for liabilities.

There were no contractual commitments for the acquisition of property and equipment at 31 December 2018 and 31 December 2017.

NIBC's land and buildings in own use were revalued as of 31 December 2017 based on an external appraisal (a valuation is carried out every three years).

The fair value of the property, plant and equipment does not materially deviates from the carrying amount.

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	2018	2017
Accrued interest	1	2
Current tax assets	2	1
Deferred tax assets	7	8
Accrued income and repayments	21	46
	31	**57**
Deferred tax assets	7	8
Deferred tax liabilities[1]	(5)	(2)
	2	**6**

1 Deferred tax liabilities are presented in note 22 Provisions.

in EUR millions	2018	2017
Deferred income tax assets, without taking into consideration the offsetting of balances within the same jurisdiction:		
Debt securities	1	9
Tax losses carried forward	7	7
	8	**16**
Deferred income tax liabilities, without taking into consideration the offsetting of balances within the same jurisdiction:		
Cash flow hedges	6	9
Property and equipment	-	1
	6	**10**
	2	**6**

in EUR millions	2018	2017
Gross movement on the deferred income tax account:		
Balance at 1 January	**6**	**6**
Debt investments (reported at fair value through other comprehensive income):		
Fair value remeasurement charged/(credited) to revaluation reserve	(8)	7
Cash flow hedges:		
Fair value remeasurement charged/(credited) to hedging reserve	4	5
Equity investments (reported at fair value through other comprehensive income):		
Fair value remeasurement charged/(credited) to hedging reserve	-	1
Property and equipment (reported at fair value):		
Fair value remeasurement (charged)/credited to revaluation reserve	-	2
Temporary tax differences		
IFRS - HGB deferred tax	1	(1)
Tax losses carried forward	(1)	(14)
Balance at 31 December	**2**	**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% (2017: 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 2018 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	2018	2017
Due to other banks	470	624
Due to central banks	1,139	1,344
	1,609	**1,968**
Due to other banks:		
Payable on demand	129	156
Note payable on demand	1,480	1,812
	1,609	**1,968**
Legal maturity analysis of due to other banks:		
Three months or less	281	275
Longer than three months but not longer than one year	21	315
Longer than one year but not longer than five years	1,219	1,276
Longer than five years	88	102
	1,609	**1,968**

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 49 Repurchase and resale agreements and transferred financial assets.

At 31 December 2018, an amount of EUR 123 million (2017: EUR 253 million) related to cash collateral received from third parties.

Amounts drawn under TLTRO-program II equal EUR 1,1343 million (2017: EUR 1,343 million). The maturity of TLTRO program II is four years and interest payments will be settled in arrears. The collateral for the TLRTO-program consists of DNB eligible debt investments and securitised mortgage loans. The interest rate, which is fixed for the entire maturity of the TLTRO program II, is set in June 2018.

20 Customer deposits and other funds on deposit

This item consists of amounts due to customers other than debt securities.

in EUR millions	2018	2017
Customer deposits and other funds on deposit	13,387	15,960
	13,387	**15,960**
Customer deposits and other funds on deposit:		
Certificates of deposits	3,484	-
Due to customers	9,903	15,960
	13,387	**15,960**
Customer deposits and other funds on deposit:		
Payable on demand	8,794	5,390
Not payable on demand	4,593	10,570
	13,387	**15,960**
Legal maturity analysis of deposits from customers:		
Three months or less	9,502	9,102
Longer than three months but not longer than one year	1,990	2,604
Longer than one year but not longer than five years	1,550	3,400
Longer than five years	345	854
	13,387	**15,960**

Interest is recognised in interest expense and similar charges on an effective interest basis.

The balance sheet item included EUR 3,356 million (2017: EUR 3,221 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	2018	2017
Bonds and notes issued - amortised costs	5,416	4,372
Bonds and notes issued - through profit or loss	321	654
Fair value hedge adjustment on amortised cost bonds and notes issued	36	20
	5,773	**5,046**
Legal maturity analysis of debt securities:		
Three months or less	-	2
Longer than three months but not longer than one year	1,267	1,131
Longer than one year but not longer than five years	2,366	2,606
Longer than five years	2,140	1,307
	5,773	**5,046**

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	2018	2017
Interest	-	2
Accruals	27	34
Current tax liabilities	2	-
Payables	27	25
	56	**61**

23 Subordinated liabilities

This represents IFRS accounting classification of subordinated loans.

in EUR millions	2018	2017
Amortised cost	116	114
Designated at fair value through profit or loss	162	167
	278	**281**
Legal maturity analysis of subordinated liabilities at amortised cost:		
One year or less	-	-
Longer than one year but not longer than five years	-	-
Longer than five years but not longer than ten years	63	63
Longer than ten years	53	51
	116	**114**

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 53 million (2017: EUR 51 million). Interest expense of EUR 5 million was recognised on subordinated liabilities during the year 2018 (2017: EUR 5 million). In 2018 and 2017, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item.

The subordinated liabilities reflect three transactions (2017: five transactions), of which the largest three total EUR 116 million (2017 largest three: EUR 114 million).

Subordinated liabilities - designated at fair value through profit or loss

in EUR millions	2018	2017
Subordinated loans other	162	167
	162	**167**
Legal maturity analysis of subordinated liabilities designated at fair value through profit or loss:		
One year or less	-	-
Longer than one year but not longer than five years	-	-
Longer than five years but not longer than ten years	-	1
Longer than ten years	162	166
	162	**167**

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 11 million was recognised on subordinated liabilities during the year 2018 (2017: EUR 15 million). In 2018, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item (2017: nil).

The subordinated liabilities reflect six transactions (2017: six transactions), of which the largest three total EUR 117 million (2017 largest three: EUR 118 million).

24 Provisions

in EUR millions	2018	2017
ECL allowances for off-balance sheet financial instruments	2	-
Deferred tax liabilities[1]	5	2
Employee benefits	3	3
	10	**5**

1 Deferred tax assets and liabilities are disclosed in note 18 Other assets.

25 Equity

The ultimate company is NIBC Holding N.V., a listed company incorporated in the Netherlands.

in EUR millions	2018	2017
Share capital	80	80
Share premium	238	238
Revaluation reserves	122	93
Retained earnings	1,471	1,651
	1,911	**2,062**

Share capital

This section includes the fully issued and paid-up share capital. No changes occurred in the issued share capital in 2018 and 2017.

	2018	2017	2018	2017
	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 2018 and 2017.

