OUR PATH TO SUSTAINABLE GROWTH

ANNUAL REPORT 2014 | BANK

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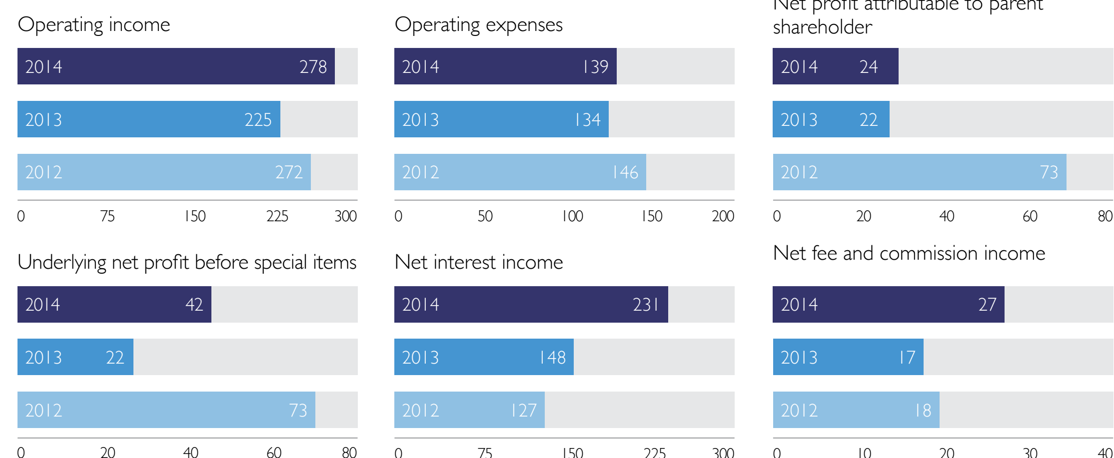
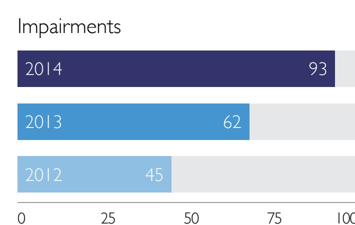
KEY FIGURES

Earnings

IN EUR MILLIONS





	2014	2013	2012
Net trading income	3	56	94
Net interest margin[1]	1.19%	0.72%	0.58%
Dividend payout ratio	0%	73%	53%
Return on equity[2]	1.3%	1.2%	4.0%

Corporate banking assets (drawn + undrawn)

	2014	2013	2012
Infrastructure	2,112	1,979	2,190
Shipping	1,387	1,161	1,521
Commercial Real Estate	1,294	1,301	1,941
Oil & Gas	1,244	864	1,015
Manufacturing	650	527	446
Financial Services	607	551	483
Services	483	398	446
Wholesale/Retail/Leisure	453	347	467
Agriculture & Food	289	168	85
Technology, Media & Telecommunications	172	109	150
Other	98	6	6
Total corporate loans (drawn + undrawn)	**8,789**	**7,412**	**8,750**
Lease receivables	361	-	-
Investment loans	154	126	173
Equity investments	377	378	352
Total corporate banking assets (drawn + undrawn)	**9,681**	**7,916**	**9,275**

[1] 12 months net interest income / 12 months average interest-bearing assets.
[2] Net profit attributable to parent shareholder / total shareholder's equity at the beginning of the year.

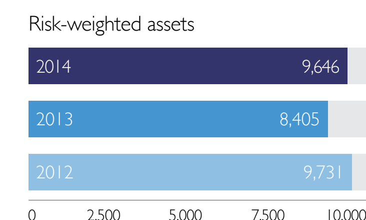
Corporate banking assets (drawn + undrawn) per region

	2014	2013	2012
The Netherlands	2,983	2,547	2,968
Germany	2,293	1,698	2,050
United Kingdom	1,788	1,467	1,601
Other	2,617	2,204	2,656
Total corporate banking assets (drawn + undrawn)	**9,681**	**7,916**	**9,275**

Consumer banking assets

	2014	2013	2012
Mortgages - The Netherlands	7,891	7,331	7,836
Mortgages - Germany	167	233	351
Total consumer banking assets	**8,058**	**7,564**	**8,187**

Asset Quality



	2014	2013	2012
Cost of risk (normalised for exceptional impairments)[3]	0.72%	0.79%	0.49%
Cost of risk	1.18%	0.79%	0.49%
Impairment ratio (normalised for exceptional impairments)[4]	0.40%	0.40%	0.27%
Impairment ratio	0.66%	0.40%	0.27%
NPL ratio[5]	5.8%	6.5%	13.3%
Top-20 exposure[6]	12%	13%	13%
Exposure corporate loans that display an arrear > 90 days	0.8%	0.7%	2.5%
Exposure residential mortgages that display an arrear > 90 days	1.0%	1.4%	1.1%
Loan to value Dutch Residential mortgages[7]	82%	82%	77%

[3] Impairments + credit losses mortgages in net trading income / average total RWA. Exceptional impairments relate to additional impairments due to a prudent approach on the pre-crisis portfolio.
[4] Impairments + credit losses mortgages in net trading income / carrying value of Loans + Mortgages + Debt investments at the beginning of the year. Exceptional impairments relate to additional impairments due to a prudent approach on the pre-crisis portfolio.
[5] Total non-performing exposure (defined by the *European Banking Authority* (**EBA**)) / total exposure. Non-performing exposure determined at customer level.
[6] Top-20 exposure excludes granular exposures from Commercial Real Estate.
[7] Loan-to-Indexed-Market-Value (LTIMV) excluding NHG guaranteed mortgages.

KEY FIGURES

Solvency information[8]

	2014	2013	2012
Shareholder's equity (EUR millions)	1,831	1,789	1,825
Subordinated liabilities	320	298	347
Group capital base (EUR millions)	2,151	2,087	2,172
Balance sheet total	23,144	22,323	26,244
Tier-1 ratio	15.5%	21.3%	18.1%
BIS ratio	19.3%	22.3%	19.1%

COMMON EQUITY TIER -1 RATIO

2013 **18.1%** 2012 **15.3%**

LEVERAGE RATIO

2013 **7.6%** 2012 **6.4%**

Funding & Liquidity[9]

	2014	2013	2012
LCR	128%	150%	236%
NSFR	108%	107%	114%
Loan-to-deposit ratio	154%	165%	199%
Asset encumbrance ratio[10]	35%	34%	34%
Retail savings / Total funding	47%	45%	36%
Secured funding / Total funding	30%	30%	28%
Corporate deposits / Total funding	6%	0%	0%
S&P rating & outlook	BBB- / Stable	BBB- / Negative	BBB- / Negative
Fitch rating & outlook	BBB- / Stable	BBB- / Stable	BBB / Negative

Other information

	2014	2013	2012
Assets under management for third parties (EUR millions)	1,732	1,995	1,178

Non-financial key figures

NPS SCORE

2013 **+28%** 2012 **+12%**

NIBC DIRECT CUSTOMER SURVEY SCORE[11]

2013 **7.7%** 2012 **7.4%**

	2014	2013	2012
% of new corporate clients screened against sustainability policy framework	100%	100%	100%
Number of new clients with increased sustainability risk assessment	43	22	14
Number of project finance transactions closed in line with Equator Principles	9	8	16
Fines or sanctions for non-compliance with laws and regulations	0	0	0

Employees

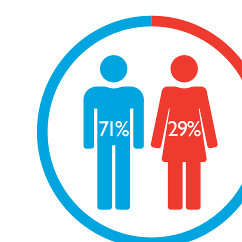
TOTAL NUMBER OF FTEs END OF YEAR

2013 **596** 2012 **627**

EMPLOYEE ENGAGEMENT

2013 **85%** 2012 **85%**

MALE / FEMALE RATIO



2013 **71% / 29%** 2012 **70% / 30%**

	2014	2013	2012
Absenteeism[11]	2.1%	2.7%	2.1%
Training expenses per employee (EUR)	1,759	1,950	2,425
Male/female ratio top management	88% / 12%	88% / 12%	90% / 10%
Employee turnover (employees started)	19.7%	9.4%	6.6%
Employee turnover (employees left)	13.2%	14.6%	11.2%

[8] Common Equity Tier-1 ratio (previously Core Tier-1 ratio), Tier-1 ratio and BIS ratio based on Basel III as of 1 January 2014. Until 31 December 2013 all capital ratios were based on Basel II. Leverage ratio is based on Basel III. All Basel III ratios are fully loaded.

[9] NIBC Funding & liquidity is managed on NIBC Holding level, all funding & liquidity ratios with exception of Loan-to-deposit are calculated on NIBC Holding level, Loan-to-deposit ratio is calculated on NIBC Bank level.

[10] Encumbered assets + total collateral received re-used / total assets + total collateral re-used.

[11] Change in calculation method as compared to 2013. For details, see Corporate responsibility reporting scope.

NIBC AT A GLANCE

ABOUT NIBC

NIBC Bank N.V. (**NIBC**) is an enterprising bank offering corporate and consumer banking services. We put our clients' interest first and share with them a forward-thinking, can-do spirit – what we call our 'Think YES' mentality. Headquartered in The Hague, we also have offices in Brussels, Frankfurt and London.

For companies

We think and act like entrepreneurs to support corporate clients in building their businesses. We offer advice, financing and co-investing in a number of chosen sectors: Food, Agri & Retail; Commercial Real Estate; Industries & Manufacturing; Infrastructure & Renewables; Oil & Gas Services; Shipping & Intermodal; and Technology, Media & Services. Our expertise spans debt and equity mezzanine, mergers & acquisitions, capitalisation advisory, leveraged finance and structured finance.

For consumers

For consumers who actively manage their financial ambitions, we offer savings in the Netherlands, Germany and Belgium, mortgages in the Netherlands and brokerage services in Germany under our NIBC Direct label.

VISION, MISSION AND AMBITION

Vision

We believe clients want a long-term relationship of trust with their bank. In a complex world, they look for a bank that is transparent and accessible; a bank that provides them with clear and sustainable solutions.

Mission

The enterprising partner for decisive moments.

Ambition

The enterprising bank. Crystal-clear answers to complex financial challenges. Spot-on solutions for decisive moments.

OUR STRATEGY

Our strategy revolves around three areas where we have a competitive edge: **focus**, **entrepreneurial culture** and **flexibility**, which eventually lead to **sustainable growth**. Long-term customer relationships and sustainability in terms of our competitive advantage, profit growth and balance sheet, mean we can invest now and in the future - benefiting all our clients.

Focus

We focus on decisive moments in our clients' lives, such as company takeovers, expansion abroad, or buying a house. On the corporate side, we focus on medium-sized companies mainly in North Western Europe, many of them privately or family-owned. For consumers who actively manage their financial ambitions, we offer a selection of value-added, straightforward and transparent products: savings in the Netherlands, Germany and Belgium, mortgages in the Netherlands and brokerage services in Germany.

Entrepreneurial culture

We cultivate what we call a 'Think YES' mentality, actively stimulating our employees' energy, entrepreneurial spirit and creativity. We work closely with our clients to understand their challenges. We then employ our agility, no-nonsense mentality and expertise to help them achieve their aims by devising and implementing clear, innovative and truly tailor-made solutions with gusto and speed.

Flexibility

We are flexible and future-focused, so we can anticipate and adapt to our fast-changing world, seizing chances to fulfil our clients' evolving needs. Firmly focused on the future, we work hard to anticipate coming trends and the impact they could have on our clients and their needs.

CORPORATE RESPONSIBILITY

Our focus on clients and fundamental commitment to supporting entrepreneurs are at the heart of our corporate responsibility. We build long-lasting relationships with clients and ensure our products and services are transparent, trustworthy and sustainable. To better serve our clients, we stay abreast of sustainability and sector developments in the changing world around us. This helps us understand the risks and opportunities that these developments may bring for our clients.

At the same time, we take responsibility for our own operations, reducing our environmental footprint and enabling staff to become involved in community programmes.

We updated our sustainability strategy in 2014, revising our three cornerstones while reconfirming our focus on sustainable client business and the world around us. We continue to manage our direct impact on society and the environment, but in light of feedback from stakeholders and following significant efforts in the past years, this is considered as less material.

This 2014 Annual Report is drafted in line with the *Global Reporting Initiative* (**GRI**) G4 guidelines. A description of the materiality assessment and the corporate responsibility assurance report can be found in the 'Other Information' section. We have received external reasonable assurance with regard to specific non-financial key performance indicators.

LETTER FROM THE CEO

NIBC entered a new chapter in 2014. Years of hard work rebuilding our foundations after the financial crisis have returned us to a path of sustainable growth and profitability, with our focus fixed firmly on our clients and on the future.

My warm thanks are due to Jeroen Drost, whom I succeeded as *Chief Executive Officer* (**CEO**) last April. Jeroen was instrumental in creating the conditions of strength from which NIBC is starting to grow again. Harnessing the entrepreneurial culture that has characterised our bank since its beginnings, combined with our solid capitalisation and liquidity, we can now look outward to our clients and focus on restoring profitability.

We saw continued underlying growth in 2014, with underlying net profit rising to EUR 42 million, before the one-off SNS levy of EUR 18 million. Our reported net profit totalled EUR 24 million compared to EUR 22 million in 2013. Despite only modest improvements in financial markets, our corporate loan portfolio expanded significantly as the medium-sized Dutch and German companies we serve began investing again.

Spreads, credit quality and funding costs all improved, and we further improved and diversified our funding, for example through our new German AG. Our retail savings and mortgage business grew healthily, the latter helped by a mild recovery in the Dutch housing market.

Further evidence of our improving financial health was the revision by rating agency *Standard & Poor's* (**S&P**) of NIBC Bank's outlook to stable, and our repayment of the last tranches of *government-guaranteed bonds* (**GGBs**) received from the Dutch state during the financial crisis.

All this underlines the start of our new chapter. NIBC has always been the enterprising partner for decisive moments. The same can-do culture of creativity and entrepreneurialism, the same decision to provide tailor-made solutions at decisive moments in our clients' lives, still distinguish us. These are key to our strategy of long-term sustainable growth that enables us to help clients flourish even more.

We clearly focus on sectors, markets and services where clients can draw the most long-term benefit from our skills, expertise and experience. We focus strongly on Dutch and German family companies, which are the engine of their national economies. We are flexible and agile, anticipating and adapting to our fast-changing world and our clients' evolving needs. And we stimulate a culture of expert, engaged employees who are eager to create enterprising, mostly tailor-made solutions for our clients.

As a bank without flow business such as current accounts and daily payments, we must constantly prove ourselves afresh. We are only as good as our last transaction. We can achieve nothing unless we satisfy and exceed our business clients' expectations, so that they return to us and recommend us to others. And they do, as shown by our consistently exceptionally high *Net Promoter Score* (**NPS**). On the retail side, customers keep saving with us, and choose us for home loans, because we fulfil their needs for simple, transparent, no-nonsense products.

Last year's growth was spread across our chosen markets of the Netherlands, Germany, Belgium and the UK. In Germany, our second home market, we expanded both autonomously and through the acquisition of Gallinat-Bank AG. That acquisition emphasised our long-term commitment to the German market and sent a strong signal that we are there to stay, as well as further diversifying our funding mix. The integration of Gallinat-Bank AG brought 35 new employees into the NIBC Group. We also started hiring again more broadly last year, another sign of our improving health.

Our innovative skills gained external acclaim again: we won further awards for the ground-breaking conditional pass-through covered bond we launched in 2013 and successfully issued again in 2014. The bond programme was named The Banker's Deal of the Year 2014 and received the Award for Innovation 2014 at the Covered Bond Report Awards for Excellence in Frankfurt. It had previously won the IFR Award for Covered Bond of the Year.

Looking ahead, we expect further earnings growth for 2015, although the external macroeconomic and geopolitical environment remains fragile. Conditions and confidence among our customers are improving, but many continue to struggle with the aftermath of the crisis, which could limit their growth. For the financial sector as a whole, and especially for a bank the size of NIBC, the pressure of European regulation remains a challenge.

All in all, however, I am pleased to be able to say NIBC has shifted to growth mode. Clients have more faith in the future and in us. We, too, are firmly forward-focused. With employees who have so impressed me since I started working here, and with the continued trust of our clients, around whom it all revolves, we look to the future with confidence.

The Hague, 3 March 2015
Paulus de Wilt
Chief Executive Officer,
Chairman of the Managing Board

REPORT OF THE MANAGING BOARD

Advising builder **Ballast Nedam** on offshore business options

Supporting smooth payment of German doctors' bills for **Health AG**

Building a greener tomorrow at **John Laing Environmental Assets Group**

Our key European markets saw fragile economic recovery last year. Confidence among companies and consumers began to revive and signs of economic growth appeared. At the same time, interest rates declined and geopolitical tensions ensured market nerves were never far away.

Businesses showed the first signs of a renewed appetite to invest. On the consumer side, the Dutch housing market appeared to bottom out and begin a cautious revival after years of decline and stagnation. Some 40% more houses were sold than in 2013 – although many homeowners still face challenges.

After several years of deleveraging our balance sheet, NIBC's business continued its underlying growth in 2014. Origination of corporate loans doubled compared to 2013 and our corporate loan portfolio grew for the first time in several years. Our consumer banking activities also grew strongly.

Our net profit of EUR 24 million was affected by the one-off levy imposed on all Dutch banks due to the nationalisation of SNS Reaal. For NIBC this levy amounted to EUR 18 million. Furthermore, an impairment on our real estate portfolio influenced our total impairment levels. This impairment resulted from restructuring actions and a prudent internal assessment on our real estate portfolio.

The overall improvement in our financial health was affirmed by rating agency S&P, which announced in November that it had improved NIBC Bank's outlook to stable. Another sign that NIBC is on track to leaving the crisis behind was our repayment in December 2014 of the last portion of our outstanding state-guaranteed bonds.

On the risk side, we further integrated our overall risk framework and sharpened our risk appetite in 2014, looking in more depth at both financial and non-financial qualitative risks such as ethical, reputational and regulatory risks.

TOWARDS SUSTAINABLE GROWTH

We fine-tuned our strategy in 2014 to accentuate our strengths and ambitions. Through our focus on decisive moments for our clients in specific sectors, our entrepreneurial culture and our flexible, future-focused mentality, we strive to create sustainable profitable growth.

Our strategy is based on the principle that we only do what we are good at. This applies to how and where we do business and what we offer our clients. We have made clear choices not to offer routine daily banking services such as current accounts or payments management and to concentrate on our home markets of the Netherlands and Germany, supported by our international offices in the UK and Belgium.

We measure our performance not only by financial achievements, but also by our economic, social and environmental contribution. Sustainability considerations are incorporated in every aspect of our business, drive our performance and help create stable, long-term profitability.

Our strategy revolves around three areas where we have a competitive edge: **focus**, **entrepreneurial culture** and **flexibility**, which eventually lead to **sustainable growth**.

Our focus, entrepreneurial culture and flexibility enable us to work towards our aim of creating sustainable profitable growth. Long-term customer relationships and sustainability in terms of our competitive advantage, profit growth and balance sheet, mean we can invest now and in the future benefiting all our clients.

We strive for a well-balanced and stable financial position, reflected in sustainable profitability in the medium term. In order to serve clients and create shareholder and stakeholder value, we aim to deliver the optimal balance between risk and return, and we focus relentlessly on controlling costs.

NIBC's risk management approach ensures responsible banking, in line with regulatory requirements and ethical, environmental and social standards. As a corporate citizen, we take steps to minimise our impact on the environment and seek to contribute towards building a sustainable society for future generations.

Focus

We focus on transactions at decisive moments for our corporate and consumer clients. We aim for decisive moments such as company takeovers, expansion abroad and buying a house.

On the corporate side, we mainly serve medium-sized companies in North Western Europe, with our home markets in the Netherlands and Germany. Many of these businesses are privately or family-owned. For consumers who actively manage their financial ambitions, we offer savings in the Netherlands, Germany and Belgium, mortgages in the Netherlands and brokerage services in Germany under our NIBC Direct label.

Last year saw us continue growing in both our home markets. In Germany, we grew through our acquisition, in April, of Gallinat-Bank AG, which offers financing and leasing products to medium-sized German companies – a perfect match with NIBC's capabilities – as well as organically.

In September 2014, Gallinat-Bank AG was renamed NIBC Bank Deutschland AG. Clients welcomed both the acquisition and the fact we are now an AG in Germany as confirmation of a long-term commitment to that market. By the end of 2014, we had more than 100 employees in Germany who are keen to support ever more German clients.

Our UK operations grew, with some corporate transactions coming from new markets. We have now begun to seek domestic transactions in the UK in addition to originating leveraged finance deals for the Netherlands and Germany.

Entrepreneurial culture

We stimulate a culture of creative, entrepreneurial and professional employees who are eager to create enterprising, mostly tailor-made products and services for our clients.

We were established in 1945 to finance entrepreneurs: client focus and entrepreneurialism are in our genes. As a bank, we cultivate what we call a 'Think YES' mentality, actively stimulating our employees' energy, entrepreneurial mentality and creativity, and so contributing to the new environment in which institutions operate.

We work closely with our clients to understand their challenges. We then employ our agility, no-nonsense mentality and expertise to help them achieve their aims by devising and implementing clear, innovative and truly tailor-made solutions with gusto and speed.

Flexibility

We are flexible and future-focused, so we can anticipate and adapt to our fast-changing world, seizing chances to fulfil our clients' evolving needs.

Firmly focused on the future, we work hard to anticipate coming trends and the impact they could have on our clients and their needs. At an individual level, our clients' requirements also evolve as time goes on. Long-term sustainability is key: we support companies whose businesses seek to meet the challenges of our changing world, and we offer retail customers responsible, transparent products that help them prosper over the long term.

Our flexible culture, modest size and short reporting lines keep us close to our clients and to each other, so we can adapt swiftly to new trends and meet evolving needs. We are constantly seeking to improve our internal processes so we can fulfil our promise to our clients.

BUSINESS PERFORMANCE

Corporate Banking

In 2014, we continued strengthening our sector focus, further concentrating on industries in which we possess strong expertise and knowledge and where we can best help our clients achieve their strategic ambitions.

NIBC has three global and four locally-operating, well-diversified industry sectors. We provide asset-based financing, corporate lending, leveraged finance and M&A services. Our globally active sectors are Shipping & Intermodal, Oil & Gas Services and Infrastructure & Renewables. Our local sectors are Commercial Real Estate, Industries & Manufacturing, Technology, Media & Services, and Food, Agri & Retail. Geographically, our core markets are the Netherlands and Germany.

Strong growth in deal origination

Companies increasingly explored investment opportunities and sought financial transactions last year. Our origination of new deals almost doubled, increasing by 93%, mainly through organic growth but also partly through the acquisition of Gallinat-Bank AG in Germany. Both the volume and value of new deals rose as entrepreneurial companies sought out NIBC to support them at decisive financial moments.

Typical transactions for which companies continued to select NIBC were those with highly involved and active shareholders. We saw strong demand from existing and new clients across all our sectors. Many deals came to us through word of mouth-evidence of our improving reputation for fast action and flexible, tailor-made corporate services. We also boosted our origination capacity by hiring additional origination staff and organising special sessions to share client interaction best practices.

Companies whose sustainable growth ambitions we supported in 2014 include Ballast Nedam, Songa Offshore, Noordlease, Health AG and John Laing Environmental Assets Group. For Ballast Nedam, one of the Netherlands' largest construction companies, we advised on the sale of its offshore wind division. The sale to Van Oord helps Ballast Nedam to focus on its core activities.

For Health AG, NIBC was sole arranger in a EUR 50 million receivables financing facility that enabled the German technology, media & services company to diversify its funding base and increase its financial independence. We acted as Joint Mandated Lead Arranger, Underwriter and Bookrunner for a USD 1.1 billion senior secured credit facility for Songa Offshore, the most important drilling contractor for Norwegian state oil company Statoil, to finance two new semi-submersible drilling units.

We successfully closed a management buyout of car leasing company Noordlease B.V. from BMW Holding B.V., providing Noordlease with risk-bearing capital and helping it strengthen its position in the regional economy and community. And our UK team beat off stiff competition to provide the John Laing Environmental Assets Group with a GBP 50 million revolving acquisition facility to invest in renewable energy and waste infrastructure projects.

As part of our constant ambition to increase our service to our clients, we further improved our loan process by increasing the control and efficiency of the process, resulting in better predictability, communication and reliability for clients. All sectors and support departments were involved in this Six Sigma-like project, which has significantly improved internal cooperation, and resulted in an even higher net promoter score for new clients.

Besides the Gallinat-Bank AG investment, we invested significantly in German origination in second half of 2014 and expect that to bear further fruit in 2015 – the first year we are budgeting for deal volume growth equal to that in the Netherlands.

We continue to work with a number of institutional investors, banks, law firms and accounting firms to set up a European private placement association, an important step towards establishing a European private placement market that may in time grow to resemble the huge US private placement market.

Last year saw us do our first private placement for a party in the Netherlands. We also supported various institutional investors in setting up corporate debt funds.

In terms of challenges, we are still dealing with certain pre-crisis legacies. Part of our loan portfolio demanded higher than average attention. At the same time, clients, including distressed assets clients, made more prepayments and repayments in 2014. That reduced our loan portfolio but resulted in a better risk profile of the overall portfolio and was more than compensated by origination of new deals.

Sustainable client business

Before we enter into a corporate client relationship, we make sure we thoroughly understand the client and its business activities. Part of this customer due diligence is using a risk-based approach to understand how the company and its processes are organised. We assess the organisational set-up of the company and any other parties involved that may affect our direct client relationship.

Our sustainability policies provide guidance on managing environmental and social risks, including human rights, in the business sectors in which we operate. We use a risk-based sustainability framework and apply this to all new corporate clients. This means we identify the relevant sustainability risks for each client or transaction before assessing how these risks are managed and mitigated, rather than subjecting all clients to the same sustainability screening. This risk-based approach ensures due diligence levels are proportionate to the potential risks associated with a specific transaction.

Last year, we continued screening all our corporate clients against our sustainability risk framework, which sets the standards we expect clients to meet. We performed an increased risk assessment for 43 new or potential transactions, including potential risks associated with a chemicals company, oil & gas projects and the supply chain of a clothing producer. All these clients met the standards as defined in NIBC's policy framework.

As a signatory to the *Equator Principles* (**EP**), we apply EP for all project financing transactions. In 2014, we were involved in nine project finance transactions that fell into the scope of the EP. All were judged to be Category C projects in North Western Europe, meaning that they are expected to have minimal or no adverse impacts.

Challenges

No business is without its challenges. One challenge for us is the integration of our new German AG into the NIBC business model, although this process is on track and we have encountered no major issues.

A second challenge is the effect of macroeconomic factors on global parts of our corporate banking business such as Oil & Gas Services and Shipping & Intermodal – in this case the impact of the current low oil prices and the strong dollar. To counter this, we have asset-based activities and our 'three lines of defence' risk management approach (see also our Risk Management section). Last year, we also conducted an in-depth analysis of the impact of low oil prices and a high dollar, from which we concluded that NIBC's clients have comfortable headroom.

A third challenge is the concentration of risk in our *Commercial Real Estate* (**CRE**) portfolio. To address this, we have significantly reduced our CRE exposure in recent years from EUR 2.4 billion in 2010 to EUR 1.3 billion in 2014. Furthermore, our exposure is spread across a wide range of assets.

Consumer Banking

Mortgages

When NIBC Direct successfully returned to the Dutch mortgage market in May 2013, we initially focused on first-time buyers who were attracted to our annuity mortgages and distinctive mix of simplicity and transparency. Since then, we have expanded our offering while staying true to that core ethos.

We reward borrowers for making repayments: their interest rate is reduced at once and automatically, if certain loan-to-value thresholds are reached. Our mortgages are sold through high-street mortgage chains because we believe it is important customers are able to receive the right advice from professionals with specialist knowledge.

The Dutch mortgage market showed the first signs of growth in 2014 as the housing market began a cautious recovery. That brought increasing numbers of first-time buyers onto the scene, although we also saw rising demand for our mortgages from second-time buyers and switchers.

Origination volumes of our NIBC-branded mortgages in the Netherlands grew in 2014 by almost EUR 1 billion, giving NIBC a near 2.5% market share of newly acquired mortgages in the Netherlands. After normal prepayments and repayments, our total mortgage portfolio (including white label) increased to EUR 8.1 billion from EUR 7.6 billion at the end of 2013.

We expanded our product portfolio in 2014 by adding interest-only and linear mortgages to the existing offering of annuity mortgages. We made preparations during the year for our launch in January 2015 of buy-to-let mortgages, known as *'NIBC Vastgoedhypotheek',* in the Netherlands, at much lower loan-to-value ratios. This product fits our strategy of focusing on specific market segments and fulfilling specific needs in the market.
With buy-to-let, NIBC is responding to changes in the Dutch residential real estate market: increasing numbers of private investors are investing in rented residential real estate, while a growing number of people want to rent out their home.

Last year also saw us add two distribution channels, taking the number of channels selling NIBC Direct mortgages to six, covering 900 intermediaries in total.

As an entrepreneurial, proactive bank with a client-centred strategy, we maintain very close contact with clients who run into mortgage repayment problems, and have always invested a great deal of time and effort in this. We have set up a special retention team to further enhance our efforts to enable customers with mortgages in arrears to stay in their homes. The team consists of

four specialists with many years of experience and deep expertise in the field of mortgages, special operations and restructuring. We have developed a tool box that we use to offer structural solutions to clients who have – or foresee - payment problems. The tools we employ include budget and job coaching, temporary interest holidays, and loan restructuring.

This new team has enabled us to fulfil our duty of care and client-centered strategy, as well as limiting losses for NIBC. Besides the good financial results, we have received positive feedback from our clients.

Retail savings

Under the brand name NIBC Direct, we offer retail savings to clients in the Netherlands, Germany and Belgium. The same approach applies to all countries: no small print and equal treatment of all savings clients, regardless of age, amount of savings, and whether they are new or existing clients.

Retail savings have grown every year since we launched this business in 2008. The total volume of Dutch, German and Belgian savings with NIBC Direct rose in 2014 to EUR 9.0 billion from EUR 8.4 billion at end-2013. Some 48% of the volume is in term deposits with maturities of up to 10 years.

Savings grew mostly in Germany, in line with our bank-wide drive to expand in that market. Savings volumes stabilised in the Netherlands and Belgium.

Challenges

A challenge for our consumer franchise is to continue to grow the mortgage book in 2015 through healthy origination, offsetting the normal prepayments and repayments. Vital in this – especially given the entry or re-entry of new players into the Dutch mortgage market - is our close cooperation with our current distribution partners and the potential to add new such partners. The launch of new products, such as buy-to-let mortgages, is also key.

With respect to our retail savings, our continued focus on long-term relationships with our clients is especially challenging in the current ultra-low interest rate environment. We are addressing this by being transparent, as always, about our products and our interest rates.

FINANCIAL PERFORMANCE

Income statement

IN EUR MILLIONS	2014	2013
Net interest income	231	148
Net fee and commission income	27	17
Net trading income	3	56
Dividend income	2	2
Gains less losses from financial assets	16	1
Share in result of associates	1	(1)
Operating income	**278**	**225**
Personnel expenses	(81)	(82)
Other operating expenses	(52)	(48)
Depreciation and amortisation	(5)	(5)
Operating expenses	**(139)**	**(134)**
Net operating income	**140**	**90**
Impairments of financial assets	(93)	(62)
Corporate Tax	(4)	(6)
Underlying net profit before special items	**42**	**22**
Special items		
SNS levy (Net)	(18)	-
Reported net profit	24	22

The income statement differs from that presented in the consolidated financial statements due to the treatment of non-financial companies controlled by NIBC. This only affects the presentation of the income statement and not the bottom-line profit figures. See note 1 to the consolidated financial statement for more information and a full reconciliation between the two presentations of the income statement. Small differences are possible in this table due to rounding.

Net operating income

Our net operating income grew strongly in 2014 by 56% and we maintained efficient cost management. This resulted in a cost-income ratio of 50%, which is in line with our mid-term target.

Operating income rose to EUR 278 million from EUR 225 million in 2013. Major drivers of this growth were sharply higher net interest income, fee and commission income, and a jump in gains less losses. These were offset by a significant reduction in net trading income.

Below, we analyse these developments in more detail.

Net interest income

Net interest income increased by 56% in 2014 to EUR 231 million from EUR 148 million in 2013. This reflects the outcome of our long-standing strategy to deleverage our balance sheet in previous years and to improve our funding profile, in order to create a healthier and more sustainable model.

The growth in interest income was driven by strong increased origination of both corporate and consumer loans, healthier origination spreads and re-pricing of pre-crisis exposures, supported by lower funding costs – key to which was the repayment of our remaining outstanding Dutch GGBs. We started the year with EUR 1.3 billion in GGBs on our books, but buybacks and repayments in January, April and December 2014 saw us end the year free of Dutch GGBs.

The US dollar's appreciation against the euro had a limited impact of EUR 3 million on our net interest income.

Net fee and commission income

Our net fee and commission income increased by 59%, driven by higher mergers & acquisitions activity, increased origination in corporate loans and a near doubling in investment management fees.

Net trading income

Net trading income was substantially lower in 2014 than in 2013, declining to EUR 3 million from the previous year's EUR 56 million. We are comfortable with having our net trading income in a narrow range. The decline reflects accounting fair value changes through our profit or loss, relating mainly to changes in our fair value through the profit or loss mortgage and funding book.

Positive revaluations of our *fair value through profit or loss* (**FVtPL**) mortgage book generated a profit of EUR 52 million in 2014 (2013: EUR 137 million). This positive net trading income was partly offset by revaluation of our structured funding, which had a negative effect amounting to EUR 23 million (2013: EUR 64 million). Our 2013 net trading income also included losses on the early buyback during the year of parts of the GGBs.

Gains less losses

Gains less losses increased sharply from EUR 1 million in 2013 to EUR 16 million last year, reflecting a more positive although still fragile economic climate.

Operating expenses

We maintained tight cost control in 2014, with total operating expenses rising to EUR 139 million. A EUR 4 million one-off gain in the accounting treatment of pensions was offset by one-off costs relating to the acquisition of Gallinat-Bank AG, as well as significant investments in efficiency and IT projects. We also hired new professionals, especially in the origination part of our corporate banking activities.

Personnel expenses remained relatively stable at EUR 81 million. The number of *full-time equivalents* (**FTE**) increased to 637 from 596 in 2013, reflecting our investments in Germany.

Impairments on financial assets

In absolute terms, impairments on financial assets increased from EUR 62 million in 2013 to EUR 93 million in 2014. However, underlying impairments decreased by around EUR 10 million to EUR 52 million. The difference, due to an impairment on our real estate portfolio of EUR 41 million, influenced our total impairment levels. This impairment resulted from restructuring actions and a prudent internal assessment on our real estate portfolio.

Our underlying impairment level reflects the still fragile improvement in the economic environment.

Underlying net profit before special items

NIBC's 2014 underlying net profit, before the EUR 18 million net one-off SNS levy, increased to EUR 42 million. This overall improvement in our underlying net profit reflects the strong foundations of our top-line growth.

Balance sheet NIBC Bank

IN EUR MILLIONS	31 December 2014	31 December 2013
Cash and banks	2,760	2,947
Corporate loans	6,899	6,332
Financing of lease receivables	361	-
Other loans	341	334
Residential mortgages	8,058	7,561
Debt investments	1,341	1,797
Equity investments	334	312
Derivatives	2,851	2,800
All other assets	198	241
TOTAL ASSETS	**23,144**	**22,323**

IN EUR MILLIONS	31 December 2014	31 December 2013
Retail funding	8,956	8,419
State guaranteed funding	-	1,310
Funding from securitised mortgages	3,348	3,525
Institutional deposits (Including ESF)	1,226	220
All other senior funding	4,080	3,644
Tier I & subordinated funding	320	298
Derivatives	3,217	2,957
All other liabilities	166	161
Total liabilities	**21,313**	**20,534**
Shareholder's Equity	1,831	1,789
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**23,144**	**22,323**

Both residential mortgages and the corporate loan book grew healthily in 2014. The corporate loan book (drawn and undrawn) grew by EUR 1.4 billion to EUR 8.8 billion. The appreciation of the dollar versus the euro had a modest EUR 0.3 billion positive effect on our corporate loan book, reflecting our exposures to the Oil & Gas Services and Shipping & Intermodal sectors, which are mostly dollar-denominated. Total corporate banking assets grew, including the organic growth of NIBC Germany, from EUR 7.9 billion last year to EUR 9.7 billion in 2014.

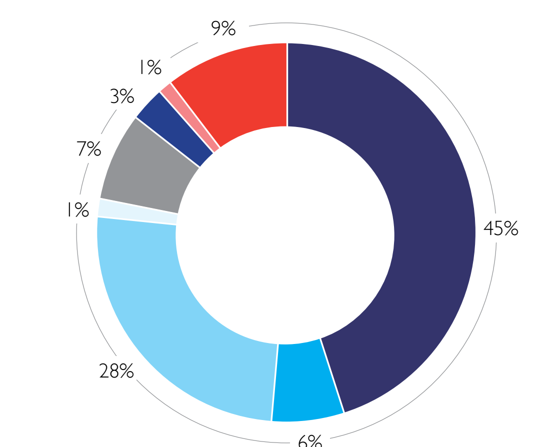
NIBC's Mortgage portfolio consists of two parts: mortgages originated since 2013, which are valued at amortised cost, and those originated before the crisis, which are valued at FVtPL. This valuation method was chosen when IFRS was first adopted. This reflected the 'originate to distribute' business model NIBC had at that time. Since the crisis, we have made significant choices regarding our business model and all mortgages - a key part of our consumer franchise - are now held to maturity. However, until adoption of IFRS 9, we are not allowed to adjust the classification and measurement of the FVtPL Mortgage portfolio and we continue to apply fair value measurement.

For the valuation of the Mortgage portfolio, we have applied the bottom-up approach, meaning we use the observed spreads from the *residential mortgage-backed security* (**RMBS**) market to determine the applicable discount spread for our FVtPL mortgage portfolio. Given the impact of various measures by the ECB, such as the *Asset-Backed Securities Purchase Programme* (**ABSPP**) and announced *Quantitative Easing* (**QE**), we have deemed it appropriate to make an adjustment in the valuation model. Based on expert advice, we have adjusted our assumptions regarding the validity term of the arbitrage between the RMBS market and the retail market, leading to a higher discount spread, which we have benchmarked against other relevant data points. Applying expert judgement is the reason that valuation of the FVtPL Mortgage portfolio is now considered to be a level 3 valuation. At year-end 2014, a EUR 95 million debit on the outstanding mortgages was accounted for in our balance sheet due to credit spread movements.

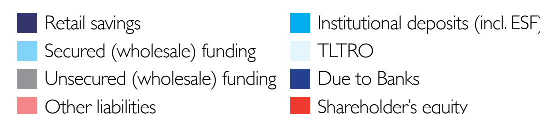
This year, NIBC has implemented forbearance reporting. Following the European Banking Authority definition, NIBC considers a client to be forborne if the client is facing financial difficulties and NIBC grants a concession to the obligor. Our business model, with a focus on sub-investment grade clients and well secured facilities, can lead to situations that temporary financial concessions are needed which would result in a relatively high total forborne exposure. Our forborne exposure, which equals 12.8% of the relevant exposure at 31 December 2014, has a large overlap with our defaulted exposure, which shows that even during difficult periods we stay committed to our clients.

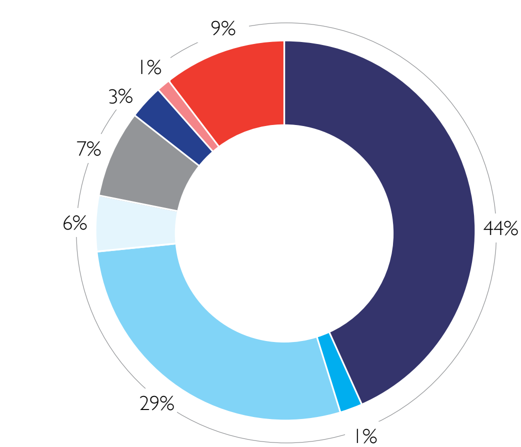
Funding

IN %

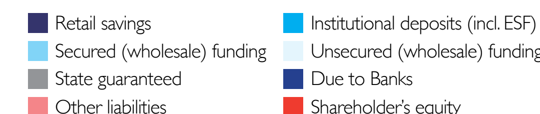


2014





2013



After several years of deleveraging, 2014 was marked by both organic and non-organic growth of our asset base. This further fuelled our funding needs and funding diversification.

Diversification of funding has been a key part of our strategy since early 2008, when we started to build our retail savings franchise. We further diversified our funding sources in 2014 with corporate deposits under the German *Einlagensicherungsfonds* (**ESF**), which totalled 6% of our funding at year-end 2014. Overall, our funding mix shows a healthy balance between wholesale and retail. With almost half our retail savings in term deposits, this is a sticky, durable form of funding.

Our solid financial position allowed us to repay all our remaining outstanding GGBs in 2014.

In April 2014 we issued another EUR 500 million conditional pass-through covered bond. The second issue of this landmark bond programme, backed by a pool of Dutch residential mortgage loans, was met with strong demand in both primary and secondary trading. The innovative bond programme has won widespread international acclaim and a string of accolades since we launched it in 2013.

We participated for the first time in in the European Central Bank's second *Targeted Longer Term Refinancing Operation* (**TLTRO**) auction in December. We were allotted an amount of EUR 241 million.

We maintained a healthy funding position in 2014, as evidenced by our Liquidity Coverage Ratio of 128% (versus 150% at year-end 2013) and Net Stable Funding Ratio of 108% (107% at year-end 2013).

In January 2015, we re-entered the unsecured market with a senior unsecured bond. It had a total size of EUR 300 million, maturity of 3.5 years and pays interest of 1.85% above the swap rate. Our broadly diversified funding enables us to build a curve in all our relevant funding sources.

As part of the annual *Internal Liquidity Adequacy Assessment Process* (**ILAAP**)/*Internal Capital Adequacy Assessment Process* (**ICAAP**), *the Asset-Liability Committee* (**ALCO**) defined NIBC's ambition with respect to asset encumbrance, which has been set below 30%. At the end of 2014, this ratio was 35%. Our loan-to-deposit ratio was 154% at end-2014, which is in line with our ambition to keep it between 140% and 160%.

Part of the unsecured funding portfolio is classified at fair value through profit or loss at 31 December 2014. At year-end 2014 a EUR 192 million debit on the unsecured funding portfolio at FVtPL is accounted for in our balance sheet due to credit spread movement.

Solvency

NIBC has a solid capital base which we use to support the growth of our balance sheet, in both the corporate and consumer loan book. As a result of this growth, the risk-weighted assets of NIBC also increased. As a consequence, the Common Equity Tier-1 ratio declined to a solid 15.5% for NIBC, Basel III fully loaded (2013:18.1% (Basel II)). The leverage ratio of NIBC was a comfortable 7% at end-2014 (2013: 6.3%).

Challenges

The improvement in our S&P rating outlook to stable, with a BBB- rating is further supported by the strong growth in NIBC's top line. Although we have further diversified NIBC's funding profile with our access to corporate/institutional savings in Germany, the next step is to optimise our funding and build curves for the different funding classes.

As mentioned in the 'Net trading income' section, our ambition is that the accounting treatment of fair value through profit and loss will continue to have a modest impact on our results in the future.

To keep our cost-income ratio around or below 50% and to reduce our impairment levels sustainably to below 40 basis points.

Although our underlying net profit before special items increased to EUR 42 million, this is, in absolute terms, still below our ambition level.

All the measures taken should result in sustainable growth of our net profit and restore our return on equity to a range of 8-10%.

PERFORMANCE AGAINST TARGETS

In 2013, we set our performance targets for 2014 according to the strategic pillars we used at that time: client focus, sustainable profitability, and funding and solvency. To provide clarity on our performance on those targets, we therefore use the same categories in the description below.

	Targets	Performance
	CLIENT FOCUS	
✓	Maintain a positive NPS for Corporate Banking and high customer satisfaction with NIBC Direct, and thus remain in the top quartiles within the financial sector.	We asked an increased number of new and existing clients for feedback. Corporate Banking scored highly in our NPS survey, with an average score in the Netherlands, Germany UK and Belgium of net +27%. Consumer Banking saw an average customer satisfaction score of 7.5 (2013: 7.7 only in the Netherlands) for the Netherlands, Belgium and Germany. We use feedback to further improve client processes.
✓	Medium-term average Mortgage Loan portfolio above EUR 7 billion.	Our Mortgage Loan portfolio was EUR 8.1 billion at end-2014.
✓	Medium-term average Corporate Loan portfolio above EUR 7 billion.	Our drawn Corporate Loan portfolio, including lease receivables, totalled EUR 7.2 billion at end-2014.
✓	Assist our corporate and investor clients with non-bank financing, such as private placements and sustainability opportunities.	We supported clients with a private placement we structured and placed with institutional investors. We are assisting Delta Lloyd in the launch of a EUR 750 million Dutch corporate debt fund and we are managing a corporate debt fund in Belgium. We are also supporting initiatives for the development of a European private placement market. A larger non-bank finance market will help corporate clients obtain more access to financing sources, while offering institutional clients an attractive investment class.
	SUSTAINABLE PROFITABILITY	
✓	Improve cost-income ratio towards 50%, as a result of increased revenues.	Our operating income grew healthily and we maintained effective cost management. This resulted in a healthy cost-income ratio of 50% compared to 60% in 2013.
+/-	Maintain tight credit risk control and keep impairment level of total Loan portfolio and debt investments below 40 basis points.	Impairment level of loans and debt investments was 66 basis points throughout 2014. Nevertheless, excluding the impairment on our real estate portfolio, we almost achieved this target.
✗	Increase return on equity compared to previous years.	Return on equity increased in 2014 to 1.3%, due to growth in our top line. Underlying return on equity stood at 2.3% - still far below our ambition level of 8-10%.
✗	Continue to exceed global financial sector benchmark for employee engagement.	Employee engagement exceeded this benchmark, reaching 85% in 2014 (equalling the 2013 level). This is in line with high performing organisations.
✗	Increase number of women in senior management positions, with mid-term goal to increase this to 30% in 2015.	Figures show no major achievements in 2014. Although we remain committed to putting more women into senior positions, we did not reach the ultimate goal to increase the number of women in senior management positions to 30%.
✓	Act as a responsible social citizen and encourage at least 10% of employees to undertake or participate in social citizenship activities.	In 2014, 15% of our employees (94 people) acted as volunteers in social citizenship projects during working hours.
	FUNDING AND SOLVENCY	
✓	Keep core Tier-1 ratio level above 12% and realise an S&P RAC ratio above 10%.	Our Common Equity Tier-1 ratio amounted to 15.5% in 2014. The S&P RAC ratio will be delivered by S&P at a later stage.
✓	Maintain strong liquidity position by keeping Basel Liquidity Coverage Ratio and Net Stable Funding Ratio above 100%.	Our liquidity position remains robust, with a Liquidity Coverage Ratio of 128% and a Net Stable Funding Ratio of 108%.
✓	Keep leverage ratio level at minimum of 5%.	Our leverage ratio ended 2014 at 7%.

STAKEHOLDER ENGAGEMENT

We regularly have contact with a wide range of stakeholders, including clients, employees, shareholders, investors, regulators, rating agencies, governments, peers, non-governmental organisations and suppliers.

In 2014, we introduced two-monthly meetings where a core group of about 10 staff report and exchange information on stakeholder consultations and ensure feedback is shared with management and the business.

Listening to clients

We constantly gather feedback from our clients. We measure corporate client satisfaction informally through post-transaction reviews and formally through NPS surveys directly after deals are closed. For retail customers, we use NPS surveys and an annual survey conducted by an independent research bureau, as well as feedback received via call centres.

Feedback showed our corporate clients continued to value our knowledge of sectors and their businesses, and the efficiency of our processes. We scored highly in the NPS survey, which asks new and existing clients whether they would recommend NIBC to friends and business contacts. Our average NPS score for corporate banking in the Netherlands, Belgium, UK and Germany was net +27%. There are very few banks with such a high score in our client segments.

As for our consumer clients, in all countries we outperformed the average NPS of our benchmark group of banks. Our average client satisfaction score in the Netherlands, Germany and Belgium was 7.5 on a 10-point scale in 2014 compared to 7.7 in the Netherlands alone in 2013.

There was also external recognition for NIBC in Germany, where we won five prestigious awards for our savings and brokerage products and services.

We are committed to maintaining long-term relationships and delivering responsible services to clients. We ensure we are abreast of sustainability developments in the world around us and understand the risks and opportunities these create.

As part of this, we continued our stakeholder dialogue with clients in the real estate sector last year. As a signatory to the Dutch Green Building Council financial sector covenant, NIBC, along with peers, is exploring how financiers can contribute to making the real estate sector 'greener'.

Several of our maritime sector specialists, in cooperation with client Heerema Marine Contractors, supported 'Our Oceans Challenge', an online co-creation platform for entrepreneurs,

offshore experts and scientists to develop and share ideas to protect the world's oceans. As a knowledge partner of this platform, NIBC helped entrepreneurs in a workshop develop business plans and strategies to raise funding for plans to help clean the oceans. The winning plans are to be presented in 2015.

Engaging our employees

The quality of our people determines our success as a business. It is their specialist knowledge and 'Think Yes' mentality that set NIBC apart and ensure our clients, whose entrepreneurial spirit we share, receive the best possible advice and support.

Our focus on people is part of our strategic commitment to sustainable profitability. We aim to be an attractive employer for people from all backgrounds. We select, retain and develop the best people to enable the sustainable growth of our business. We also encourage our people to give back to society by volunteering their time and skills to help others in our local communities.

For more on employee developments in 2014, please see the 'Our People' section.

Working with regulators

We aim to maintain strong and open relationships with our regulators and other supervisory bodies. We are committed to being transparent and meeting the expectations of regulators.

NIBC's primary regulating entity is the *Dutch Central Bank* (**DNB**). Throughout last year, we had frequent contact with DNB about regulatory requirements, and constant dialogue on capital and liquidity ratios, asset quality, implementation of CRR/CRD IV requirements and the impact of the introduction of the Single Supervisory Mechanism for banks in Europe. The latter two areas mirror the changing environment for banks in Europe.

As regards rules of conduct, we also have regular dialogue with the Dutch financial markets regulator, *Authority for the Financial Markets* (**AFM**). Through our international offices we maintain relationships and dialogue with regulatory bodies abroad.

During the acquisition of our German AG, we had frequent meetings with both BaFin and ESF. After closing the acquisition, we focused on the integration and normal course of business.

In December 2014, we signed an agreement with the Dutch tax authorities on horizontal supervision. This agreement, which is based on mutual trust, understanding and transparency, ensures that the Dutch tax authorities receive current and up-to-date information about NIBC's tax strategy, tax controls and transparency. This information enables them to adjust the form and intensity of their supervision and prioritisation, and restrict their activities solely to those required to validate horizontal monitoring. This results in more efficient and effective processes and clarity at an early stage for both the tax authorities and NIBC.

Responsible corporate citizen

We take our responsibility as a corporate citizen. To this end, we engage with non-governmental, local and community organisations.

A Managing Board member spoke last year at a workshop on transparency in the banking industry at the Dutch Ministry of Finance. The workshop was organised by EY and *Eerlijke Bankwijzer*, an initiative run by a number of non-governmental organisations to gauge Dutch banks' sustainability practices. We also engaged in separate talks with *Eerlijke Bankwijzer* to discuss the criteria it uses to assess a bank's sustainability performance and to explain our approach to sustainability. In addition, we spoke with Dutch environmental organisation *Milieudefensie* on the topic of recycling, which is one of NIBC's focus areas.

As a corporate citizen, we also enable our staff to become involved in community programmes. For the fifth year, we participated in a budget coaching programme in The Hague that teaches schoolchildren how to manage their finances responsibly. In this project, we cooperated with three other banks in The Hague and reached 300 students at four local vocational schools. NIBC also supported the Dutch Banking Association's 'Bank in the Classroom' *(Week van het Geld)* project, with 21 NIBC volunteers delivering 35 guest lessons on financial topics to students at 18 schools in our region.

In cooperation with the Mauritshuis art gallery in The Hague, with which NIBC has a long-standing relationship, 34 of our employees gave guest lessons at 10 local primary schools to trigger interest in art. The volunteers also accompanied pupils on a visit to the museum. About 620 children participated in the programme.

Advisory Board

NIBC's Advisory Board helps us understand the context in which our corporate clients operate, in order to serve them better. Advice from the members of this board - all senior professionals with strong track records, reputations and relevant networks - again enhanced our insight into market needs and demands in 2014. The Advisory board consists of the following members: Dirk Boogmans, Arnoud Boot, Baptiest Coopmans, Marnix Krop, Ad Scheepbouwer, Ronald Slaats and Hein Verloop. Please see our website for more information about the Advisory Board.

The Advisory Board meets regularly to discuss strategy, trends and/or special issues for the benefit of NIBC's corporate clients. It met three times in 2014 and discussed topics including the updating of NIBC's strategy, sustainability, the bank's positioning, client feedback, the conditional pass-through covered bond and servicing high net-worth entrepreneurs. Its members also had individual ad hoc contact with NIBC bankers during the year.

During a stakeholder dialogue we held with our Advisory Board to discuss NIBC's sustainability strategy, the board expressed support for the steps we have taken in recent years to integrate sustainability into our strategy and operations. It indicated that meeting high sustainability standards has become a prerequisite for doing business and advised us to devote even more effort to seeking and seizing opportunities that sustainability developments may offer NIBC and its clients. In addition, it recommended that we focus on a limited number of sustainability themes where NIBC can make a difference and add value.

Dialogue with financial stakeholders

We proactively engage with rating agencies and our bond investors. Last year, we hosted several investor update calls and conducted two roadshows for the second issue of our conditional pass-through covered bond and in preparation for our return to the public euro senior unsecured market in January 2015. We also made regular credit update visits in various EU countries.

We are actively involved in the *Dutch Association of Covered Bond Issuers* (**DACB**) and the *Dutch Securitisation Association* (**DSA**). We have frequent contact with rating agencies, who receive full transparency from NIBC during annual review meetings. In addition, we provide quarterly updates and communicate on an ad-hoc basis if necessary.

Sustainability strategy

Feedback from our stakeholders resulted in an update of our sustainability strategy in 2014. We revised our three cornerstones, reconfirming our focus on sustainable client business and the world around us. We continue to manage our direct impact on society and the environment, but in light of feedback from stakeholders and following significant efforts in the past years, this is considered as less material.

A challenge now is to further focus our sustainability efforts. There are many challenges in the changing world around us, but as a bank with limited size and activities, we cannot act on all these issues. For the future, we aim to select - in consultation with internal and external stakeholders - themes or areas where we can have an impact. We realise that stakeholders will have different opinions and that we will have to make choices.

OUR PEOPLE

Employee engagement

NIBC is consistently ahead of other financial institutions and in line with high-performing organisations when it comes to employee engagement. Our 2014 staff survey showed our employee engagement level was 85%. Maintaining this high level in a tough operating environment indicates the scale of our employees' commitment and their pride in our company.

No fewer than 89% of respondents in our annual survey said in 2014 that they were proud to be associated with NIBC. Our people are clearly motivated to go the extra mile for our customers, which creates a stronger organisation.

Talent development

In 2014, we continued our tailored training programme known as Deal Team Dynamics, designed to enhance the professional skills of those who work on corporate banking transactions. The programme aims to increase the effectiveness and efficiency of teams working on client transactions and implement the specific steps and processes to be followed for deals and internal projects. Around 260 employees participated in the programme, which we expect to repeat for new employees in 2015.

We also offered the popular advanced corporate credit training course from Fitch for a third year. Our Analyst Programme for young bankers has been redesigned to ensure it reflects our business and developments in our operating environment, as well as to appeal to the new generation of bankers through state-of-the-art educational methods. The renewed programme was developed by a multi-disciplinary team of business, risk and human resources experts, together with the Rotterdam School of Finance and training institute VDS. There were 22 participants in 2014 (2013: 12).

We continued to provide customised training for staff. We believe we are well positioned in the market, spending an average of approximately EUR 1,800 per employee on training and education - close to the 75th percentile when benchmarked with financial services and close to the 90th percentile versus general industries. Various training initiatives are created internally by commercial and non-commercial staff.

Our headcount rose in 2014 to 637 employees from 596 in 2013, as we welcomed new, talented employees.

Last year saw the setting up of *Young Financials The Hague* (**YFTH**) to provide a platform for younger NIBC staff to network with young professionals from other financial institutions in The Hague. Preparations were made for the forum's highly successful first event, held in January 2015, at which speakers were former Dutch Prime Minister Jan Peter Balkenende and Nora van Oostrom, '*Dutch legal woman of the year 2014*'. Attended by over 150 participants from inside and outside NIBC, the event took as its theme 'The future of sustainable banking'. Van Oostrom and Balkenende challenged participants to think about issues such as ways of incorporating sustainability into bank business models and whether it would be desirable to serve clients solely with sustainable business models.

Banking on trust

Trust and integrity are the foundation on which the financial sector is built and always have been key elements of our corporate culture. In 2014, we continued Banking on Trust, an internal programme introduced in 2013 to re-emphasise our corporate culture and the behaviour that will help restore trust in the sector. We also prepared for a major internal event in early February 2015 at which almost all Dutch NIBC employees took the Banker's Oath. On the same date, similar events were organised in our international offices to address the same topics and dilemmas.

We continued using the learning programme that our Compliance department developed to enhance employees' awareness about the frameworks we use to deal with integrity-related matters, such as our Business Principles. We also offer this tool to all new employees when they join NIBC.

Promoting diversity

NIBC devotes great effort to creating a stimulating work environment for people from all backgrounds. When we recruit and promote staff, we take diversity into account and consider candidates irrespective of gender, age or nationality.

We remain committed to appointing more women to senior positions. Our high retention of staff means top vacancies arise infrequently, however, and we are lagging on our ambitious target to have 30% women in senior management positions by 2015. We will continue paying extra attention to this subject, in both internal and external recruitment.

Diversity in general and the male-female balance specifically are explicitly taken into account in our talent programmes and performance management. In recruitment and selection we also focus on attracting female candidates. We currently have one woman, Petra van Hoeken, on our Managing Board and two on our Supervisory Board. Overall, 29% of people in our organisation are women.

Although we acknowledge that legislation requires at least one third of the Supervisory Board and Managing Board to consist of female members, we do not yet meet this requirement. On the Supervisory Board, the vacancy left by the departure last year of Mr. Bergen was filled by Ms. Steel after a thorough selection process.

NIBC is of the opinion that when Supervisory Board and Managing Board members are reappointed, the assessment of quality of performance should prevail. In case of external recruitment, the position will be open to all qualified individuals and the preference will be to appoint according to legislation.

With respect to the Managing Board, NIBC is of the opinion that the minimum requirement of one-third female members should not be seen as a point-in-time measurement but over a certain period of time. This is of utmost importance when a Managing Board consists, as does ours, of four members.

We are a signatory to the 'Talent to the Top' Charter, a code with clear agreements regarding the realisation of gender diversity at the top and sub-top management levels. By signing the Charter in 2012, NIBC gained access to tools, knowledge and resources to support us in our strategy of embedding gender diversity throughout our organisation.

We continued to pay close attention to other elements of diversity in 2014, such as age, background and work-life balance.

Pensions and benefits

Last year, we updated our employee benefits and terms and conditions of employment so that they better reflect current trends in the banking sector.

After the negotiations with trade unions about a new *Collective Labour Agreement* (**CAO**) broke down in 2013, we concluded that the required modernisation would not be achieved through a CAO. We therefore entered into fruitful discussions with the *Employees' Council* (**Council**) to agree on changes to employment conditions in 2014.

While maintaining a fair set of employment benefits, we were able to modernise these significantly, creating more flexibility and output orientation in our benefits. The most significant changes include that generic increases (such as inflation correction) are no longer applied to all employees but only to those who have reached the maximum of the salary scale. In addition, salaries are no longer increased automatically; any individual increases are at the manager's discretion. Mortgage subsidies for employees have been frozen at current levels and no further applications for this benefit are being accepted. This modern set of employment benefits will enable us to continue rewarding our talented staff well and to retain them.

We worked closely with NIBC's Pensions Committee, in which the company, the Council, the NIBC pension fund and pensioners were represented to redesign our employee pension plan in accordance with new legal requirements and to reflect the higher retirement age. Until 2014, the pension plan consisted of various different schemes, making it complex for employees and hard for them to compare schemes.

The new pension plan is a collective defined-contribution scheme for salaries up to EUR 100,000. It is applicable for all employees. For the employer, the main benefit is that pension costs become predictable. In a collective defined-contribution plan, swings in the results of the pension fund are not reflected in NIBC's income statement.
A one-off contribution to the pension fund and other one-off transitional measures have neutralised the potential negative impact for employees and former participants. Given the new legislation for salaries above EUR 100,000, a pension scheme is no longer applicable for those employees who receive a gross compensation for that part of the pension contribution.

Health and safety

A healthy workforce makes good long-term business sense. As part of our health and safety policy, we offer preventative measures such as flu vaccinations for staff, which 78 people made use of (2013: 70). Absenteeism remained low at 2.06% in 2014.

Getting the work-life balance right and helping employees manage stress remains an important area for us. Last year, we began a project to further increase flexible ways of working, in terms of location and time. We expect to implement this in the course of 2015.

Employees' Council

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

For the first time in 2014, there was so much interest in joining NIBC's Council that we had to organise elections to fill vacancies. This resulted in three new representatives.

Since NIBC opted not to be part of the collective labour agreement for banking institutions in the Netherlands, the Council became, for the first time in its history, senior management's direct interlocutor for this important matter. This led to a new dynamic in the Council and necessitated an even more focused approach, which the Council achieved by forming various subject matter teams.

Early in 2014, the Council and NIBC negotiated an updated employee benefit scheme. Later in the year, the discussion moved to a new pension agreement, creating a regulation pension fund. This too was successfully concluded in 2014. In both cases, the Council ensured that staff were consulted about the various changes in order to create broad acceptance and support.

Other matters the Council advised on in 2014 included the appointment of the new CEO and various small adjustments in staffing.

SWOT ANALYSIS

As part of our annual planning cycle, we assess NIBC's position in relation to the outside world. We gather input from a variety of stakeholders. Previous sections have included discussion of the strengths, opportunities but also the challenges NIBC faces. Below is an overview of our assessment of NIBC's strengths, weaknesses, opportunities and threats.

STRENGTHS	WEAKNESSES
Clear strategic focus and in-depth knowledge of specific market segments	Exposure to certain cyclical sectors
Creative, professional, entrepreneurial and highly engaged employees	Impact of NIBC's credit rating on our funding costs and market access
Flexibility to adapt to changing world and grasp the opportunities it presents	Current profitability and return on equity
High client satisfaction, NPS score of net +27% for corporate clients and positive customer satisfaction score	Limited product suite
Solid financial foundations	
OPPORTUNITIES	**THREATS**
Economic recovery and return of client confidence	Geopolitical situation
Need for alternative forms of financing	Continued low interest rate environment
Fast-track growth and focus on German mid-sized market	More complex regulatory environment
Strong economic performance in Germany, our second home market	Relatively high level of corporate loan prepayments
Clients' need for support in their efforts to adapt to the changing world. Reduction of certain large pre-crisis exposures, including repricing	

OUTLOOK AND TARGETS FOR 2015-2017

The external environment remains fragile, given unpredictable factors such as Russia, Greece and Ukraine, the uncertainties in the Middle East, the tumbling oil price and low interest rates. We are constantly assessing what various scenarios will mean for our risk profile, so we can move fast to mitigate risks, if and when needed.

We see opportunities to further accelerate our corporate banking growth in 2015 and are investing substantially to support this growth. We are also exploring new retail products that tap into demographic trends, such as mortgages for the self-employed or for expatriates. There is growing demand for non-standard mortgages, which we want to help meet.

We will concentrate on the activities clients value us for and consider only logical extensions of our offering. We are open to acquisitions that make strategic sense. Sustainable profitability remains the keyword. We currently have no ambitions to expand to new countries or launch flow products such as payments traffic.

Internally, we will continue investing in a number of regulatory-driven projects, as a consequence of the changing supervision regime. We must beware of 'project fatigue' after the array of integration and IT projects we launched in 2014, which put pressure on our organisation. We are conscious of this risk, and are making sure we give people the tooling they need to do their work well, rather than over-burdening them with change.

On the risk front, operational risk in all its facets - including regulation, corruption and technology risk - will be prominent in addition to 'classic' financial risks. Doing more business always means more risk: that is not negative in itself, but the risks must be properly understood and managed.

Targets for 2015 – 2017

We have set targets in six areas: franchise, capital, sustainable profitability, liquidity, funding and asset quality.

Franchise

- Be a reliable and client-focused bank for both our corporate and consumer clients;
- Maintain a positive NPS score (above 20) and high customer satisfaction with NIBC Direct (above 7.5) and thus retain our position in the top quartile within the financial sector;
- Achieve a medium-term average corporate loan portfolio above EUR 9 billion, drawn and undrawn, and origination levels above EUR 2.5 billion annually, in both our home markets;
- Grow our loan, equity and advisory fee business
- Achieve a medium-term average mortgage portfolio above EUR 9 billion;
- Introduce two new consumer (mortgage or other) products annually according to customer demand and interest; and
- Balance the growth of our retail savings over the three countries where NIBC is active.

Capital

- Be a creditworthy partner for all our stakeholders, reflected in ratios such as a Common Equity Tier-1 ratio above 12% and leverage ratio over 5%, all based on healthy growth of our client portfolios;
- Continue to invest in our people and to further develop our culture to boost NIBC's core competencies: creativity, entrepreneurship and professionalism. In this context, keep client satisfaction and employee engagement, as measured by our annual survey, at a minimum of 85% over time; and
- Continue to create a more diverse workplace by increasing the number of women in senior management positions, with a medium-term target to increase this above 30%. We are lagging on this target, so have now set it for 2016/17.

Sustainable profitability

- The qualitatively and quantitatively sound growth of our corporate and consumer portfolios, our private equity portfolios and our fee business will result in further sustainable growth in operating income in the coming years;
- In addition, we will keep our cost-income ratio around 50% and work to reduce our impairment levels and retain these in line with market developments; and
- All the measures taken should result in sustainable growth of our net profit and restore return to shareholders to the range of 8-10%, with an intermediate net profit goal of EUR 100 million.

Liquidity/Funding

- Our bank's liquidity is managed within the bandwidth of the LCR and NSFR being above 100%. Our internal appetite is set well above these external targets. The targets for coming years are set for further optimised funding diversification and managing interest rate risk. This will result in building a curve for both our pass-through covered bond and unsecured funding by issuing benchmark transactions. The target loan-to-deposit ratio is between 160-140% with an asset encumbrance of below 30% at end-2015.

Asset quality

- Our business model for the corporate bank, with a focus on sub-investment grade clients but with well-structured and secured facilities, can lead to situations where temporary financial concessions are needed. We remain committed to our clients through downturns if we firmly believe in their underlying business and (financial) performance. We are working to reduce our impairment levels sustainably below 40 basis points; and
- NIBC Direct mortgages originated in 2014, were mainly NHG covered no major losses expected for a period. Improved housing market conditions will also result in stable or lower losses in our older mortgage books.

Helping investors buy-to-let with dedicated mortgages

Making dreams come true for leasing firm **Noordlease**

Financing a long-term future for **Songa Offshore**

REPORT OF THE SUPERVISORY BOARD

The general economic climate remained challenging in 2014, although early signs of recovery began to appear. Thanks to its sharp focus on specific sectors and markets, and the hard work of recent years restoring the bank's foundations after the financial crisis, NIBC could seize on returning confidence to perform strongly in both its corporate and retail banking businesses.

NIBC has a competitive edge in its chosen markets, providing innovative solutions at decisive moments for entrepreneurial corporate clients and consumers keen for control of their financial destiny. Our bankers use their expertise, experience, enthusiasm and flexibility to support entrepreneurs, homeowners and savers as their banking needs evolve.

NIBC's sound solvency and liquidity position enabled us to repay our last remaining outstanding GGBs, leaving behind the last vestiges of the crisis so we can focus fully on our clients and on the future. We also did substantial work on enhancing NIBC's risk framework last year.

The acquisition of Gallinat-Bank AG strengthened our position in Germany, which has now truly become our second home market, alongside the Netherlands. The Supervisory Board welcomes this ever sharpening geographical focus at NIBC.

The regulatory climate facing all banks remained challenging last year, and is likely to stay this way for years to come, dampening many banks' appetite to lend. We see the formation of the European Banking Union as a major step in creating a more stable monetary union in Europe. NIBC does not fall directly under the union or ECB supervision, but we follow these developments closely.

Of course, there is far more to banking than fulfilling regulatory requirements. It is key to have a strong corporate culture of integrity, and we welcome the introduction of the Banker's Oath, which was compulsory for executives last year and is required for all bankers from 2015.

We said goodbye last year to Jeroen Drost, who stepped down after the 2014 Annual General Meeting of Shareholders. The Supervisory Board would like to express its heartfelt thanks to Jeroen for his excellent leadership and key role in strengthening NIBC's core in the challenging climate since 2008. We would also like to thank Jeroen for the smooth leadership transition he ensured.

We were delighted to welcome Paulus de Wilt, who became CEO and chairman of the Managing Board in April 2014. His long background in both retail and corporate banking perfectly matches NIBC's business model and strategy. We are confident his client-focused, can-do mentality and extensive management experience will also help him build successfully on the strong foundations NIBC has established in recent years. The Dutch Central Bank approved the appointment of Mr. De Wilt on 21 March 2014.

NIBC's employees deserve our warm thanks for their hard work and commitment last year.

The 2014 employee engagement survey again demonstrated the extraordinarily high commitment of our staff, both in absolute terms and relative to peer institutions. Such high engagement gives us great confidence in the bank's future success, whatever the challenges ahead.

COMPOSITION OF THE SUPERVISORY BOARD

Name	Year of birth	Nationality	Member since	End of term	Committee Memberships[1]
Mr. W.M. van den Goorbergh (Chairman)[2]	1948	Dutch	2005	2018	AC, RNC, RPC, RPTC
Mr. D.R. Morgan (Vice-Chairman)	1947	Australian	2010	2018	RNC, RPC
Mr. M.J. Christner	1972	German	2011	2019	AC
Mr. J.C. Flowers	1957	American	2012	2016	-
Mr. N.W. Hoek[2]	1956	Dutch	2005	2017	AC, RNC
Mr. A. de Jong[2]	1954	Dutch	2005	2015	RPC
Ms. S.A. Rocker	1954	American	2009	2017	RNC
Ms. K.M.C.Z. Steel[2]	1946	Belgian	2014	2018	AC, RPC
Mr. A.H.A. Veenhof[2]	1945	Dutch	2006	2015	RPTC, RNC

1 AC- Audit Committee; RNC - Remuneration and Nominating Committee; RPC - Risk Policy Committee; RPTC - Related Party Transaction Committee.

2 Meets the independence criteria of the Dutch Corporate Governance Code.

On 31 December 2014, the Supervisory Board of NIBC had nine members, who are also members of the Supervisory Board of NIBC Holding (see previous table). Mr. Van den Goorbergh and Mr. Morgan were reappointed as members of the Supervisory Board by the General Meeting of Shareholders on 16 May 2014. The reappointments were approved by the Dutch Central Bank.
Mr. Bergen resigned as member of the Supervisory Board as per 17 May 2014. The Supervisory Board would like to express its deep gratitude to Mr. Bergen, whose extensive knowledge of the international banking landscape and sharp analytical skills greatly benefited NIBC.
On 19 August 2014, the General Meeting of Shareholders appointed Ms. Steel as his successor after approval by the Dutch Central Bank. We warmly welcome Ms. Steel, who brings experience in the banking and finance sector covering a broad spectrum of disciplines, as well as extensive professional skills and management capabilities. The appointment of Ms. Steel enhances the diversity of the Supervisory Board, which now comprises two female and seven male members of diverse nationalities. Five out of nine Supervisory Board members meet the independence criteria laid out in the Dutch Corporate Governance Code. For a detailed explanation of our compliance with the Dutch Corporate Governance Code, please see our website. The committees of the Supervisory Board each have an independent chairman. All members of the Supervisory Board meet the criteria of the Dutch Corporate Governance Code relating to other positions, insofar as they are relevant to the performance of the Supervisory Board member's duties. A detailed overview of their additional functions can be found on our website. Since the Dutch Act on Management and Supervision came into force on 1 January 2013, we have been monitoring the number of supervisory functions held by our Supervisory Board members. When a Supervisory Board member is appointed or reappointed, compliance with this new law is verified. The profile for the Supervisory Board can be found on our website.

Meetings of the Supervisory Board

The Supervisory Board met on six occasions in 2014. There were five regular two-day meetings of the Supervisory Board and a Strategy Day was held on 26 June 2014 at which the Supervisory Board and the Managing Board discussed the bank's current and future strategy. Seven members of the Supervisory Board participated in all the 2014 meetings; two were absent from one meeting. After three of its meetings, the Supervisory Board had lunch with senior management of the bank.

During the regular meetings, there was extensive discussion of NIBC's corporate banking and consumer banking business, risk/return profile, the updated risk appetite framework and financial performance. The interim 2014 results and the 2015 budget were discussed. Other matters discussed were quarterly results, control-related topics, the financial reporting process, composition of the Supervisory Board and its committees, and compliance with legislation and regulations.

The Supervisory Board continued its programme of lifelong learning last year, with sessions on topics such as capital structure, regulatory development and the ECB's Asset Quality Review. For more details of the lifelong learning programme, please see our website.

The Supervisory Board conducted an internal evaluation of its functioning in 2014. At the end of the year, an external evaluation of the Supervisory Board was initiated, with the outcome expected in the first quarter of 2015. In 2014 there were no transactions where the members of the Supervisory Board had a conflict of interest.

The financial statements and the findings of the external auditor were discussed in the external auditor's presence. Most of the discussions and decisions of the Supervisory Board were prepared in the committees referred to below, at which at least two members of the Supervisory Board are present. The members of the Managing Board attended all meetings of the Supervisory Board. Members of the Supervisory Board attended two consultation meetings between the Managing Board and the Employees' Council.

In December 2014, the Supervisory Board approved the appointment of EY as the auditor of the financial statements as from the financial year 2016. This appointment will be proposed to the Annual General Meeting of Shareholders in April 2015.

Meetings of the committees of the Supervisory Board

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

Audit Committee

The *Audit Committee* (**AC**) assists the Supervisory Board in monitoring NIBC's systems of financial risk management and internal control, the integrity of its financial reporting process and the content of its annual financial statements and reports. The AC also advises on corporate governance and internal governance. In November, responsibility for compliance and corporate social responsibility was transferred to the Risk Policy Committee.

During 2014, the AC extensively reviewed NIBC's quarterly, half-yearly and annual financial reports and related press releases, and discussed the reports of the external auditor, including its Board Report and Management Letter, before these were dealt with in the Supervisory Board meeting.

The committee discussed in particular NIBC's financial performance, including development of the bank's net interest income, size and related costs of the bank's liquidity buffer, NIBC's liquidity and

liquidity risk appetite and development of related liquidity and solvency ratios. Furthermore, the committee reviewed several distressed credit files and the level of loan impairments.

Specific topics discussed with the auditors included the fair value of residential mortgages and fair value of the bank's liabilities, both designated at FVtPL, as well as corporate loan impairment allowances and accounting of the acquisition of Gallinat-Bank AG.

Following new standards issued by the European Banking Authority, the committee also discussed the bank's Credit Valuation Adjustment risk methodology and its policy on forbearance and non-performing loans. The committee assessed the financial impact of the bank's defined-benefit plans and the new pension plan.

By 1 January 2016, NIBC must have appointed new independent external auditors. For this, the committee initiated and conducted an audit tender process, in preparation for a nomination by the Supervisory Board and decision by the Annual General Meeting of Shareholders in 2015.

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

The AC took note of and discussed NIBC's consultations with the Dutch Central Bank and the introduction of the ECB's Single Supervisory Mechanism.

The AC evaluated the external auditor and the functioning of Internal Audit. The external auditors, by mutual agreement, were represented at all but one meeting of the AC in 2014. The external auditor had one meeting with the AC without the members of the Managing Board being present.
The AC met five times in 2014 in the presence of members of the Managing Board.