Changes in revaluation reserves

in EUR millions	Property in own use reserve	Debt investments reserve	Cash flow hedge reserve	Own credit risk reserve	Total[1]
Balance at 1 January 2018	**8**	**3**	**30**	**52**	**93**
Impact of adopting IFRS 9 Own credit risk	-	-	-	-	-
Restated balance at 1 January 2018	**8**	**3**	**30**	**52**	**93**
Unrealised revaluations	-	(5)	-	-	(5)
Changes in cash flow hedge reserve	-	-	(10)	-	(10)
Changes in own credit risk reserve	-	-	-	44	44
Balance at 31 December 2018	**8**	**(2)**	**20**	**96**	**122**

1 Part of legal reserves

in EUR millions	Property in own use reserve	Debt investments reserve	Cash flow hedge reserve	Own credit risk reserve	Total[1]
Balance at 1 January 2017	**8**	**2**	**43**	**103**	**156**
Unrealised revaluations	-	1	-	-	1
Changes in cash flow hedge reserve	-	-	(13)	-	(13)
Changes in own credit risk reserve	-	-	-	(51)	(51)
Balance at 31 December 2017	**8**	**3**	**30**	**52**	**93**

1 Part of legal reserves

Changes in reserves

in EUR millions	Revaluation reserves (legal reserves)	Retained earnings	Total
Balance at 1 January 2018	**93**	**1,651**	**1,744**
Impact of adopting IFRS 9	-	(256)	(256)
Restated balance at 1 January 2018	**93**	**1,395**	**1,488**
Dividend paid during year (including AT1)	-	(152)	(152)
Profit after tax for the year	-	241	241
Other	-	(13)	(13)
Movement related to revaluation and legal reserves	29	-	29
Balance at 31 December 2018	**122**	**1,471**	**1,593**

in EUR millions	Revaluation reserves (legal reserves)	Retained earnings	Total
Balance at 1 January 2017	**156**	**1,495**	**1,651**
Dividend paid during year	-	(56)	(56)
AT 1 cost of issue	-	(2)	(2)
Revaluation transfer	-	2	2
Profit after tax for the year	-	213	213
Other	-	(1)	(1)
Movement related to revaluation and legal reserves	(63)	-	(63)
Balance at 31 December 2017	**93**	**1,651**	**1,744**

Information on NIBC's solvency ratios is included in the risk management section of this Annual Report.

Legal reserves including revaluation reserves

This concerns the reserve for unrealised fair value changes on certain non-listed trading assets, derivatives related to these non-listed trading assets and on associates at fair value through profit or loss.

Including the revaluation and hedging reserves, total legal reserves at 31 December 2018 amount to EUR 30 million, including EUR 29 million relating to revaluation reserves and a legal reserve result participations of EUR 1 million (31 December 2017: EUR 224 million, including EUR 52 million relating to Own credit risk reserve and a legal reserve result participations of EUR 1 million).

26 Capital securities

For a specification of the capital securities, please see note 46 of the consolidated financial statements.

27 Commitments and contingent assets and liabilities

At any time, NIBC has outstanding commitments to extend credit. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one to three months. Commitments extended to customers related to mortgages at fixed-interest rates or fixed spreads are hedged with interest rate swaps recorded at fair value. These commitments are designated upon initial recognition at fair value through profit or loss.

NIBC provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. In the following table, it is assumed that amounts are fully advanced.

The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

in EUR millions	2018	2017
Contract amount:		
Undrawn facilities and capital commitments	1,537	1,377
Guarantees and letters of credit	84	70
	1,621	**1,447**

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 50 of the consolidated financial statements.

Guarantees within the meaning of Section 403 Title 9 of Book 2, of the Netherlands Civil Code have been given on behalf of De Nationale Maatschappij voor Industriële Financieringen B.V., Parnib Holding N.V. and B.V. NIBC Mortgage Backed Assets. A complete list of the companies on behalf of which NIBC has given guarantees within the meaning of Section 403 Title 9 of Book 2, of the Netherlands Civil Code has been filed with the Chamber of Commerce in The Hague.

28 Other

NIBC is, together with other group companies and participating interests, a member of one fiscal entity NIBC Holding N.V. Besides NIBC Bank N.V. and NIBC Holding N.V., the principal other members are B.V. NIBC Mortgage Backed Assets, Parnib Holding N.V., Vredezicht 's-Gravenhage 110 B.V. and NIBC Principal Investments Mezzanine B.V.

29 Assets pledged as security

For a specification of the assets pledged as security, please see note 51 of the consolidated financial statements.

30 Assets under management

NIBC provides collateral management services, whereby it holds and manages assets or invests funds received in various financial instruments on behalf of the customer. NIBC receives fee income for providing these services. Assets under management are not recognised in the consolidated balance sheet. NIBC is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2018, the total assets held by NIBC on behalf of customers were EUR 3,311 million (2017: EUR 1,600 million).

31 Related party transactions

For a specification of the related party transactions, see note 53 of the consolidated financial statements.

32 Principal subsidiaries and associates

For a specification of the principal subsidiaries and associates, see note 54 of the consolidated financial statements.

33 Financial risk management

Please see notes 57 to 60 of the consolidated financial statements, for NIBC's risk management policies.

34 Remuneration

For the remuneration of the Statutory Board members and Supervisory Board members, see notes 9 and 56 of the consolidated financial statements.

At 31 December 2018 and 31 December 2017, there were no receivables outstanding with current and former members of the Statutory Board and Supervisory Board.

35 Profit appropriation

in EUR millions	2018
Result available for holders of the company distribution	241
	241
Final and interim dividend	229
Holders of capital securities	12
Transferred to retained earnings	-
	241

OTHER INFORMATION

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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 2018 financial statements included in the annual report

Our opinion

We have audited the 2018 financial statements of NIBC Bank N.V. ('NIBC' or 'the Company'), based in 's-Gravenhage. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of NIBC Bank N.V. as at 31 December 2018, and of its result and its cash flows for 2018 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 2018, and of its result for 2018 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 2018
- The following statements for 2018: the consolidated income statement, the consolidated statements of comprehensive income and changes in shareholder's equity and the consolidated cash flow statement
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2018
- The following statements for 2018: the company income statement, the company statements of comprehensive income and changes in shareholder's equity
- The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of NIBC Bank N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Materiality

Materiality	€13 million (2017: €12 million)
Benchmark applied	5% of profit before taxation (2017: 5%)
Explanation	This benchmark is a generally accepted auditing practice and is widely used for listed entities. Based on our professional judgment regarding the common information needs of users of the financial statements, we believe that 5% of profit before taxation is an appropriate quantitative indicator of materiality.

We have also taken 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 €0.65 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

NIBC comprises of multiple components. The financial information of these components is included in the consolidated financial statements of NIBC. NIBC is structured in operating segments: Corporate client segment, Retail client segment and Treasury and group functions. Corporate client offering is focused on mid-sized companies and entrepreneurs in the Netherlands, Germany and the United Kingdom. Retail client savings products are offered in the Netherlands, Germany and Belgium, and mortgage loans are offered in the Netherlands.

Because we are ultimately responsible for the opinion, we are 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 components. Our group audit focused on components based on its size and risk. This resulted in a coverage of 97% of profit before taxation and 99% of total assets.