Remuneration and Nominating Committee

The Remuneration and Nominating Committee (**RNC**) advises the Supervisory Board on the remuneration of the members of the Supervisory Board, the Managing Board and certain other senior managers. In addition, it provides the Supervisory Board with proposals for appointments and reappointments to the Supervisory Board, its committees and the Managing Board, evaluates the performance of the other Supervisory Board committees, and assesses the performance of the members of the Managing Board and the Supervisory Board.
The RNC monitors the remuneration policy, which entails discussing the total available pool for variable compensation and defining the collective and individual performance targets that form the basis for the variable compensation of individual members of the Managing Board. Furthermore, the RNC oversees the remuneration of so-called Identified Staff - employees whose professional activities have a material impact on NIBC's risk profile - and determines the remuneration of the control functions.

During 2014, the RNC held several meetings in which it paid special attention to NIBC's remuneration policy and the associated governance. The Supervisory Board decided to amend the remuneration policy. In light of upcoming Dutch remuneration legislation for financial services companies *(Wet beloning financiële ondernemingen –* **Wbfo**) and the social context and taking into account market positioning (benchmark information), individual compensation arrangements were adjusted. The long-term incentive arrangement was revoked and replaced by a variable income component of 15% of base salary (maximum 20%). The pay mix is aligned with other Identified Staff.

To underline the long-term commitment, the equity component has a holding period of five years, which is in line with applicable legislation.

As compensation for this structurally lower remuneration level of variable income, the Supervisory Board awarded the CEO and members of the Managing Board one-off compensation of 20% of base salary. The CEO and the members of the Managing Board have decided to invest the net proceedings of the compensation in NIBC depositary receipts. To support their long-term commitment, they received restricted conditional matching shares with a four-year vesting period.

These decisions established a future-proof remuneration arrangement, creating alignment among the various stakeholders. For further information, please see the remuneration section.
The RNC also discussed the performance of the Managing Board and its members and set financial and non-financial targets.

Given the importance of the subject, the RNC extensively discussed the overall available funding for variable compensation, the distribution to Identified Staff, risk assessments (including malus and clawback assessments) and the surrounding governance. The RNC also determined the obligatory disclosures on the Identified Staff and on the remuneration policy.

Due to developments in pension legislation and the need to simplify the existing pension scheme, the RNC discussed the pension scheme for 2015 and onwards. The different variants within the existing scheme were reduced to one collective defined-contribution scheme, applicable for both the Managing Board and other employees.

The RNC was informed about the replacement of the Dutch collective labour agreement by a company arrangement for employment conditions.

The RNC, in its role of Nominating Committee, discussed the composition of the Supervisory Board in 2014. Mr. Bergen stepped down and Ms. Steel was appointed, while Mr. Van den Goorbergh and Mr. Morgan were reappointed. The RNC was closely involved in the search and selection of a new CEO, leading to its advice to appoint Mr. De Wilt.

As always, succession management and culture were on the RNC's agenda in 2014. Regarding succession management, it was noted that for all key positions within NIBC an immediate solution, interim or definite, is available. The RNC discussed the results of the annual Employee Engagement Survey and took note of the high level of engagement.

The RNC held seven meetings in 2014 in the presence of the head of Human Resources and, in appropriate cases, of the CEO. Additionally, a delegation of the RNC attended a meeting of the control functions. The committee's chairman regularly holds talks with senior managers to gain the fullest possible understanding of their professional development and internal developments within the bank.

Risk Policy Committee

The Risk Policy Committee (**RPC**) assists the Supervisory Board in supervising NIBC's risk appetite, risk profile and risk policy. It prepares issues for decision in the Supervisory Board in these areas by presenting proposals and recommendations, on the initiative of the Managing Board and/or Supervisory Board or otherwise, on credit, market, investment, liquidity, and operational risks, and any other material risks to which NIBC is exposed.
In November 2014, responsibility for NIBC's compliance and corporate social responsibility was transferred from the AC of the Supervisory Board to the RPC.

During 2014, the RPC extensively discussed NIBC's assets, liquidity, stress tests and risk profile. A topic that was consistently on the agenda of the committee throughout 2014 was NIBC's updated risk appetite framework. The RPC discussed NIBC's long-term objectives, including the attainment and retention of a BBB credit rating, and defined six pillars of risk appetite (franchise, solvency, profitability, liquidity, funding and asset quality). Performance is measured and steered across these pillars by means of quantitative and qualitative risk appetite statements.

Besides risk appetite and the quarterly reporting on the subject received by the committee, the RPC discussed in all of its meetings segments of NIBC's corporate and consumer credit portfolios, including the bank's distressed portfolio, as well as specific distressed exposures.

Other topics the RPC regularly reviewed included NIBC's market risk and event risk reports, economic capital reports, liquidity risk reports and risks of the macroeconomic environment, such as the very low interest rate environment and the domestic mortgage market.

On the non-financial risk side, the RPC reviewed NIBC's operational risk profile and in-control environment, including specialised risks such as information security, new product approvals and significant changes within the organisation (including certain IT-related initiatives), as well as compliance and regulatory risk. The committee also regularly reviewed and discussed market and regulatory developments and their impact on NIBC, such as the AQR, the new European Supervisory Framework and the changing DNB Supervisory Framework.

The RPC met four times in 2014 in the presence of members of the Managing Board.

Related Party Transactions Committee

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

No transactions were executed that fell within scope of the RPTC last year. Therefore, the RPTC did not meet in 2014.

Financial statements

The consolidated financial statements have been drawn up by the Managing Board and audited by PricewaterhouseCoopers Accountants N.V., who issued an unqualified opinion dated 3 March 2015. The Supervisory Board advises and proposes that shareholders adopt the 2014 Financial Statements at the Annual General Meeting of Shareholders on 10 April 2015.

The Supervisory Board 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 2014.

The Hague, 3 March 2015

Supervisory Board

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

REMUNERATION REPORT

The Supervisory Board reviewed and amended NIBC's remuneration policy in 2014. The review took account of all relevant laws, regulations and guidelines: the Dutch Corporate Governance Code, the Dutch Banking Code, the *DNB Principles on Sound Remuneration Policies* (**DNB Principles**), including additional DNB guidance on the implementation of the DNB Principles and the *Committee of European Banking Supervisors Guidelines* (**CEBS Guidelines**) on Remuneration Policies and Practices and CRDIV. Forthcoming Dutch remuneration legislation for Financial Services Companies *(Wet beloning financiële ondernemingen* – **Wbfo**) was also taken into account when we prepared the 2015 remuneration policy.

NIBC's remuneration policy and Managing Board remuneration for 2014 are outlined below. An overview of the remuneration of other staff and the Supervisory Board is also presented. Please see our website for further information about the remuneration policy.

MANAGING BOARD REMUNERATION IN 2014

To avoid unnecessary duplication, we refer to note 54 of the consolidated financial statements for all relevant tables. These can be considered an integral part of this Remuneration Report.

Remuneration principles

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

Peer group composition

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

Market positioning

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

Base salaries

In 2014, the base salary for the CEO was set at EUR 775,000 gross per year (2013: EUR 800,000), while the base salary for members of the Managing Board was set at EUR 500,000 gross per year (unchanged). Base salaries are payable in 12 equal monthly instalments. The Supervisory Board reviews the level of base salaries against the market each year and may decide to adjust it.

Short-term incentive compensation

Short-term incentive compensation was not an element of the remuneration package of the Managing Board in 2014.

Long-term incentive compensation

The remuneration policy sets a maximum long-term incentive of 70% of base salary for the CEO, 60% for the member of the Managing Board responsible for commercial activities and 40% for the *Chief Financial Officer* (**CFO**) and *Chief Risk Officer* (**CRO**). In light of the forthcoming legislation on remuneration for financial services companies (Wbfo), we decided not to grant any long-term incentives. Please also see the amendments to the Managing Board remuneration policy in 2015 below.

Consequences of Dutch state-guaranteed funding

The Supervisory Board was unable to grant any variable compensation until NIBC had repaid all outstanding state-guaranteed funding.
On 2 December 2014, NIBC repaid the last portion of outstanding state-guaranteed funding. The Supervisory Board decided not to award any variable compensation for 2014.

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 2014, the pension plan consisted of a defined-benefit pension arrangement up to a maximum salary and a defined-contribution arrangement up to a maximum of respective base salaries. The retirement age for the CEO and members of the Managing Board is 65. There are no contractual early retirement provisions.

NIBC pays a standard flat-rate contribution into the pension fund. The CEO and other members of the Managing Board participate in the same pension scheme as employees. Just like other employees, the Managing Board members are required to make a personal contribution towards their pension. The pension scheme for all employees has been amended to comply with all legal changes as of 2015.

Other key benefits

As his former employer decided to forfeit his deferred compensation, the CEO received a compensation when joining NIBC. The compensation amounted to EUR 700,000 of which 50% cash and 50% deferred cash. The CEO invested the after-tax cash element in NIBC depositary receipts. He also received restricted conditional matching shares with a four-year vesting.

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.

In addition, when applicable, the members of the Managing Board are entitled to dividend compensation on share awards conditionally granted before 2012. 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 and a subsidy on mortgage interest paid (as of 1 April 2014, no new mortgage subsidies have been granted).

Employment contracts

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

Amendments to Managing Board remuneration policy in 2015

After a thorough review of Managing Board remuneration in 2014, the Supervisory Board decided that an amendment for 2015 is necessary. The 2014 remuneration package consisted of a long-term incentive arrangement of 40%-70% of base salaries. The incentives were not granted last year. In light of the upcoming Dutch remuneration legislation for financial services companies and the social context, the Supervisory Board decided to amend the remuneration policy.

The long-term incentive arrangement was revoked and replaced by a variable income component of 15% of base salary (maximum 20%). The CEO and members of the Managing Board will have a set of pre-agreed targets, consisting of non-financial targets and up to 50% of financial targets. The pay mix is aligned with that of other Identified Staff (see below) and consists of 50% cash (30% vested/20% deferred) and 50% equity (30% vested/20% deferred). The equity component has a holding period of five years, which is in line with the applicable legislation and which underlines the long-term commitment.

As compensation for this structurally lower variable income level, the Supervisory Board last December awarded the CEO and members of the Managing Board one-off compensation of 20% of base salary.

The CEO and members of the Managing Board have decided to invest the net proceeds of the compensation in NIBC depositary receipts. To support their long-term commitment, they received restricted conditional matching shares with four-year vesting periods.

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 variable compensation and the specific forms in which variable compensation may be awarded. The 2014 compensation ratio (total compensation costs as percentage of operating income) was 28.1%.

Variable compensation

All employees are eligible for STI compensation. Whether or not they actually receive it is wholly discretionary and depends on the overall performance of the bank, of their respective business unit, their personal performance and the relevant market levels of remuneration.

All employees have a pre-agreed set of financial and non-financial performance targets. Their performance assessments take into account the achievement of pre-agreed targets, as well as how they have behaved according to NIBC's Business Principles. The Dutch Banking Code serves as a guideline for all employees.

Pay mix

Variable compensation, if any, is delivered in various components: (I) cash; (II) deferred cash; (III) vested *Phantom Share Units* (**PSUs**); (IV) unvested PSUs. STI compensation is a combination of cash, deferred cash and PSUs. The Managing Board determines the precise split between cash and equity or equity-linked components, the proportion of deferred compensation and the form in which this is distributed (such as cash or unvested equity), whether a threshold applies for the deferred component and, if so, how high that threshold is.

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

Special situations

Only in exceptional cases and only in the first year of employment will the Managing Board offer sign-on or guaranteed minimum bonuses to new employees and retention bonuses to existing employees. In the unlikely event that these amount to more than 100% of the base salary of the individual employee concerned, prior approval must be obtained from the RNC and Supervisory Board.

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

Supervisory Board remuneration

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

Remuneration governance

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

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

Any vested amounts of STI, LTI or one-off variable remuneration are subject to clawback by the Supervisory Board in the event they have been based on inaccurate financial or other data, fraud, or when the employee in question is dismissed 'for cause'. Moreover, in exceptional circumstances, the Supervisory Board has the discretion to adjust downwards any or all variable remuneration if, in its opinion, this remuneration could have unfair or unintended effects. In assessing performance against pre-agreed performance criteria, financial performance shall be adjusted to allow for estimated risks and capital costs.

In addition to clawbacks, the concept of 'malus' is part of the remuneration policy. This is an arrangement that permits NIBC to prevent vesting of all or part of the amount of deferred compensation in relation to risk outcomes of performance. Malus is a form of ex-post risk adjustment, one of the key requirements in addition to ex-ante risk adjustments. If an employee resigns, any unvested amounts of compensation are forfeited.

Conclusion

The RNC and the Supervisory Board believe NIBC's remuneration policy is compliant with the latest laws, regulations and guidelines and is prudent and sustainable. The Supervisory Board continues to believe in prudent management of remuneration but recognises that NIBC operates in a competitive marketplace where it needs to be able to attract, motivate and retain sufficient talent. NIBC is determined to make a positive contribution towards creating the level playing field that regulators envisage with regard to variable compensation.

CORPORATE GOVERNANCE

It is crucial for NIBC that our corporate governance and reporting lines are sound and transparent. NIBC has a matrix organisation with both hierarchical and functional reporting lines. Our website contains our articles of association, policies, charters and other information on corporate governance, the compliance statements with respect to the Dutch Banking Code and the Dutch Corporate Governance Code.

This chapter contains some key highlights of our governance structure. To the extent applicable, NIBC adheres to international governance standards such as the EBA Guidelines on Internal Governance. Below, we describe changes to NIBC's corporate governance in 2014.

MANAGING BOARD

The Managing Board is responsible for the day-to-day operations of the business and for our long-term strategy. The Board also ensures we comply with relevant legislation and regulatory requirements. The four members of the Managing Board have thorough and in-depth knowledge of the financial sector in general and the banking sector in particular. For the composition of the Managing Board as per 31 December 2014, see the following table.

Name	Year of birth	Nationality	Member since	End of term[1]
Mr. P.A.M. de Wilt (Chairman, CEO)	1964	Dutch	2014	2018
Mr. H.H.J. Dijkhuizen (Chief Financial Officer)	1960	Dutch	2013	2017
Mr. R.H.L. ten Heggeler (Chief Client Officer)	1963	Dutch	2009	2017
Ms. P.C. van Hoeken (Chief Risk Officer)	1961	Dutch	2011	2015

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

In 2014, NIBC completed the acquisition of Germany's Gallinat-Bank AG, whose name was changed to NIBC Bank Deutschland AG. The Managing Board (*Vorstand*) of the AG comprises Ed Langedam, Thom Rasser and Hans-Joachim Michel. Members of its Supervisory Board *(Aufsichtsrat)* are Rob ten Heggeler, Herman Dijkhuizen and Petra van Hoeken.

The NIBC Managing Board, which meets weekly, represents and balances the interests of all stakeholders. The *Engagement Committee* (**EC**) ensures a transparent, ethical and accurate decision-making process with regard to NIBC's engagement of clients. The EC comprises two members of the Managing Board (representing Corporate Banking and Risk Management) and the head of Compliance. The EC meets regularly to manage potential conflicts of interests presented by transactions or clients, and to ensure that the decision-making process for commercial deals fulfils legal, regulatory and other compliance and corporate social responsibility requirements.

The Managing Board members have all taken the Banker's Oath, which replaces the moral and ethical declaration prescribed in the Dutch Banking Code. This declaration is embedded in our updated Code

of Conduct, which applies to our entire organisation and is included in our employee contracts. More information about the Managing Board, including short biographies, can be found on our website.

Since 2011, we have had an Ethics Advisory Bureau at NIBC. This body, which falls under the auspices of the EC, is a sounding board that makes non-binding recommendations on ethical dilemmas submitted to it by NIBC individuals, teams or bodies such as the *Transaction Committee* (**TC**) or *Investment Committee* (**IC**).

SUPERVISORY BOARD

The Supervisory Board oversees management performance and advises the Managing Board. On 31 December 2014, the Supervisory Board consisted of nine people with extensive and international expertise in fields such as banking and finance, corporate governance and corporate management. For more information about the Supervisory Board, its activities and short biographies of its members, please see the Report of the Supervisory Board or visit our website.

DUTCH BANKING CODE

The Dutch Banking Code was established by the Dutch Banking Association in September 2009, following the outbreak of the financial crisis. Our governance is fully aligned with the Dutch Banking Code.

We have implemented all procedural and operational measures required under the Banking Code. We have aligned our remuneration policies for staff and for the Managing Board with the Code. The Managing Board members signed a moral and ethical conduct declaration as worded in the Banking Code; this is published on NIBC's website. All members of the Managing Board and Supervisory Board have taken the Banker's Oath.
Since 2010, we have had a programme of lifelong learning and held regular training sessions for the Managing Board and the Supervisory Board. The Supervisory Board evaluated its performance in 2010 and 2011 with the support of external advisors and has followed up on the recommendations. At the end of 2014, a new external evaluation of the Supervisory Board was started; the outcome of this evaluation is scheduled in the first quarter of 2015.

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

DUTCH CORPORATE GOVERNANCE CODE

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

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

RISK MANAGEMENT

Within NIBC, the risk management department is fully integrated in the strategic planning and the day-to-day business activities. Risk management is recognised as a valuable sparring partner to the business, overseeing the risk profile and ensuring that we operate within the risk appetite as formulated by the Managing Board. This allows us to pursue our business objectives, while enforcing efficiency and continuously improving our risk awareness and culture.

KEY DEVELOPMENTS IN 2014

In 2014, NIBC's strategy was characterised by healthy growth with an overall improving risk profile. Despite only modest improvements in the financial markets, the corporate loan portfolio increased significantly and also our mortgage business and retail savings grew well. Spreads, credit quality and funding costs improved and we further diversified our funding, for example, through our new German AG.

Risk management formed an integral part of these achievements:

- We updated our risk appetite to a more explicit and quantifiable framework supporting our overall business and rating strategy;
- We actively advised with the acquisition and integration of Gallinat-Bank AG;
- We further promoted a robust risk culture in the first line of defence through training and a dedicated credit and new product approval process;
- We implemented the internally developed *Probability of Default* (**PD**) and *Loss Given Default* (**LGD**) *Advanced Internal Ratings Based* (**AIRB**) framework for bank counterparties which has been approved by the *Dutch Central Bank* (**DNB**);
- We improved our credit risk measurement through renewed credit risk models (PD and LGD models);
- We further increased our collaboration with the business on active portfolio management, de-risking the pre-crisis portfolios and achieving the desired growth;
- We stayed closely involved in diversifying our funding sources (renewed issuance of covered bonds, unsecured debt via private placement, participation in the *Targeted Longer Term Refinancing Operation* (**TLTRO**), introduction of ESF deposits); and
- We renewed our governance structure on model validation and model advisory.

RISK GOVERNANCE AND RISK CULTURE

NIBC uses the 'three lines of defence' governance model: The first line is the business. The second line consists of the risk and control functions. The third line of defence refers to internal audit.

In practice, this means that risk management is fully integrated in the strategic planning and the day-to-day business activities of the organisation. As risk management, we are a strong counterparty in achieving the goals of NIBC. We ensure that the business operates within the agreed appetite and control framework. We train, challenge and empower the first line of defence by providing tools and management information to optimise their portfolio decisions. In 2014, we focused on stimulating a sound risk culture throughout the entire organisation in order to make sure that all risks are transparent and a clear accountability is in place.

The *Risk management, Legal, Compliance & Corporate Social Responsibility* (**RLCC**) strategic business unit, headed by the Chief Risk Officer, includes all risk functions and consists of around 60 people. Formal authority and decision-making is delegated by the Managing Board to the *Risk Management Committee* (**RMC**), the TC, the Asset & Liability Committee, the IC and the *Engagement Committee* (**EC**).

RISK APPETITE

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

- Franchise – be a reliable and client-focused bank;
- Solvency – be a creditworthy partner for our clients and other stakeholders;
- Profitability – have returns aligned with our business model and risk profile;
- Liquidity – sufficient and appropriate at all times;
- Funding – stable and diverse funding base; and
- Asset Quality – satisfactory and aligned with our business objectives.

Performance is measured and steered across these six pillars by means of quantitative and qualitative risk appetite statements. They address, among others, Pillar I & II capital buffer requirements, adequate liquidity buffers and acceptable expected losses. The risk appetite is rolled out throughout the organisation and incorporated in policies, procedures, limits and action plans. Key risk/performance indicators and early warning signals track, for example, client satisfaction, employee engagement, coverage of retail saving and sector concentration.

Determining the risk appetite is closely linked to the budget setting and capital planning processes. NIBC's forward-looking risk profile, based on budgets and (stressed) scenario forecasts, is the basis of setting the risk appetite. A set of selected stress scenarios is designed to provide the business with the incentive to improve the asset quality and present management with a holistic overview of NIBC's risk profile and its sensitivities.

The current and projected risk profile is reported quarterly to the RMC and RPC. On an annual basis, risk management reviews all hypothetical, historical and regulatory scenarios used, to determine if they are still relevant and comprehensive enough to capture all significant risks contained in NIBC's positions.

PORTFOLIO OVERVIEW

Table 1 shows a breakdown of NIBC's risk exposures (drawn and undrawn), together with the types of risk present in these portfolios. Definitions of the main risk types are given in the respective sections that follow. In line with previous years, NIBC had no direct sovereign debt exposure.

The exposure amounts in table 1 are aligned with the exposure definition in the of CRR/CRD IV capital calculations, except for derivatives, which only show the positive replacement values, without netting or any potential future exposure add-on. The numbers in the table may differ from the numbers on the balance sheet, in which only drawn amounts are shown.

Notes 55, 56, 57 and 58 to the consolidated financial statements contain more detailed information on NIBC's portfolios, the various risk types and the risk management procedures. Additional information on capital adequacy and risk management can be found in NIBC's Pillar 3 report which is published on our website.

1 Overview of risk exposures

IN EUR MILLIONS	Main risk types	31 December 2014	31 December 2013
CORPORATE/ INVESTMENT LOANS		8,943	7,538
Corporate loans	Credit risk	8,789	7,412
Investment loans	Credit risk	154	126
LEASE RECEIVABLES	Credit risk	361	-
RESIDENTIAL MORTGAGES	Credit risk	8,058	7,564
EQUITY INVESTMENTS	Investment risk	358	340
DEBT INVESTMENTS		1,190	1,692
Debt from financial institutions and corporate entities	Credit risk / Market risk	402	711
Securitisations	Credit risk / Market risk	788	981
CASH MANAGEMENT	Credit risk	1,212	1,795
DERIVATIVES[1]	Credit/Market risk	2,851	2,800
TOTAL		**22,973**	**21,729**

[1] Positive replacement values

CREDIT RISK

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

Corporate loans

Main developments in the Corporate Loan portfolio

Our Corporate Loan portfolio consists of sixteen diversified subsectors providing asset based, leveraged and corporate financing products. The portfolio is grouped into the following seven sectors: *Infrastructure & Renewables* (**I&R**), *Commercial Real Estate* (**CRE**), *Shipping & Intermodal* (**S&I**), *Oil & Gas Services* (**O&G**), *Industries & Manufacturing* (**I&M**), *Technology, Media & Services* (**TMS**) and *Food, Agri, Retail & Other* (**FAR**).

In 2014, we continued strengthening our sector focus, further concentrating on industries in which we possess strong expertise and knowledge and where we can optimally assist our clients to achieve their strategic ambitions. We improved the diversity of our Corporate Loan portfolio by investing in new subsectors and by reducing sector concentrations and single name concentrations. In line with our strategy, the total exposure of our Corporate Loan portfolio grew substantially by EUR 1,377 million to EUR 8,789 million at 31 December 2014 (31 December 2013: EUR 7,412 million). The growth mainly came from new origination which exceeded the repayments in our global operating sectors O&G (EUR 450 million), S&I (EUR 215 million) and I&R (EUR 125 million). Also our regional operating sectors FAR (EUR 345 million), TMS (255 million) and I&M (EUR 95 million) grew while we reduced our sector concentration in CRE (EUR 35 million).

Our core markets are the Netherlands (29%), Germany (22%) and the United Kingdom (20%). The remainder of the exposures is originated in the rest of Europe (14%), North America (6%), Asia/Pacific (6%) and other regions (3%). All regions witnessed

growth during 2014, with our core markets the Netherlands (EUR 415 million), United Kingdom (EUR 315 million) and Germany (EUR 235 million) contributing most.

At the end of 2014, our largest Corporate Loan portfolio was the I&R sector. The portfolio increased in 2014 from EUR 1,944 million to EUR 2,070 million. We adapted to a volatile market climate where changes in government spending and fiscal regimes create or reduce the appetite for different types of deals (e.g. decreasing focus on Solar and Wind and increasing focus on Biomass and Offshore Wind). Further, we experienced a continued demand of our expertise to execute advisory mandates. In terms of geography, the portfolio is spread across the United Kingdom (60%), Germany (18%) and the Netherlands (14%). The remainder of the portfolio is located in the rest of Europe. The portfolio spans various industry sectors, of which education (24%), renewable energy (20%), healthcare (18%) and roads & railways (14%) are the most prominent.

The exposure of the S&I portfolio increased from EUR 1,136 million to EUR 1,352 million in 2014. Total origination was high, with a good balance between new clients and refinancings. 2014 was marked by a significant oil price decline, which did not affect the shipping industry as a whole but had a different impact on the various shipping sub-sectors. Active portfolio management continued to be a high priority and resulted in the improvement of the credit quality. Emphasis on the quality of the asset, the owner of the asset and access to cargo, all of which are required for healthy cash flow generation, continued. In 2014, we finalised the centralisation of our S&I activities to our headquarters creating a knowledge centre and economies of scale to better serve our global client base. Our S&I portfolio consists mainly of tankers (36%), bulk carriers (35%), specialised vessels (18%), container vessels (7%) and container boxes (also known as intermodal; 4%). Borrowers are mainly located in Europe (58%), North America (18%) and Asia/Pacific (16%).

The CRE portfolio decreased in 2014 from EUR 1,356 million to EUR 1,321 million, with a continued reduction of large exposures. The credit quality of the portfolio stabilized in 2014 and is expected to improve in the coming years. In general, the sector was driven by a low interest rate environment, which resulted in an increased deal flow driven by foreign investors. Nevertheless, we focused on high credit quality origination and active portfolio management with the sale and restructuring of selective pre-crisis exposures, frequent screenings of key clients and semi-annual reviews. Credit default swap protection (EUR 14 million) remained in place. The portfolio is well diversified across various commercial real estate classes. Residential commercial property financing accounts for 60% of the portfolio, which significantly reduces the concentration risk in the underlying collateral pool given the large number of tenants. Other prominent segments relate to offices (14%) and hotels (9%). The properties are located in Germany (49%) and the Netherlands (51%).

The O&G portfolio increased significantly from EUR 864 million to EUR 1,315 million in 2014. In the second half of 2014, the declining oil price had a mostly negative impact on the oil and gas industry, with some subsectors (e.g. exploration & production, drilling, seismic) experiencing harder times than others. Nevertheless, the sector managed to further grow and diversify its client base, while maintaining a stable credit quality through an increased focus on portfolio management. The total exposure of the portfolio is split over five subsectors, of which drilling (34%), offshore support vessels (28%) and production (25%) are the most prominent. In terms of geography, the sector is active in Europe (53%), Asia/Pacific (20%) and North America (18%), and the assets are located all over the world in key oil and gas areas.

The I&M exposure grew in 2014 from EUR 1,024 million to EUR 1,118 million. In a market with abundant liquidity and cheaper alternatives to bank funding, the sector serves its clients in arranging different, complex and high value added solutions. Most of the clients are located in the Netherlands (60%) followed by Germany (28%), the United Kingdom (2%) and the rest of Europe (10%). Overall, dropping oil prices during the year were beneficial for the portfolio, resulting in lower costs of production. In all regions served by the team, business proved to be linked more closely to the global economy than to local dynamics. Overall macroeconomic improvements led to high level of repayments and prepayments, even though these were more than offset by higher origination. The credit quality of the portfolio improved as a result of active portfolio management and a disciplined approach towards origination. Although the demand for industrial products tends to be cyclical, the sector focused on more stable industry sectors and subsectors, in which it has sufficient client expertise. The portfolio is well-balanced and split across various industry sectors: industrial products (30%), rental and leasing activities (17%), chemicals (9%), transportation & storage (9%), wholesale (8%), financial services (5%) and consumer products (5%).

The exposure of the FAR sector increased substantially from EUR 518 million to EUR 863 million. The portfolio is balanced across several segments and more diversified than in 2013, due to origination in new subsectors. Most of the clients in the sector operate in food & beverages (29%), retail (23%), wholesale (14%), services (9%), healthcare (6%) and chemicals (5%). The clients of the portfolio are located in the Netherlands (45%), Germany (34%), the United Kingdom (5%) and the rest of Europe (6%). The credit quality improved as a result of the continuous emphasis on a diversified credit selection, avoiding more aggressive deals and focusing on mid-market companies and relationships with financial sponsors.

In 2014, the TMS portfolio increased from EUR 487 million to EUR 744 million. Although an increased number of leveraged and sponsor-friendly structures were observed in the market, the team adopted a conservative approach towards these types of transactions, while achieving increased volumes. As a consequence, the overall credit quality remained stable. The portfolio is well diversified and mostly consists of general services (34%), financial services (31%), IT services (18%), leisure (3%), telecommunications (3%) and other (11%). The majority of the subsectors are more cyclical than on average across other industries, and so in 2014 they generally experienced positive developments due to improving macroeconomic conditions. The clients in the portfolio are mainly located in the Netherlands (31%), Germany (31%) and the United Kingdom (26%). The sector has a small presence in the rest of Europe (9%) and in Asia/Pacific (2%).

Development of credit quality and special attention exposure

In general, the credit quality of the non-defaulted part of the Corporate Loan portfolio improved in 2014. Emphasis during the year was on ensuring solid quality of existing and newly originated clients. This was enforced by strong and proactive portfolio management and increased sector emphasis.

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

The corporate loan exposure in arrear increased to EUR 120 million at 31 December 2014 (31 December 2013: EUR 102 million). However, the amount of write-offs taken in 2014 decreased significantly (EUR 20 million) compared to 2013 (EUR 90 million), while the stock of impairments (including IBNR) increased to EUR 170 million (31 December 2013: EUR 107 million).

Risk Management monitors the special attention exposure on an ongoing basis. This enables NIBC to take prompt and proactive action, if needed. To identify potentially problematic borrowers, we use the following metrics to define special attention exposure:

- Defaulted exposure: as defined by the CRR/ CRD IV definition. A counterparty is considered to be in default when an internal CCR rating of 9 or 10 is assigned to that client;
- Impaired exposure: defined by the *International Financial Reporting Standards* (**IFRS**) accounting standard. Facilities are considered impaired if the TC decides on an impairment amount for that facility;
- Non-performing exposure: defined by the *European Banking Authority* (**EBA**). A client is considered non-performing if that client is in default, or if a performing forborne facility under probation is extended additional forbearance measures, or becomes more than 30 days past due; and
- Forborne exposure: defined by the EBA. A client is considered to be forborne if the client is facing financial difficulties and NIBC grants a concession to the obligor. Our business model, with a focus on sub-investment grade clients and well secured facilities, can lead to situations where temporary financial concessions are needed resulting in a higher total forborne exposure. Our forborne exposure has a large overlap with our defaulted exposure. This shows that even during difficult periods we stay committed to our clients. The forborne exposure is published for the first time in the annual report of 2014, comparable figures for previous years are not available.

Table 2 shows an overview of the four metrics, the exposure and the percentage of the total exposure at 31 December 2014 and 31 December 2013.

2 Overview of special attention exposure

IN EUR MILLIONS	31 December 2014		31 December 2013	
	Exposure	**In %**	**Exposure**	**In %**
Defaulted exposure	509	5.8	474	6.4
Impaired exposure	454	5.2	407	5.5
Non-performing exposure	509	5.8	480	6.5
Forborne exposure	1,129	12.8	N / A	N / A

Note 55 to the financial statements provides more detailed information on the development of impairments and write-offs as well as more details on the forborne exposure.

Lease receivables

In 2014, NIBC obtained a leasing portfolio as a result of the acquisition of Gallinat-Bank AG in Germany.

At the end of December 2014, the leasing portfolio amounted EUR 361 million through a forfeiting arrangement with a German leasing company. Strict criteria are in place to determine the eligibility of lease contracts for this programme and they entered into with German lessees to finance moveable objects such as trucks and trailers as well as small ticket leases for IT equipment, technology and smaller equipment. The contracts are to commercial clients in the German SME market and consist of hire purchase contracts, partially amortising lease contracts and fully amortising lease contracts. The servicing of this portfolio remains with the leasing company.

Residential mortgages

The Residential Mortgage portfolio at 31 December 2014 amounted to EUR 8,058 million (31 December 2013: EUR 7,564 million). The majority (98%) of the Residential Mortgage portfolio consists of Dutch mortgages. The remainder of EUR 167 million comprises German mortgages. An amount of EUR 3,638 million is securitised in various RMBS transactions. The portfolio increased by EUR 494 million, mainly due to origination being higher than repayments.

In 2014, NIBC successfully placed a covered bond transaction (EUR 500 million) backed by residential mortgages under its conditional pass-through covered bond programme.

The residential mortgage market remained challenging in 2014. Sentiment on the Dutch housing market improved. In 2014, the NIBC Direct mortgage portfolio grew to more than EUR 1 billion due to higher origination. Competition in the residential mortgage market increased as new originators entered the market. Default levels decreased, showing that recovery in the market is taking place, however credit losses still increased. The housing market is recovering, as shown by the housing price index, which increased during 2014 for the first time since the peak in 2008. The recovery of the Dutch housing market, however, remains fragile and susceptible to the broader macro-economic climate on both the Dutch and European market as a whole.

Debt investments

The Debt Investments portfolio contains issuer risk, which is the credit risk of losing the principal amount on products such as bonds. It is calculated based on the book value. This portfolio contained no direct sovereign exposures.

We divide NIBC's Debt Investments portfolio in the following sub-portfolios:

- Debt from financial institutions and corporate entities; and
- Securitisations, further broken down into the Western European and Liquidity Investments portfolio.

The portfolio of debt issued by financial institutions and corporate entities amounted to EUR 402 million at 31 December 2014 (31 December 2013: EUR 711 million). This portfolio is used to support NIBC's liquidity position. Bonds issued by financial institutions comprised 97% of this amount, and 3% were corporate bonds. The exposure was mainly from issuers located in the Netherlands (23%), the United States (12%), Germany (19%), the United Kingdom (10%), and other Western European countries (35%). There were no *Credit Default Swaps* (**CDS**) outstanding in the Debt Investments portfolio.

The total securitisation exposure amounted to EUR 788 million at 31 December 2014 (31 December 2013: EUR 981 million), which was all located in Western Europe.

The size of the combined portfolios decreased in 2014, mainly due to reduction of debt investments in Financial Institutions.

Cash management

NIBC is also exposed to credit risk as a result of cash management activities. This exposure consists of cash and balances with central banks and cash accounts with other banks. NIBC holds foreign currency accounts at correspondent banks and also utilises third-party account providers for internal securitisations.

In 2014, NIBC's risk management framework for cash management continued its conservative attitude, taking into account the fragile financial markets.

NIBC places its excess cash primarily with DNB and Deutsche Bundesbank and a selected number of strong investment-grade financial institutions. For approved financial counterparties, there is a monitoring process within risk management. Ratings of financial counterparties are verified on a daily basis.

The size of this portfolio decreased to EUR 1,212 million at 31 December 2014 (31 December 2013: EUR 1,795 million), mainly as a result of the redemptions and buy-backs of government-guaranteed funding. At 31 December 2014, 39% of NIBC's excess cash was placed at DNB. The remainder was mainly placed at financial institutions rated single-A or higher, of which 42% were located in the Netherlands, 39% in the United Kingdom, 5% in the United States, 8% in France, and 7% in other European countries.

Derivatives

Credit risk relating to derivatives is the risk of having to replace the counterparty in derivative contracts. To manage this risk, NIBC monitors the marked-to-market value plus a *Potential Future Exposure* (**PFE**). The PFE reflects a potential future change in the marked-to-market value during the remaining lifetime of the derivative contract.

NIBC's credit risk in derivatives can be split into exposures to financial institutions and corporate entities. Our policy is to minimise this risk. With respect to financial institutions, NIBC only enters into *Over The Counter* (**OTC**) derivatives with investment-grade counterparties that have credit ratings of single-A or higher. NIBC has bilateral collateral contracts in place with all the financial institutions it does business with. These contracts aim to mitigate credit risk in the derivatives by means of *Credit Support Annexes* (**CSA**). In 2014, EUR 881 million of NIBC's derivative portfolio excluding netting, collateral and PFE was centrally cleared.

For corporate clients, NIBC enters into derivative transactions as part of its relationship management. CSA agreements are not in place for these contracts, however corporate derivative exposures usually benefit from the collateral also supporting the related loan exposure.

The size of NIBC's derivative portfolio excluding netting, collateral and PFE amounted to EUR 2,851 million at 31 December 2014 (31 December 2013: EUR 2,800 million). Including netting and collateral, the size was EUR 892 million (31 December 2013: EUR 839 million). Netting and collateral almost exclusively reduce the exposure to derivatives with financial institutions.

Derivative contracts are closed with financial institutions and corporate clients in NIBC's core geographies. In terms of net exposure, 42% is located in the United Kingdom, 30% in the Netherlands, 6% in Germany, and 4% in other Western European countries. In terms of industry sector, all of NIBC's financial counterparties fall into the financial services sector. Corporate clients with derivatives are mainly active in Infrastructure & Renewables (61%), Commercial Real Estate (31%) and Securitisation vehicles (3%).

MARKET RISK

NIBC defines market risk as the current and prospective volatility in its earnings and capital as a result of movements in market prices. Market risk includes price risk, interest rate risk and foreign exchange risk, both within and outside the Trading book. For fixed-income products, market risk also includes credit spread risk, which is the risk due to movements of underlying credit curves. The predominant market risk drivers for NIBC are interest rate risk and credit spread risk. Interest rate risk of NIBC is present in the Trading book, the Mismatch book and the Banking book.