The component in Germany, focusing on the Corporate client segment, is audited by an EY member firm. We sent detailed instructions to the component auditor, covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to the group audit team. We visited the German component and had calls with the auditor in which we discussed the planning, risk assessment, procedures performed, findings and observations reported to the group auditor.

By performing the procedures mentioned above at components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the 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.

With regards to the key audit matters in our auditor's report compared to those reported in 2017, we determined that the implementation of IFRS 9 Financial Instruments in 2018 was a key audit matter given the complexity of (new) models, assumptions and the impact on the opening balance sheet and on the 2018 results.

As part of the IFRS 9 adoption, NIBC reclassified the residential mortgages portfolio from fair value through profit and loss to amortized cost. As such, we no longer consider the fair value measurement of this portfolio a key audit matter. Further, due to reduced estimation uncertainty, we no longer consider the recognition of deferred tax assets for carry forward losses a key audit matter.

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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.

IFRS 9 adoption and impairment of corporate loans	
Key audit matter	On 1 January 2018, NIBC adopted IFRS 9 Financial Instruments (IFRS 9), which replaced IAS 39 Financial Instruments: Recognition and Measurement. The implementation of IFRS 9 negatively impacted 2018 opening shareholders' equity by €260 million. The impact was mainly driven by NIBC's decision to revise the accounting classification and measurement of residential mortgages at fair value through profit and loss to amortized cost. In accordance with the IFRS 9 transition provisions, the 2017 comparative information has not been restated. As a result, the 2018 and 2017 financial statements are not comparable in this respect. At 31 December 2018, NIBC reported Loans (amortised cost) of €7,770 billion and a provision of €163 million for expected credit losses. The timing and measurement of expected credit losses requires significant estimates and judgment in setting assumptions in respect of: - Allocation of corporate loans to stages 1, 2 and 3; - Accounting interpretations and modelling assumptions used to build the models to calculate the expected credit loss (ECL); - Completeness and accuracy of data used to calculate the ECL; - Inputs and assumptions used to estimate the impact of multiple macro-economic scenarios to calculate the ECL for stages 1 and 2; - Measurement of individually assessed provisions, including the assessment of multiple recovery scenarios; - Accuracy and adequacy of financial statement disclosures. Due to the significance of the corporate loan portfolio and the related estimation uncertainty of expected credit losses, we consider the measurement of the provision for expected credit losses as a key audit matter. Refer to the "Summary of significant accounting policies" section, the "Critical accounting estimates and judgments" section, note 27 "Loans (amortized cost)" and note 57 "Credit risk" to the financial statements.
Our audit approach	As IFRS 9 was adopted as of 2018, we performed audit procedures on the opening balances to gain assurance on the transition from IAS 39. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures made on transition. We tested the design and operating effectiveness of key controls across the processes relevant to the ECL. This included the allocation of assets into stages, model governance, data accuracy and completeness, credit monitoring, multiple economic scenarios, individual provisions, journal entries and disclosures. We performed an overall assessment of the ECL provision levels by stage to determine if they are reasonable considering the NIBC's portfolio, risk profile, credit risk management practices and macroeconomic environment. We considered trends in the economy and industries to which NIBC is exposed. We challenged the criteria used to allocate corporate loans to stage 1, 2, or 3 in accordance with IFRS 9. We tested loans in stage 1,2 and 3 and verified whether they were allocated to the appropriate stage. With the support of our modelling specialists, we tested assumptions, inputs and formulas used in a sample of ECL models. This included the appropriateness of model design and formulas used and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of models. Further, we assessed the selected macro-economic scenarios used with the support of our economic specialists.

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	We examined a selection of loan exposures to assess the expected credit loss provision for stage 3 loans. We applied professional judgment in selecting those exposures for our detailed inspection, placing an emphasis on portfolios that are potentially more sensitive to developing economic and political trends such as leveraged finance, offshore energy and shipping. For selected loan exposures we recalculated individually assessed provisions and challenged the recovery scenarios and probability weights assigned. We assessed the completeness and accuracy of the disclosures for compliance with IFRS-EU.
Our observations	We are satisfied that expected credit loss provisions are reasonable and in compliance with IFRS 9. We have made recommendations in our 2018 management letter to NIBC's management and the Audit Committee of the Supervisory Board. Our recommendations relate to designing an observable set of credit impairment triggers, evidencing the design and execution of periodic review controls and back testing of models for calculating expected credit losses. We concur with the related disclosures in the financial statements.
Reliability and continuity of the information technology and systems	
Key audit matter	NIBC is highly dependent on its IT systems and IT infrastructure for the continuity of the operations. NIBC continuously invests to further improve its IT environment and IT systems. In particular, significant management attention was paid to outsourcing of various IT services to third parties. We therefore consider this as a key audit matter.
Audit approach	As part of our audit procedures we have assessed the changes in the IT systems and IT infrastructure. We have tested the reliability and continuity of electronic data processing within the scope of the audit of the 2018 financial statements. For that purpose, we have included IT auditors in our team. Our procedures included testing of controls with regards to IT systems and processes relevant for financial reporting. A particular area of attention is related to logical access management, including access rights and segregation of duties. We evaluated the impact of changes during the year following the (re)migration of applications from and to external service providers. We tested logical access rights to the extent relied upon for the audit of the consolidated financial statements. This resulted in the identification of certain control deficiencies with respect to access rights, change management processes and segregation of duties. We performed procedures over management's remediation activities and additional substantive audit procedures to mitigate the related audit risk.
Our observations	We have made recommendations to management relating to internal controls and governance of outsourced applications in our 2018 management letter to NIBC's management and the Audit Committee of the Supervisory Board. The combination of the tests of controls and the substantive tests performed provided sufficient appropriate evidence for the purposes of our audit.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- At a Glance

- Key figures
- Letter from the CEO
- Report of the Managing Board
- Report of the Supervisory Board
- Corporate Governance
- Remuneration Report
- Risk Management
- In Control Report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:
- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 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 substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Report of the Managing Board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of NIBC on 10 April 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements we provided the following services:
- Regulatory reporting: We issued auditor’s reports and reports of factual findings following the audit of the prudential statements prepared by management on behalf of the Dutch Central Bank, consisting of Financial Reporting (FinRep), Common Reporting (CoRep), Interest rate risk reporting, Deposit Guarantee Schema (DGS) and Asset Segregation.
- Capital market transactions: We issued comfort letters and/or consent letters in relation to (updated) offering circulars, prospectuses and registration statements prepared in connection with the initial public offering of shares in March 2018 and securities offerings or funding programs of NIBC.
- Service provider reports: We issued ISAE 3402 reports for fund services provided by NIBC to third parties.

Description of responsibilities for the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.
Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included amongst others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be

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carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 26 February 2019

Ernst & Young Accountants LLP

Signed by M.A. van Loo

PROFIT APPROPRIATION

The provision and appropriation of the profit after tax is based upon the Articles of Association of 22 December 2017.

Distribution of profits pursuant to Article 41 and 42 of the Articles of Association shall be made following the adoption of the annual report, which shows that such distribution is allowed.

The General Meeting resolves whether dividends shall be paid on one or more series of the preference shares. If the General Meeting resolves to pay dividends on one or more series of the preference shares, to the extent possible, the dividend due to each of the holders of preference shares pursuant to Article 41 paragraph 3 and paragraph 4 shall be paid at times and dates established under Article 42 paragraph 2 under b.

ALTERNATIVE PERFORMANCE MEASURES

NIBC uses, throughout its financial publications, *alternative performance measures* (**APMs**) in addition to the figures that are prepared in accordance with the International Financial Reporting Standards (**IFRS**), *Capital Requirements Regulation* (**CRR**) and *Capital Requirements Directive* (**CRD IV**). NIBC uses APMs to provide additional information to investors and to enhance the understanding of the results. The APMs should be viewed as complementary to, rather than a substitute for, the figures determined according to IFRS, CRR and CRD IV. All measures that are covered by IFRS, CRR and CRD IV are not considered to be APMs.

NIBC uses the following APMs:
- Dividend payout ratio, %
- Cost/income ratio, %
- Return on equity, %
- Cost of risk, %
- Impairment ratio, %
- NPL ratio, %
- Impairment coverage ratio, %
- Loan-to-deposit ratio, %
- Net interest margin, %

Investors should consider that similarly titled APMs reported by other companies may be calculated differently. For that reason, the comparability of APMs across companies might be limited. In accordance with the guidelines of the *European Securities and Markets Authority* (**ESMA**), the following information is given in regards to the above mentioned alternative performance measures:
1. Definition of the APM;
2. Reconciliation of the APM to the most directly reconcilable line item, subtotal or total presented in the financial statements.

NIBC's most recent financial publications at any time are available online at our website.

Dividend pay-out ratio

The dividend pay-out ratio is the fraction of net income for a period to be paid to NIBC's shareholders in dividends. It provides meaningful information on the portion of NIBC's profit that is distributed to its shareholders. The elements of the dividend pay-out ratio reconcile to the income statement of NIBC.

$$\text{Dividend pay-out ratio} = \frac{\text{Dividend pay-out}}{\text{Profit after tax}}$$

Dividend pay-out ratio	2018	2017	2016
Dividend pay-out 2018	229		
Profit after tax 2018	229		
Dividend pay-out ratio 2018 (%)	**100**		
Dividend pay-out 2017 (page 33 annual report NIBC Bank N.V.)		96	
Profit after tax 2017 (page 108 annual report NIBC Bank N.V.)		210	
Dividend pay-out ratio 2017 (%)		**45**	
Dividend pay-out 2016 (page 318 annual report NIBC Bank N.V.)			25
Profit after tax 2016 (page 108 annual report NIBC Bank N.V.)			102
Dividend pay-out ratio 2016 (%)			**25**

Cost/income ratio

The cost/income ratio displays operating expenses as a percentage of operating income. The concept provides meaningful information on NIBC's operating efficiency. Cost/income ratio is calculated as the ratio (i) operating expenses before special items and (ii) operating income before special items. The elements of the cost/income ratio reconcile to the income statement of NIBC.

$$\text{Cost/income ratio} = \frac{\text{Operating expenses}}{\text{Operating income}}$$

Cost/Income ratio	2018	2017	2016
Operating expenses 2018	224		
Operating income 2018	550		
Cost/income ratio 2018 (%)	**41**		
Operating expenses 2017 (page 108 annual report NIBC Bank N.V.)		223	
Operating income 2017 (page 108 annual report NIBC Bank N.V.)		512	
Cost/income ratio 2017 (%)		**44**	
Operating expenses 2016 (page 157 annual report NIBC Bank N.V.)			194
Operating income 2016 (page 157 annual report NIBC Bank N.V.)			381
Cost/income ratio 2016 (%)[1]			**51**

1 Cost/income ratio calculation is excluding special items

Return on equity

Return on equity measures net profit in relation to the book value of shareholder's equity. It provides meaningful information on the performance of Issuer's business, as well as on NIBC's ability to generate income from the equity available to it. Return on equity is calculated as the ratio of (i) annualised net profit attributable to parent shareholder to (ii) total shareholder's equity at the start of the financial year. All elements of the return on equity reconcile to NIBC's consolidated financial statement.

$$\text{Return on equity} = \frac{\text{Annualised net profit attributal to parent shareholder}}{\text{Post proposed dividend total shareholder's equity at start of the financial year}}$$

Return on equity[1]	2018	2017	2016
Annualised net profit attributable to parent shareholder	229		
Total shareholder's equity at the start of financial year	1,740		
Return on equity 2018 (%)	**13.2**		
Annualised net profit attributable to parent shareholder (page 108 annual report NIBC Bank N.V.)		210	
Post proposed dividend total shareholder's equity at the start of financial year		1,944	
Return on equity 2017 (%)		**10.8**	
Annualised net profit attributable to parent shareholder (page 108 annual report NIBC Bank N.V.)			102
Post proposed dividend total shareholder's equity at the start of financial year (page 111 annual report NIBC Bank N.V.)			1,886
Return on equity 2016 (%)			**5.4**

1 Total shareholder's equity was changed in Post proposed dividend total shareholder's equity in FY 2017 publication. This adjustment has no effect on prior year calculations

Cost of risk

The cost of risk compares the total credit losses included in the income statement to the total risk weighted assets. This measure provides meaningful information on Issuer's performance in managing credit losses. The cost of risk is calculated as the ratio of (i) the sum of annualised impairments and the credit losses on the fair value mortgage loans and loans (as part of the net trading income) and to (ii) the total risk weighted assets averaged over the reporting period. With the exception of the credit losses on the fair value mortgage loans and loans, the elements of the cost of risk reconcile to our financial statements and regulatory reporting. The credit losses on the fair value mortgage loans are calculated in accordance with the applicable financial reporting framework and form part of the net trading income.

$$\textbf{Cost of Risk} = \frac{\textbf{Annualised impairments and the credit losses on fair value residential mortgages and loans (as part of net trading income)}}{\textbf{Average risk weighted assets (Basel III regulations)}}$$