In the Trading book, NIBC takes short-term positions in the EUR, GBP and USD yield curves. This book also contains interest rate risk related to derivative transactions of NIBC's clients. The overall market risk in NIBC's Trading book is limited, as is also exhibited by the amount of CRR/CRD IV/Pillar I regulatory capital required for this activity, which only comprises 2% of the total regulatory capital. This is slightly higher than 2013, although this does not represent an increased risk appetite for trading activities. The low level of market risk is further emphasised by the VaR, calculated with a 99% confidence interval, which amounted, on average, to only EUR 0.4 million in 2014. The VaR limit is currently set at EUR 2.25 million.

In the Mismatch book, NIBC concentrates the interest rate risk of the bank based upon a long-term view. Traditionally, NIBC only takes mismatch positions in the currencies in which the bank has lending activities. In 2013, NIBC opened a new mismatch position in GBP. Subsequently, new EUR and USD mismatch positions were opened in 2014, while the GBP mismatch has been enlarged. At year-end of 2014, 45% of the mismatch position was held in EUR, 40% in GBP and 15% in USD.

Apart from the Trading book and the Mismatch book, interest rate risk is also contained in a number of books collectively referred to as Banking book. The Banking book normally only contains residual interest rate risk and basis risk. However the Banking book also contains on-demand savings from retail clients. In the beginning of 2013, NIBC changed the modelling of the on-demand savings and further refined the model in 2014. As a consequence of this model change a significant interest position became visible, which was gradually hedged during the years 2013 and 2014. This book also contains the residential mortgages, both the old book measured on fair value and the new book (originated under the NIBC Direct label), which is measured on amortised cost. NIBC applies a different hedging strategy for both books. For the Fair value book the hedging strategy is based upon the interest rate sensitivity including credit spread (bpv), while for the amortised cost book the hedging strategy is based upon the notional amounts.

NIBC is subject to credit spread risk in the Debt Investment portfolio, which is part of the Banking book and comprises mainly of investments in financial institutions and securitisations.

NIBC has the policy not to take any active currency positions. When currency positions exceed small facilitating limits, NIBC enters into a hedging transaction. NIBC's overall open currency position, which is determined at month end, is typically around EUR 25 million prior to hedging.

Note 56 to the consolidated financial statements provides more information on market risk.

INVESTMENT RISK

Investment risk relating to NIBC's equity investments is the risk that the value of the investment will deteriorate. NIBC includes investment risk in its market risk framework.

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

The investment process is based on the following principles:

- We ensure investment risk exposures are authorised independently from the business originators;
- We perform systematic risk analysis of the investment, with a view to identifying, measuring, and evaluating all risks; and
- We embed the principles of Know Your Customer, *Corporate Social Responsibility* (**CSR**) and customer due diligence as integral parts of the overall investment process.

Management of investment exposures

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

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

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

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

Composition of investment exposure

Tables 3 and 4 show the on-balance amounts and the breakdown of the Equity Investments portfolio in industry sectors and regions. NIBC's off-balance commitments amounted to EUR 19 million at 31 December 2014 (31 December 2013: EUR 38 million).

3 Breakdown of equity investments per industry sector

IN EUR MILLIONS	2014	2013
Wholesale / Retail / Leisure	139	140
Infrastructure	90	80
Financial Services	55	47
Services	31	30
Manufacturing	18	11
Commercial Real Estate	10	15
Shipping	-	-
Agriculture & Food	-	-
TMT	-	-
Other	15	17
TOTAL	**358**	**340**

4 Breakdown of equity investments per region

IN EUR MILLIONS	2014	2013
The Netherlands	289	286
North America	31	25
Rest of Europe	26	19
United Kingdom	12	10
Germany	-	-
TOTAL	**358**	**340**

LIQUIDITY RISK

NIBC defines liquidity risk as a company's inability to fund its assets and meet its obligations as they become due, at acceptable cost.

One of the cornerstones of NIBC's liquidity risk management framework is to maintain a comfortable liquidity position. The credit and liquidity crisis made liquidity risk management even more important. We were able to maintain a sound liquidity position during the difficult times of the credit crisis due to our prudent and conservative liquidity and funding policy in the preceding years, as well as through diversification of our funding sources. Following the funding diversification of the past years, the major funding initiatives undertaken in 2014 were the further expansion of the online retail savings programme NIBC Direct from EUR 8.4 billion to EUR 9.0 billion, as well as renewed issuance of covered bonds, unsecured debt via private placement and participation in the *Targeted Longer Term Refinancing Operation* (**TLTRO**) for EUR 241 million. In addition, NIBC fully redeemed the government guaranteed debt. Moreover, the funding mix has been further diversified by the introduction of ESF deposits.

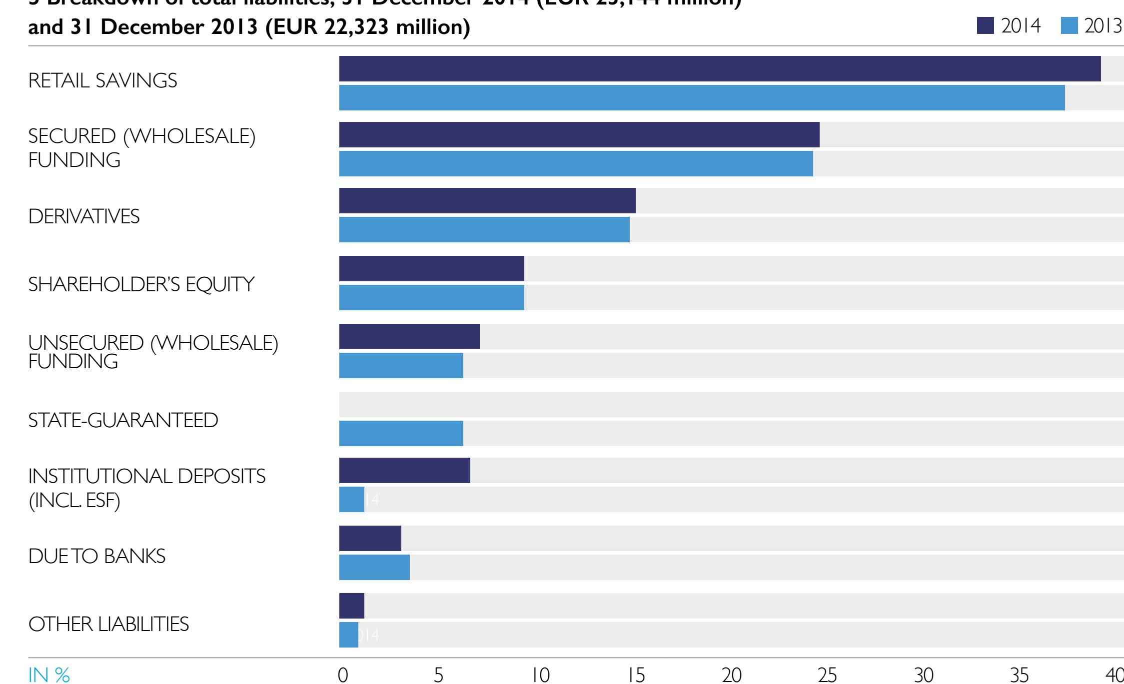
Based on projections prepared by our business units and reviewed by *Asset & Liability Management* (**ALM**), and the current asset and liability maturity profiles, several liquidity stress tests are prepared by Asset & Liability Management and presented every two weeks to the ALCO. This enables continuous monitoring of NIBC's liquidity position. The market-wide stress test, for example, assumes no additional funding, continuation of business and potential outflow of cash due to collateral agreements. The outcomes of the liquidity stress tests are at a comfortable positive level and remain positive for a prolonged period, under the assumption that normal measures are carried out.

Note 57 to the consolidated financial statements provides more information on liquidity risk.

Funding

NIBC further diversified its funding base in 2014. An overview of the Funding portfolio as at

5 Breakdown of total liabilities, 31 December 2014 (EUR 23,144 million) and 31 December 2013 (EUR 22,323 million)



31 December 2014 and 31 December 2013 is shown in graph 5. The funding overview is based on total balance sheet amounts.

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes or systems, from human error, fraud, or external events including legal risk. NIBC has chosen also to include reputation and strategic business risk as operational risk.

The management of operational risk is based on a 'no surprises' operating environment and on a transparent and consistent way of managing operational risk across all our business lines, banking activities and countries.

As part of this, every NIBC business unit and international office has an operational risk management 'champion'. These employees assess their departments for potential operational risks, monitor the control mechanisms in place to mitigate these, coordinate ways of resolving loss-making events, and spread the word on operational risks within their departments. Since the scheme was launched in 2012, the operational risk 'champs' have evolved into a valuable network that shares its knowledge across the bank.

NIBC's operational risk management framework outlines principles for the roles, responsibilities and accountabilities for front-to-back operational risk management across all lines of defence. The central ORM function monitors and manages operational risk on group level, develops policies and processes and provides methodology and tools. The tools give an integrated view of the *risk and control self-assessment* (**RCSA**), control identification, action planning, and event and loss registration. These tools support the constant process of evaluating and reducing operational risk, and planning mitigation measures.

Effective operational risk management also involves the development of forward-looking scenario analyses (hypothetical external or internal scenarios with which it is ensured that a plan exists in case these events occur). Examples of such scenarios include business continuity plans for buildings, key technology systems and key processes of the bank, stress in the Dutch banking sector, large-scale staff unavailability due to e.g. a pandemic, and other hypothetical events for which a forward-looking action plan is necessary.

A robust operational risk management culture also entails a proactive and forward-looking analysis of new products or services that NIBC will launch to its customers. The central element in the *New Product Approval Process* (**NPAP**) is the client interest. In 2014, NIBC's Corporate Bank launched three new products and services. One was a landmark transaction for the financing of car dealers of an automobile manufacturer. The second one was the reporting of derivative transactions for NIBC's corporate clients to a Trade Repository, according to the EMIR regulation that came into effect in February 2014. The third one was the extension of NIBC's receivables financing product to also include the financing of trade receivables. Furthermore, during 2014, NIBC made preparations to launch buy-to-let mortgages in the Netherlands, which were launched in January 2015. This product fits NIBC's strategy of focusing on specific market segments and fulfilling specific needs in the market. Furthermore, the Consumer Bank also launched an on-demand savings account in Belgium.

The purpose of the NPAP is to ensure that the operational impact of the new products on the bank is accurately assessed, that the new products safeguard client interest and client suitability, and that NIBC can offer its new products without disruptions or other operational failures. Similar analyses are conducted for significant operational changes, outsourcing agreements and certain IT-related initiatives.

As the last few years have seen many failures in the banking sector both internationally as well as in the Netherlands, NIBC continued enhancing its forward-looking, proactive attitude and its structured approach to managing operational risk across all three lines of defence. The frequency of conducting RCSAs and declaring itself In Control remains at twice a year. In a rapidly changing environment, this ensures a forward-looking approach to the development of risks and allows the assessment and identification of the areas that require attention in time.

Operational risk in all its facets - including regulation, integrity and technology risk - will remain more prominent than 'classic' financial risks. Doing more business always means more risk: that is not negative in itself, but must be properly understood and managed. As such, the revision of NIBC's risk appetite framework in the course of 2014 also included specific risk appetite statements for operational risk, as well as other non-financial risks, such as legal and compliance risks.

CAPITAL ADEQUACY

Regulatory capital

The principal ratios for reviewing NIBC's capital adequacy are the CRR/CRD IV (fully loaded) capital ratios: the Common Equity Tier-1 ratio, the Tier-1 ratio and the Total Capital / BIS ratio. CRR/CRD IV standards are in effect as of January 2014. As in previous years, NIBC is solidly capitalised at 31 December 2014, as shown by our strong regulatory ratios. The Common Equity Tier-1 ratio stood at 15.5% (Core Tier-1 ratio 31 December 2013: 18.1%), the Tier-1 ratio at 15.5% (31 December 2013: 21.3%) and the Total Capital / BIS ratio at 19.3% (31 December 2013: 22.2%). These are well above the minimum capital requirements imposed by the CRR/CRD IV, which require a minimum Tier-1 ratio of 6% and a minimum Total Capital / BIS ratio of 8%, excluding capital buffers.

The main driver for the lower levels of these ratios compared to 2013 was the increase in *Risk Weighted Assets* (**RWA**). Of the total capital requirement, 89% relates to credit risk, 4% to operational risk, 4% to market risk and 3% credit value adjustment. Table 6 shows the summary of capital ratios and RWA for NIBC.

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

IN EUR MILLIONS	31 December 2014[1]	31 December 2013[2]
CAPITAL RATIOS		
Common Equity Tier-1 ratio	15.5	18.1
Tier-1 ratio	15.5	21.3
Total Capital / BIS ratio	19.3	22.2
RISK WEIGHTED ASSETS		
Credit risk	8,560	7,701
Market risk	371	191
Operational risk	449	512
Credit Value Adjustment	266	
TOTAL RWA	**9,646**	**8,404**

[1] Based on CRR/CRD IV standards
[2] Based on CRD III standards

Economic capital

In addition to regulatory capital, NIBC also calculates *Economic Capital* (**EC**). This is the amount of capital that NIBC needs as a buffer against potential losses from business activities, based upon its own assessment of risks. It differs from CRR/CRD IV regulatory capital as NIBC assesses the specific risk characteristics of its business activities in a different manner from the general regulatory method. At NIBC, EC is based on a one-year risk horizon with a 99.95% confidence level.

This confidence level means that there is a probability of 0.05% that losses in a period of one year will be larger than the allocated EC.

During 2014, the EC remained relatively stable and ranged between EUR 0.95 billion and EUR 1.02 billion, with an average of EUR 0.97 billion. Compared to 2013, the exposure reduction in legacy portfolios and the improved quality of newly originated corporate loans have led to a small decline in calculated EC.

Note 58 to the consolidated financial statements provides more information on capital management.

IN CONTROL REPORT

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

RISK MANAGEMENT AND CONTROL

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

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

In view of the above, the Managing Board of NIBC believes it is in compliance with the requirements of best practice II.1.4 and best practice II.1.5 of the Dutch Corporate Governance Code.

RESPONSIBILITY STATEMENT

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

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

The Hague, 3 March 2015

Managing Board

Paulus de Wilt, *Chief Executive Officer and Chairman*
Herman Dijkhuizen, *Chief Financial Officer*
Rob ten Heggeler, *Chief Client Officer*
Petra van Hoeken, *Chief Risk Officer*

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Consolidated income statement

for the year ended 31 December

IN EUR MILLIONS	NOTE	2014	2013
Interest and similar income		529	489
Interest expense and similar charges		299	341
NET INTEREST INCOME	2	**230**	**148**
Fee and commission income		28	17
Fee and commission expense		1	-
NET FEE AND COMMISSION INCOME	3	**27**	**17**
Dividend income	4	2	2
Net trading income	5	3	57
Gains less losses from financial assets	6	15	8
Share in result of associates	27	1	(1)
Other operating income	7	22	14
OPERATING INCOME		**300**	**245**
Personnel expenses and share-based payments	8	89	90
Other operating expenses	9	60	56
Depreciation and amortisation	10	10	9
OPERATING EXPENSES		**159**	**155**
Impairments of financial assets	11	93	62
SNS Levy (Net)	12	18	-
TOTAL EXPENSES		**270**	**217**
PROFIT BEFORE TAX		**30**	**28**
Tax	13	6	6
PROFIT AFTER TAX		**24**	**22**
Result attributable to non-controlling interests		-	-
NET PROFIT ATTRIBUTABLE TO PARENT SHAREHOLDER		**24**	**22**

Consolidated statement of comprehensive income

for the year ended 31 December

	2014			2013		
IN EUR MILLIONS	Before Tax	Tax charge/ (credit)	After tax[1]	Before tax	Tax charge/ (credit)	After tax
PROFIT FOR THE YEAR	**30**	**6**	**24**	**28**	**6**	**22**
OTHER COMPREHENSIVE INCOME						
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS						
Remeasurements of defined-benefit plans	(10)	(2)	(8)	(3)	(1)	(2)
Revaluation of property, plant and equipment	-	-	-	-	-	-
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS						
Net result on hedging instruments	19	2	17	(30)	(8)	(22)
Revaluation of loans and receivables	-	-	-	-	-	-
Revaluation of equity investments	6	1	5	3	-	3
Revaluation of debt investments	9	3	6	2	1	1
TOTAL OTHER COMPREHENSIVE INCOME	**24**	**4**	**20**	**(28)**	**(8)**	**(20)**
TOTAL COMPREHENSIVE INCOME	**54**	**10**	**44**	**-**	**(2)**	**2**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO						
Parent shareholder	54	10	44	-	(2)	2
Non-controlling interests	-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME	**54**	**10**	**44**	-	**(2)**	**2**

[1] Small differences are possible in the table due to rounding.

Consolidated balance sheet

at 31 December

IN EUR MILLIONS	NOTE	2014	2013
Assets			
FINANCIAL ASSETS AT AMORTISED COST			
Cash and balances with central banks	14	474	1,150
Due from other banks	15	2,286	1,796
Loans and receivables			
Loans	16	7,226	6,186
Debt investments	17	359	415
Residential mortgages own book	18	1,078	98
FINANCIAL ASSETS AT AVAILABLE-FOR-SALE			
Equity investments	19	53	47
Debt investments	20	945	1,300
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)			
Loans	21	374	480
Residential mortgages own book	22	3,342	3,586
Securitised residential mortgages	23	3,638	3,878
Debt investments	24	37	81
Equity investments (including investments in associates)	25	276	257
Derivative financial assets	26	2,851	2,800
OTHER			
Investments in associates (equity method)	27	6	8
Intangible assets	28	43	47
Property, plant and equipment	29	42	45
Current tax	30	2	2
Other assets	31	109	142
Deferred tax	32	3	5
TOTAL ASSETS		**23,144**	**22,323**

IN EUR MILLIONS	NOTE	2014	2013
Liabilities			
FINANCIAL LIABILITIES AT AMORTISED COST			
Due to other banks	33	1,159	1,017
Deposits from customers	34	10,182	8,639
Own debt securities in issue	35	2,064	3,108
Debt securities in issue related to securitised mortgages	36	3,348	3,525
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)			
Own debt securities in issue	37	35	35
Debt securities in issue structured	38	823	794
Derivative financial liabilities	26	3,217	2,957
OTHER FINANCIAL LIABILITIES			
Other liabilities	39	161	137
Current tax	30	-	8
Employee benefits	40	4	16
SUBORDINATED LIABILITIES			
Amortised cost	41	67	57
Fair value through profit or loss	42	253	241
TOTAL LIABILITIES		**21,313**	**20,534**
SHAREHOLDER'S EQUITY			
Share capital	43	80	80
Other reserves	43	318	286
Retained earnings		1,409	1,437
Net profit attributable to parent shareholder		24	22
Interim and final dividend paid		-	(36)
TOTAL PARENT SHAREHOLDER'S EQUITY		**1,831**	**1,789**
Non-controlling interests		-	-
TOTAL SHAREHOLDER'S EQUITY		**1,831**	**1,789**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**23,144**	**22,323**

Consolidated statement of changes in shareholder's equity

IN EUR MILLIONS	Attributable to parent shareholder								
	Share capital	Other reserves[1]	Retained earnings	Remeasurements of defined benefit plans	Net profit	Distribution charged to net profit	Total	Non-controlling interests	Total shareholder's equity
BALANCE AT 1 JANUARY 2013	**80**	**312**	**1,385**	**(7)**	**73**	**(19)**	**1,824**	**1**	**1,825**
Transfer of net profit 2012 to retained earnings	-	-	54	-	(73)	19	-	-	-
Total comprehensive income for the year ended 31 December 2013	-	(18)	-	(2)	22	-	2	-	2
Dividend paid[2]	-	-	(20)	-	-	(16)	(36)	-	(36)
Net investment hedge foreign currency	-	-	(3)	-	-	-	(3)	-	(3)
Other	-	1	1	-	-	-	2	(1)	1
BALANCE AT 31 DECEMBER 2013	**80**	**295**	**1,417**	**(9)**	**22**	**(16)**	**1,789**	**-**	**1,789**

IN EUR MILLIONS	Attributable to parent shareholder								
	Share capital	Other reserves[1]	Retained earnings	Remeasurements of defined benefit plans	Net profit	Distribution charged to net profit	Total	Non-controlling interests	Total shareholder's equity
BALANCE AT 1 JANUARY 2014	**80**	**295**	**1,417**	**(9)**	**22**	**(16)**	**1,789**	**-**	**1,789**
Transfer of net profit 2013 to retained earnings	-	-	6	-	(22)	16	-	-	-
Total comprehensive income for the year ended 31 December 2014	-	28	-	(8)	24	-	44	-	44
Net investment hedge foreign currency	-	-	(2)	-	-	-	(2)	-	(2)
Transfer of defined benefit plans	-	-	(17)	17	-	-	-	-	-
Transfer of realised depreciation revalued property, plant and equipment	-	(5)	5	-	-	-	-	-	-
BALANCE AT 31 DECEMBER 2014	**80**	**318**	**1,409**	**-**	**24**	**-**	**1,831**	**-**	**1,831**

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

2 Ordinary interim and final dividend paid in 2013 to the shareholder.

Consolidated statement of cash flows

for the year ended 31 December

IN EUR MILLIONS	NOTE	2014	2013
OPERATING ACTIVITIES			
Net profit for the year		24	22
ADJUSTMENTS FOR NON-CASH ITEMS			
Depreciation, amortisation and impairment losses	10/11	102	71
Changes in employee benefits	40	(12)	3
Share in result of associates	27	(1)	1
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Derivative financial instruments	26	209	6
Operating assets		(1,440)	2,183
Operating liabilities (including deposits from customers)		1,557	(685)
Dividends received from associates	27	-	-
CASH FLOWS FROM OPERATING ACTIVITIES[1]		**439**	**1,601**
INVESTING ACTIVITIES			
Proceeds from the sale of property, plant and equipment	29	-	-
Gains less losses from financial assets	6	(15)	(8)
Acquisition of property, plant and equipment	29	(2)	(3)
Disposal of subsidiaries, associates and joint ventures	19/25/27	3	29
Acquisition of associates and joint ventures	27/28	-	-
CASH FLOWS FROM INVESTING ACTIVITIES		**(29)**	**18**
FINANCING ACTIVITIES			
Net decrease in own debt securities in issue	35/37	(1,044)	(1,205)
Net decrease in subordinated liabilities	41/42	22	(49)
Net decrease in debt securities in issue structured	38	29	(860)
Dividend paid		-	(36)
CASH FLOWS FROM FINANCING ACTIVITIES		**(993)**	**(2,150)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(583)**	**(531)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**1,603**	**2,134**
Net increase/(decrease) in cash and cash equivalents		(583)	(531)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**1,020**	**1,603**
RECONCILIATION OF CASH AND CASH EQUIVALENTS:			
Cash and balances with central banks	14	371	1,044
Due from other banks (maturity three months or less)	15	649	559
		1,020	**1,603**
SUPPLEMENTARY DISCLOSURE OF OPERATING CASH FLOW INFORMATION:			
Interest paid		325	439
Interest received		526	576

1 The cash flows from operating activities includes an amount of EUR 1 million of taxes (2013: EUR 1 million of taxes).

ACCOUNTING POLICIES

Authorisation of consolidated financial statements

The consolidated financial statements of *NIBC Bank N.V.* (**NIBC**) for the year ended 31 December 2014 were authorised for issue by the Managing Board of NIBC on 3 March 2015. NIBC, together with its subsidiaries (NIBC or the group), is incorporated and domiciled in the Netherlands, and is a wholly-owned subsidiary of *NIBC Holding N.V.* (**NIBC Holding**). The principal activities of NIBC are described in section Corporate Banking and Consumer Banking of this Annual Report.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. 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**) 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, as modified by the revaluation of property, available for sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, and all derivative contracts. 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.

Standards, amendments and interpretations effective in 2014

The following new or revised standards and interpretations and amendments to standards and interpretations became effective in 2014:

- IFRS 10 *'Consolidated Financial Statements'*. IFRS 10 replaces the requirements of IAS 27 'Consolidated and Separate Financial Statements' that address the accounting for consolidated financial statements and SIC 12 'Consolidation – *Special Purpose Entities* (**SPE**)'. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The adoption of IFRS 10 does not have a significant impact on the consolidation circle and financial position of NIBC;
- IFRS 11 *'Joint Arrangements'*. IFRS 11 replaces IAS 31, 'Interests in Joint Ventures' and SIC-13, 'Jointly-Controlled Entities - Non-Monetary Contributions by Ventures'. IFRS 11 removes the option to account for joint arrangements using proportionate consolidation. Instead, joint arrangements that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. NIBC has assessed the nature of its joint arrangements and determined them to be joint ventures. If applicable NIBC has changed its accounting treatment for joint ventures from proportionate consolidation to equity accounting. The adoption of IFRS 11 does not have a significant impact on the accounting treatment of investments currently held by NIBC;
- IFRS 12 *'Disclosure of Interests in Other Entities'*. IFRS 12 provides disclosure requirements on interests in subsidiaries, associates, joint ventures and structured entities. This standard affects disclosure only and has therefore no impact on NIBC's financial position or performance. NIBC has included the required disclosures in notes 52 and 53. In accordance with the transitional provisions of IFRS 12, comparatives for disclosures regarding unconsolidated entities are not presented;
- IAS 27 *'Separate Financial Statements'* (Revised). As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. NIBC does not present separate financial statements;
- IAS 28 *'Investments in Associates and Joint Ventures'* (Revised). As a consequence of the new IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities', IAS 28 'Investment in Associates', has been renamed IAS 28 'Investment in Associates and Joint Ventures' and describes the application of the equity method to investments in joint ventures in addition to associates. The amendments to IAS 28 do not have a significant impact on the accounting treatment of Associates and Joint Ventures currently held by NIBC;
- IAS 32 *'Offsetting Financial Assets and Financial Liabilities'*. These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. Internal research pointed out that these amendments have no impact on the group, since none of the entities in the group has any offsetting arrangements which would lead to change in offsetting transactions;
- Transition guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12). The amendments change the transition guidance to provide further relief from full retrospective application. These amendments do not impact NIBC's financial position or performance;
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the group, since none of the entities in the group qualifies as an investment entity under IFRS 10;
- IFRIC 21 *'Levies'*. IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. The early adoption of IFRIC 21 does not have an impact on the group as it has applied the recognition principles under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' consistent with the requirements of IFRIC 21 in prior years.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by NIBC

The following standards, amendments and interpretations to existing standards issued by the *International Accounting Standards Board* (**IASB**) and endorsed by the EU are mandatory for accounting periods beginning on or after 1 January 2015 or later periods but NIBC has not adopted them early:

- Annual improvements to IFRSs *'2010 – 2012 Cycle'* (effective as from 1 July 2014).
  In the annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 'Fair Value Measurement'. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on NIBC;
- Annual improvements to IFRSs *'2011 – 2013 Cycle'* (effective as from 1 July 2014). In the annual improvements cycle, the IASB issued amendments to four standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies that the portfolio exception in IFRS 13 applies to all contracts (including non-financial contracts) within the scope of IAS 39. This amendment to IFRS 13 has no impact on NIBC;
- Amendment to IAS 19 *'Defined Benefit Plans: Employee Contributions'* (effective as from 1 July 2014). IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. On 1 January 2015 a collective defined contribution plan will be introduced. Therefore the amendment will not be relevant for NIBC, since none of the entities within NIBC has defined benefit plans with contributions from employees or third parties as from 1 January 2015.

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 2014 and 2013.

Subsidiaries

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

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

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

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

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

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

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

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

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

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree 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. 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 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 or significant influence 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 (gains less losses from financial assets).

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.

Investments in associates and joint ventures

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. 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 considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

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.

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

The group'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 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 share in result of associates and joint ventures 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.

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

SEGMENT REPORTING

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

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates

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

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

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

Group companies

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

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

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

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

RECOGNITION OF FINANCIAL INSTRUMENTS

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

NIBC applies trade date accounting to all financial instruments. All purchases and sales of financial assets requiring delivery within the time frame established by regulation or market convention are recognised on the trade date, which is the date on which NIBC commits to purchase or sell the asset.

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

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

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

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets are classified as:

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

Financial liabilities are classified as:

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

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

Financial assets – reclassification

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

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

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

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

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

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

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

Reclassification of financial assets (as of 1 July 2008)

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

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

The amendments to IFRS 7 regarding reclassifications require disclosure of the impact of the reclassification of each category of financial assets on the financial position and performance of NIBC. The information provided as of the reclassification date relates only to financial assets remaining on the balance sheet as of the reporting date 31 December 2014.

Changes to the classification of financial assets (in 2007)

In 2007, NIBC made the following changes:

- Loans and receivables: loans and receivables originated before 1 July 2007 are accounted for at fair value through profit or loss (residential mortgages, commercial real estate loans and leveraged loan warehouses, secondary loan trading, and distressed asset trading) or available for sale (all other corporate lending). With the exception of residential mortgages, loans originated after 1 July 2007 are classified as loans and receivables at amortised cost. These loans were initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. The reason for this change in classification is to align with market practice;
- Debt investments (assets): with effect from 1 July 2007, newly originated assets in the EU structured credits books were classified as available for sale. Assets acquired before 1 July 2007 were classified as held for trading. The reason for this change in classification is to align with market practice;
- Equity investments in associates and joint ventures: with effect from 1 January 2007, all newly acquired investments in associates and joint ventures held by the venture capital organisation (as that term is used in IAS 28 and IAS 31) have been designated at fair value through profit or loss. Previously acquired investments in associates, where material, were accounted for using the equity method and investments in joint ventures were proportionally consolidated. The reason for this change in classification is to align with market practice; and
- Equity investments: equity investments acquired before 1 January 2007 held in the Investment portfolio of the venture capital organisation are classified as available for sale assets in the consolidated balance sheet. With effect from 1 January 2007, all newly acquired equity investments held by the venture capital organisation are designated upon initial recognition as financial assets at fair value through profit or loss. The reason for this change in classification is to align with market practice.

Changes to the classification of financial liabilities (in 2007)

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

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

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

The fair value designation, once made, is irrevocable.

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

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

AVAILABLE FOR SALE FINANCIAL ASSETS

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

The main classes of financial instruments designated as available for sale assets at 31 December 2014 include:

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

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

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

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

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:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (level 1);
- 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 2); and
- Inputs that are not based on observable market data (unobservable inputs) (level 3).

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. Otherwise, day one profit or loss is recognised over the life of the instrument, when the inputs become observable or upon derecognition of the instrument (see also recognition of day one profit or loss).

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 has a documented policy with respect to its approach to determining the significance of unobservable inputs on its fair value measurements of instruments and that policy is applied consistently.

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

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

LOANS AND RECEIVABLES AT AMORTISED COST

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

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

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

The main classes of loans and receivables at amortised cost at 31 December 2014 include corporate lending (excluding commercial real estate and leverage loan warehouses, secondary loan trading and distressed asset trading), residential mortgages at own book and investments in the EU Corporate Credits and EU Structured Credits portfolio that were reclassified in 2008.
Loans and receivables are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method (including interest accruals less provision for impairment).

FINANCIAL LIABILITIES

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

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

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

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

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

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES NOT CARRIED AT FAIR VALUE

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

ASSETS FOR WHICH FAIR VALUE APPROXIMATES CARRYING AMOUNT

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

Fixed-rate financial instruments

The fair values of Fixed-rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of

fixed-interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and on credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since initial recognition.

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

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.

OFFSETTING

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

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

COLLATERAL

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

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

The group also pays and receives collateral in the form of cash or securities in respect of other credit instruments, such as derivative contracts, in order to reduce credit risk. Collateral paid or received in the form of cash together with the underlying is recorded on the balance sheet at net realisable value (the net realisable value is management's best estimate (the determination method of the value differs per asset class)). 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 remeasured, 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.

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 and foreign exchange rate risk ('micro fair value hedges') (iii) a cash flow hedge of the variability of highly probable cash flows ('cash flow hedges'); or (iv) hedges of net investments in a foreign operation ('net investment hedge'). 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 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.

Portfolio fair value hedge

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

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

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

Micro fair value hedge

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

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.

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

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

Cash flow hedge

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

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

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.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income net of tax; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in other comprehensive income net of tax are included in the income statement when the foreign operation is sold.

Hedge effectiveness testing

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

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

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

Derivatives managed in conjunction with financial instruments designated as at fair value through profit or loss

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

SALE AND REPURCHASE AGREEMENTS

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

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

IMPAIRMENT

General

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

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

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

The estimated period between a loss event occurring and its identification is determined by management for each identified portfolio (Corporate Loans, Residential Mortgages at Own Book, EU Corporate Credits and EU Structured Credits). The average period used is three months for the different Corporate Loan portfolios and six months for the Residential Mortgages at Own Book. Losses expected from future events, no matter how likely, are not recognised.

Financial assets reported at amortised cost

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

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

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

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

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

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

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

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

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

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

Financial assets classified as available for sale

The group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

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

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

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

Non-financial assets

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

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

Renegotiated loans

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

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

INTANGIBLE ASSETS

Goodwill

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

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

Trademarks and licences

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

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

Customer relationships

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

Impairment of intangible assets

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

TANGIBLE ASSETS

Property (land and buildings), plant and equipment

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

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

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

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

- Buildings 30 - 50 years
- Machinery 4 - 10 years
- Furniture, fittings and equipment 3 - 10 years

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.

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.

OTHER ASSETS

Trade receivables related to consolidated non-financial companies

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less a provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group is not able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the income statement.

PROVISIONS

Provisions for restructuring costs and legal claims are recognised when:

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

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

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

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

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

TRADE PAYABLES

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

EMPLOYEE BENEFITS

Pension benefits

NIBC and its subsidiaries have various post-employment schemes in accordance with the local conditions and practices in the countries in which they operate. NIBC generally funds these arrangements through payments to insurance companies or trustee administered funds, determined by periodic actuarial calculations. These various pension employment schemes consist of a defined contribution pension plan, a defined benefit pension plan or a combination of these plans.

A defined contribution plan is a pension plan under which NIBC pays fixed contributions into a separate entity; the contributions are recognised as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. NIBC has no legal or constructive obligations to pay further defined contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised immediately in other comprehensive income. NIBC determines the net interest expense (income) on the defined benefit liability (asset) for the period by applying the discount rate used to measure defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses and share based payments in the income statement.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss as a past service cost. NIBC recognises gains and losses on the settlement of a defined benefit plan when the settlements occurs.

Termination benefits

NIBC recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to

accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Share-based compensation

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

Equity-settled transactions

The group operates a number of equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (shares or options) of the group. The fair value of the employee services received in exchange for the grant of the shares or options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares or options granted:

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

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either NIBC or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Cash-settled transactions

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

Profit-sharing and bonus plans

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

INCOME TAX

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

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

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

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

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

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

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

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

SHAREHOLDER'S EQUITY

Share capital

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

Share issue costs

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

Dividends on ordinary shares

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

REVENUE RECOGNITION

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

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

Interest income and expense

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

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

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

Fee and commission income and expense

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

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

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

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

Dividend income

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

Net trading income

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

Gains less losses from financial assets

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

Other operating income

Income less cost of sales from consolidated non-financial companies is presented under other operating income.

Sales of services by consolidated non-financial companies

The group sells temporary employment services. Revenue from temporary employment services is generally recognised at the contractual rates.

STATEMENT OF CASH FLOWS

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

FIDUCIARY ACTIVITIES

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimates and judgements are principally made in the following areas:

- Estimated impairment of goodwill arising on consolidated non-financial companies;
- Fair value of certain financial instruments;
- Impairment of corporate loans;
- Impairment of debt investments classified at amortised cost;
- Impairment of debt investments classified as available for sale;
- Impairment of equity investments classified as available for sale; and
- Pension benefits.

ESTIMATED IMPAIRMENT OF GOODWILL ARISING ON CONSOLIDATED NON-FINANCIAL COMPANIES

NIBC tests whether its goodwill is impaired on an annual basis in accordance with its accounting policies.

The recoverable amount of CGUs related to consolidated non-financial companies is determined based on a value-in-use calculation that is the higher of value in use and fair value less costs to sell. This calculation uses pre-tax cash flow projections based on prudent forecasts covering a three-year period (2015 - 2017). Cash flows beyond the three-year period are extrapolated using an estimated perpetual growth rate.

The key assumptions used in the value-in-use calculation are as follows:

IN %	2014	2013
Perpetual growth rate	1.5	1.5
Pre-tax discount rate	9.0	11.0

Management determines budgeted results based upon past performance and its expectations of market developments. The discount rate (weighted average cost of capital) used is pre-tax and reflects specific risks relating to the operations of the group of CGUs.

NIBC has not recognised a goodwill impairment charge for the consolidated non-financial companies recognised at 31 December 2014.

When this exercise demonstrates that the expected cash flows of a group of CGUs have declined or that their discount rate has increased, the effect is to reduce the estimated recoverable amount. If this results in an estimated recoverable amount that is lower than the carrying amount of the group of CGUs, a charge for impairment of goodwill will be recognised, thereby reducing by a corresponding amount NIBC's profit before tax for the year.

The rate used to discount the future cash flows of the group of CGUs can have a significant effect on the group of CGUs' valuation. The discount rate calculated depends on inputs reflecting a number of financial and economic variables including the risk-free interest rate and a premium to reflect the inherent risk of the business being evaluated. These variables are established on the basis of management judgement.

If the estimated pre-tax discount rate applied to discounted cash flows for the group of CGUs had been 1% higher than management's estimates (10.0% instead of 9.0%) at 31 December 2014, the outcome of the goodwill impairment test would lead to an impairment of EUR 0 million.
Management judgement is also required in estimating the future cash flows of the group of CGUs. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement to compare resulting forecasts with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects.

If the budgeted profit before tax of the group of CGUs used in the value-in-use calculation had been 5% lower than management's estimates at 31 December 2014, the outcome of the goodwill impairment test would lead to an impairment for an amount of EUR 0 million.

FAIR VALUE OF CERTAIN FINANCIAL INSTRUMENTS

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

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

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

Own liabilities designated at fair value through profit or loss

At 31 December 2014, the fair value of these liabilities was estimated to be EUR 1,111 million (31 December 2013: EUR 1,071 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;
- Financial liabilities at fair value through profit or loss: Debt securities in issue structured; and
- Financial liabilities at fair value through profit or loss: Subordinated liabilities.

The portion of fair value changes on these liabilities designated at fair value through profit or loss during 2014 attributable to the movement in credit spreads as showed in notes 37, 38 and 42 reflects gross amounts, excluding pull-to-par and model refinement effects. Model refinement effects, pull-to-par, fair value movements of associated hedging derivatives and fair value changes

attributable to the movement in credit spreads during 2014 amounted to EUR 26 million credit being an increase of the carrying value (2013: EUR 65 million credit being an increase of the carrying value).

The credit spread used to revalue these liabilities was based to the extent possible on the observable issuance spread movements of new primary unsecured debt issuances by financial institutions. Given market inactivity for both cash and synthetic NIBC funding and protection, these observations are combined with data for both cash and synthetic index indicators, such as iTraxx indices and credit curve developments. The resulting overall market view supports the reasonableness of the range in which the applied credit spread falls.

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 2014 by EUR 5.4 million (31 December 2013: EUR 5.9 million).

Residential mortgages

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

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

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

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

The determination of the applicable discount spread (including a spread for prepayment risk) and prepayment rates requires NIBC to apply judgement. A ten basis point shift in either direction of the discount spread across the mortgage portfolio would have had either a positive or a negative impact as of 31 December 2014 of approximately EUR 22 million (2013: EUR 22 million) on the fair value of the mortgages. A 1% point shift in the assumption NIBC makes about expected prepayments would have had an impact as of 31 December 2014 of approximately EUR 16.9 million (2013: EUR 6.7 million) on the fair value of the mortgages.

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

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

The CVA and DVA of a derivative contract are calculated at the individual derivative contract level at inception as the sum of the present value of the expected loss estimated over the lifetime and evaluated on a monthly basis. This evaluation is performed in line with market practice, the CVA and DVA of a derivative contract is calculated at the counterparty level as the sum of the present value of the expected loss estimated over the lifetime of all outstanding OTC derivative contracts that generate credit risk from both the NIBC perspective (CVA) and the counterparty perspective (DVA). This requires the application of *Probability of Default* (**PD**) and *Loss Given Default* (**LGD**) estimates to the *Expected Exposure* (**EE**) profile. The EE profile estimate takes into account the amortisation of the notional amounts and the passage of time to maturity. For CVA, the PD and LGD estimates are based on internal *Counterparty Credit Rating* (**CCR**) and LGD ratings due to the absence of a credit market for most of NIBC's corporate counterparties. For the DVA, the PD and LGD estimates are also based on internal credit models due to the illiquidity of the CDS spreads available for NIBC.

The CVA and DVAs are sensitive to changes in credit quality of counterparties and NIBC, as well as to changes in interest rates affecting current exposure. Based on the current composition of the portfolio, the CVA, in general, decreases when interest rates rise while DVA increases while interest rates rise.

Fair value of equity investments

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

On 31 December 2014, the fair value of this portfolio was estimated to be EUR 329 million (31 December 2013: EUR 304 million). This portfolio is reported as equity investments (including investments in associates) at fair value through profit or loss (31 December 2014:

EUR 276 million; 31 December 2013: EUR 257 million) and as equity investments at available for sale (31 December 2014: EUR 53 million; 31 December 2013: EUR 47 million).

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

IMPAIRMENT OF CORPORATE LOANS

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

If, as at 31 December 2014, for each of NIBC's impaired corporate loans, the net present value of the estimated cash flows had been 5% lower or higher than estimated, NIBC would have recognised an additional impairment loss or gain of EUR 11.0 million (2013: EUR 17.8 million).

IMPAIRMENT OF DEBT INVESTMENTS CLASSIFIED AT AMORTISED COST

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

If, as at 31 December 2014, for each of NIBC's impaired debt investments, the net present value of the estimated cash flows had been 5% lower or higher than estimated, NIBC would have recognised an additional impairment loss or gain of EUR 0.5 million (2013: EUR 0.4 million).

IMPAIRMENT OF DEBT INVESTMENTS CLASSIFIED AS AVAILABLE FOR SALE

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

The level of the impairment loss that NIBC recognises in the consolidated income statement is equivalent to the cumulative loss that had been recognised directly in the revaluation reserve of other comprehensive income plus any additional impairment loss (if applicable). If, as at 31 December 2014, for each of NIBC's impaired debt investments, the fair value had been 5% lower or higher, NIBC would have recognised an additional impairment loss or gain of EUR 0.1 million (2013: EUR 0.1 million).

IMPAIRMENT OF EQUITY INVESTMENTS CLASSIFIED AS AVAILABLE FOR SALE

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

The level of the impairment loss that NIBC recognises in the consolidated income statement is the cumulative loss that had been recognised directly in the revaluation reserve of other comprehensive income. If NIBC had deemed all of the declines in fair value of equity investments below cost as 'significant' or 'prolonged', the effect would have been a EUR 4.0 million (2013: EUR 4.5 million) reduction in the profit before tax (gains less losses from financial assets) in 2014.

PENSION BENEFITS

The present value of pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions.

The assumptions used in determining the net cost (or income) of pensions include the discount rate, the expected return on plan assets, future salary increases, future inflation and future pension increases. Any changes in these assumptions will impact the carrying amount of pension obligations.

The group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle pension obligations. In determining the appropriate discount rate, the group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 40.

A sensitivity analysis has been performed regarding the effects of the discount rate, the salary increases on the defined benefit obligation and the service costs as per 30 September 2014. Please note that this analysis is limited in the sense that if more than one assumption was to be changed, the impact would not necessarily be the same as if only one assumption changed in isolation.

The results are shown in the following table:

Sensitivity of key assumptions 2014

	Change in defined benefit obligation	**Change in service cost**
Impact of a 0.25% increase in the discount rate	(EUR 15.6 million)	(EUR 0.6 million)
Impact of a 0.25% decrease in the discount rate	EUR 16.5 million	EUR 0.7 million
Impact of a 0.25% increase in the rate of salary increase	EUR 3.4 million	EUR 0.3 million
Impact of a 0.25% decrease in the rate of salary increase	(EUR 3.3 million)	(EUR 0.3 million)
Impact of a 0.25% increase in the rate of pension increase	EUR 12.0 million	EUR 0.3 million
Impact of a 0.25% decrease in the rate of pension increase	(EUR 11.5 million)	(EUR 0.3 million)

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. Internal management reporting within NIBC is based on IFRS. Segment reporting under IFRS 8 requires 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. Based on the information reported to the chief operating decision-maker for the allocation of resources and performance of the business, NIBC Bank as a whole is identified as a single operating segment.

The items displayed under 'consolidation effects' refer to the non-financial companies over which NIBC has control. IFRS requires NIBC to consolidate these entities. The internal management report differs from this, as the investments in these entities are non-strategic and the activities of these entities are non-financial. Therefore, in the income statement of NIBC, only NIBC's share in the net result of these entities is included in the line-item 'gains less losses from financial assets'. Subsequently, under 'consolidation effects' this is eliminated and replaced by the figures of these entities used in the consolidated financial statements.

The following table presents the results of the single operating segment, being NIBC Bank, including a reconciliation to the consolidated results under IFRS for the years ended 31 December 2014 and 31 December 2013.

	Internal management report operating segment NIBC Bank		Consolidation effects		Total (consolidated financial statements)	
IN EUR MILLIONS[1]	2014	2013	2014	2013	2014	2013
Net interest income	231	148	(0)	-	230	148
Net fee and commission income	27	17	-	-	27	17
Dividend income	2	2	-	-	2	2
Net trading income	3	56	0	-	3	57
Gains less losses from financial assets	16	1	(1)	7	15	8
Share in result of associates	1	(1)	-	-	1	(1)
Other operating income	0	-	22	14	22	14
OPERATING INCOME	**278**	**225**	**21**	**21**	**300**	**245**
OPERATING EXPENSES	**139**	**134**	**20**	**21**	**159**	**155**
Impairments of financial assets	93	62	-	-	93	62
SNS Levy (Net)	18	-	-	-	18	-
TOTAL EXPENSES	**250**	**196**	**20**	**21**	**270**	**217**
PROFIT BEFORE TAX	**28**	**29**	**1**	**-**	**30**	**28**
Tax	4	6	1	-	6	6
PROFIT AFTER TAX	**24**	**22**	**(0)**	**-**	**24**	**22**
Result attributable to non-controlling interests	0	-	(0)	-	-	-
NET PROFIT ATTRIBUTABLE TO PARENT SHAREHOLDER	**24**	**22**	**(0)**	**-**	**24**	**22**
Average allocated economic capital	1,221	1,180	-	-	1,221	1,180
Average unallocated capital	450	494	-	-	450	494
Segment assets	23,052	22,229	92	94	23,144	22,323
Segment liabilities	21,248	20,466	65	68	21,313	20,534
Capital expenditure	3	4	0	-	3	4
Share in result of associates based on the equity method	1	(1)	-	-	1	(1)
Investments in associates based on the equity method	6	8	-	-	6	8

[1] Small differences are possible in the table due to rounding

2 Net interest income

IN EUR MILLIONS	2014	2013
INTEREST AND SIMILAR INCOME		
Interest income from assets designated at fair value through profit or loss	191	197
Interest income from other assets	338	292
	529	**489**
INTEREST EXPENSE AND SIMILAR CHARGES		
Interest expense from liabilities designated at fair value through profit or loss	(48)	16
Interest expense from other liabilities	347	325
	299	**341**
	230	**148**

Interest income from debt and other fixed-income instruments designated as held for trading or designated at fair value through profit or loss is recognised in interest and similar income at the effective interest rate.

For the year ended 31 December 2014, interest income included accrued interest on impaired financial assets of EUR 11 million (2013: EUR 4 million).

For the year ended 31 December 2014, interest expense related to deposits from customers amounted to EUR 203 million (2013: EUR 247 million).

Interest income from financial assets reclassified in 2008 following the IAS 39 amendments, both after reclassification and before reclassification (assuming the reclassifications in 2008 had not been made), is displayed in the following table. The difference between the figure after and the figure before reclassification reflects the amortisation of discounts and premiums on financial assets reclassified from held for trading or available-for-sale.

	For the period ended 31 December			
	2014		2013	
IN EUR MILLIONS	After reclassification	Before reclassification	After reclassification	Before reclassification
Interest income	27	25	39	37

3 Net fee commission income

IN EUR MILLIONS	2014	2013
FEE AND COMMISSION INCOME		
Agency and underwriting fees	4	4
Investment management fees	11	6
Advisory fees	5	3
Other corporate banking fees	8	4
	28	**17**
FEE AND COMMISSION EXPENSE		
Other non-interest related	1	-
	1	**-**
	27	**17**

4 Dividend income

IN EUR MILLIONS	2014	2013
Equity investments (available-for-sale)	2	2
	2	**2**

5 Net trading income

IN EUR MILLIONS	2014	2013
Assets and liabilities designated at fair value through profit or loss (including related derivatives)	6	53
Assets and liabilities held for trading	1	23
Other net trading income	(4)	(19)
	3	**57**

Net trading income included a foreign exchange result of nil (2013: loss of EUR 1 million).

Net trading income on financial assets reclassified in 2008 following the IAS 39 amendments, both after reclassification and before reclassification (assuming the reclassification in 2008 had not been made) is displayed in the following table:

	For the period ended 31 December			
	2014		2013	
IN EUR MILLIONS	After reclassification	Before reclassification	After reclassification	Before reclassification
Net trading income	(4)	17	8	33

6 Gains less losses from financial assets

IN EUR MILLIONS	2014	2013
EQUITY INVESTMENTS		
GAINS LESS LOSSES FROM EQUITY INVESTMENTS (AVAILABLE-FOR-SALE)		
Net gain/(losses) on disposal	1	8
Impairment losses equity investments	(2)	(2)
GAINS LESS LOSSES FROM EQUITY INVESTMENTS (FAIR VALUE THROUGH PROFIT OR LOSS)		
Gains less losses from associates	18	2
Gains less losses from other equity investments	(4)	(2)
	13	**6**
DEBT INVESTMENTS		
Gains less losses from debt investments (available-for-sale)	2	2
	2	**2**
	15	**8**

Impairment losses relating to debt investments (available-for-sale) are presented under impairments of financial assets (see note 11 Impairments of financial assets).

7 Other operating income

IN EUR MILLIONS	2014	2013
OTHER OPERATING INCOME OF NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION CAN BE CATEGORISED AS FOLLOWS:		
NET REVENUE		
Net sales	271	245
Cost of sales	(249)	(231)
	22	**14**

8 Personnel expenses and share-based payments

IN EUR MILLIONS	2014	2013
Salaries	61	58
VARIABLE COMPENSATION		
Cash bonuses	4	4
One-off compensation for sign on and for cancellation of long-term awards arrangements	1	-
Share-based and deferred bonuses including expenses previous years	2	2
PENSION AND OTHER POST-RETIREMENT CHARGES:		
Defined-benefit plan	6	6
Defined-contribution plan	4	3
Other post-retirement charges/(releases)	(5)	(1)
Social security charges	7	7
Other staff expenses	1	2
Staff cost of non-financial companies included in the consolidation	8	9
	89	**90**

The increase in salaries in 2014 is mainly explained by an increase in the average number of *Full-Time Equivalents* (**FTEs**), mainly driven by the acquisition of NIBC Bank Deutschland AG (formerly Gallinat Bank AG).

The number of FTEs (excluding the non-financial companies included in the consolidation) increased from 596 at 31 December 2013 to 637 at 31 December 2014. The number of FTEs employed outside of the Netherlands increased from 104 at 31 December 2013 to 147 at 31 December 2014.

At 31 December 2014, 94 FTEs (2013: 106 FTEs) were employed at the non-financial companies included in the consolidation, all of them are employed in the Netherlands.

The increase in variable compensation is mainly explained by a one-off compensation for sign on and for cancellation of long-term incentive arrangements.

Information on the pension charges is included in note 40 Employee benefits.

Information on the remuneration of the members of the Managing Board and Supervisory Board can be found in note 54.

Remuneration of Statutory Board and Supervisory Board

Key management personnel compensation (Statutory Board[1])

IN EUR	2014	2013
THE BREAKDOWN OF THE TOTAL REMUNERATION OF THE STATUTORY BOARD IS AS FOLLOWS:		
Cash compensation (base salary)	2,547,917	2,091,667
Cash compensation (sign-on payment)[2]	510,417	-
Cash compensation (one-off compensation cancellation of long-term incentive arrangement)	455,000	-
Vesting of prior years long-term deferred share awards compensation	-	31,168
Vesting of 2009-2014 co-investment related deferred share awards compensation	542,220	42,585
Forfeiture of unvested share awards[3]	-	(26,667)
Pension costs	344,264	292,704
Other remuneration elements	276,993	385,843
	4,676,810	**2,817,300**

1 Statutory Board is equal to Managing Board. The amounts included in the remuneration tables include current and former Statutory Board members, the latter defined as members in 2013/2014.

2 The sign-on relates to compensation to the new CEO for forfeited deferred awards from his previous employer. Of this amount 50% was paid in cash and the after-tax amount was invested in Common Depositary Receipts under the co-investment programme and 50% will be paid in deferred cash with a vesting period of 3 years with a first payment on 1 April 2015.

3 The forfeiture in 2013 relates fully to non-vested long-term deferred compensation granted to Mr. Kees van Dijkhuizen in previous years. Mr. van Dijkhuizen stepped down as member of the Statutory Board on 30 April 2013 and his employment ended at the same date.

As at 31 December 2014, current and former members of the Statutory Board held 257,307 *Common Depositary Receipts* (**CDRs**) (31 December 2013: 204,116), 192,467 *Conditional Common Depositary Receipts* (**CCDRs**) (31 December 2013: 182,908) and 90,568 *Conditional Restricted Depositary Receipts* (**CRDRs**) (31 December 2013: 36,187).

Key management personnel compensation (Supervisory Board)

IN EUR	2014	2013
TOTAL REMUNERATION OF THE SUPERVISORY BOARD IS AS FOLLOWS:		
Annual fixed fees, committee fees	540,458	570,792
	540,458	**570,792**

Components of variable compensation - NIBC Choice

NIBC Choice is NIBC Holding's share-based and deferred compensation plan and governs all variable compensation components in the form of equity, equity-related and deferred cash compensation. In addition to this, variable compensation can consist of a discretionary short-term cash bonus. NIBC Choice is only open to management and employees and includes conditions relating to termination of employment or certain corporate events, such as restructurings, affecting the rights that would otherwise accrue to them.

The following table gives an overview of the different NIBC Choice instruments and their main characteristics:

NIBC Choice instrument	Share based	Equity/Cash-settled	Vesting conditions
Common Depositary Receipt (CDR)	Yes	Equity-settled	None
Restricted Depositary Receipt (RDR)	Yes	Equity-settled	3 years pro rata vesting
Conditional Common Depositary Receipt (CCDR)	Yes	Equity-settled	4 years pro rata vesting
Conditional Restricted Depositary Receipt (CRDR)	Yes	Equity-settled	4 years pro rata vesting
Phantom Share Unit (PSU)	Yes	Cash-settled	None
Restricted Phantom Share Unit (RPSU)	Yes	Cash-settled	3 years pro rata vesting
Stock options	Yes	Equity-settled	50% 3yr vesting/50% 4yr
Deferred cash	No	Cash-settled	3 years pro rata vesting

Depositary receipts

The Depositary Receipts (**DRs**), consisting of CDRs and *Restricted Depositary Receipts* (**RDRs**), are issued by *Stichting Administratiekantoor NIBC Holding* (**the Foundation**) in accordance with its relevant conditions of administration (*administratievoorwaarden*).

The Foundation issues a DR for each ordinary share it holds in NIBC Holding. The Foundation exercises the voting rights in respect of each of these ordinary shares at its own discretion, while the holder of a DR is entitled to the dividends and other distributions declared payable in respect of the underlying ordinary share. Holders of DRs cannot exercise voting rights or request a power of attorney from the Foundation to vote in respect of our ordinary shares.

Under the conditions of administration, the holders of DRs have pre-emption rights similar to other shareholders of NIBC Holding, subject to the Foundation having been given pre-emptive rights. Consequently, when given these pre-emptive rights, the Foundation will exercise the pre-emption rights attached to the ordinary shares underlying the DRs if these holders so elect.

In 2009 a co-investment programme was introduced for Statutory Board members. Under this programme Statutory Board members were granted matching shares (CRDRs), subject to a four-year vesting period, on a net after-tax basis representing a 1:1 match to their personal investment in CDRs at that time. These matching shares will become fully unconditional and vest immediately upon change of control of NIBC Holding. Furthermore, the Statutory Board members were entitled to earn additional performance shares (CRDRs). The number of performance shares will be calculated upon a change of control or any other liquidity event as a percentage of the number of matching shares that represents one year's net base salary at the time of grant, using a pre-agreed formula. The number of performance shares is in principle uncapped, but the Supervisory Board has the discretion to adjust the ultimate number in the case of unfair or unintended effects. For determining the number of performance shares, a specific formula will be applied by the Supervisory Board upon a change of control. Therefore the conditions attached to the performance shares are recognised as vesting conditions. The conditional performance shares will vest immediately upon a change of control or any other liquidity event.

NIBC has the discretion to offer new members of the Statutory Board the opportunity to participate in this co-investment programme under the same conditions, except for the ability to earn performance shares as this feature is presumed no longer to be in line with the DNB Principles.

In 2009, a *Long-Term Incentive plan* (**LTI**) was introduced for the Statutory Board members and selected senior management. The LTI is forward-looking and will be granted annually. Its main objective is to provide an incentive to achieve a balanced mix of pre-agreed long-term financial and non-financial performance conditions. The LTI is subject to three-year cliff vesting and an additional retention period of two years and will be delivered in the form of CRDRs but, at the discretion of the Supervisory Board, may be delivered in another form.

On every vesting date, the applicable tranche of CRDRs converts automatically into CCDRs if the vesting conditions are met.

Since 2012 the Supervisory Board was not permitted to grant LTI to Statutory Board members as long as NIBC had not yet repaid all outstanding state guaranteed funding. For further information we refer to note 54.

Phantom Share Units

In 2010, a new equity-linked reward instrument was introduced as part of the *Short-Term Incentive* (**STI**) plan for the Statutory Board members and selected senior management. The short-term compensation in share-related awards consists of *Phantom Share Units* (**PSUs**) and/or *Restricted Phantom Share Units* (**RPSUs**). RPSU awards are subject to a three-year vesting with one third vesting each year on 1 April. All PSUs, whether vested or restricted are subject to a one-year retention period as measured from the date of vesting. The RPSU and PSU has similar characteristics as the CRDR used for the LTI, such as eligibility for dividend and a value which is tied to movements in the net asset value of NIBC Holding, however as from 2012 newly granted RPSUs are not eligible for dividend. This short-term compensation can be converted into cash immediately after the retention period and therefore is recognised as cash-settled.

Stock Options

NIBC Choice also comprises an *employee Option Plan* (**the Option Plan**) which allowed NIBC Holding to grant options, with the right to be issued one CDR, to members of its Statutory Board and employees up to a maximum of 5% of its share capital as at 14 December 2005 on a fully diluted basis. NIBC may decide to grant further options under the current Option Plan. The exercise period of all granted options will end no later than 14 December 2015. The exercise price of an option is equal to the fair market value of a DR at the date of grant as defined and calculated in accordance with the conditions of administration of the Foundation. Any dividends payable are deducted from the exercise price of an option.

The Statutory Board may permit a cashless exercise, allowing the holder to convert his options into fewer CDRs than he would otherwise be entitled to, while not having to pay the exercise price.

Upon the occurrence of certain corporate events, such as capital adjustments, payment of stock dividends, an issue of shares or recapitalisations, the Statutory Board, following consultation with the Supervisory Board, may adjust the number of options and/or the exercise price as is equitable to reflect the event. As a general rule, all unvested and vested out of the money options shall be forfeited for no consideration upon termination of employment of an option holder. However, vested options are exercisable during open periods, provided that the option holder is still employed by NIBC or, if no longer employed by NIBC, during the next open period following termination. An open period generally is the 21-day period following the date of approval of the annual, semi-annual or quarterly results, taking into account NIBC's internal regulations on private investment transactions.

In 2013 and 2014, no new options were granted to employees.

Stock option and share plans

Options

As at year-end 2014, 1,730,416 options (2013: 1,928,187) on CDRs of NIBC Holding were in issue. All options were vested at 31 December 2014. A requirement for vesting at the vesting date is that the holder is still employed by NIBC Holding or one of its group companies. The weighted average exercise period of the options is 1.0 year (2013: 2.0 years). All options in issue as at 31 December 2014 and as at 31 December 2013 are equity-settled instruments.

	Options outstanding (in numbers)		Weighted average exercise price (in EUR)	
	2014	2013	2014	2013
CHANGES IN OPTION RIGHTS OUTSTANDING:				
BALANCE AT 1 JANUARY	**1,928,187**	**2,458,592**	**13.17**	**13.17**
Granted	-	-	-	-
Exercised	(85,800)	(208,750)	8.01	8.01
Forfeited	(111,971)	(321,655)	14.41	14.43
Expired	-	-	-	-
BALANCE AT 31 DECEMBER	**1,730,416**	**1,928,187**	**13.34**	**13.17**
OF WHICH VESTED AT 31 DECEMBER	**1,730,416**	**1,928,187**	**13.34**	**13.17**

The average fair value per option at grant date was EUR 5.68. In 2014, 85,800 options were exercised into CDRs. All option holders opted for the cashless exercise. As a consequence, the holder converted his options into fewer CDRs than he would otherwise be entitled to, while not having to pay the exercise price.

Common Depositary Receipts

At year-end 2014, 2,391,679 (2013: 2,581,404) CDRs were in issue to employees. Of these, 3,632 (or 0.2%) were considered cash-settled (2013: 6,303 and 0.2%); the remaining 99.8% were considered equity-settled. If an employee is entitled to demand cash settlement at fair value, the CDRs are considered cash-settled (rather than equity-settled). At year-end the conversion of 6,200 exercised options into 1,128 CDRs was still pending.

In 2014, a fully discretionary offer was made to current and former employees to sell a maximum of 10% of their CDR holdings up to a certain limit. This was mainly to reduce administrative and handling cost by reducing the number of small holders of CDRs (those with up to 500 CDRs were allowed to sell their entire holding). Current Statutory Board members were not eligible for this offer.

	Depositary Receipt awards (in numbers)		Fair value at balance sheet date (in EUR)	
	2014	2013	2014	2013
CHANGES IN COMMON DEPOSITARY RECEIPTS:				
BALANCE AT 1 JANUARY	**2,581,404**	**2,775,057**	**-**	**-**
Granted	-	-	-	-
Investments from own funds	65,754	18,008	-	-
Exercised (options)	19,173	44,429	-	-
CDRs repaid	(274,652)	(256,090)	-	-
BALANCE AT 31 DECEMBER	**2,391,679**	**2,581,404**	**8.60**	**8.25**
OF WHICH RELATES TO INVESTMENT FROM OWN FUNDS AT 31 DECEMBER	**1,062,302**	**1,098,554**	**-**	**-**

Conditional Common Depositary Receipts

At year-end 2014, 192,467 (2013: 182,908) of the total 225,563 of CCDRs had been issued to current and former Statutory Board members. None of these were considered cash-settled (2013: nil); all CCDRs were considered equity-settled.

The three-year performance period of a total of 38,890 CRDRs under the LTI 2011 ended 1 January 2014. The Supervisory Board reviewed the agreed long-term financial and non-financial performance conditions. The financial performance conditions (60%) were not met. The non-financial performance conditions (40%) were almost met at stretched level. The Supervisory Board therefore awarded a vesting of 38% of the LTI 2011 CRDRs, which were fully vested at 1 April 2014. Consequently 62% of the LTI 2011 forfeited. The vested instruments have an additional retention period of two years. Furthermore the vested instruments need to be held until a liquidity event takes place to ensure alignment with the shareholders.

At year-end 2014, 5,248 (2013: 5,248) CCDRs were in issue to Statutory Board members related to the LTI scheme for the performance year 2011.

	Conditional Common Depositary Receipt awards (in numbers)		Weighted average fair value at grant date (in EUR)	
	2014	2013	2014	2013
CHANGES IN CONDITIONAL COMMON DEPOSITARY RECEIPTS:				
BALANCE AT 1 JANUARY	**206,468**	**146,272**	**9.25**	**9.25**
Vesting of one-off matching shares awarded in 2009 and 2012 on investment from own funds	4,311	42,149	8,70	9.19
Vesting of one-off performance shares awarded in 2009/2012	-	-	-	-
Vesting of Long Term Incentive shares awarded in 2009/2010/2011	14,784	18,047	9.56	9.25
Forfeited	-	-	-	-
BALANCE AT 31 DECEMBER	**225,563**	**206,468**	**9.25**	**9.25**

The fair market value per CCDR is calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expected dividends. The fair value at balance sheet date was EUR 8.60.

Conditional Restricted Depositary Receipts

At year-end 2014, 90,568 CRDRs (2013: 45,723) were in issue to employees, of which 90,568 CRDRs (2013: 30,939) were in issue to Statutory Board members related to their personal co-investment in 2012, 2013 and 2014 in NIBC Holding CDRs, with a weighted average remaining vesting period of 1.7 years (2013: 1.9 years). These CRDRs are subject to four-year vesting with one quarter vesting each year on 1 January, for the first time on 1 January 2013 (2012 investment), 1 January 2015 (2013 and early 2014 investment) and 1 January 2016 (end of 2014 investment) provided that the holder is still employed by NIBC on the vesting date. These CRDRs will become fully unconditional and vest immediately upon change of control of NIBC Holding. The number of performance shares (only applicable for 2009 and 2012 investments) is dependent on certain performance targets and will be calculated upon a change of control event as a percentage of the number of matching shares that represents one year's net base salary at the time of grant.

For reporting purposes, the number of performance shares for the eligible Statutory Board members is estimated at nil CRDRs, based on NIBC's long-term forecast and taking into account price-to-book ratios observed in the market. Depending on the assumptions applied, this number can vary over time. The conditional performance shares will vest immediately upon a change of control of NIBC Holding. Of the position as at year-end 2014, no CRDRs were considered cash-settled (2013: nil), but all CRDRs were considered equity-settled.

	Conditional Restricted Depositary Receipt awards (in numbers)		Weighted average fair value at grant date (in EUR)	
	2014	**2013**	**2014**	**2013**
CHANGES IN CONDITIONAL RESTRICTED DEPOSITARY RECEIPTS:				
BALANCE AT 1 JANUARY	**45,723**	**92,519**	**8.83**	**9.21**
One-off matching shares (CRDRs) awarded in 2014/2013 on investment from own funds	63,940	18,008	8.39	8.33
One-off performance shares (CRDRs) re-estimated 2014/awarded in 2009/2012	-	-	-	-
Conditional Restricted Depositary Receipts re-estimated 2013/awarded based on LTI scheme in 2011	-	(771)	-	9.56
Forfeited	-	(3,837)	-	9.25
Vested into conditional CDRs	(19,095)	(60,196)	9.37	9.21
BALANCE AT 31 DECEMBER	**90,568**	**45,723**	**8.41**	**8.83**

The fair market value per CRDR is calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expected dividends. The fair value at balance sheet date was EUR 8.60.

Phantom Share Units

As at year-end 2014, 191,365 (2013: 206,698) PSUs had been issued to employees. The total outstanding position is considered cash-settled.

	Phantom Share Units (in numbers)		Weighted average fair value at grant date (in EUR)	
	2014	**2013**	**2014**	**2013**
CHANGES IN PHANTOM SHARE UNITS:				
BALANCE AT 1 JANUARY	**206,698**	**229,685**	**8.59**	**8.71**
Granted	52,814	49,323	8.60	8.25
Vesting of RPSUs	88,804	71,874	8.85	9.03
Exercised	(156,951)	(144,184)	8.69	8.89
BALANCE AT 31 DECEMBER	**191,365**	**206,698**	**8.63**	**8.59**

The fair market value per PSU is calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expected dividends. The fair value at balance sheet date was EUR 8.60.

Restricted Phantom Share Units

As at year-end 2014, 159,526 (2013: 214,364) RPSUs had been issued to employees. The total outstanding position is considered cash-settled.

	Restricted Phantom Share Units (in numbers)		Weighted average fair value at grant date (in EUR)	
	2014	**2013**	**2014**	**2013**
CHANGES IN RESTRICTED PHANTOM SHARE UNITS:				
BALANCE AT 1 JANUARY	**214,364**	**272,022**	**8.62**	**8.79**
Granted	43,388	35,906	8.60	8.25
Vesting of RPSUs	(88,804)	(71,874)	8.85	9.03
Forfeited	(9,422)	(21,690)	8.48	8.82
BALANCE AT 31 DECEMBER	**159,526**	**214,364**	**8.49**	**8.62**

The fair market value per RPSU is calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expected dividends. The fair value at reporting date was EUR 8.60.

With respect to all instruments relating to NIBC Choice (CDRs, RDRs, CCDRs, CRDRs, options PSUs, RPSUs and deferred cash), an amount of EUR 3 million was expensed through personnel expenses in 2014 (2013: EUR 2 million), of which EUR 3 million (2013: EUR 2 million) refers to cash-settled instruments (deferred cash and vested PSUs) and nil (2013: nil) to equity-settled instruments.

With respect to the cash-settled instruments, 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

be forfeited during the remaining vesting period. The liability in the balance sheet with respect to cash-settled instruments is EUR 4 million (2013: EUR 4 million).

With respect to the equity-settled instruments (CDRs, RDRs, CCDRs, CRDRs and options), 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 be forfeited during the remaining vesting period. The liability in the balance sheet with respect to equity-settled instruments is EUR 3 million (2013: EUR 2 million).

The current account with NIBC Holding includes EUR 30 million payable (2013: EUR 30 million) relating to NIBC Choice. This is a result of recharges from NIBC Holding to its subsidiaries with respect to NIBC Choice (equity-settled instruments). The recharge is accounted for upon vesting of the granted equity settled NIBC Choice instruments. This amount payable is more than offset by a receivable in the current account position with NIBC Holding for the capital contribution of EUR 51 million (2013: EUR 51 million) in relation to the share-based payments programme granted by NIBC Holding. The difference between both amounts relates to share-based expenses for which the after payroll tax amounts were paid to the Foundation with subsequent delivery of RDRs by the Foundation to the employees.

9 Other operating expenses

IN EUR MILLIONS	2014	2013
Other operating expenses	50	46
Other operating expenses of non-financial companies included in the consolidation	8	8
Fees of the external auditor	2	2
	60	**56**

IN EUR THOUSANDS	2014	2013
FEES OF THE EXTERNAL AUDITOR CAN BE CATEGORISED AS FOLLOWS:		
Audit of financial statements	1,616	1,475
Other audit-related services	129	59
Other non-audit related services	116	436
Tax services	-	35
	1,861	**2,005**

The fees listed above relate to the procedures applied to NIBC and its consolidated group entities by accounting firms and external 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.

10 Depreciation and amortisation

IN EUR MILLIONS	2014	2013
Property, plant and equipment	6	5
Intangible assets	4	4
	10	**9**
AMORTISATION OF INTANGIBLE ASSETS CAN BE CATEGORISED AS FOLLOWS:		
Trademarks and licences	1	1
Customer relationships	2	2
Other intangibles	1	1
	4	**4**

The amortisation of intangible assets relates to the non-financial companies included in the consolidation.

11 Impairments of financial assets

IN EUR MILLIONS	2014	2013
IMPAIRMENTS		
Loans classified at amortised cost	99	68
Debt investments classified at amortised cost	1	3
Debt investments classified at available-for-sale	1	1
	101	**72**
REVERSALS OF IMPAIRMENTS		
Loans classified at amortised cost	(8)	(9)
Debt investments classified at amortised cost	(1)	(1)
Debt investments classified at available-for-sale	-	(1)
	(9)	**(11)**
Other	1	1
	93	**62**

Further details on accrued interest income on impaired financial assets can be found in note 2.

Impairments of financial assets reclassified in 2008 following the IAS 39 amendments, both after reclassification and before reclassification (assuming the reclassification in 2008 had not been made) are displayed in the following table (negative amounts represent losses):

	For the period ended 31 December			
	2014		2013	
IN EUR MILLIONS	**After reclassification**	**Before reclassification**	After reclassification	Before reclassification
Impairments of financial assets	(9)	(9)	(16)	(14)

12 SNS Levy (Net)

IN EUR MILLIONS	2014	2013
SNS Levy (Net)	18	-
	18	**-**

A one-off levy of EUR 18 million (not tax deductible) related to the nationalisation of SNS Reaal was paid to the State of the Netherlands in 2014. The calculation of the one-off levy was based on the volume of NIBC Direct retail savings as at 31 January 2013, compared to the total volume of retail savings in the Netherlands at that date.

13 Tax

IN EUR MILLIONS	2014	2013
Current tax	14	5
Deferred tax	(8)	1
	6	**6**

Further information on deferred tax is presented in note 32. 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	2014	2013
TAX DIFFERENCES CAN BE ANALYSED AS FOLLOWS:		
PROFIT BEFORE TAX	**30**	**28**
Tax calculated at the nominal Dutch corporate tax rate of 25.0% (2013: 25.0%)	7	7
Impact of income not subject to tax	(5)	1
One-off SNS Levy not subject to tax	5	-
Result final tax assessment previous years	(1)	(2)
	6	**6**
EFFECTIVE TAX RATE	**19.2%**	**23.1%**

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.

The current tax expense related to non-financial companies included in the consolidation is EUR 1 million (2013: nil).

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.

The country by country reporting can be specified as follows:

IN EUR MILLIONS	United Kingdom	Belgium	Germany	The Netherlands	Total
Operating income	8	5	33	254	300
Result before tax	(2)	-	8	24	30
Tax	-	-	-	6	6

	United Kingdom	Belgium	Germany	The Netherlands	Total
FTEs	33	12	102	490	637

The operating income is related to NIBC's financial services activities and the operating income of NIBC's holdings in a non-financial company (employment agency). NIBC did not receive any subsidies or grants.

14 Cash and balances with central banks (amortised cost)

IN EUR MILLIONS	2014	2013
Cash and balances with central banks	474	1,150
	474	**1,150**
CASH AND BALANCES WITH CENTRAL BANKS CAN BE CATEGORISED AS FOLLOWS:		
Receivable on demand	371	744
Not receivable on demand	103	406
	474	**1,150**
THE LEGAL MATURITY ANALYSIS OF CASH AND BALANCES WITH CENTRAL BANKS NOT RECEIVABLE ON DEMAND IS AS FOLLOWS:		
Three months or less	-	300
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	5	15
Longer than five years	-	-
Assets with central banks due to mandatory reserve deposits	98	91
	103	**406**

Cash and balances with central banks included EUR 383 million on the current account balance held with Dutch Central Bank (2013: EUR 798 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.

15 Due from other banks (amortised cost)

IN EUR MILLIONS	2014	2013
Current accounts	647	420
Deposits with other banks	1,639	1,376
	2,286	**1,796**
DUE FROM OTHER BANKS CAN BE CATEGORISED AS FOLLOWS:		
Receivable on demand	648	420
Cash collateral placements posted under CSA agreements	1,620	1,231
Not receivable on demand	18	145
	2,286	**1,796**
THE LEGAL MATURITY ANALYSIS OF DUE FROM OTHER BANKS NOT RECEIVABLE ON DEMAND IS AS FOLLOWS:		
Three months or less	1	139
Longer than three months but not longer than one year	4	-
Longer than one year but not longer than five years	9	2
Longer than five years	4	4
	18	**145**

There were no subordinated loans outstanding due from other banks in 2014 and 2013.

The fair value of this balance sheet item does not materially differ from its face value due to the short-term nature of the underlying assets and the credit quality of the counterparties.

No impairments were recorded in 2014 and 2013 on the amounts due from other banks at amortised cost.

An amount of EUR 1,620 million (2013: EUR 1,231 million) related to cash collateral given to third parties and was not freely available to NIBC.

NIBC transacted several reverse repurchase transactions with third parties. The related disclosures are included in note 46 Repurchase and resale agreements and transferred financial assets.