Cost of risk	2018	2017	2016
Annualised credit losses on AC loans	54		
Annualised credit losses FVTPL loans	5		
Total annualised credit losses	**59**		
Risk-weighted assets 2018	7,725		
Risk-weighted assets 2017	8,546		
Average risk-weighted assets 2018	**8,136**		
Cost of risk 2018 (%)	**0.72**		
Annualised impairments		34	
Annualised credit losses FVTPL Mortgages		2	
Total annualised impairments and credit losses on fair value residential mortgages 2017		**36**	
Risk-weighted assets 2017 (page 8 annual report NIBC Bank N.V.)		8,546	
Risk-weighted assets 2016 (page 8 annual report NIBC Bank N.V.)		10,109	
Average risk-weighted assets 2017		**9,328**	
Cost of risk 2017 (%)		**0.38**	
Annualised impairments (page 32 Annual report NIBC Bank N.V.)			58
Annualised credit losses FVTPL Mortgages and AQR (page 32 annual report NIBC Bank N.V)			4
Total annualised impairments and credit losses on fair value residential mortgages 2016			**62**
Risk-weighted assets 2016 (page 8 annual report NIBC Bank N.V)			10,109
Risk-weighted assets 2015 (page 8 annual report NIBC Bank N.V)			10,162
Average risk-weighted assets 2016			**10,136**
Cost of risk 2016 (%)			**0.61**

Impairment ratio

The impairment ratio compares impairments included in the income statement on corporate and retail loans to the carrying value of these loans. The measure provides meaningful information on NIBC's performance in managing credit losses arising from its business. The impairment ratio is calculated as the ratio of (i) the annualised impairment expenses to (ii) the average loans and mortgage loans. All elements of the impairment ratio reconcile to NIBC's income statement and the consolidated balance sheet.

$$\textbf{Impairment ratio} = \frac{\textbf{Annualised impairment expenses including AQR}}{\textbf{Average financial assets regarding loans and residential mortgages}}$$

Impairment ratio	2018	2017	2016
Annualised credit losses on amortised cost loans and mortgage loans	54		
Average financial assets at amortised cost: loans[1]	7,796		
Average financial assets at amortised cost: mortgage loans[1]	9,220		
Average financial assets regarding loans and mortgage loans (total)	**17,016**		
Impairment ratio 2018 (%)	**0.32**		
Annualised impairments on amortised cost loans and mortgage loans		36	
Average financial assets at amortised cost: loans (page 110 annual report NIBC Bank N.V.)		8,009	
Average financial assets at amortised cost: residential mortgages (page 110 annual report NIBC Bank N.V.)		3,879	
Average financial assets regarding loans and residential mortgages (total)		**11,888**	
Impairment ratio 2017 (%)		**0.30**	
Annualised impairments on amortised cost loans and mortgage loans			67
Average financial assets at amortised cost: loans (page 110 annual report NIBC Bank N.V.)			7,969
Average financial assets at amortised cost: residential mortgages (page 110 annual report NIBC Bank N.V.)			2,868
Average financial assets regarding loans and residential mortgages (total)			**10,837**
Impairment ratio 2016 (%)			**0.62**

1 Loans and residential mortgages are represented post IFRS 9 implementation

NPL ratio

The *non-performing loans* (**NPL**) ratio compares the non-performing exposure (as defined by the European Banking Authority) of corporate and retail loans to the total exposure of these loans. The measure provides meaningful information on the credit quality of NIBC's assets. The ratio is calculated by dividing the total of non-performing exposure for both corporate loans and mortgage loans by the total exposure for corporate loans and mortgage loans. The elements of the NPL ratio reconcile to the consolidated financial statements and the regulatory reporting of NIBC.

$$\textbf{NPL ratio} = \frac{\textbf{Non performing exposure (corporate and residential mortgages)}}{\textbf{Total exposure (corporate loans and residential mortgages)}}$$

NPL ratio[1]	2018	2017	2016
Non performing exposure corporate loans 2018	503		
Non performing exposure mortgage loans 2018	20		
Non performing exposure 2018	**523**		
Total corporate loans drawn and undrawn 2018	9,705		
Total retail client assets 2018	9,275		
Total exposure 2018	**18,980**		
NPL ratio 2018 (%)	**2.8**		
Non performing exposure corporate loans 2017 (page 96 Annual report NIBC Bank N.V.)		433	
Non performing exposure mortgage loans 2017 (page 96 Annual report NIBC Bank N.V.)		89	
Non performing exposure 2017		**522**	
Total corporate loans drawn and undrawn 2017 (page 8 Annual report NIBC Bank N.V.)		9,612	
Total retail client assets 2017 (page 8 Annual report NIBC Bank N.V.)		9,147	
Total exposure 2017		**18,759**	
NPL ratio 2017 (%)		**2.8**	
Non performing exposure corporate loan and mortgage loans 2016 (page 93 annual report NIBC Bank N.V.)			754
Total corporate loans drawn and undrawn 2016 (page 8 annual report NIBC Bank N.V.)			9,904
Total retail client assets 2016 (page 8 annual report NIBC Bank N.V.)			8,831
Total exposure 2016			**18,735**
NPL ratio 2016 (%)			**4.0**

1 Figures changed compared to the published figures H1 2017 due to the inclusion of investment management loans as part of corporate loans exposure.

Impairment coverage ratio

The impairment coverage ratio compares impaired amounts on corporate and retail exposures to the total corporate and retail exposures, providing meaningful information on the residual risk related to NIBC's impaired assets. The ratio is calculated by dividing the total impairments on corporate and retail loans by the total exposure of impaired corporate and retail loans. The elements of the impaired coverage ratio reconcile to NIBC's consolidated financial statements.

$$\text{Impairment coverage ratio} = \frac{\text{Total impairments on corporate and retail loans}}{\text{Total exposure of impaired corporate and retail loans}}$$

Impairment coverage ratio[1]	2018	2017	2016
Balance stage 3 credit losses on loans	139		
Total stage 3 credit impaired exposure 2018	446		
Impairment coverage ratio 2018 (%)	**31**		
Balance impairment losses on loans		130	
Total impaired exposure 2017		321	
Impairment coverage ratio 2017 (%)		**40**	
Balance impairment losses on loans 2016 (page 173 annual report NIBC Bank N.V.)			189
Total impaired exposure 2016 (page 93 annual report NIBC Bank N.V.)			629
Impairment coverage ratio 2016 (%)			**30**

1 Figures changed compared to the published figures H1 2017 due to the inclusion of investment management loans as part of corporate loans exposure.

Loan-to-deposit ratio

The loan-to-deposit ratio compares NIBC's loans to customers to its deposits from customers. It provides meaningful information on Issuer's funding and liquidity position. The loan-to-deposit ratio is calculated by dividing the total loans and mortgage loans by the deposits from customers. The elements of the loan-to-deposit ratio reconcile to NIBC's balance sheet.

$$\text{Loan to deposit ratio} = \frac{\text{Financial assets regarding loans and residential mortgages}}{\text{Deposits from customers}}$$

Loan to deposit ratio	2018	2017	2016
Financial assets at amortised cost: loans	7,770		
Financial assets at amortised cost: residential mortgages	8,990		
Financial assets at amortised cost: securitised residential mortgages	461		
Financial assets at fair value through profit or loss: loans	148		
Financial assets at fair value through profit or loss: residential mortgages own book	0		
Financial assets at fair value through profit or loss: securitised residential mortgages	0		
Financial assets regarding loans and residential mortgages (total)	**17,369**		
Deposits from customers	**11,267**		
Loan to deposit ratio 2018 (%)	**154**		
Financial assets at amortised cost: loans (page 110 annual report NIBC Bank N.V.)		7,749	
Financial assets at amortised cost: residential mortgages (page 110 annual report NIBC Bank N.V.)		4,412	
Financial assets at available for sale: loans (page 110 annual report NIBC Bank N.V.)		0	
Financial assets at fair value through profit or loss: loans (page 110 annual report NIBC Bank N.V.)		181	
Financial assets at fair value through profit or loss: residential mortgages own book (page 110 annual report NIBC Bank N.V.)		4,581	
Financial assets at fair value through profit or loss: securitised residential mortgages (page 110 annual report NIBC Bank N.V.)		338	
Financial assets regarding loans and residential mortgages (total)		**17,261**	
Deposits from customers		**11,535**	
Loan to deposit ratio 2017 (%)		**150**	
Financial assets at amortised cost: loans (page 110 annual report NIBC Bank N.V.)			8,269
Financial assets at amortised cost: residential mortgages (page 110 annual report NIBC Bank N.V.)			3,346
Financial assets at available for sale: loans (page 110 annual report NIBC Bank N.V.)			24
Financial assets at fair value through profit or loss: loans (page 110 annual report NIBC Bank N.V.)			210
Financial assets at fair value through profit or loss: residential mortgages own book (page 110 annual report NIBC Bank N.V.)			4,124
Financial assets at fair value through profit or loss: securitised residential mortgages (page 110 annual report NIBC Bank N.V.)			1,550
Financial assets regarding loans and residential mortgages (total)			**17,523**
Deposits from customers (page 111 Condensed interim financial report bank)			**11,827**
Loan to deposit ratio 2016 (%)			**148**

Net interest margin

The net interest margin is a measure to display the difference between interest income and the amount of interest paid out to lenders, relative to the amount of interest-earning assets. It is similar to the gross margin (or gross profit margin) of non-financial companies and provides meaningful information on the contribution of Issuer's business to its operating income. It is calculated as the ratio of (i) the net interest income from the last 12 months and (ii) the 12 months moving average interest bearing assets. Interest bearing assets equal the total assets from the consolidated balance sheet excluding equity investments, derivatives, investments in associates, property, plant and equipment and other assets. The net interest income reconciles to the income statement of NIBC. The average interest bearing assets cannot be directly reconciled with the financial publications of NIBC as the monthly figures are not disclosed, however the monthly figures are prepared in accordance with the applicable financial reporting framework.

Since the denominator of the net interest margin calculation is subject to volatility in the balance, a moving average provides more reliable information on the underlying developments. The moving average however does not tie back to disclosed balances. For reference purposes, the following table shows the calculation method and the comparative outcome for 2017 when the net interest margin is calculated on ending balances instead of moving averages.

$$\textbf{Net interest margin} = \frac{\textbf{Sum net interest income last 12 Months}}{\textbf{12 Months average interest bearing assets}}$$

Net interest margin	2018	2017	2016
Sum interest income last 12 Months 2018	432		
12 Month average interest bearing assets	20,528		
Net interest margin 2018 (%)	**2.10**		
Sum interest income last 12 Months 2017		366	
12 Month average interest bearing assets		21,652	
Net interest margin 2017 (%)		**1.69**	
Net interest margin 2016 (%)			**1.44**

CORPORATE RESPONSIBILITY REPORTING SCOPE

This Annual Report is an integrated report. We have chosen to combine all our financial, economic, social and environmental information into one document because all these factors are integral to NIBC's strategy and operations. By providing this additional information we aim to increase transparency for all of our stakeholders and to allow them to make a more informed assessment of NIBC and how we are creating and sustaining value.

The non-financial key figures for this report were confirmed by the departments that are responsible for the data. The reported non-financial key figures were reviewed by Internal Audit. Internal Audit confirmed that nothing has come to the attention that causes them to believe that the reported non-financial key figures for NIBC Bank N.V. are inadequately presented, in all material respects, in accordance with the reporting criteria.

Scope

Unless specified otherwise, this report includes figures and information for NIBC Holding N.V. (including all international offices and wholly-owned subsidiaries established by NIBC for our business purposes).

NIBC Bank N.V. is a signatory to the UN Global Compact. The NIBC Bank N.V. Annual Report contains details of our progress as regards the 10 Global Compact principles.

Criteria

The contents of this Annual Report and the selection of non-financial key figures are based on the following criteria:

- Assessment of materiality. We report on NIBC's strategy and the elements that we have identified as most relevant for us as a company and for our stakeholders. Please see our Materiality Assessment report and materiality matrix for an overview of these elements;
- Legal and regulatory requirements. For NIBC, the principal regulatory requirements are contained in the Dutch Corporate Governance Code, the Dutch Banking Code and the Dutch Decree on disclosure of non-financial information (Besluit bekendmaking niet-financiële informatie), which came into effect on 24 March 2017 as part of the transposition into Dutch law of the EU Non-Financial Reporting Directive (2014/95/EU, OJEU 201 330). Please see the Corporate Governance sector for more details.

Accountability and reporting standards

Our non-financial key figures are prepared in accordance with the reporting criteria and guidelines of the latest *Global Reporting Initiative* (**GRI**) Standards. We have applied the GRI Standards guidelines at a 'core' level with no exceptions. The GRI content index and glossary of definitions can be found in the appendices available on our website.

The methodology used for the calculation of indicators for 2018 is the same as for 2017 unless otherwise stated in the definitions for non-financial key figures.

Materiality Assessment

We engaged with our stakeholders to verify the focus of our sustainability strategy and materiality in reporting. This materiality assessment process and the outcomes are described here and form the basis for our Annual Report.

Stakeholder consultation confirmed the three most important aspects for stakeholders were client satisfaction, product responsibility, and stakeholder engagement. Given their importance to stakeholders, NIBC will focus on in these areas while continuing to prioritize our efforts across the other aspects which stakeholders found to be most material.

For further information, please refer to the Annual Report of NIBC Bank N.V.

DEFINITIONS FOR THE NON-FINANCIAL KEY FIGURES

The following definitions have been used for the Non Financial Key Figures presented in NIBC's annual report.

NPS

Outcome of *Net Promoter Score* (**NPS**) survey with corporate lending and advisory clients, who executed a (lending) deal/deals with NIBC Corporate Banking during the reporting period, and for existing lending and advisory clients of NIBC.

Stakeholders view this as a material indicator of client satisfaction of our corporate lending and advisory clients as well as an indicator of stakeholder engagement.

The NPS methodology is a widely used methodology in which scores from 0 to 6 are classified as 'detractor', scores. 7 or 8 are classified as 'passive' and only those scores that are 9 or 10 are classified as 'promoters'. The result is calculated by the percentage of promoters minus the percentage of detractors, giving the NPS. The NPS can therefore range from -100% to +100%.