16 Loans (amortised cost)

IN EUR MILLIONS	2014	2013
Loans to corporate entities	7,226	6,186
	7,226	**6,186**
THE LEGAL MATURITY ANALYSIS OF LOANS IS AS FOLLOWS:		
Three months or less	372	403
Longer than three months but not longer than one year	819	492
Longer than one year but not longer than five years	3,666	3,257
Longer than five years	2,369	2,034
	7,226	**6,186**
THE MOVEMENT IN IMPAIRMENT LOSSES ON LOANS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	109	138
Additional allowances	99	68
Write-offs/disposals	(22)	(90)
Amounts released	(8)	(9)
Unwinding of discount adjustment	(10)	(4)
Other (including exchange differences)	2	6
BALANCE AT 31 DECEMBER	**170**	**109**

On 1 July 2008 following the IAS 39 amendments, an amount of EUR 79 million of the impairments related to the available-for-sale loans was reclassified as loans at amortised cost. The corresponding total amount of loans in the available-for-sale category net of impairments has been reclassified to the loans at amortised cost category as at 1 July 2008. The remaining cumulative impairments at 31 December 2014, related to the available-for-sale loans reclassified to the loans at amortised cost category on 1 July 2008, amounted to EUR 29 million (2013: EUR 28 million).

The maximum credit risk exposure including undrawn credit facilities arising on loans at amortised cost amounted to EUR 8,752 million (2013: EUR 7,093 million).

The total amount of subordinated loans in this item amounted to EUR 143 million in 2014 (2013: EUR 123 million).

As per 31 December 2014, EUR 17 million (2013: EUR 12 million) was guaranteed by the Dutch State.

The following table presents the fair value and carrying amount of financial assets reclassified as of 1 July 2008 to loans at amortised cost:

IN EUR MILLIONS	Fair value on date of reclassification	Carrying amount as per 31 December 2014	Fair value as per 31 December 2014
Loan portfolio reclassified from available-for-sale category	931	961	911

The effective interest rates on financial assets reclassified into loans at amortised cost as at the date of reclassification - 1 July 2008 - fell approximately into the following range:

IN %	Range
Loan portfolio reclassified from available-for-sale category	5 - 9

The following table contains estimates of undiscounted cash flows NIBC expected to recover from the assets reclassified as at 1 July 2008, which were still on the balance sheet as per 31 December 2014:

IN EUR MILLIONS	Less than one year	Between one and two years	Between two and five years	More than five years	Total
Loan portfolio reclassified from available-for-sale category	203	166	135	459	**963**

At the reclassification date (1 July 2008), NIBC recognised a total fair value loss in equity of EUR 12 million on remaining reclassified assets.

17 Debt investments (amortised cost)

IN EUR MILLIONS	2014	2013
Debt investments	359	415
	359	**415**
DEBT INVESTMENTS CAN BE CATEGORISED AS FOLLOWS:		
Listed	326	409
Unlisted	33	6
	359	**415**

All debt investments are non-government.

IN EUR MILLIONS	2014	2013
THE LEGAL MATURITY ANALYSIS OF DEBT INVESTMENTS IS AS FOLLOWS:		
Three months or less	1	-
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	51	208
Longer than five years	307	207
	359	**415**
THE MOVEMENT IN DEBT INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**415**	**366**
Additions	39	149
Disposals (sale and/or redemption)	(101)	(99)
Impairments	-	(2)
Exchange differences and amortisation	6	1
BALANCE AT 31 DECEMBER	**359**	**415**
THE MOVEMENT IN IMPAIRMENT LOSSES ON DEBT INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**25**	**29**
Additional allowances	1	3
Write-offs	-	(6)
Amounts released	(1)	(1)
Exchange differences	1	-
BALANCE AT 31 DECEMBER	**26**	**25**

The following table presents the fair value and carrying amount of financial assets reclassified as of 1 July 2008 to debt investments at amortised cost:

IN EUR MILLIONS	Fair value on date of reclassification	Carrying amount as per 31 December 2014	Fair value as per 31 December 2014
DEBT INVESTMENTS RECLASSIFIED FROM:			
Held for trading category	202	130	117
Available-for-sale category	38	36	35

The effective interest rates on financial assets reclassified into debt investments at amortised cost as at the date of reclassification - 1 July 2008 - fell approximately into the following ranges:

IN %	Range
DEBT INVESTMENTS RECLASSIFIED FROM:	
Held for trading category	6 - 17
Available-for-sale category	5 - 8

The following table contains estimates of undiscounted cash flows NIBC expected to recover from the assets reclassified as at 1 July 2008, which were still on the balance sheet as per 31 December 2014:

IN EUR MILLIONS	Less than one year	Between one and two years	Between two and five years	More than five years	Total
DEBT INVESTMENTS RECLASSIFIED FROM:					
Held for trading category	11	13	95	213	**332**
Available-for-sale category	2	2	7	50	**61**

18 Residential mortgages own book (amortised cost)

IN EUR MILLIONS	2014	2013
Residential mortgages own book	1,078	98
	1,078	**98**
THE LEGAL MATURITY ANALYSIS OF THE RESIDENTIAL MORTGAGES OWN BOOK IS AS FOLLOWS:		
Three months or less	-	-
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	1	-
Longer than five years	1,077	98
	1,078	**98**

The maximum credit exposure including committed but undrawn facilities was EUR 1,403 million at 31 December 2014 (31 December 2013: EUR 454 million).

No significant impairments, rounded to nil, were recorded in 2014 and 2013 on residential mortgages own book at amortised cost.

19 Equity investments (available-for-sale)

IN EUR MILLIONS	2014	2013
Equity investments	53	47
	53	**47**

All of these equity investments are unlisted.

IN EUR MILLIONS	2014	2013
THE MOVEMENT IN EQUITY INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**47**	**49**
Additions	-	2
Disposals (sales and/or capital repayments)	(4)	(14)
Changes in fair value	6	13
Impairments	1	(2)
Exchange differences	3	(1)
BALANCE AT 31 DECEMBER	**53**	**47**
THE MOVEMENT IN IMPAIRMENT LOSSES ON EQUITY INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**60**	**60**
Additional allowances	2	2
Write-offs	(3)	-
Exchange differences	6	(2)
BALANCE AT 31 DECEMBER	**65**	**60**

20 Debt investments (available-for-sale)

IN EUR MILLIONS	2014	2013
Debt investments	945	1,300
	945	**1,300**

All debt investments are non-government.

IN EUR MILLIONS	2014	2013
DEBT INVESTMENTS CAN BE CATEGORISED AS FOLLOWS:		
Listed	833	1,159
Unlisted	112	141
	945	**1,300**
THE LEGAL MATURITY ANALYSIS OF DEBT INVESTMENTS IS AS FOLLOWS:		
Three months or less	17	96
Longer than three months but not longer than one year	28	175
Longer than one year but not longer than five years	319	387
Longer than five years	581	642
	945	**1,300**
THE MOVEMENT IN DEBT INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**1,300**	**985**
Additions	528	1,064
Disposals (sale and/or redemption)	(909)	(743)
Changes in fair value	9	-
Impairments	(1)	-
Exchange differences	18	(6)
BALANCE AT 31 DECEMBER	**945**	**1,300**

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes and exchange rate differences is compensated by results on financial derivatives.

IN EUR MILLIONS	2014	2013
THE MOVEMENT IN IMPAIRMENTS ON DEBT INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**17**	**17**
Additional allowances	1	1
Amounts released	-	(1)
BALANCE AT 31 DECEMBER	**18**	**17**

The following table presents the fair value and carrying amount of financial assets reclassified as of 1 July 2008 to debt investments at available-for-sale:

IN EUR MILLIONS	Fair value on date of reclassification	Carrying amount as per 31 December 2014	Fair value as per 31 December 2014
Debt investments reclassified from held for trading category	23	1	1

The effective interest rates on financial assets reclassified into debt investments at available-for-sale as at the date of reclassification - 1 July 2008 - fell approximately into the following range:

IN %	Range
Debt investments reclassified from held for trading category	13 - 25

The following table contains estimates of undiscounted cash flows NIBC expected to recover from the assets reclassified as at 1 July 2008, which were still on the balance sheet as per 31 December 2014:

IN EUR MILLIONS	Less than one year	Between one and two years	Between two and five years	More than five years	Total
Debt investments reclassified from held for trading category	6	5	22	19	**52**

21 Loans (designated at fair value through profit or loss)

IN EUR MILLIONS	2014	2013
Loans to corporate entities	374	480
	374	**480**
THE LEGAL MATURITY ANALYSIS OF LOANS IS AS FOLLOWS:		
Three months or less	1	1
Longer than three months but not longer than one year	2	223
Longer than one year but not longer than five years	67	24
Longer than five years	304	232
	374	**480**
THE MOVEMENT IN LOANS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**480**	**515**
Additions	2	1
Disposals	(123)	(48)
Changes in fair value	3	17
Exchange differences	12	(5)
BALANCE AT 31 DECEMBER	**374**	**480**

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated by results on financial derivatives.

Interest income from loans is recognised in interest and similar income based on the effective interest rate. Fair value movements excluding interest income are recognised in net trading income.

The portion of fair value changes in 2014 included in the balance sheet amount (designated at fair value through profit or loss) as at 31 December 2014 relating to the movement in credit spreads amounted to EUR 3 million debit (2013: EUR 17 million debit), being an increase in the balance sheet carrying amount.

The maximum credit risk exposure including undrawn credit facilities amounted to EUR 375 million (2013: EUR 480 million).

22 Residential mortgages own book (designated at fair value through profit or loss)

IN EUR MILLIONS	2014	2013
Residential mortgages own book	3,342	3,586
	3,342	**3,586**
THE LEGAL MATURITY ANALYSIS OF RESIDENTIAL MORTGAGES OWN BOOK IS AS FOLLOWS:		
Three months or less	14	26
Longer than three months but not longer than one year	6	15
Longer than one year but not longer than five years	72	58
Longer than five years	3,250	3,487
	3,342	**3,586**
THE MOVEMENT IN RESIDENTIAL MORTGAGES OWN BOOK MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**3,586**	**3,675**
Additions (including transfers from consolidated SPEs)	4	10
Disposals (sale and/or redemption, including replenishment of consolidated SPEs)	(327)	(84)
Changes in fair value	79	(15)
BALANCE AT 31 DECEMBER	**3,342**	**3,586**

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated by results on financial derivatives.

Interest income from residential mortgages own book is recognised in interest and similar income based on the effective interest rate. Fair value movements excluding interest income are recognised in net trading income.

The maximum credit exposure including committed but undrawn facilities was EUR 3,343 million (2013: EUR 3,588 million).

23 Securitised residential mortgages (designated at fair value through profit or loss)

IN EUR MILLIONS	2014	2013
Securitised residential mortgages	3,638	3,878
	3,638	**3,878**
THE LEGAL MATURITY ANALYSIS OF SECURITISED RESIDENTIAL MORTGAGES IS AS FOLLOWS:		
Three months or less	1	1
Longer than three months but not longer than one year	2	3
Longer than one year but not longer than five years	43	28
Longer than five years	3,592	3,846
	3,638	**3,878**
THE MOVEMENT IN SECURITISED RESIDENTIAL MORTGAGES MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**3,878**	**4,512**
Additions	-	529
Disposals (sale and/or redemption including transfers to own book)	(314)	(1,121)
Changes in fair value	74	(42)
BALANCE AT 31 DECEMBER	**3,638**	**3,878**

At 31 December 2014 the carrying amounts for residential mortgages own book (designated at fair value through profit or loss) and securitised residential mortgages include a total revaluation adjustment of EUR 547 million debit (2013: EUR 393 million debit) related to both interest rates and credit spreads. As NIBC hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated by results on financial derivatives.

The portion of fair value changes in 2014 included in the balance sheet amount relating to the movement in credit spreads on residential mortgages own book (see note 22 Residential mortgages own book) and securitised residential mortgages amounted to EUR 44 million debit at 31 December 2014 (2013: EUR 83 million debit), being an increase in the carrying amount.

The carrying amount includes a EUR 181 million credit (2013: EUR 176 million credit) related to mortgage savings amounts.

Interest income from securitised residential mortgages is recognised in interest and similar income at the effective interest rate. Fair value movements (excluding interest) are recognised in net trading income.

At 31 December 2014, securitised residential mortgages in the amount of EUR 3,638 million (2013: EUR 3,878 million) were pledged as collateral for NIBC's own liabilities (see note 49 Assets transferred or pledged as collateral).

The maximum credit exposure was EUR 3,638 million at 31 December 2014 (2013: EUR 3,878 million).

The aggregate difference yet to be recognised in the income statement between transaction prices at initial recognition and the fair value determined by a valuation model on both residential mortgages own book (see note 22 Residential mortgages own book) and securitised residential mortgages at 31 December 2014 amounted to a liability of EUR 19 million (2013: EUR 22 million).

Securitised residential mortgages are recognised on NIBC's balance sheet based on the risks and rewards NIBC retains in the *special purpose entities* (**SPE**) issuing the mortgage-backed notes. Risks and rewards can be retained by NIBC by retaining issued notes, providing overcollateralisation to the SPEs or implementing reserve accounts in the SPEs. At the balance sheet date, NIBC retained EUR 248 million (2013: EUR 349 million) of notes issued by the SPEs, overcollateralisation provided to the SPEs amounted to nil (2013: nil) and reserve accounts amounted to EUR 18 million (2013: EUR 19 million).

24 Debt investments at fair value through profit or loss (including trading)

IN EUR MILLIONS	2014	2013
Held for trading	31	31
Designated at fair value through profit or loss	6	50
	37	**81**

All debt investments are non-government counterparties and listed.

IN EUR MILLIONS	2014	2013
THE LEGAL MATURITY ANALYSIS OF DEBT INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS IS AS FOLLOWS:		
Three months or less	-	22
Longer than three months but not longer than one year	-	20
Longer than one year but not longer than five years	-	1
Longer than five years	6	7
	6	**50**
THE MOVEMENT IN DEBT INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**50**	**75**
Additions	-	-
Disposals (sale and/or redemption)	(43)	(25)
Changes in fair value	(1)	-
Exchange differences	-	-
BALANCE AT 31 DECEMBER	**6**	**50**

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 portion of fair value changes in 2014 included in the carrying amount (designated at fair value through profit or loss) relating to the movement in credit spreads amounted to EUR 1 million credit (2013: EUR 1 million debit), being an decrease in the carrying amount.

Interest income from debt investments is recognised in interest and similar income at the effective interest rate until the date of reclassification. Fair value movements excluding interest have been recognised in net trading income.

25 Equity investments (including investments in associates) (designated at fair value through profit or loss)

IN EUR MILLIONS	2014	2013
Investments in associates	225	201
Other equity investments	51	56
	276	**257**
THE MOVEMENT IN INVESTMENTS IN ASSOCIATES MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**201**	**196**
Additions	15	18
Disposals	(12)	(14)
Changes in fair value	21	1
BALANCE AT 31 DECEMBER	**225**	**201**

The investments in associates are unlisted.

Other disclosure requirements for associates are presented in note 52 Principal subsidiaries and associates.

IN EUR MILLIONS	2014	2013
THE MOVEMENT IN OTHER EQUITY INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**56**	**19**
Additions	1	45
Disposals	(3)	(6)
Changes in fair value	(4)	(2)
Exchange differences	1	-
BALANCE AT 31 DECEMBER	**51**	**56**

The other equity investments are unlisted.

26 Derivative financial instruments

IN EUR MILLIONS	2014	2013
DERIVATIVE FINANCIAL ASSETS		
Derivative financial assets used for hedge accounting	187	141
Derivative financial liabilities - other	2,664	2,659
	2,851	**2,800**
DERIVATIVE FINANCIAL LIABILITIES		
Derivative financial liabilities used for hedge accounting	37	17
Derivative financial liabilities - other	3,180	2,940
	3,217	**2,957**

Derivative financial assets and liabilities used for hedge accounting are derivatives designated in hedge accounting relationships as defined in IAS 39.

The derivatives financial assets and liabilities in the category 'other' are classified as held for trading according to IAS 39.

The derivatives in this category consist of:

- Interest rate swaps to hedge the interest rate risk of the mortgage portfolio;
- Interest rate swaps to transform fixed rate funding into floating rate funding;
- FX and cross-currency swaps to fund the non-euro loans to customers or to transform non-euro funding into euros;
- Client-driven derivative transactions and hedges resulting from this activity; and
- Limited proprietary trading, mainly money market.

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 56 Market risk.

Derivative financial instruments used for hedge accounting at 31 December 2014

IN EUR MILLIONS	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
DERIVATIVES ACCOUNTED FOR AS FAIR VALUE HEDGES OF INTEREST RATE RISK						
OTC PRODUCTS:						
Interest rate swaps	86	247	3,636	3,969	139	37
Interest currency rate swaps	-	6	17	23	6	-
	86	**253**	**3,653**	**3,992**	**145**	**37**
DERIVATIVES ACCOUNTED FOR AS CASH FLOW HEDGES OF INTEREST RATE RISK						
OTC PRODUCTS:						
Interest rate swaps	-	-	1,639	1,639	42	-
	-	**-**	**1,639**	**1,639**	**42**	**-**
TOTAL DERIVATIVES USED FOR HEDGE ACCOUNTING	**86**	**253**	**5,292**	**5,631**	**187**	**37**

Derivative financial instruments used for hedge accounting at 31 December 2013

IN EUR MILLIONS	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
DERIVATIVES ACCOUNTED FOR AS FAIR VALUE HEDGES OF INTEREST RATE RISK						
OTC PRODUCTS:						
Interest rate swaps	596	1,880	2,770	5,246	133	15
Interest currency rate swaps	-	-	26	26	6	-
	596	**1,880**	**2,796**	**5,272**	**139**	**15**
DERIVATIVES ACCOUNTED FOR AS CASH FLOW HEDGES OF INTEREST RATE RISK						
OTC PRODUCTS:						
Interest rate swaps	-	-	828	828	2	2
	-	**-**	**828**	**828**	**2**	**2**
TOTAL DERIVATIVES USED FOR HEDGE ACCOUNTING	**596**	**1,880**	**3,624**	**6,100**	**141**	**17**

Derivative financial instruments - other at 31 December 2014

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]	2,845	7,711	47,752	58,308	2,597	2,952
Interest rate options (purchase)	-	-	257	257	2	-
Interest rate options (sale)	10	11	246	267	-	2
	2,855	**7,722**	**48,255**	**58,832**	**2,599**	**2,954**
CURRENCY DERIVATIVES						
OTC PRODUCTS:						
Interest currency rate swaps	188	644	1,974	2,806	11	169
Currency/cross-currency swaps	110	-	-	110	7	-
	298	**644**	**1,974**	**2,916**	**18**	**169**
OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)						
OTC PRODUCTS:						
Credit default swaps (guarantees given)	19	-	-	19	-	1
Credit default swaps (guarantees received)	24	-	-	24	-	-
Other swaps	-	-	24	24	47	56
Other OTC products	-	1	-	1	-	-
	43	**1**	**24**	**68**	**47**	**57**
TOTAL DERIVATIVES - OTHER	**3,196**	**8,367**	**50,253**	**61,816**	**2,664**	**3,180**

[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 2013

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]	2,792	8,542	61,886	73,220	2,476	2,858
Interest rate options (purchase)	-	-	156	156	3	-
Interest rate options (sale)	-	25	144	169	-	3
	2,792	**8,567**	**62,186**	**73,545**	**2,479**	**2,861**
CURRENCY DERIVATIVES						
OTC PRODUCTS:						
Currency/cross-currency swaps	193	496	1,994	2,683	126	20
Other currency contracts	-	-	-	-	-	-
	193	**496**	**1,994**	**2,683**	**126**	**20**
OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)						
OTC PRODUCTS:						
Credit default swaps (guarantees given)	13	-	-	13	-	1
Credit default swaps (guarantees received)	107	-	-	107	-	1
Other swaps	-	44	650	694	53	57
Other OTC products	-	2	-	2	1	-
	120	**46**	**650**	**816**	**54**	**59**
TOTAL DERIVATIVES - OTHER	**3,105**	**9,109**	**64,830**	**77,044**	**2,659**	**2,940**

[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		2014	2013
Fair value pay - fixed swaps (hedging assets)	**assets**	-	1
Fair value pay - fixed swaps (hedging assets)	**liabilities**	(37)	(13)
		(37)	**(12)**
Fair value pay - floating swaps (hedging liabilities)	**assets**	145	138
Fair value pay - floating swaps (hedging liabilities)	**liabilities**	-	(2)
		145	**136**

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		2014	2013
Fair value receive - fixed swaps	**assets**	42	2
Fair value receive - fixed swaps	**liabilities**	-	(2)
		42	**-**
Fair value receive - floating swaps	**assets**	-	-
Fair value receive - floating swaps	**liabilities**	-	-
		-	**-**

Sum of fair value and cash flow hedges of interest rate risk

IN EUR MILLIONS		2014	2013
Fair value pay swaps	**assets**	145	139
Fair value receive swaps	**assets**	42	2
		187	**141**
Fair value pay swaps	**liabilities**	(37)	(15)
Fair value receive swaps	**liabilities**	-	(2)
		(37)	**(17)**

The average remaining maturity (in which the related cash flows are expected to enter into the determination of profit or loss) is five years (2013: three years).

Hedging activities

Portfolio fair value hedge of plain vanilla funding

According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate plain vanilla funding activities above certain limits prescribed by the *Asset & Liability Committee* (**ALCO**). Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the fixed rate plain vanilla funding and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2014 was EUR 22 million debit (2013: EUR 15 million debit). The gains on the hedging instruments were EUR 7 million (2013: loss of EUR 8 million). The losses on the hedged items attributable to the hedged risk were EUR 7 million (2013: gain of EUR 8 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

Portfolio fair value hedge of fixed rate retail deposits

According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate retail deposit activities above certain limits prescribed by the ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the retail deposits with a contractual duration longer than two years and the corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2014 was EUR 73 million debit (2013: EUR 69 million debit). The gains on the hedging instruments were EUR 19 million (2013: loss of EUR 39 million). The losses on the hedged items attributable to the hedged risk were EUR 20 million (2013: gain of EUR 41 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

Portfolio fair value hedge of fixed rate mortgages

According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate mortgages activities above certain limits prescribed by the ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate mortgages. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the mortgages with a contractual duration longer than three months and the corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2014 was EUR 18 million credit (2013: no position). The losses on the hedging instruments were EUR 19 million (2013: no position). The gains on the hedged items attributable to the hedged risk were EUR 12 million (2013: no position). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness and pipeline hedging.

Micro fair value hedge of plain vanilla funding

According to NIBC's hedging policy, NIBC should not be exposed to interest rate and foreign exchange risk from its fixed rate plain vanilla funding activities above certain limits prescribed by ALCO. Consequently, NIBC uses cross-currency interest rate swaps to hedge the fair value interest rate risk and foreign exchange risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a micro fair value hedge for fixed rate plain vanilla funding and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2014 was EUR 45 million debit (2013: EUR 48 million debit). The gains on the hedging instruments were EUR 21 million (2013: loss of EUR 42 million). The losses on the hedged items attributable to the hedged risk were EUR 20 million (2013: gain of EUR 41 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 2014 was EUR 13 million credit (2013: EUR 5 million credit). Losses on the hedging instruments were EUR 8 million (2013: gain of EUR 4 million). The gains on the hedged items attributable to the hedged risk were EUR 2 million (2013: loss of EUR 2 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

Micro fair value hedge of the Liquidity portfolio debt investments

According to NIBC's hedging policy, NIBC should not be exposed to fair value interest rate risk from its fixed rate debt investments held in the Liquidity portfolios above certain limits prescribed by ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate debt investments. To mitigate any accounting mismatches, NIBC has defined a micro fair value hedge for fixed rate debt investments and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2014 was EUR 1 million credit (2013: EUR 4 million credit). The gains on the hedging instruments were EUR 1 million (2013: gain of EUR 2 million). The losses on the hedged items attributable to the hedged risk were EUR 1 million (2013: loss of EUR 1 million). 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.

New hedging relationships were started in 2014. Interest rate swaps with a net fair value of EUR 42 million debit (2013: nil) were designated in a cash flow hedge relationship. The cash flow on the hedged item will be reported in income over the next ten years. In 2014 the ineffectiveness recognised in the income statement that arose from cash flow hedges was a gain of EUR 1 million (2013: nil).

Some macro cash flow hedging relationships ceased to exist during 2011 and therefore the related cumulative hedge adjustment as from that date is being amortised over the remaining contractual maturity of the hedged item.

The amount that was recognised in equity for the year 2014 was EUR 36 million credit (2013: EUR 3 million debit). The amount that was transferred from equity to the income statement in 2014 was a gain of EUR 22 million net of tax (2013: gain of EUR 26 million).

Net investment hedge

NIBC hedges part of the currency translation risk arising on its net investments in foreign operations by using foreign currency debt as a hedging instrument. Debt amounting to USD 1 million (2013: USD 101 million) was designated as a hedging instrument, and gave rise to a currency gain for the year 2014 of nil before tax (2013: loss of EUR 6 million), which was recognised in the translation reserve component of equity. No ineffectiveness was recognised in the income statement arising from hedges of net investments in foreign operations. In 2014 there was a partial unwinding of the net investment hedge as a consequence of the partial disposal of NIBC Services Ltd. (2013: partial unwinding).

27 Investments in associates (equity method)

IN EUR MILLIONS	2014	2013
Investments in associates	6	8
	6	**8**
THE MOVEMENT IN INVESTMENTS IN ASSOCIATES MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**8**	**10**
Purchases and additional payments	-	-
Disposals	(3)	(1)
Share in result of associates	1	(1)
BALANCE AT 31 DECEMBER	**6**	**8**

At the end of 2014 and 2013, all investments in associates were unlisted.

There is no unrecognised share of losses of an associate, either for the period or cumulatively.

The cumulative impairment losses amounted to nil (2013: nil).

Other disclosure requirements for associates which are equity accounted are included in note 52 Principal subsidiaries and associates.

28 Intangible assets

IN EUR MILLIONS	2014	2013
Intangible assets	43	47
	43	**47**
INTANGIBLE ASSETS RELATED TO NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION MAY BE SUMMARISED AS FOLLOWS:		
Cost	64	64
Accumulated amortisation	(21)	(17)
	43	**47**

IN EUR MILLIONS	Goodwill	Trademarks and licences	Customer relationships	Other intangibles	Total
THE MOVEMENT IN INTANGIBLE ASSETS RELATED TO NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION MAY BE SUMMARISED AS FOLLOWS:					
BALANCE AT 1 JANUARY 2013	**32**	**7**	**8**	**3**	**50**
Additions	-	-	-	1	1
Amortisation	-	(1)	(2)	(1)	(4)
BALANCE AT 31 DECEMBER 2013	**32**	**6**	**6**	**3**	**47**

IN EUR MILLIONS	Goodwill	Trademarks and licences	Customer relationships	Other intangibles	Total
THE MOVEMENT IN INTANGIBLE ASSETS RELATED TO NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION MAY BE SUMMARISED AS FOLLOWS:					
BALANCE AT 1 JANUARY 2014	**32**	**6**	**6**	**3**	**47**
Additions	-	-	-	-	-
Amortisation	-	(1)	(2)	(1)	(4)
BALANCE AT 31 DECEMBER 2014	**32**	**5**	**4**	**2**	**43**

Amortisation of EUR 4 million (2013: EUR 4 million) was included in the depreciation and amortisation line of the income statement.

In 2011, NIBC recognised goodwill to an amount of EUR 32 million (2013: EUR 32 million) and other intangible assets to an amount of EUR 11 million (2013: EUR 15 million) on the acquisition of business combinations. The remaining amortisation period for the categories trademarks and licences is five years, for customer relationships and other intangibles two years.

Intangible assets pledged as security for liabilities were nil for both 2014 and 2013.

Goodwill acquired in business combinations is reviewed in the fourth quarter of the respective financial year for impairment, or more frequently when there are indications that impairments may have occurred, by comparing the recoverable amount of each CGU to which goodwill has been allocated with its carrying amount.

IN EUR MILLIONS	2014	2013
GOODWILL HAS BEEN ALLOCATED TO THE GROUP OF CASH GENERATING UNITS AS FOLLOWS:		
Non-financial companies included in the consolidation	32	32
	32	**32**

No impairments were recorded in 2014 and 2013 on intangible assets.

29 Property, plant and equipment

IN EUR MILLIONS	2014	2013
Land and buildings	37	40
Other fixed assets	5	5
	42	**45**
THE MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**45**	**47**
Additions	2	3
Revaluation	1	-
Depreciation	(6)	(5)
BALANCE AT 31 DECEMBER	**42**	**45**

IN EUR MILLIONS	2014	2013
THE ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT CAN BE CATEGORISED AS FOLLOWS:		
Land and buildings	50	47
Other fixed assets	18	16
	68	**63**

NIBC's land and buildings in own use were revalued as of 31 December 2014 based on an external appraisal.

Buildings in use by NIBC are insured for EUR 71 million (2013: EUR 70 million). Other fixed assets are insured for EUR 37 million (2013: EUR 37 million).

At 31 December 2014 and 2013, there was no capital expenditure contracted for related to non-financial companies included in the consolidation. No amount is recognised in the carrying amount of property, plant and equipment for items in the course of construction at 31 December 2014 and 2013.

30 Current tax

IN EUR MILLIONS	2014	2013
Current tax assets	2	2
	2	**2**

IN EUR MILLIONS	2014	2013
Current tax liabilities	-	8
	-	**8**

It is expected that the current tax will be settled within 12 months.

31 Other assets

IN EUR MILLIONS	2014	2013
Accrued interest	1	-
Other accruals and receivables	60	94
Defined-benefit pension asset[1]	-	2
Other assets related to non-financial companies included in the consolidation	48	46
	109	**142**

[1] For further explanation, see note 40 Employee benefits.

Other accruals and receivables for 2013 include EUR 51 million related to loan positions which were sold in December 2013. The amounts were received in January 2014.

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.

Other assets related to non-financial companies included in the consolidation pledged as collateral for liabilities were EUR 47 million (2013: EUR 44 million).

IN EUR MILLIONS	2014	2013
OTHER ASSETS RELATED TO NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION CAN BE CATEGORISED AS FOLLOWS:		
Trade receivables (less provisions for doubtful debts)	48	46
	48	**46**

32 Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using a nominal tax rate of 25.0% (2013: 25.0%).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

IN EUR MILLIONS	2014	2013
Deferred tax assets	3	5
	3	**5**
THE AMOUNTS OF DEFERRED INCOME TAX ASSETS, WITHOUT TAKING INTO CONSIDERATION THE OFFSETTING OF BALANCES WITHIN THE SAME JURISDICTION, WERE AS FOLLOWS:		
Debt investments (available-for-sale)	-	2
Tax losses carried forward	30	25
Employee benefit obligations	-	3
	30	**30**
THE AMOUNTS OF DEFERRED INCOME TAX LIABILITIES, WITHOUT TAKING INTO CONSIDERATION THE OFFSETTING OF BALANCES WITHIN THE SAME JURISDICTION, WERE AS FOLLOWS:		
Equity investments (available-for-sale)	3	2
Cash flow hedges	20	15
Property, plant and equipment	4	6
Net investment hedge foreign currency	-	2
	27	**25**
	3	**5**

IN EUR MILLIONS	2014	2013
THE GROSS MOVEMENT ON THE DEFERRED INCOME TAX ACCOUNT MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**5**	**2**
EMPLOYEE BENEFITS:		
Charged/(credited) to the remeasurements of defined-benefit plans	(3)	1
DEBT INVESTMENTS (REPORTED AS AVAILABLE-FOR-SALE):		
Fair value remeasurement charged/(credited) to revaluation reserve	(2)	(1)
PROPERTY, PLANT AND EQUIPMENT (REPORTED AT FAIR VALUE):		
Fair value remeasurement charged/(credited) to revaluation reserve	2	-
EQUITY INVESTMENTS (REPORTED AS AVAILABLE-FOR-SALE):		
Fair value remeasurement charged/(credited) to revaluation reserve	(1)	-
CASH FLOW HEDGES:		
Fair value remeasurement charged/(credited) to hedging reserve	(5)	8
NET INVESTMENT HEDGE:		
Fair value remeasurement charged/(credited) to currency revaluation reserve	2	(2)
Tax losses carried forward	5	(3)
BALANCE AT 31 DECEMBER	**3**	**5**

The deferred tax asset is recognised to the extent that taxable profit will be available against which the temporary difference can be utilised.

33 Due to other banks (amortised cost)

IN EUR MILLIONS	2014	2013
Due to other banks	918	1,017
Due to central banks	241	-
	1,159	**1,017**
DUE TO OTHER BANKS CAN BE CATEGORISED AS FOLLOWS:		
Payable on demand	27	8
Not payable on demand	1,132	1,009
	1,159	**1,017**
THE LEGAL MATURITY ANALYSIS OF DUE TO OTHER BANKS NOT PAYABLE ON DEMAND IS AS FOLLOWS:		
Three months or less	655	272
Longer than three months but not longer than one year	2	110
Longer than one year but not longer than five years	248	394
Longer than five years	227	233
	1,132	**1,009**

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 46 Repurchase and resale agreements and transferred financial assets.

At 31 December 2014, an amount of EUR 268 million (2013: EUR 269 million) related to cash collateral received from third parties.

In 2014 NIBC opted for the TLTRO amounting to EUR 241 million.

34 Deposits from customers (amortised cost)

IN EUR MILLIONS	2014	2013
Retail deposits	9,013	8,459
Institutional deposits	1,169	180
	10,182	**8,639**
DEPOSITS FROM CUSTOMERS CAN BE CATEGORISED AS FOLLOWS:		
On demand	4,667	4,857
Term deposits	5,515	3,782
	10,182	**8,639**
THE LEGAL MATURITY ANALYSIS OF TERM DEPOSITS IS AS FOLLOWS:		
Three months or less	1,161	584
Longer than three months but not longer than one year	1,354	829
Longer than one year but not longer than five years	2,345	1,823
Longer than five years	655	546
	5,515	**3,782**

Interest is recognised in interest expense and similar charges on an effective interest basis.

35 Own debt securities in issue (amortised cost)

IN EUR MILLIONS	2014	2013
Bonds and notes issued	2,064	3,108
	2,064	**3,108**
THE LEGAL MATURITY ANALYSIS OF OWN DEBT SECURITIES IN ISSUE IS AS FOLLOWS:		
Three months or less	5	1
Longer than three months but not longer than one year	28	1,730
Longer than one year but not longer than five years	1,411	766
Longer than five years	620	611
	2,064	**3,108**

All of the issued notes according and subject to (i) the Rules governing the 2008 Dutch Scheme and (ii) the Guarantee Certificate issued under those Rules in respect of these notes had matured at 2 December 2014. The Dutch State has unconditionally and irrevocably guaranteed payment of all amounts of principal and interest due by NIBC up to nil (2013: EUR 1,303 million) of these notes. These Rules and that Guarantee Certificate are available at www.dsta.nl. In 2014, losses of EUR 1 million were realised on the repurchase of own debt securities in issue at amortised cost (2013: loss of EUR 26 million).

36 Debt securities in issue related to securitised mortgages and lease receivables (amortised cost)

IN EUR MILLIONS	2014	2013
Bonds and notes issued	3,348	3,525
	3,348	**3,525**
THE LEGAL MATURITY ANALYSIS OF DEBT SECURITIES IN ISSUE RELATED TO SECURITISED MORTGAGES IS AS FOLLOWS:		
Three months or less	18	5
Longer than three months but not longer than one year	20	-
Longer than one year but not longer than five years	24	16
Longer than five years	3,286	3,504
	3,348	**3,525**

37 Own debt securities in issue (designated at fair value through profit or loss)

IN EUR MILLIONS	2014	2013
Bonds and notes issued	35	35
	35	**35**
THE LEGAL MATURITY ANALYSIS OF OWN DEBT SECURITIES IN ISSUE IS AS FOLLOWS:		
Three months or less	-	-
Longer than three months but not longer than one year	-	6
Longer than one year but not longer than five years	-	-
Longer than five years	35	29
	35	**35**

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 portion of fair value changes attributable to the movement in credit spreads amounted to EUR 1 million credit during 2014 (2013: nil).

The contractual amounts of these liabilities to be repaid at maturity, including unpaid but accrued interest at the balance sheet date, amounted to EUR 31 million at 31 December 2014 (2013: EUR 36 million).

38 Debt securities in issue structured (designated at fair value through profit or loss)

IN EUR MILLIONS	2014	2013
Bonds and notes issued	823	794
	823	**794**
THE LEGAL MATURITY ANALYSIS OF DEBT SECURITIES IN ISSUE STRUCTURED IS AS FOLLOWS:		
Three months or less	11	4
Longer than three months but not longer than one year	40	45
Longer than one year but not longer than five years	143	217
Longer than five years	629	528
	823	**794**

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 portion of fair value changes during 2014 attributable to the movement in credit spreads amounted to EUR 31 million credit, being an increase of the carrying amount (2013: EUR 10 million credit, being an increase of the carrying amount). In 2014, gains of EUR 1 million (2013: gain of EUR 1 million) were realised on the repurchase of liabilities with respect to this balance sheet item.

The contractual amounts of these liabilities to be repaid at maturity, including unpaid but accrued interest at the balance sheet date, amounted to EUR 802 million at 31 December 2014 (2013: EUR 873 million).

39 Other liabilities

IN EUR MILLIONS	2014	2013
Accrued interest	-	2
Other accruals	28	22
Payables	91	74
Other liabilities related to payables of the non-financial companies	42	39
	161	**137**

40 Employee benefits

IN EUR MILLIONS	2014	2013
Pension benefit obligations	-	12
Other post-retirement obligations	-	-
Other employee benefits	3	3
Other employee benefits related to non-financial companies	1	1
	4	**16**

Pension benefit obligations

Obligations and expense under plans as of 1 January 2015

On 29 September 2014 NIBC reached an agreement with the Employees' Council and the Pensioners Association on the new pension plan which qualifies as a *Collective Defined Contribution* (**CDC**) plan. As of 1 January 2015 the pension scheme changes under IFRS from a defined-benefit pension plan to a defined-contribution plan.