The NPS is measured over a 12 month period, from the 1st December to the 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 and advisory client base, where we are in direct contact with the client, excluding distressed asset clients, internal clients and certain legacy clients. In case of multiple deals for one client, the client is counted once. When the online survey is sent to multiple contact persons for a client, only the first response is included.

The total population of NIBC corporate clients in scope is 602 clients in the 12 month period. 425 clients fall within the definition described above and were surveyed, 109 responses were received. NIBC considers this to be representative of the total population. The online surveys are sent by a third party service provider, which transfers the raw results back to NIBC.

NIBC Direct Customer Satisfaction Score

The results of the latest, annual online *Customer Satisfaction Survey* (**CSS**) for the bank's retail clients, i.e. NIBC Direct Savings Netherlands (NL, including Mortgages), Belgium (BE) and Germany (GE, also including Brokerage clients), that was completed in the reporting period.

The digital surveys were conducted in November 2018 through a third party, using a random selection of NIBC's new and existing Dutch NIBC Direct Mortgage and Savings clients, Belgian NIBC Direct Savings clients and German NIBC Direct Savings and Brokerage clients. Clients were selected based amongst other criteria on country and product. The average scores per country and product are totaled and divided by the total number of clients in the population. The reported 2017 and 2016 figures are based on a different calculation method where the total number of respondents is used as the denominator for the calculation.

2018 Score per product: Netherlands Mortgages 8.1; Netherlands Savings 7.7; Germany Savings 7.6; Germany Brokerage 7.8; Belgium Savings 7.8

Stakeholders view this as a material indicator of client satisfaction of our retail clients as well as an indicator of stakeholder engagement.

The population of NIBC Direct Customer Satisfaction survey was approx. 289.000 clients in November 2018, of which 30.000 have been surveyed (10,000 each country), and around 2.500 responses were received. NIBC considers this to be representative for the population.

% of new Corporate loans screened against sustainability policy framework

New corporate deals which have been assessed for social and environmental risks during the reporting period. A deal may include one or more underlying facilities with different tenors as part of a deal or loan structure. Amendments to existing deals are excluded from this figure.

Stakeholders view this as a material indicator in regard to transparency. Sustainability impacts and good corporate governance are among the financial and non-financial aspects taken into consideration during NIBC's corporate client engagement and financing decision processes.

Screenings were performed by Corporate Banking account managers as part of NIBC's ongoing and mandatory due diligence process using a third party toolkit system.

Number of New clients/transactions with increased sustainability risk assessment

Number of new (potential) clients/transactions for which increased sustainability risks were identified using a third party toolkit assessment. This does not include monitoring of existing client files with sustainability risks nor clients for which a sustainability risk assessment has not (yet) been completed as the transaction is still in an early stage or was cancelled in an early stage.

Stakeholders view this as a material indicator of stakeholder engagement on potential sustainability issues.

In these situations, NIBC performs enhanced sustainability due diligence into potential material environmental, social, and governance aspects that are of potential concern.

Fines or sanctions for non-compliance with laws and regulations

Number of significant fines and number of non-monetary sanctions for non-compliance with laws and regulations. The definition is limited to fines from a regulator. This excludes any pending claims and/or litigation. Significant: values of fine > EUR 10.000 (in line with category 2 and 3 fines of AFM).

Stakeholders view this as a material indicator of regulatory compliance and corporate governance of NIBC's own operations and day-to-day business.

NIBC includes non-punitive fines agreed as part of settlement of regular tax audits within its interpretation of the definition for this indicator.

Number of FTE's end of year

Number of FTE's of NIBC worldwide at the end of the year. Only employees on NIBC's payroll and having an 'internal' position are accounted for. NIBC Bank N.V. includes all its international offices as well as NIBC Bank Deutschland AG, though excludes minor participations of the bank.

A *Full Time Equivalent* (**FTE**) represents, per employee, the total number of contract hours per week related to the maximum number of contract hours per week (e.g. 40 hours). This maximum can differ per NIBC office (depending on local guidelines) and kind of job contract.

Male/female ratio

Percentage of number of male and female for NIBC worldwide, at the end of the year.

The number of males and females is based upon headcount as reported from NIBC's human resources information management system at the end of the year.

Stakeholders view this metric as a material indicator for gender diversity in the company. NIBC supports all types of diversity and aspires to further diversify its workplace.

Male/female ratio top management

Percentage of number of male and female for NIBC worldwide, at the end of the year. Top management consists of management with corporate title 'Director' or 'Managing Director'.

Stakeholders view this metric as a material indicator for gender diversity of top management.

Training expenses per employee

Total of training and education expenses, incurred in the current year based on average headcount calculated by taking the headcount at the beginning and end of the year. For employees traveling for training, this includes travel costs and any related expenses.

Stakeholders view this metric as a material indicator of the bank's commitment to employee development and future employability.

Absenteeism

Absenteeism is the rolling average of the latest absenteeism percentage, annualized for NIBC's employees in The Netherlands. The absenteeism percentage is the number of workdays lost to absenteeism divided by the total number of available workdays, expressed as a percentage. In case of partial absenteeism, the absenteeism percentage only reflects the actual absenteeism (non-working hours). Maternity leave is not included in the figure.

Absenteeism rate may change as the year progresses due to previously unreported cases of absenteeism and/or confirmation of the employee's recovery.

Notifications of illness and recovery are submitted by NIBC to a 3rd party ARBO service organization. NIBC uses its 3rd party health & safety services organization to report on absenteeism figures. The absenteeism percentage relates to the absenteeism in the Netherlands only: absenteeism in Germany, Belgium and United Kingdom is not accounted for in this figure.

Employee turnover (employees started & left)

Employee turnover consists of inflow of new employees ('started') and outflow of existing employees ('left').

Started: The number of employees that joined NIBC worldwide throughout the current calendar year (hire date between 1-1-18 and 31-12-18), divided by total number of employees at the start of the year.

Left: The number of employees that left NIBC worldwide throughout the calendar year divided by the total number of employees at the start of the year.

Stakeholders view this metric as a material indicator of employee engagement of existing employees and further as an indicator of the bank's position as an attractive employer.

CONTACT INFORMATION

Our website, www.nibc.com, offers a wide range of information about NIBC, financial information, corporate information, corporate calendar, press releases and sustainability information. The information is available on our English, Dutch and German website. Financial information (annual reports, full-year and half-year results releases and trading updates) is available in English.
To receive press releases and other NIBC news, please subscribe to our e-mail service by sending an e-mail to info@nibc.com.

Questions and remarks

We invite all stakeholders to ask their questions and share their remarks.