Despite the agreement of 29 September 2014, NIBC still had a lump-sum contribution commitment for the remainder of 2014 if the funding ratio fell below than the required minimum level before 31 December 2014. This did not occur and so the pension scheme continued to qualify as a defined-benefit plan until 31 December 2014.

As a result of the agreement, there was a plan amendment on 29 September 2014 and a settlement as of 31 December 2014, due to the lump-sum contribution commitment. The gain on the plan amendment date 29 September 2014 of EUR 4 million is recognised under pension expenses and other post-retirement charges in the 2014 income statement. The result on the settlement date was nil.

This change eliminates all further legal or constructive obligations of NIBC for all the benefits provided under the pension plan. As a result of a settlement at 31 December 2014, NIBC has no employee benefit liability on the balance sheet at 31 December 2014.

With effect from 2015, the pension charges (approximately EUR 7.7 million) recognised in the income statement will be equal to the amount of actual pension contributions, as NIBC as of that date no longer has any defined benefit plans in place. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Obligations and expense under plans before 1 January 2015

Before 1 January 2015 IAS 19(R) required recognition in the statement of financial position of a defined benefit asset or liability. NIBC recognised actuarial gains and losses in the period in which they occurred and gains and losses were recognised outside the income statement, in other comprehensive income as prescribed by IAS 19(R). The pension plans are insured with the company pension fund of NIBC. This company pension fund administers the pension scheme for NIBC's (former) employees.

Actuarial gains and losses arose from the difference between the actual and expected return on plan assets for a period, from experience adjustments on liabilities or from changes in the actuarial assumptions used to determine the defined-benefit obligation. Actuarial gains or losses were recognised in other comprehensive income and will not be reclassified subsequently to the income statement. They were recognised in retained earnings.
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.

Until 1 January 2015 NIBC operated a number of pension plans covering substantially all employees. The schemes were generally funded through payments to insurance companies, on the basis of contractually agreed tariff rates, or separate trustee-administered funds, determined by periodic actuarial calculations. NIBC had both defined-benefit and defined-contribution plans.

A defined-benefit plan is a plan where the rules specify the benefits to be paid to the members at retirement. These benefits will depend on the number of years of service, the final salary (up to a maximum) upon retirement and the accrual rate of the scheme. Most of the pension plans were defined-benefit plans based on a maximised final pay salary and were funded.

A defined-contribution plan is a pension plan under which NIBC each year pays a fixed percentage of the salaries of the members into the scheme. The size of the fund on retirement will be determined by how much was contributed to the scheme and the investment return achieved.

The liability recognised in the balance sheet in respect of defined-benefit pension plans was the present value of the defined-benefit obligation at the balance sheet date less the fair value of plan assets. The defined-benefit obligation was calculated annually by independent actuaries using the projected unit credit method. The latest actuarial valuation was carried out at 30 September 2014. The present value of the defined-benefit obligation was determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The assets of the funded plans were held independently of NIBC's assets in separate trustee administered funds.

Actuarial gains and losses arise from the difference between the actual and expected return on plan assets for a period, from experience adjustments on liabilities or from changes in the actuarial assumptions used to determine the defined-benefit obligation. Actuarial gains or losses are recognised in other comprehensive income and will not be reclassified subsequently to the income statement. They are recognised in retained earnings.

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.

Impact of the plan amendment per 29 September 2014

The agreed upon plan amendment leads to a pre-tax release to profit and loss of EUR 20 million as at 29 September 2014. The outcome of the remeasurement of the defined benefit obligation using the current fair value of plan assets and current actuarial assumptions reflected the benefits offered under the plan at 29 September 2014 can be summarised as follows:

IN EUR MILLIONS	2014
BALANCE AT 1 JANUARY	**247**
Current service cost	4
Interest expense	6
Plan participants' contributions	1
Benefits paid	(5)
Remeasurements (including remeasurement losses recognised via other comprehensive income of EUR 10 million before tax)	37
BALANCE AT 29 SEPTEMBER	**290**
Plan amendment at 29 September 2014	(20)
BALANCE AT 31 DECEMBER BEFORE SETTLEMENT	**270**

Defined benefit obligation

NIBC settled future obligations under all of its defined benefit plans by paying a one-off contribution (including contribution for the catch–up indexation) of EUR 15.2 million pre-tax (EUR 11.4 million after tax) to Stichting Pensioenfonds NIBC in 2014.

The new CDC-plan has an effective date of 1 January 2015 and is a collective defined-contribution plan based on an average salary plan. The retirement age is set at 67 years. The contribution payable by participants in the CDC-plan is maximised at 4% per annum. Under the new CDC-plan the annual pension contributions are calculated according to a fixed contribution calculation mechanism. The annual pension contribution of NIBC is maximised at 26% of the pensionable salary (salary minus a social security deductible).

By paying the agreed fixed annual contribution NIBC is released from all its obligations arising out of the Defined Benefit Plan. Under IAS 19, this plan will no longer be accounted for as a Defined Benefit Plan. Consequently, the Defined Benefit Plan is removed from the balance sheet of NIBC as at 31 December 2014 (the settlement date).

At settlement date, the net defined-benefit liability of the defined-benefit plan was nil. The following table shows the defined-benefit obligation and plan assets at the settlement date, but using a measurement date of 29 September 2014. This measurement date can be used instead of 31 December 2014 as the impact on the company's results is nil because the plan amendment date of 29 September 2014 did not lead to a balance sheet liability as the liabilities are by definition equal to the value of the plan assets.

IN EUR MILLIONS	2014
Defined benefit obligations	**270**
Plan assets (including one off contribution of EUR 15.2 million pre-tax)	(270)
Net defined benefit obligation	**-**

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.

Following the settlement, the remeasurements previously recognised in other comprehensive income relating to the defined benefit plan amounting to EUR 17 million after tax were transferred to Retained earnings.

The following tables present the total impact on the plan amendment date of the defined benefit plan on consolidated income:

IN EUR MILLIONS	Gains at plan amendment date 29 September 2014
Release of defined benefit liability	(20)
Settlement gains or losses	-
One-off contribution (including catch-up for indexation)	16
Other	-
(Gains)/losses on the plan amendment date	**(4)**

IN EUR MILLIONS	2014	2013
PENSION BENEFIT OBLIGATIONS CAN BE CATEGORISED AS FOLLOWS:		
Present value of funded obligations	-	247
Fair value of plan assets	-	235
DEFICIT FOR FUNDED PLANS	**-**	**12**
Subordinated loan to trustee-administered fund[1]	-	(3)
	-	**9**

[1] NIBC had advanced a subordinated loan (interest charge: 0%) of EUR 3 million to the trustee-administered fund (NIBC's Pension Fund). This loan did not have to be repaid until the fund had reached a solvency ratio of 150%. NIBC waived this subordinated loan in October 2014.

For the regulatory framework in which the defined plan operated and the ALM-strategy, included in the 'Actuariële en bedrijfstechnische nota', reference is made to the website of NIBC's Pension fund (www.pensioenfonds-nibc.nl).

The weighted average duration of the defined-benefit obligation was approximately 23.5 years.

At 31 December 2013, the defined-benefit pension asset was reported under Other assets (see note 31 Other assets).

IN EUR MILLIONS	2014	2013
THE MOVEMENT IN THE PRESENT VALUE OF FUNDED PENSION BENEFIT OBLIGATIONS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**247**	**242**
Current service cost	4	6
Past-service cost	(20)	(2)
Interest expense	6	9
Plan participants' contributions	1	1
Remeasurements (including remeasurement losses recognised via other comprehensive income)	37	(3)
Benefits paid	(5)	(6)
Derecognition on settlement date 31 December 2014	(270)	-
BALANCE AT 31 DECEMBER	**-**	**247**
THE MOVEMENT IN THE FAIR VALUE OF PLAN ASSETS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**235**	**232**
Interest income	6	9
Return on plan assets (excluding interest income)	27	(6)
Employer contributions	4	6
Plan participants' contributions	1	1
Administrative expenses	(1)	(1)
Benefits paid	(5)	(6)
Write-off subordinated loan	3	-
Derecognition of plan assets on settlement date 31 December 2014	(270)	-
BALANCE AT 31 DECEMBER	**-**	**235**

IN EUR MILLIONS	2014	2013
PLAN ASSETS ARE AS FOLLOWS[2]:		
Equities	-	72
Bonds	-	162
Cash	-	4
Subordinated loan to trustee-administered fund[1]	-	(3)
	-	**235**

[1] NIBC had advanced a subordinated loan (interest charge: 0%) of EUR 3 million to the trustee-administered fund (NIBC's Pension Fund). This loan did not have to be repaid until the fund had reached a solvency ratio of 150%. NIBC waived this subordinated loan in October 2014.

[2] All plan assets are grouped into level 1 and 2 of the fair value hierarchy. For further details of the fair value hierarchy see note 44.

IN EUR MILLIONS	2014	2013
THE AMOUNTS RECOGNISED IN PERSONNEL EXPENSES IN THE INCOME STATEMENT WERE AS FOLLOWS:		
Current service cost	4	6
Past-service cost (plan amendment of 29 September 2014)	(20)	(2)
Net interest cost	-	-
Administrative expenses	1	1
One-off contribution (including catch-up for indexation)	15	-
	-	**5**
THE AMOUNTS OF REMEASUREMENTS (RECOGNISED IN OTHER COMPREHENSIVE INCOME)		
Effect of changes in demographic assumptions	(4)	-
Effect of changes in financial assumptions	49	5
Effect of experience adjustments	(8)	(8)
Return on plan assets (excluding interest income)	(27)	6
	10	**3**

In 2014, the actual return on plan assets was EUR 33 million gain (2013: EUR 3 million gain).

IN EUR MILLIONS	2014	2013
THE TOTAL DEFINED-BENEFIT COST RECOGNISED IN THE INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME		
Income statement charge/(credit)	-	5
Other comprehensive loss/(income)	10	3
	10	**8**
THE MOVEMENT IN THE LIABILITY RECOGNISED IN THE BALANCE SHEET MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**12**	**10**
Total expense – as above	-	5
Total remeasurements - as above	10	3
Employer contributions	(4)	(6)
Settlement	(18)	-
BALANCE AT 31 DECEMBER	**-**	**12**

IN %	2014	2013
THE SIGNIFICANT ACTUARIAL ASSUMPTIONS USED WERE AS FOLLOWS:		
Discount rate	2.50	3.50
Future salary increases, excluding career developments	2.00	2.00
Future pension increases	0.75	1.00
Price inflation	2.00	2.00

For the mortality assumptions, NIBC used the generation tables 'AG Prognosetafel 2014' (2013: 'AG Prognosetafel 2012-2062') from the Actuarial Association, with a correction for salary category 'High'.

The amounts for the current annual period and previous four annual periods for the pension benefit obligations are disclosed in the following table:

IN EUR MILLIONS	2014	2013	2012	2011	2010
LIABILITY RECOGNISED IN BALANCE SHEET AT END OF YEAR					
Present value of obligation	-	247	242	212	197
Fair value of plan assets	-	235	232	203	183
DEFICIT/(SURPLUS)	**-**	**12**	**10**	**9**	**14**
Unrecognised actuarial (loss)/gain	-	-	(9)	(5)	(10)
Subordinated loan to trustee-administered fund	-	(3)	(3)	(3)	(3)
Present value of unfunded obligation	-	-	-	-	-
Unrecognised past service cost	-	-	-	-	-
Unrecognised transition amount	-	-	-	-	-
Adjustment for limit on net asset	-	-	-	-	-
	-	**9**	**(2)**	**1**	**1**

The figures presented for the years 2012 - 2014 are IAS 19R compliant. The figures for the years 2010 - 2011 are based upon IAS 19 Employee Benefits as applicable until the end of 2011.

IAS 19 Employee Benefits (Revised)

IAS 19 Employee Benefits (Revised) requires that actuarial gains and losses arising from defined-benefit pension schemes are recognised in full. Previously NIBC deferred these over the remaining average service lives of the employees (the 'corridor' approach). Retrospectively as of 1 January 2012, in accordance with amendments to IAS 19, the balance sheet fully reflects the pension liability or asset, including any previously unrecognised actuarial losses or gains. NIBC has not recognised the amortisation of unrecognised actuarial gains or losses since 1 January 2012. The amendments to IAS 19 have had an insignificant impact on the financial position of NIBC.

IN EUR MILLIONS	2014	2013
THE MOVEMENT IN THE OTHER EMPLOYEE BENEFITS RECOGNISED IN THE BALANCE SHEET MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**3**	**3**
Releases	-	-
BALANCE AT 31 DECEMBER	**3**	**3**

Other employee benefit obligations of EUR 3 million at 31 December 2014 are related to payments to be made in respect of other leave obligations (2013: EUR 3 million). These obligations are short-term in nature and therefore valued at nominal value.

In 2014 the employee benefit obligations related to the non-financial companies included in the consolidation amounts to nil (2013: EUR 1 million).

41 Subordinated liabilities - amortised cost

IN EUR MILLIONS	2014	2013
Subordinated loans qualifying as Tier-1 capital	-	44
Other subordinated loans	67	13
	67	**57**
THE LEGAL MATURITY ANALYSIS OF SUBORDINATED LIABILITIES IS AS FOLLOWS:		
One year or less	-	-
Longer than one year but not longer than five years	3	1
Longer than five years but not longer than ten years	2	-
Longer than ten years	62	56
	67	**57**

All of the above loans are subordinated to the other liabilities of NIBC. Due to new CRR/CRDIV requirements regarding additional Tier-1 capital instruments, non-qualifying subordinated loans amounted to EUR 50 million (2013: EUR 44 million). Interest expense of EUR 2 million was recognised on subordinated liabilities during the year 2014 (2013: EUR 4 million). In 2014, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item (2013: nil).

42 Subordinated liabilities - designated at fair value through profit or loss

IN EUR MILLIONS	2014	2013
Subordinated loans qualifying as Tier-1 capital	152	133
Subordinated loans	101	108
	253	**241**
THE LEGAL MATURITY ANALYSIS OF SUBORDINATED LIABILITIES IS AS FOLLOWS:		
One year or less	-	21
Longer than one year but not longer than five years	16	15
Longer than five year but not longer than ten years	-	-
Longer than ten years	237	205
	253	**241**

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 385 million at 31 December 2014 (2013: EUR 375 million).

The portion of fair value changes during 2014 attributable to the movement in credit spreads amounted to nil (2013: nil). All of the above loans are subordinated to the other liabilities of NIBC. EUR 152 million (2013: EUR 133 million) relates to non-qualifying capital instruments grandfathered in additional Tier-1 capital.

These securities are perpetual securities and may be redeemed by NIBC only with the prior approval of the DNB. Interest expense of EUR 18 million was recognised on subordinated liabilities during the year 2014 (2013: EUR 17 million). In 2014, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item (2013: nil).

NIBC has not had any defaults of principal, interest or redemption amounts on its liabilities during 2014 or 2013.

43 Shareholder's equity

The ultimate controlling company is New NIB Limited, a company incorporated in Ireland.

Share capital

IN EUR MILLIONS	2014	2013
Paid-up capital	80	80
	80	**80**

	2014	2013
THE NUMBER OF AUTHORISED SHARES IS SPECIFIED AS FOLLOWS:		
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 per preference share (B,C,D, E1-E3)	1,00	1,00
Par value per preference share (E4)	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.

Other reserves

IN EUR MILLIONS	2014	2013
OTHER RESERVES ARE AS FOLLOWS:		
Share premium	238	238
Hedging reserve	61	45
Revaluation reserve - equity investments (available-for-sale)	7	1
Revaluation reserve - debt investments (available-for-sale)	(1)	(7)
Revaluation reserve - property, plant and equipment	13	18
Remeasurements of defined-benefit plans	-	(9)
	318	**286**

IN EUR MILLIONS	Share premium	Hedging reserves	Revaluation reserves	Remea-surements of defined-benefit plans	Total
BALANCE AT 1 JANUARY 2013	**238**	**66**	**8**	**(7)**	**305**
Net result on hedging instruments	-	(21)	-	-	(21)
Revaluation/remeasurement (net of tax)	-	-	4	(2)	2
TOTAL RECOGNISED DIRECTLY THROUGH OTHER COMPREHENSIVE INCOME IN EQUITY	**-**	**(21)**	**4**	**(2)**	**(19)**
BALANCE AT 31 DECEMBER 2013	**238**	**45**	**12**	**(9)**	**286**

IN EUR MILLIONS	Share premium	Hedging reserves	Revaluation reserves	Remea surements of defined-benefit plans	Total
BALANCE AT 1 JANUARY 2014	**238**	**45**	**12**	**(9)**	**286**
Net result on hedging instruments	-	16	-	-	16
Revaluation/remeasurement (net of tax)	-	-	12	(8)	4
TOTAL RECOGNISED DIRECTLY THROUGH OTHER COMPREHENSIVE INCOME IN EQUITY	**-**	**16**	**12**	**(8)**	**20**
Transfer to retained earnings	-	-	(5)	17	12
BALANCE AT 31 DECEMBER 2014	**238**	**61**	**19**	**-**	**318**

Share premium

The proceeds from rights issues and options exercised received net of any directly attributable transaction costs and less the nominal value are credited to share premium.

Hedging reserve

This reserve comprises the portion of the gains or losses on hedging instruments in a cash flow hedge that is determined to be an effective hedge (net of tax) as well as the net investment hedge effect on foreign entities (net of tax).

Revaluation reserve - equity investments (available-for-sale)

This reserve comprises changes in fair value of available-for-sale equity investments (net of tax).

Revaluation reserve - debt investments (available-for-sale)

Nil result was recognised in the revaluation reserve in equity related to financial assets reclassified out of the available-for-sale category into the loans and receivables category related to debt investments reclassified as per 1 July 2008.

Revaluation reserve financial assets reclassified into available-for-sale category

In 2014 and 2013, no transfers to impairment expense with a fair value loss were recognised in the revaluation reserve in shareholder's equity on financial assets reclassified out of trading into the available-for-sale category.

NIBC chose to reclassify (as of 1 July 2008) certain financial assets that were no longer held for the purpose of selling in the near term as permitted by the amendment to IAS 39 and IFRS 7. In NIBC's judgement, the deterioration in the world's financial markets was an example of a rare circumstance applicable on the date of reclassification. Had NIBC determined that the market conditions during 2008 did not represent a rare circumstance or that NIBC did not have the intention and ability to hold the financial assets for the foreseeable future or until maturity, and had NIBC therefore not reclassified the financial assets, a net of tax gain of EUR 14 million (2013: net of tax gain of EUR 18 million) would have been recognised in the income statement and an incremental net of tax gain of EUR 6 million (2013: net of tax gain of EUR 24 million) would have been recognised in the revaluation reserve in equity in 2014 due to changes in fair value.

For all reclassifications, the reason for applying the amendment to IAS 39 and IFRS 7 is alignment to best market practice. For more details, see notes 2, 5, 11, 16, 17 and 20.

Revaluation reserve - property, plant and equipment

This reserve comprises changes in fair value of land and buildings (net of tax).

Retained earnings

Retained earnings reflect accumulated earnings less dividends accrued and paid to shareholders and transfers from other reserves.

Remeasurements of defined-benefit plans

Remeasurements of defined-benefit plans recognised immediately in other comprehensive income comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest).

Following the settlement the remeasurements previously recognised in other comprehensive income relating to the defined benefit plans amounting to EUR 17 million after tax were transferred to retained earnings.

44 Fair value of financial instruments

IFRS 7 requires specific disclosures for financial instruments that are measured at fair value in the balance sheet. The disclosure of each class of financial assets and liabilities within a three-level hierarchy, referring to the respective basis of fair value measurement is as follows:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (level 1);
- 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 2); and
- Inputs that are not based on observable market data (unobservable inputs) (level 3).

For an explanation of the fair value measurement hierarchy, see the determination of fair value of financial instruments section in the Accounting policies.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 within the fair value hierarchy based on the degree to which the fair value is observable:

Fair value of financial instruments at 31 December 2014

IN EUR MILLIONS	Level 1	Level 2	Level 3	2014
FINANCIAL ASSETS AVAILABLE-FOR-SALE				
Equity investments (unlisted)	-	-	53	53
Debt investments	-	930	15	945
	-	**930**	**68**	**998**
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)				
Loans	-	374	-	374
Residential mortgages own book	-	-	3,342	3,342
Securitised residential mortgages	-	-	3,638	3,638
Debt investments	-	37	-	37
Equity investments (including investments in associates)	-	-	276	276
Derivative financial assets	-	2,851	-	2,851
	-	**3,262**	**7,256**	**10,518**
	-	**4,192**	**7,324**	**11,516**

IN EUR MILLIONS	Level 1	Level 2	Level 3	2014
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)				
Own debt securities in issue	-	35	-	35
Debt securities in issue structured	-	823	-	823
Derivative financial liabilities	-	3,217	-	3,217
Subordinated liabilities	-	253	-	253
	-	**4,328**	**-**	**4,328**

Fair value of financial instruments at 31 December 2013

IN EUR MILLIONS	Level 1	Level 2	Level 3	2013
FINANCIAL ASSETS AVAILABLE-FOR-SALE				
Equity investments (unlisted)	-	-	47	47
Debt investments	-	1,282	18	1,300
	-	**1,282**	**65**	**1,347**
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)				
Loans	-	480	-	480
Residential mortgages own book	-	3,586	-	3,586
Securitised residential mortgages	-	3,878	-	3,878
Debt investments	-	81	-	81
Equity investments (including investments in associates)	-	-	257	257
Derivative financial assets	-	2,800	-	2,800
	-	**10,825**	**257**	**11,082**
	-	**12,107**	**322**	**12,429**

IN EUR MILLIONS	Level 1	Level 2	Level 3	2013
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)				
Own debt securities in issue	-	35	-	35
Debt securities in issue structured	-	794	-	794
Derivative financial liabilities	-	2,957	-	2,957
Subordinated liabilities	-	241	-	241
	-	**4,027**	**-**	**4,027**

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments that are recorded at fair value using either quoted prices or valuation techniques. These incorporate NIBC's interpretation of valuation assumptions (qualitative) that a market participant would consider when valuing the instruments.

Financial assets available-for-sale

Equity investments (unlisted) - level 3

The fair value of investments in equity funds is determined based on the net asset value reported by the managers of these funds. These net asset values are analysed for reasonableness, so as to ascertain that the reported net asset value has been appropriately derived using proper fair value principles as part of a robust process. To approximate the fair value at the reporting date, the net asset value is adjusted, where appropriate, for factors such as, subsequent capital contributions and fund distributions, movements in exchange rate and subsequent changes in the fair value of the underlying investee companies, where these are known to NIBC.

The fair value of equity investments is established by applying capitalisation multiples to maintainable earnings. Maintainable earnings are estimated based on the normalised last twelve months' *Earnings Before Interest, Taxes, Depreciation and Amortisation* (**EBITDA**). Capitalisation multiples are derived from the enterprise value and the normalised last twelve months EBITDA at the acquisition date. On each reporting date, the capitalisation multiple of each equity investment is compared against those derived from the publicly available enterprise value and earnings information of traded peers, where these can be identified. Peer capitalisation multiples are normalised for factors such as differences in regional and economic environment, time lags in earnings information and one-off gains and losses.

The resulting enterprise value is adjusted for net debt, non-controlling interests, illiquidity and management incentive plans to arrive at the fair value of the equity.

Debt investments - level 2

For the determination of fair value at 31 December 2014, NIBC used market-observable prices (including broker quotes), interest rates and credit spreads derived from market-verifiable data. NIBC has determined the fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

Debt investments - level 3

For the level 3 debt investments, NIBC uses valuation models that apply discounted cash flow analysis that incorporates both observable and unobservable data. Observable inputs include interest rates and collateral values; unobservable inputs include assumptions regarding credit spreads and market liquidity discounts.

Financial assets at fair value through profit or loss

Loans - level 2

In an active market environment, these assets are marked-to-market by applying market bid quotes observed on the secondary market. The quotes received from other banks or brokers and applied in the marked-to-market process are calibrated to actual market trades whenever possible.

In certain instances, where the market is inactive, a discounted cash flow model is used based on various assumptions including market interest rates, market credit spread levels and assumptions regarding market liquidity, where relevant. Additional pricing reference points have been obtained by collecting spreads using primary transactions that are comparable with the relevant loans.

Debt investments - level 2

For the determination of fair value at 31 December 2014, 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.

Residential mortgages (own book and securitised) - level 3

NIBC determines the fair value of residential mortgages (both those NIBC holds on its own book and those NIBC has securitised) by using a valuation model developed by NIBC. To calculate the fair value, NIBC discounts expected cash flows (after expected prepayments) to present value using inter-bank zero-coupon rates, adjusted for a spread that principally takes into account the credit spread risk of the mortgages and uncertainty relating to prepayment estimates.

The RMBS spread is determined by collecting RMBS spreads from publicly issued Dutch RMBS-transactions. The discount spread is derived by adding related RMBS costs to the RMBS spread.

Sensitivity analysis carried out on the prepayment rates used in the valuation model of the residential mortgages showed that the variability in these rates does not have a significant impact on the total value of the Residential Mortgage portfolio.

Equity investments (including investments in associates) - level 3

For the valuation method, reference is made to the section on equity investments (unlisted) at available-for-sale.

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.

Transfers between levels 1 and 2

In 2014 and 2013 there were no significant transfers between levels 1 and 2.

Transfers between levels 1 and 2 into level 3

Residential mortgages own book and Securitised residential mortgages have been transferred from Level 2 to Level 3 following reassessment of the significance of unobservable input parameters (discount spread). The valuation continues to be based on an internally-modelled discount spread. Valuation uncertainty arises mainly from the long-dated nature of the portfolio, the lack of active secondary market in the loans and the lack of observable loan spreads.

There were no transfers between levels during 2013.

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 line-items:

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

Debt securities in issue structured consist of notes issued with embedded derivatives that are tailored to specific investors' needs. The return on these notes is dependent upon the level of certain underlying equity, interest rate, currency, credit, commodity or inflation-linked indices. The embedded derivative within each note issued is fully hedged on a back-to-back basis, such that effectively synthetic floating rate funding is created. Because of this economic hedge, the income statement is not sensitive to fluctuations in the price of these indices.

In the case of debt securities in issue structured and subordinated liabilities in issue structured, 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.

Level 3 fair value measurements

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets and liabilities which are recorded at fair value:

IN EUR MILLIONS	At 1 January 2013	Total gains/ (losses) recorded in the income statement	Total gains/ (losses) recorded in equity	Purchases	Sales	Settle-ments	Transfers from level 1 and level 2	At 31 December 2013
AVAILABLE-FOR-SALE FINANCIAL ASSETS								
Equity investments	**49**	8	1	1	(12)	-	-	**47**
Debt investments	**4**	-	-	15	(1)	-	-	**18**
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)								
Equity investments (including investments in associates)	**215**	(1)	-	62	(19)	-	-	**257**
	268	**7**	**1**	**78**	**(32)**	**-**	**-**	**322**

IN EUR MILLIONS	At 1 January 2014	Total gains/ (losses) recorded in the income statement[1]	Total gains/ (losses) recorded in equity	Purchases	Sales	Settle-ments	Transfers from level 1 and level 2	At 31 December 2014
AVAILABLE-FOR-SALE FINANCIAL ASSETS								
Equity investments	**47**	4	6	-	(4)	-	-	**53**
Debt investments	**18**	(2)	(1)	-	-	-	-	**15**
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)								
Residential mortgages own book	**-**	-	-	-	-	-	3,342	**3,342**
Securitised residential mortgages and lease receivables	**-**	-	-	-	-	-	3,638	**3,638**
Equity investments (including investments in associates)	**257**	18	-	16	(15)		-	**276**
	322	**20**	**5**	**16**	**(19)**	**-**	**6,980**	**7,324**

[1] Including FX movements and dividend

Total gains or losses on level 3 financial instruments for the year in the previous table are presented in the income statement and other comprehensive income as follows:

	For the period ended 31 December 2014	
IN EUR MILLIONS	Gains less losses from financial assets recognised in the income statement	Revaluation of equity investments included in the other comprehensive income
AVAILABLE-FOR-SALE FINANCIAL ASSETS		
Equity investments (unlisted)	(1)	6
Debt investments	(2)	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)		
Equity investments (including investments in associates)	14	-
	11	**6**

The unrealised gains or (losses) included in the profit or loss of equity investments (unlisted) categorised on level 3 amounted to EUR 11 million.

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 period ended 31 December			
	2014		2013	
IN EUR MILLIONS	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Equity investments (unlisted)	53	3	47	2
Debt investments	15	1	18	1
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)				
Residential mortgages own book	3,342	11	-	-
Securitised residential mortgages and lease receivables	3,638	11	-	-
Equity investments (including investments in associates)	276	14	257	13

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 debt investments, NIBC adjusted the weighted average calculated model price by 100 basis points as a reasonably possible alternative outcome. The primary unobservable input in the calculated model price is the applicable credit spread; and
- For the residential mortgages classified at fair value through profit or loss (both those NIBC holds on its own book and those NIBC has securitised), NIBC adjusted the discount spread with 10bp as a reasonably possible alternative outcome.

In 2014, there were no significant changes in the business or economic circumstances that affect the fair value of the NIBC's financial assets and liabilities.

Fair value information about 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.

	For the period ended 31 December 2014				
IN EUR MILLIONS	Level 1	Level 2	Level 3	Carrying value	Fair value
FINANCIAL ASSETS AT AMORTISED COST[1]					
Loans	-	7,226	-	7,226	7,248
Debt investments	-	359	-	359	341
Residential mortgages own book	-	-	1,078	1,078	1,172
FINANCIAL LIABILITIES AT AMORTISED COST					
Own debt securities in issue	-	2,064	-	2,064	(1,963)
Debt securities in issue related to securitised mortgages and lease receivables	-	-	3,348	3,348	3,371
Subordinated liabilities	-	67	-	67	(34)

1 The fair value reflects movements due to both interest rate changes and credit spread changes. NIBC hedges its interest rate risk from these assets.

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.

Non-financial assets valued at fair value

NIBC's land and buildings are valued at fair value. The carrying amount of NIBC's land and buildings (level 3) as of 31 December 2014 was EUR 38 million. The land and buildings were last revalued as of 31 December 2014 based on an external appraisal.

Transfers between levels 1 and 2 into level 3

Residential mortgages own book and Securitised residential mortgages and lease receivables has been transferred from Level 2 to Level 3 following reassessment of the significance of unobservable input parameters (discount spread). The valuation continues to be based on internally-modelled discount spread. Valuation uncertainty arises mainly from the long dated nature of the portfolio, the lack of active secondary market in the loans and the lack of observable loan spreads.

45 Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	At 31 December 2014					
				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]	2,851	-	**2,851**	-	1,623	**1,228**
Reverse repurchase agreements	400	(400)	-	-	-	**-**
Other financial instruments	-	-	-	-	-	**-**
	3,251	**(400)**	**2,851**	-	1,623	**1,228**

	At 31 December 2014					
				Related amounts not set off in the balance sheet		
IN EUR MILLIONS	Gross amount of recognised financial liabilities	Gross amount of recognised financial liabilities set off in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Financial instruments collateral	Cash collateral received	Net amount
LIABILITIES						
Derivative financial liabilities[1]	3,217	-	**3,217**	-	268	**2,949**
Repurchase agreements	784	(400)	**384**	415	-	**(31)**
	4,001	**(400)**	**3,601**	**415**	**268**	**2,918**

[1] See note 55 Credit risk.

Related amounts which cannot be set off in the balance sheet are amounts which are part of ISDA netting agreements. The related amounts are reported on the asset side and the liability side of the balance sheet as the ISDA agreements do not meet all requirements for offsetting in IAS 32.

	At 31 December 2013					
				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]	2,800	-	**2,800**	-	1,199	**1,601**
Reverse repurchase agreements	415	(400)	**15**	15	-	**-**
Other financial instruments	-	-	**-**	-	-	**-**
	3,215	**(400)**	**2,815**	**15**	**1,199**	**1,601**

	At 31 December 2013					
				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
LIABILITIES						
Derivative financial liabilities[1]	2,957	-	**2,957**	-	267	**2,690**
Repurchase agreements	784	(400)	**384**	480	-	**(96)**
Other financial instruments	-	-	**-**	-	-	**-**
	3,741	**(400)**	**3,341**	**480**	**267**	**2,594**

[1] See note 55 Credit risk.

46 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 the bank 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 the bank, 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, the bank 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 the bank, which instead records a separate asset for the cash collateral given.

NIBC transacted several repurchase transactions with third parties, in which notes amounting to a notional of EUR 384 million (with a fair value at 31 December 2014 of EUR 415 million) were transferred from NIBC to third parties at 31 December 2014 in exchange for deposits of EUR 384 million advanced to NIBC at 31 December 2014 for periods ranging from six months up to four years.

NIBC transacted several reverse repurchase transactions with third parties, the last transaction redeemed in December 2014.

NIBC conducts these transactions under terms agreed in Global Master Repurchase Agreements.

Assets not derecognised in their entirety

In prior years, NIBC transferred certain financial assets to securitisation vehicles it did not control. NIBC has determined that not substantially all risks and rewards were transferred as a consequence of providing clean-up calls (call options to purchase the loans if the principal outstanding of all notes in the securitisation vehicles is less than 10% of the original principal amount). Consequently NIBC continues to recognise these financial assets and related liabilities to the extent of its continuing involvement. For further details see the following table:

	For the period ended 31 December 2014	
IN EUR MILLIONS	Carrying amount asset	Carrying amount related liability
Loans at fair value through profit or loss	49	-
Debt securities in issue related to securitised mortgages (amortised costs)	-	49

	For the period ended 31 December 2014
IN EUR MILLIONS	Carrying amount of assets before transfer
Loans at fair value through profit or loss	49

47 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.

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 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	2014	2013
CONTRACT AMOUNT		
Committed facilities with respect to corporate loans	1,537	910
Committed facilities with respect to residential mortgages	373	359
Capital commitments with respect to equity investments	18	38
Guarantees granted	95	99
Irrevocable letters of credit	3	6
	2,026	**1,412**

These commitments and contingent liabilities have off-balance sheet credit risk because only commitment/origination fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

Details of concentrations of credit risk including concentrations of credit risk arising from commitments and contingent liabilities as well as NIBC's policies for collateral for loans are set out in note 55.

Legal proceedings

There were a number of legal proceedings outstanding against NIBC at 31 December 2014. No provision has been made, as legal advice indicates that it is unlikely that any significant loss will arise.

48 Business combinations

Acquisition of Gallinat-Bank AG in 2014

On 12 April 2014, NIBC obtained control of Gallinat-Bank AG, with its registered office in Hamburg, by acquiring 100% of the share capital and voting interests in the company. Gallinat-Bank AG offers financing and leasing products to German medium-sized companies. The acquisition of Gallinat-Bank AG –approved by the appropriate regulatory authorities- directly increases NIBC's presence in one of its domestic markets. In September 2014 the name of Gallinat-Bank AG was changed to NIBC Bank Deutschland AG.

The following table summarises the consideration paid for Gallinat-Bank AG, the fair value of assets acquired and liabilities assumed at 30 April 2014:

Consideration at 30 April 2014

IN EUR MILLION	30-Apr-2014
Cash	15
Contingent consideration	-
Total consideration transferred	**15**
Recognised amounts of identifiable assets and liabilities assumed	
Assets	
Cash and cash equivalents	3
Loans	504
Other assets	1
Liabilities	
Deposits from customers	403
Debt securities in issue related to securitised receivables	86
Other liabilities	4
Total identifiable net assets	**15**

EUR 50 thousand was recognised as badwill (income) on the acquisition of Gallinat-Bank AG.

Acquisition-related costs of EUR 1.3 million have been charged to other operating expenses in the consolidated income statement for the period ended 31 December 2014.

The fair value of the loans is EUR 504 million. The gross contractual amount for the loans due is EUR 564 million, of which EUR 28 million is expected to be uncollectable.

There are no identified material intangible assets or liabilities related to the acquisition of Gallinat-Bank AG.

There are no identified material contingent liabilities related to the acquisition of Gallinat-Bank AG.

From the date of acquisition to 31 December 2014 Gallinat-Bank AG contributed a net profit of EUR 4 million to NIBC's results. If this acquisition had occurred on 1 January 2014, management estimates that the result from this company included in the consolidation would have been EUR 3 million profit.

Other

At 31 December 2014, NIBC had the potential obligation to sell a minority stake (less than 10%) in Olympia Nederland Holding B.V. to a third party. No material gain or loss is expected on this disposal. There were no other new business combinations acquired in the year ended 31 December 2014 (none in 2013).

49 Assets transferred or pledged as collateral

IN EUR MILLIONS	2014	2013
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	1,621	1,482
Debt securities in issue related to securitised loans and mortgages	3,934	4,061
Derivative financial liabilities	1,620	1,231
	7,175	**6,774**
DETAILS OF THE CARRYING AMOUNTS OF ASSETS PLEDGED AS COLLATERAL ARE AS FOLLOWS:		
ASSETS PLEDGED		
Debt investments/Residential mortgages own book	1,596	2,791
Securitised loans and mortgages	4,833	3,877
Cash collateral (due from other banks)	1,620	1,231
	8,049	**7,899**

As part of NIBC's funding and credit risk mitigation activities, the cash flows of selected financial assets are transferred or pledged to third parties. Furthermore, NIBC pledges assets as collateral for derivative transactions. Substantially all financial assets included in these transactions are residential mortgages, other loan portfolios, debt investments and cash collateral. The extent of NIBC's continuing involvement in these financial assets varies by transaction.

The asset encumbrance ratio at year end 2014 was 35% (2013: 34%).

50 Assets under management

NIBC provides collateral management services, whereby it holds and manages assets or invests funds received in various financial instruments on behalf of customers. NIBC receives fee income for providing these services. Assets under management are not recognised in the consolidated balance sheet. NIBC is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

IN EUR MILLIONS	2014	2013
Assets held and managed by NIBC on behalf of customers	1,732	1,995
	1,732	**1,995**

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. In 2013, LFM issued the fourth CLO under the 'North Westerly' programme;
- NIBC's European Infrastructure Fund was established for institutional clients, and in addition acts directly for pension fund investors, assisting them with the acquisition and on-going management of infrastructure investments. Core sectors, reflecting the expertise and experience of the NIBC team, include PPP projects, waste management projects, energy storage and distribution assets, and renewable energy projects in the wind, solar and waste to energy sectors; and
- NIBC's sustainability policy framework, including applicable sector policies, is also applicable to the investments made under these programmes.