- General questions and remarks can be addressed to Corporate Communications, telephone +31 70 342 56 25 / e-mail info@nibc.com;
- Questions and remarks related to investor relations can be addressed to Michèle Negen - Jacobusse, telephone +31 70 342 95 90 / e-mail michele.negen@nibc.com;
- Questions and remarks related to bond investments can be addressed to Debt Investor Relations, Toine Teulings, telephone +31 70 342 98 36 / e-mail toine.teulings@nibc.com;
- Questions and remarks related to CSR can be addressed to the CSR department, e-mail csr@nibc.com;
- You can find NIBC's complaints procedures here. For NIBC Direct in the Netherlands you can find our complaints procedures here, for NIBC Direct Germany here, and for NIBC Direct Belgium you can find our complaints procedure here (Dutch) or here (French).

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DISCLAIMER

Presentation of information

This annual report (**Annual Report**) of NIBC Bank N.V. (**NIBC**) has been prepared in accordance with *International Financial Reporting Standards as adopted by the European Union* (**IFRS-EU**) and with Title 9 of Book 2 of the Netherlands Civil Code.

Cautionary statement regarding forward-looking statements

Certain statements in this Annual Report are not historical facts and are 'forward-looking' statements that relate to, among other things, NIBC's business, result of operation, financial condition, plans, objectives, goals, strategies, future events, future revenues and/or performance, capital expenditures, financing needs, plans or intentions, as well as assumptions thereof. These statements are based on NIBC's current view with respect to future events and financial performance. Words such as 'believe', 'anticipate', 'estimate', 'expect', 'intend', 'predict', 'project', 'could', 'may', 'will', 'plan', 'forecast', 'target' and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve uncertainties and are subject to certain risks, including, but not limited to (i) general economic conditions, in particular in NIBC's core and niche markets, (ii) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness (iii) performance of financial markets, including developing markets, (iv) interest rate levels, (v) credit spread levels, (vi) currency exchange rates, (vii) general competitive factors, (viii) general changes in the valuation of assets (ix) changes in law and regulations, including taxes (x) changes in policies of governments and/or regulatory authorities, (xi) the results of our strategy and investment policies and objectives, and (xii) the risks and uncertainties as addressed in this Annual Report, the occurrence of which could cause NIBC's actual results and/or performance to differ from those predicted in such forward-looking statements and from past results.

The forward-looking statements speak only as of the date hereof. NIBC does not undertake any obligation to update or revise forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise. Neither do NIBC nor any of its directors, officers or employees make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

ANNUAL REPORT 2018

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ABBREVIATIONS

AC	Audit Committee
AC	Amortised Cost
AGM	Annual General Meeting
AIRB	Advanced Internal Ratings Based
ALCO	Asset & Liability Committee
AML	Anti-money laundering
APM	Alternative Performance Measure
AQR	Asset quality review
AT 1	Additional Tier 1
Beequip	BEEQUIP B.V.
BPV	Basis Point Value
CCR	Counterparty Credit Rating
CDC	Collective Defined Contribution
CDC arrangement	Collective defined-benefit pension arrangement
CDO	Collateralised Debt Obligation
CDRs	Common Depositary Receipts
CEO	Chief Executive Officer
CET 1	Common Equity Tier 1 ratio
CFO	Chief Financial Officer
CGUs	Cash-Generating Units
Council	Works' Council
CRDRs	Conditional Restricted Depositary Receipts
CRE	Commercial Real Estate
CSA	Credit Support Annexes
CVAs and DVAs	Credit Valuation Adjustments & Debit Valuation Adjustments
DNB	Dutch Central Bank
DNB Principles	DNB Principles on Sound
DRs	Depositary Receipt
DTA	Deferred tax assets
EatR	Earnings at risk
EBA	European Banking Authority
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EC	Engagement Committee
EC	Economic Capital
ECB	European Central Bank
ECL	Expected Credit Loss
EL	Expected loss
EPS	Earnings per share
ESF	Einlagensicherungsfonds
ESTER	European Short Term Rate
ExCo	Executive Committee
FAR&H	Food, Agri, Retail & Health
FCA	Financial Conduct Authority
FTEs	Full-Time Equivalents
FVtPL	Fair value through profit or loss
GRI	Global Reporting Initiative
I&M	Industries & Manufacturing
I&R	Infrastructure & Renewables
IA	Internal Audit
IASB	International Accounting Standards Board
IBNR	Incurred But Not Reported
IC	Investment Committee
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IFRS 9	IFRS 9 'Financial instruments'
IFRS-EU	International Financial Reporting Standards as adopted by the European Union
ILAAP	Internal Liquidity Adequacy Assessment Process
IoT	Internet of Things principle
IPO	Initial public offering
IRBC	International Responsible Business Conduct
IRRBB	Interest Rate Risk in the Banking book
ISDA	International Swaps and Derivatives Association
KYC	Know Your Customer
LFM	Leveraged Finance Markets
LGD	Loss Given Default
LTI	Loan-to-Income
LTIMV	Loan-to-Indexed-Market-Value
LTMV	Loan-to-Market Value
LtV	Loan-to-value
M&A	Mergers and Acquisitions
MIFID II	The Markets in Financial Instruments Directive II
MREL	Minimum requirement for own funds and eligible liabilities
MtM	Marked-to-Market value
NACE	Statistical Classification of Economic Activities in the European Community
NEIF	NIBC European Infrastructure Fund I C.V.
NHG Guarantee	National Mortgage Guarantee
NIBC	NIBC Holding N.V.
NIBC Holding Funds	Funds set up and managed by NIBC
NPS	Net Promoter Score
OCI	Other Comprehensive Income
OE	Offshore Energy
OTC	Over The Counter

OTM	Originate-to-Manage
PFE	Potential Future Exposure
POCI	Purchased or originated credit impaired assets
PSUs	Phantom Share Units
RAROC	Risk-adjusted return on capital
RC	Regulatory capital
RDA	Restructuring & Distressed Assets
Repos	Securities sold subject to repurchase agreements
Reverse repos	Securities purchased under agreements to resell
RMBS	Residential Mortgage-Backed Securities
RMC	Risk management committee
RNC	Remuneration and Nominating Committee
ROE	Return on equity
RPCC	Risk Policy & Compliance Committee
RPSUs	Restricted Phantom Share Units
RSRS	Responsible Ship Recycling Standards
RWA	Risk Weighted Assets
S&I	Shipping & Intermodal
S&P	Standard & Poor's
SDGs	Sustainable development goals
SE	Structured Entity
SICR	Significant increase in credit risk
SIRA	Systemic integrity risk analysis
SRB	Single Resolution Board
SREP	Supervisory review and evaluation process
STAK	Stichting Administratiekantoor
STI	Short-Term Incentive
STM	Settle-to-markets
TC	Transaction Committee
The Foundation	NIBC Holding
TLTRO II	Targeted Longer Term Refinancing Operation
TMT&S	Telecom, Media, Technology & Services
UNGC	United Nations Global Compact
VaR	Value at Risk
Wbfo	Wet beloning financiële ondernemingen
WEW	Stichting Waarborgfonds Eigen Woningen (Social Housing Guarantee Fund)