For more information please see NIBC's website.

51 Related party transactions

Transactions involving NIBC's shareholders

Significant related party transactions executed in 2014 and 2013 are the following:

At 31 December 2014, NIBC had EUR 208 million of net exposure (assets less liabilities) to its parent and to entities controlled by its parent entity (2013: EUR 205 million). The interest received and paid on this exposure was at arm's length.

In June 2009, NIBC made a commitment of USD 10 million to 'Flowers Fund III' an investment fund managed by an affiliate of J.C. Flowers & Co. At 31 December 2014, the remaining undrawn commitment in this facility was USD 4 million. Fees paid to NIBC related to these asset management activities were nil for both 2014 and 2013.

Transactions related to associates
As at 31 December 2014, NIBC had EUR 140 million of loans advanced to its associates (2013: EUR 55 million). Apart from arm's length net interest income on these loans, NIBC did not earn fees from these associates in 2014 and 2013.

In June 2007, NIBC launched the NIBC European Infrastructure Fund I, (which was NIBC's first third-party equity fund) with a final close in August 2008. Total commitments to the fund amount to EUR 347 million, of which EUR 247 million is committed by four third-party investors and EUR 100 million by NIBC. The fund invests in infrastructure projects mainly in Western Europe. NIBC reported a gain from its investment in the fund in 2014 of EUR 9 million (2013: gain of EUR 6 million) and earned fees of EUR 3 million (2013: EUR 3 million). In NIBC's financial statements, this fund is classified as an associate at fair value through profit or loss.

In September 2008, NIBC launched the NIBC European CMBS Opportunity Fund. Of the total committed fund size of EUR 64 million, EUR 49 million is committed by third-party investors and EUR 15 million by NIBC. The fund invests in structured commercial real estate in Western Europe. In December 2013 the fund was terminated after the last investments were sold. NIBC's did not receive income from this fund in 2014 and 2013. In NIBC's financial statements, this fund is classified as an associate at fair value through profit or loss.

In 2014 and 2013, NIBC did not earn advisory fees for services to J.C. Flowers & Co.

Transactions related to key employees
All transactions with key employees are reported in the tables in note 54 Remuneration of Statutory Board members and Supervisory Board members.

52 Principal subsidiaries and associates

Information on subsidiaries

Composition of NIBC
NIBC is the direct or indirect holding company for NIBC's subsidiaries.

NIBC consists of 79 (2013: 83) consolidated entities, including 15 (2013: 15) consolidated structured entities (for further details see note 53). 64 (2013: 66) 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 15 (2013: 17) of the consolidated entities (non-controlling interests). As of 31 December 2014 and 2013, the non-controlling interests were in aggregate not material to NIBC.

Accounting for investment in subsidiaries
In the company financial statements of NIBC, investments in subsidiaries are stated at cost less impairment.

Principal subsidiaries
NIBC's principal subsidiaries are set out below. 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	The Netherlands	Financing	100%
Counting House B.V.	The Hague	The Netherlands	Financing	100%
B.V. NIBC Mortgage-Backed Assets	The Hague	The Netherlands	Financing	100%
NIBC Principal Investments B.V.	The Hague	The Netherlands	Financing	100%
NIBC Financing B.V.	The Hague	The Netherlands	Financing	100%
Olympia Nederland Holding B.V.	The Hague	The Netherlands	Employment agency	100%

Significant judgements and assumptions used to determine the scope of the consolidation
Determining whether NIBC has control of an entity is generally straightforward, based on ownership of the majority of the voting rights. However, in certain instances this determination will involve significant judgement, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over the relevant activities. This judgement may involve assessing the purpose and design of the entity. It will also often be necessary to consider whether NIBC, or another involved party with power over the relevant activities, is acting as a principal in its own right or as an agent on behalf of others.

There is also often considerable judgement involved in the ongoing assessment of control over structured entities. In this regard, where market conditions have deteriorated such that the other investors' exposures to the structure's variable returns have been substantively eliminated, NIBC may conclude that the managers of the structured entity are acting as its agent and therefore NIBC will consolidate the structured entity.

An interest in equity voting rights exceeding 50% (or in certain circumstances large minority shareholding) would typically indicate that NIBC has control of an entity. However certain entities are excluded from consolidation because NIBC does not have exposure to their variable returns and/or are managed by external parties and consequently are not controlled by NIBC. Where appropriate, interests relating to these entities are included in Note 53 Structured entities.

See the basis of consolidation section of the Accounting policies for further information on other factors affecting consolidation of an entity.

Significant restrictions to access or use NIBC's assets
Legal, contractual or regulatory requirements as well as protective rights of non-controlling interests might restrict the ability of NIBC to access and transfer assets freely to or from other entities within NIBC and to settle liabilities of NIBC.

Since NIBC did not have any material non-controlling interests at the balance sheet date, any protective rights associated with these did not give rise to significant restrictions.

Restrictions impacting NIBC's ability to use assets:

- NIBC has pledged assets to collateralise its obligations under repurchase agreements, securities financing transactions, collateralised loan obligations and for margining purposes of OTC derivative liabilities;
- The assets of consolidated structured entities are held for the benefit of the parties that have bought the notes issued by these entities; 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 2014		At 31 December 2013	
IN EUR MILLIONS	Total assets	Restricted assets	Total assets	Restricted assets
FINANCIAL ASSETS AT AMORTISED COST				
Due from other banks	2,286	1,969	1,796	1,508
Loans	7,226	795	6,186	764
Mortgages own book	1,078	301	98	-
FINANCIAL ASSETS AT AVAILABLE-FOR-SALE				
Equity investments	53	40	47	36
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)				
Loans (FVtPL)	374	150	480	143
Residential mortgages own book	3,342	2,333	3,586	1,421
Securitised residential mortgages	3,638	3,638	3,878	3,878
Debt investments	37	-	81	-
Investments in associates	276	243	257	217
Investments in associates (equity method)	6	4	8	7
	18,316	**9,473**	**16,417**	**7,974**

The previous table excludes assets that are not encumbered at an individual entity level but which may be subject to restrictions in terms of their transferability within NIBC. Such restrictions may be based on local connected lending requirements or similar regulatory restrictions. In this situation, it is not feasible to identify individual balance sheet items that cannot be transferred. This is also the case for regulatory minimum liquidity requirements. NIBC identifies the volume of liquidity reserves in excess of local stress liquidity outflows. The aggregate amount of such liquidity reserves that are considered restricted for this purpose is EUR 98 million and EUR 91 million as per 31 December 2014 and 31 December 2013, 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 38 (2013: 48) associates. Three associates are considered to be material to NIBC, based on the carrying value of the investment and NIBC's income from these investees. There are no joint arrangements which are considered individually significant.

Accounting classification and carrying value

IN EUR MILLIONS	2014	2013
Investments in associates (fair value through profit or loss)	225	201
Investments in associates (equity method)	6	8
	231	**209**

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	NIBC's interest
NAME OF THE ASSOCIATE				
MBF Equity 1B	The Hague	The Netherlands	Investment company	53%
NEIF	The Hague	The Netherlands	Investment company	29%
GCF II	The Hague	The Netherlands	Investment company	20%

The amounts shown in the table below are of the investees,[1] not just NIBC's share for the year ended 31 December 2014. These associates are highly leveraged by equity.

IN EUR MILLIONS	Assets	Liabilities	Operating income	Other comprehensive income	Total comprehensive income
MBF Equity 1B	370	-	34	-	31
NEIF	308	-	31	-	38
GCF II	76	-	1	-	(2)

[1] The figures are based on the latest publicly available financial information of the investee as of 30 September 2014.

NIBC received no dividends from above significant associates in 2014 (2013: nil).

Investments in associates (equity method)

Summarised financial information for NIBC's investments in associates (equity method) is set out below. The amounts shown are the net income of the investees, not just NIBC's share for the year ended 31 December 2014 with the exception of associates for which the amounts are based on financial information made up to dates not earlier than three months before the balance sheet date.

Associates

IN EUR MILLIONS	2014	2013
Profit or loss from continuing operations	1	-
Other comprehensive income/(loss)	-	-
Total comprehensive income/(loss)	**1**	**-**

Aggregated carrying amount of associates that are individually immaterial to NIBC

IN EUR MILLIONS	2014	2013
Aggregated amount of NIBC's share of profit (loss) from continuing operations	(1)	-
Aggregated amount of NIBC's share of post-tax profit (loss) from discontinued operations	1	-
Aggregated amount of NIBC's share of other comprehensive income	-	-
Aggregated amount of NIBC's share of total comprehensive income	**-**	**-**

Unrecognised share of the losses of individually immaterial associates was nil in 2014 (2013: nil).

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 2014 (2013: nil).

53 Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well-defined objective with restrictions around their ongoing activities.

The principal use of structured entities is to provide clients with access to specific portfolios of assets and to provide market liquidity for clients through securitising financial assets. Structured entities may be established as corporations, trusts or partnerships. Structured entities generally finance the purchase of assets by issuing notes that are collateralised by and/or indexed to the assets held by the structured entities. The notes issued by structured entities may include tranches with varying levels of subordination.

Structured entities are consolidated when the substance of the relationship between NIBC and the structured entities indicate that the structured entities are controlled by NIBC, as discussed 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 2014, 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 2014 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, guarantees and certain derivative instruments in which NIBC is absorbing variability of returns from the structured entities.

Below is a description of NIBC's involvements in unconsolidated structured entities by type.

Securitisation vehicles

NIBC establishes securitisation vehicles which purchase diversified pools of assets, including fixed-income securities, corporate loans, and asset-backed securities (predominantly commercial, residential and mortgage-backed assets). The securitisation vehicles fund these purchases by issuing multiple tranches of notes.

NIBC transfers assets to these securitisation vehicles and provide financial support to these entities in the form of liquidity facilities.

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 2014 off-balance sheet instruments amounts to EUR 30 million. There were no derivatives linked to structured entities.

Size of structured entities

NIBC provides a different measure for the size of structured entities depending on their type. The following measures have been considered as appropriate indicators for evaluating the size of structured entities:

- Securitisations – notional of notes in issue when NIBC derives its interests through notes its holds and notional of derivatives when NIBC's interests is in the form of derivatives; and
- Third party fund entities – total assets in entities. For third party fund entities, size information is based on the latest available investor reports and financial statements.

Summary of interests in unconsolidated structured entities

The following table shows, by type of unconsolidated structured entity, the carrying amounts of NIBC's interests recognised in the consolidated statement of financial position as well as the maximum exposure to loss resulting from these interests. It also provides an indication of the size of the structured entities. The carrying amounts presented below do not reflect the true variability of returns faced by NIBC because they do not take into account the effects of collateral or hedges.

IN EUR MILLIONS	Securitisations	Third party fund entities	Total
FINANCIAL ASSETS AT AMORTISED COST			
Loans	-	70	70
Debt investments	161	-	161
FINANCIAL ASSETS AT AVAILABLE-FOR-SALE			
Equity investments	-	40	40
Debt investments	83	-	83
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)			
Equity investments (including investments in associates)	-	216	216
TOTAL ASSETS	**244**	**326**	**570**
OFF-BALANCE SHEET EXPOSURE	**-**	**30**	**30**
TOTAL MAXIMUM EXPOSURE TO LOSS	**244**	**356**	**600**
SIZE OF STRUCTURED ENTITIES	**4,776**	**4,147**	**8,923**

Loans of EUR 70 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.

Debt investments of EUR 161 million are collateralised by the assets contained in these entities.

Equity investments of EUR 216 million primarily consist of investments in associates of EUR 111 million and EUR 90 million in NIBC MBF Equity IB B.V. 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 table below. There is no significant level of subordination relating to third-party funding.

IN EUR MILLIONS	Subordinated interests	Mezzanine interests	Senior interests	Most senior interests	Total
SECURITISATIONS					
I) Maximum exposure to loss	-	72	-	172	244
II) Potential losses held by other investors	58	550	-	3,924	4,532

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 fund entities	Total
NET INCOME UNCONSOLIDATED STRUCTURED ENTITIES			
Net interest income	2	8	10
Net fee and commission income	-	11	11
Dividend income	-	1	1
Gains less losses from financial assets	-	22	22
	2	**42**	**44**

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 2014 comprised a EUR 1 million interest earned from bonds recognised within interest income.

Assets transferred to unconsolidated sponsored structured entities

The carrying amounts of assets transferred to sponsored unconsolidated structured entities during the period were nil.

54 Remuneration of the Statutory Board members and Supervisory Board members

Remuneration of the Statutory Board members

The Supervisory Board reviewed and amended NIBC's Remuneration Policy in 2014. The review took account of all relevant regulations and guidelines: the Dutch Corporate Governance Code, the Dutch Banking Code, the *DNB Principles on Sound Remuneration Policies* (**DNB Principles**), including additional DNB guidance on the implementation of the DNB Principles and the *Committee of European Banking Supervisors Guidelines* on Remuneration Policies and Practices (**CEBS Guidelines**) and CRD IV. Forthcoming *Dutch remuneration legislation for Financial Service Companies* (Wet beloning Financiële ondernemingen - Wbfo) was also taken into account when we prepared the 2015 Remuneration Policy.

The Supervisory Board was not eligible to grant variable compensation to the Statutory Board members as long as NIBC had not yet repaid all outstanding state guaranteed funding. On 2 December 2014 the remaining outstanding state guaranteed funding was repaid. The Supervisory Board decided not to award any variable compensation over 2014 to the Statutory Board members.

Regular annual remuneration

In 2014, the average number of members of the Statutory Board appointed under the articles of association was 4.3 (2013: 3.6). For the total regular annual remuneration costs (including pension costs) for members and former members of the Statutory Board, appointed under the articles of association, reference is made to note 8 Personnel expenses and share-based payments. On 7 April 2014 Mr. Drost stepped down as CEO of the Statutory Board and his employment ended on 31 July 2014. Mr. de Wilt joined NIBC on 1 April 2014 and was appointed as CEO of the Statutory Board on 7 April 2014.

Base salary and short-term incentive compensation (cash bonus)

In 2014, the base salary for the Chairman was set at EUR 775,000 gross per year, whilst the base salary for members of the Statutory Board remained at EUR 500,000 gross per year. Since 1 January 2012, all short-term variable compensation has been eliminated.

The new CEO received sign-on compensation of EUR 700,000 as compensation for forfeiting deferred compensation from his former employer. Of this amount 50% was invested in Common Depositary Receipts under the co-investment programme for which he received matching shares (Conditional Restricted Depositary Receipts) without the ability to earn performance shares, and 50% will be paid in deferred cash with a vesting period of 3 years with a first payment on 1 April 2015.

Table 1

IN EUR	2014	2013
THE BREAKDOWN OF THE AMOUNTS OF COMPENSATION AWARDS IN CASH PER MEMBER AND FORMER MEMBER OF THE STATUTORY BOARD IS AS FOLLOWS:		
MR. PAULUS DE WILT, CHIEF EXECUTIVE OFFICER, CHAIRMAN[1]		
Base salary	581,250	-
Sign-on compensation (50% cash and 50% deferred cash)	700,000	-
One-off compensation for cancellation of long-term incentive arrangement	155,000	-
	1,436,250	**-**
MR. HERMAN DIJKHUIZEN, CHIEF FINANCIAL OFFICER[2]		
Base salary	500,000	125,000
One-off compensation for cancellation of long-term incentive arrangement	100,000	-
	600,000	**125,000**
MR. ROB TEN HEGGELER, CHIEF CLIENT OFFICER		
Base salary	500,000	500,000
One-off compensation for cancellation of long-term incentive arrangement	100,000	-
	600,000	**500,000**
MS. PETRA VAN HOEKEN, CHIEF RISK OFFICER		
Base salary	500,000	500,000
One-off compensation for cancellation of long-term incentive arrangement	100,000	-
	600,000	**500,000**
MR. JEROEN DROST, FORMER CHIEF EXECUTIVE OFFICER AND CHAIRMAN[3]		
Base salary	466,667	800,000
	466,667	**800,000**
MR. KEES VAN DIJKHUIZEN, FORMER CHIEF FINANCIAL OFFICER[4]		
Base salary	-	166,667
	-	**166,667**
TOTAL CASH COMPENSATION	**3,702,917**	**2,091,667**

1 Mr. de Wilt joined NIBC on 1 April 2014 and was appointed as Chief Executive Officer and Chairman of the Statutory Board on 7 April 2014.
2 Mr. Dijkhuizen joined NIBC and was appointed as a member of the Statutory Board on 1 October 2013.
3 Mr. Drost stepped down as Chief Executive Officer of the Statutory Board on 7 April 2014 and his employment ended on 31 July 2014. Base salary 2014 relates to the period up to the end of his employment.
4 Mr. van Dijkhuizen stepped down as a member of the Statutory Board on 30 April 2013 and his employment ended at the same date.

Short-term incentive compensation (deferred cash bonus, Phantom Share Units and Restricted Phantom Share Units)

In 2014 short-term variable compensation was not an element of the remuneration package.

Other remuneration elements

The other elements of the Statutory Board members' remuneration consist of car and other expense allowances, mortgage subsidy, dividend compensation on conditionally granted share rewards before 2012 and other emoluments.

Table 2

IN EUR	2014	2013
THE BREAKDOWN OF THE AMOUNTS OF OTHER REMUNERATION ELEMENTS PER MEMBER AND FORMER MEMBER OF THE STATUTORY BOARD IS AS FOLLOWS:		
Mr. Paulus de Wilt	39,837	-
Mr. Herman Dijkhuizen	55,488	16,889
Mr. Rob ten Heggeler	71,977	102,242
Ms. Petra van Hoeken	61,818	82,845
Mr. Jeroen Drost, former Chief Executive Officer and Chairman	47,873	142,161
Mr. Kees van Dijkhuizen, former Chief Financial Officer	-	41,706
TOTAL OTHER REMUNERATION ELEMENTS	**276,993**	**385,843**

Long-term incentive compensation (Conditional Restricted Depositary Receipts)

As of 1 January 2012 the maximum long-term incentive is 70% for the CEO, 60% for members of the Statutory Board responsible for commercial activities and 40% for the CFO and CRO. If any LTI is conditionally granted to the Statutory Board, this will be in the form of 66.67% CRDRs and 33.33% cash. The LTI is conditional upon the achievement of performance conditions, is forward-looking and is subject to a three-year performance period and an additional three-year pro-rated deferral period. Since 2012 the Supervisory Board was not eligible to grant LTI to Statutory Board members as long as NIBC had not yet repaid all outstanding state guaranteed funding.

In December 2014, in light of the forthcoming legislation on remuneration for Financial Service Companies and the social context, the Supervisory Board decided not to grant any long-term incentives and to revoke the long-term incentive arrangement for the Statutory Board as of 1 January 2015 and to replace it by a variable income component of 15% of base salary (with a maximum of 20%). The Supervisory Board awarded the Statutory Board members one-off compensation for this structurally lower variable income of 20% of their base salary. The net proceeds were subsequently invested by the Statutory Board members in CDRs under the co-investment programme, excluding the ability to earn performance shares. In return for their long-term commitment, they received matching shares (CRDRs) with a four-year vesting period the first tranche of which will vest on 1 January 2016.

Table 3

Pension costs

IN EUR	2014	2013
THE AMOUNTS OF PENSION COSTS PER MEMBER AND FORMER MEMBER OF THE STATUTORY BOARD WERE AS FOLLOWS:		
Mr. Paulus de Wilt	76,560	-
Mr. Herman Dijkhuizen	68,755	16,978
Mr. Rob ten Heggeler	68,850	68,000
Ms. Petra van Hoeken	68,755	67,912
Mr. Jeroen Drost, former Chief Executive Officer and Chairman	61,344	104,312
Mr. Kees van Dijkhuizen, former Chief Financial Officer	-	35,502
TOTAL PENSION COSTS	**344,264**	**292,704**

As at 31 December 2014 and 31 December 2013, no loans, advance payments or guarantees had been provided to Statutory Board members.

Remuneration of the Supervisory Board members

The remuneration of the Supervisory Board members relates to their position within NIBC Holding and NIBC Bank.

Table 4

IN EUR	2014	2013
MEMBERS		
Mr. W.M. van den Goorbergh[1]	96,500	96,500
Mr. D.R. Morgan	71,500	71,500
Mr. A.A.G. Bergen[1/2]	33,250	66,500
Mr. M.J. Christner	55,000	55,000
Mr. J.C. Flowers	40,000	40,000
Mr. N.W. Hoek[1/3]	65,000	66,875
Mr. A. de Jong[1]	51,500	51,500
Ms. S.A. Rocker	50,000	50,000
Ms. K.M.C.Z. Steel[1/4]	27,708	-
Mr. A.H.A. Veenhof[1]	50,000	50,000
Mr. C.H. van Dalen[1/5]	-	22,917
TOTAL REMUNERATION	**540,458**	**570,792**

1 In line with Dutch tax regulations, 21% VAT is payable on the total remuneration payable to the relevant Supervisory Board member. The amounts mentioned are without VAT.
2 Mr A.A.G. Bergen stepped down as a member of the Supervisory Board on 16 May 2014.
3 Mr N.W. Hoek has been a member of the *Audit & Compliance Committee* (**ACC**) since 13 November 2012. His remuneration 2013 includes the ACC fee for part of 2012.
4 Ms. K.M.C.Z. Steel was appointed as a member of the Supervisory Board in the Extraordinary Meeting of Shareholders on 19 August 2014.
5 Mr. C.H. van Dalen stepped down as a member of the Supervisory Board on 14 May 2013.

The remuneration of the Supervisory Board members consists of annual fixed fees and committee fees. As at 31 December 2014 and 31 December 2013, no loans, advance payments or guarantees had been provided to Supervisory Board members.

Depositary receipts

Common Depositary Receipts

The following tables show the holdings by current and former members of the Statutory Board:

NUMBER OF COMMON DEPOSITARY RECEIPTS (GRANTED)	2014	2013
Mr. Kees van Dijkhuizen, former Chief Financial Officer	10,580	11,756
TOTAL NUMBER OF COMMON DEPOSITARY RECEIPTS (GRANTED)	**10,580**	**11,756**

NUMBER OF COMMON DEPOSITARY RECEIPTS (INVESTMENT FROM OWN FUNDS)	2014	2013
Mr. Paulus de Wilt	47,197	-
Mr. Herman Dijkhuizen	23,589	18,008
Mr. Rob ten Heggeler	48,825	43,244
Ms. Petra van Hoeken	24,637	17,242
Mr. Jeroen Drost, former Chief Executive Officer and Chairman	68,108	75,676
Mr. Kees van Dijkhuizen, former Chief Financial Officer	34,371	38,190
TOTAL NUMBER OF COMMON DEPOSITARY RECEIPTS (INVESTMENT FROM OWN FUNDS)	**246,727**	**192,360**

On 7 April 2014, Mr. Jeroen Drost stepped down from the Statutory Board. After this date Mr. Drost had the same opportunity as other employees to participate in the one-off offer to sell up to 10% of his CDR holdings.

Conditional Common Depositary Receipts

The following tables show the holdings by members of the Statutory Board:

NUMBER OF CONDITIONAL COMMON DEPOSITARY RECEIPTS (VESTED ONE-OFF MATCHING SHARES)	2014	2013
Mr. Rob ten Heggeler	43,244	43,244
Ms. Petra van Hoeken	8,622	4,311
Mr. Jeroen Drost, former Chief Executive Officer and Chairman	75,676	75,676
Mr. Kees van Dijkhuizen, former Chief Financial Officer	32,433	32,433
TOTAL NUMBER OF CONDITIONAL COMMON DEPOSITARY RECEIPTS (VESTED ONE-OFF MATCHING SHARES	**159,975**	**155,664**

NUMBER OF CONDITIONAL COMMON DEPOSITARY RECEIPTS (LTI)	2014	2013
Mr. Rob ten Heggeler	9,173	7,265
Mr. Jeroen Drost, former Chief Executive Officer and Chairman	16,054	12,714
Mr. Kees van Dijkhuizen, former Chief Financial Officer	7,265	7,265
TOTAL NUMBER OF CONDITIONAL COMMON DEPOSITARY RECEIPTS (LTI)	**32,492**	**27,244**

The three-year performance period for a total of 13,808 CRDRs under the LTI 2011 ended 1 January 2014. The Supervisory Board reviewed the agreed long-term financial and non-financial performance conditions. The financial performance conditions (60%) were not met. The non-financial performance conditions (40%) were almost met on stretch level. The Supervisory Board therefore awarded a vesting of 38% of the LTI 2011 CRDRs, which were fully vested at 1 April 2014. Consequently 62% of the LTI 2011 forfeited. The vested instruments have an additional retention period of two years. Furthermore the vested instruments need to be held until a liquidity event takes place to ensure alignment with the shareholders.

The number of CRDRs (LTI) as at year end 2014 is nil (2013: 5,248, of which 3,340 from Jeroen Drost and 1,908 from Rob ten Heggeler).

Conditional Restricted Depositary Receipts

Co-investment programme

As a result of personal investments by the Statutory Board members in 2009 and 2012 matching shares were granted to the Statutory Board members in 2009 and in 2012, in the form of CRDRs with an after-tax value equal to the value of the personal investment made. In addition to the matching shares, the Statutory Board members can earn performance shares (CRDRs), subject to a service condition (continuous employment) and the realisation of predetermined performance conditions.

NIBC has the discretion to offer new members of the Statutory Board the opportunity to participate in this co-investment programme under the same conditions, except for the ability to earn performance shares, as this feature is presumed no longer to be in line with current DNB Principles.

This offer was made to Mr. de Wilt when he joined the Statutory Board on 7 April 2014 and it was accepted by him at a price of EUR 8.25 per CDR being the fair value at that time. At the same time Mr. de Wilt invested 50% of the sign-on compensation he received in cash into CDRs under this co-investment programme for which he received matching shares (CRDRs). The matching shares (CRDRs) he received are subject to a four-year vesting period with one quarter vesting each year, for the first time on 1 January 2015.

In December 2014 the Supervisory Board awarded the Statutory Board members one-off compensation of 20% of their base salary to compensate for the cancellation of the long-term incentive arrangement as of 1 January 2015. The net proceedings were subsequently invested by the Statutory Board members in CDRs under the co-investment programme at a price of EUR 8.60 per CDR being the fair value at 31 December 2014. For their long-term commitment they received matching shares (CRDRs) with a four-year vesting period of which the first tranche will vest on 1 January 2016.

Mr. Jeroen Drost stepped down from the Statutory Board on 7 April 2014 and his employment ended on 31 July 2014. All his NIBC Choice instruments and CCDRs (related to the co-investment and long-term incentive programmes), except for the performance shares, were vested at the time his employment ended.

The following table shows the holdings by members of the Statutory Board:

NUMBER OF CONDITIONAL RESTRICTED DEPOSITARY RECEIPTS (ONE-OFF MATCHING SHARES)	2014	2013
Mr. Paulus de Wilt	47,197	-
Mr. Herman Dijkhuizen	23,589	18,008
Mr. Rob ten Heggeler	5,581	-
Ms. Petra van Hoeken	14,201	12,931
TOTAL NUMBER OF CONDITIONAL RESTRICTED DEPOSITARY RECEIPTS (ONE-OFF MATCHING SHARES)	**90,568**	**30,939**

The matching shares are subject to four-year vesting with one quarter vesting each year on 1 January, but they will immediately vest upon a change of control of NIBC Holding, in which case they (i) will become fully unconditional and (ii) be legally transferred.

The performance shares will only vest upon a change of control of NIBC Holding and the attainment of an annual compounded hurdle rate. The number of performance shares that vest is based on a predetermined formula. The number of performance shares contained in this variable compensation is in principle uncapped, but the Supervisory Board has the discretion to adjust the ultimate number in the case of unfair or unintended effects.

For reporting purposes, the number of performance shares for the eligible Statutory Board is estimated at nil CRDRs, based on NIBC's long-term forecast and taking into account price-to-book ratios observed in the market. Depending on the assumptions applied, this number can vary over time. The conditional performance shares will vest immediately upon a change of control of NIBC Holding.

Options

As at 31 December 2014 and 31 December 2013, no options were held by current and former members of the Statutory Board.

55 Credit risk

This section includes all financial assets subject to credit risk. Non-credit obligations fall under other risk types, such as market risk, and equity is subject to investment risk. The following portfolios contain credit risk:

- Corporate/Investment Loans;
- Lease receivables;
- Residential Mortgages;
- Debt Investments;
- Cash Management; and
- Derivatives.

55-1 Credit risk exposure breakdown per portfolio

IN EUR MILLIONS	31 December 2014	31 December 2013
CORPORATE/ INVESTMENT LOANS	8,943	7,538
Corporate loans	*8,789*	*7,412*
Investment loans	*154*	*126*
LEASE RECEIVABLES	361	-
RESIDENTIAL MORTGAGES	8,058	7,564
DEBT INVESTMENTS	1,190	1,692
Debt from financial institutions and corporate entities	*402*	*711*
Securitisations	*788*	*981*
CASH MANAGEMENT	1,212	1,795
DERIVATIVES[1]	2,851	2,800
TOTAL	**22,615**	**21,389**

1 Positive replacement values

Table 55-1 presents the maximum credit risk exposure per portfolio, without taking collateral or any other credit risk reduction into consideration. For all portfolios except derivatives, this is generally the total commitment of NIBC, which also includes off-balance sheet commitments such as guarantees and undrawn credit lines. Only the positive replacement values for derivatives are shown, without netting and without any potential future exposure add-on.

The figures in table 55-1 are not directly comparable to the figures on the balance sheet. Corporate and investment loans include off-balance sheet exposures and exclude exposures from NIBC Bank to NIBC Holding. Residential mortgages are recognised on the balance sheet under residential mortgages own book and securitised residential mortgages. Debt investments (securitisations) differ from the figure on the balance sheet due to off-balance sheet exposures as disclosed in the Risk Management notes and due to partial offsetting of risk exposure with liabilities to the same counterparties. The main difference in the cash figures is due to collateral posting on credit risk differences for derivatives/repos.

NIBC employs an internally-developed methodology under the *Advanced Internal Ratings Based* (**AIRB**) approach for quantifying the credit quality of corporate and bank counterparties. The AIRB methodology for corporate counterparties was approved by NIBC's regulatory authority, the DNB, in 2008. In 2014, NIBC also received approval from the DNB to use the AIRB methodology for bank counterparties.

Corporate loans

Corporate loan distribution

The industry sectors shown in tables 55-2 and 55-3 are based on *Statistical Classification of Economic Activities in the European Community* (**NACE**) classification and as such, do not strictly follow the internal NIBC sector organisation that is presented in the risk management chapter, although there is a large overlap.

NACE is the *Statistical Classification of Economic Activities in the European Community* (in French: *Nomenclature Statistique des Activités Economiques dans la Communauté Européenne*), an EU industry standard classification system specifying eleven industry sectors. The overview mapping NACE codes with NIBC reporting sectors on NIBC's website contains a detailed breakdown of the NACE codes allocated to NIBC's exposures.

Tables 55-2 and 55-3 display a breakdown of the Corporate Loan portfolio among regions and industry sectors, at year-end 2014 and 2013. In line with our strategy, the Corporate Loan portfolio increased by EUR 1,377 million in 2014 to EUR 8,789 million mainly due to the exposure increase in the industry sectors oil & gas, shipping and infrastructure. The relative weight of NIBC's core growth market the Netherlands remained stable, while the share of Germany slightly decreased and the weight of the United Kingdom was unchanged from 2013. The corporate loan portfolio outside Europe increased slightly to 15% of the total exposure at 31 December 2014 (31 December 2013:14%).

55-2 Corporate loan exposure per industry sector and region, 31 December 2014

	Infra-structure	Shipping	Com-mercial Real Estate	Oil & Gas	Manu-facturing	Financial Services	Services	Wholesale/ Retail/ Leisure	Agricul-ture & Food	TMT[1]	Other	TOTAL	TOTAL (in EUR millions)
The Netherlands	3	2	8	2	4	3	3	3	1	1	-	29	2,559
Germany	5	1	7	-	3	2	1	2	1	1	-	22	1,932
United Kingdom	14	1	-	2	-	1	1	-	-	-	1	20	1,765
Rest of Europe	2	5	-	4	1	-	1	1	-	-	-	14	1,227
Asia / Pacific	-	3	-	3	-	-	-	-	-	-	-	6	523
North America	-	2	-	3	-	-	-	-	-	-	-	6	494
Other	-	1	-	1	-	1	-	-	-	-	-	3	290
TOTAL (IN %)	**24**	**15**	**15**	**15**	**8**	**7**	**6**	**6**	**2**	**2**	**1**	**100**	**8,789**
TOTAL (IN EUR MILLIONS)	**2,112**	**1,387**	**1,294**	**1,244**	**650**	**607**	**483**	**453**	**289**	**172**	**98**		**8,789**

[1] Telecommunication, Media and Technology.

55-3 Corporate loan exposure per industry sector and region, 31 December 2013

	Infra-structure	Com-mercial Real Estate	Shipping	Oil & Gas	Financial Services	Manu-facturing	Services	Wholesale/ Retail/ Leisure	Agricul-ture & Food	TMT[1]	Other	TOTAL	TOTAL (in EUR millions)
The Netherlands	4	7	2	1	4	4	3	2	2	1	-	29	2,145
Germany	5	1-	1	-	2	2	1	1	1	1	-	23	1,698
United Kingdom	16	-	-	1	1	-	-	-	-	-	-	20	1,449
Rest of Europe	2	-	5	4	-	1	1	1	-	-	-	15	1,106
Asia / Pacific	-	-	4	2	-	-	-	-	-	-	-	5	401
North America	-	-	3	1	-	-	-	-	-	-	-	5	336
Other	-	-	2	2	-	-	-	-	-	-	-	4	278
TOTAL (IN %)	**27**	**17**	**17**	**11**	**7**	**7**	**5**	**4**	**3**	**2**	**0**	**100**	**7,412**
TOTAL (IN EUR MILLIONS)	**1,979**	**1,301**	**1,161**	**864**	**552**	**527**	**398**	**347**	**168**	**109**	**7**		**7,412**

[1] Telecommunication, Media and Technology.

CRR/CRD IV and credit approval process

NIBC employs an internally-developed methodology under *Advanced Internal Ratings Based* (**AIRB**) approach for quantifying the credit quality of its Corporate Loan portfolio. In line with CRR/CRD IV regulations, the methodology consists of three elements:

- CCR, reflecting the PD of the borrower. The default definition is in line with the CRR/CRD IV definition[1];
- LGD, defined as an anticipated loss element that expresses the potential loss in the event of default, which takes into account the presence and the value of collateral; and
- EAD, which is the amount that is expected to be outstanding at the moment a counterparty defaults.

[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.

The PDs, LGDs and EADs that are calculated through NIBC's internal models are used for the calculation of *expected loss* (**EL**) and CRR/CRD IV/Pillar 1 *regulatory capital* (**RC**). *Economic capital* (**EC**), *risk-adjusted return on capital* (**RAROC**), limit setting and stress testing are additional areas which make use of these parameters, although the values and methodologies for both EC and stress testing differ from those employed in Pillar 1. PDs, LGDs and EADs are also used in the CRR/CRD IV solvency report to the regulator.

Annual backtests of the internal rating framework are carried out to assess the quality and the performance of the models. The internal CCRs and LGDs are also benchmarked periodically with the scales of external rating agencies.

NIBC enforces strict separation of responsibilities with respect to its internal rating methodologies and rating process, model development, model validation and internal audit. The roles and responsibilities of each department involved are explicitly set out in internal policies and manuals, also in conformity with the stipulations of CRR/CRD IV on model governance.

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. Proposals, credit reviews and amendments of smaller scale can be approved outside the TC by risk management. All counterparties and, subsequently, all facilities, are reviewed at least once a year.

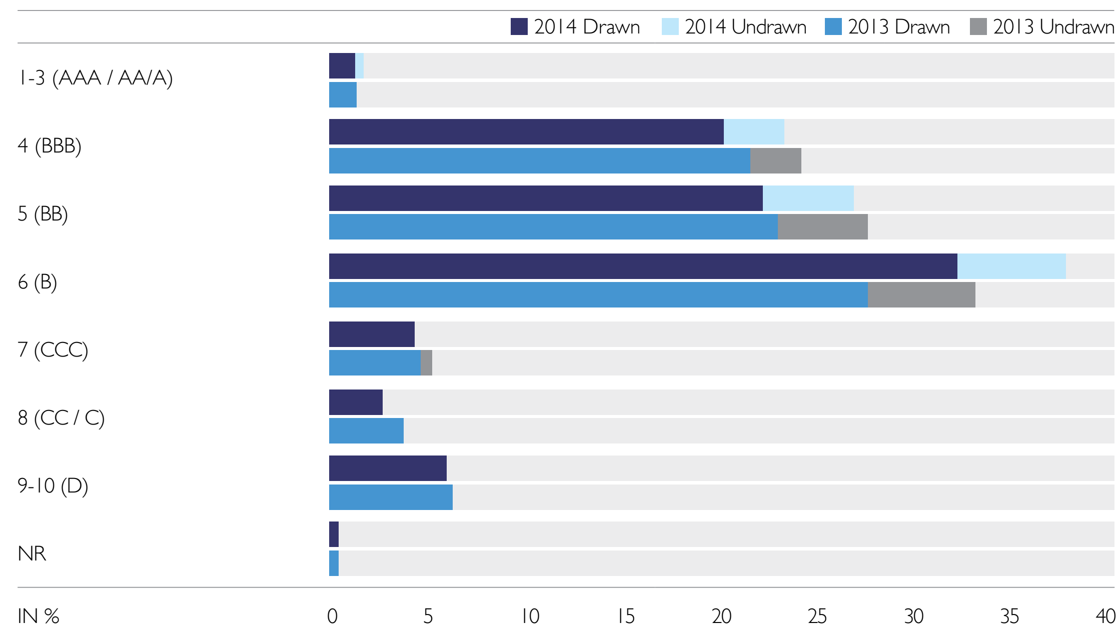
Credit ratings

NIBC uses an internal through-the-cycle CCR rating scale which consists of 10 grades (1-10) and a total of 22 notches. The CCRs 9 and 10 are assigned to counterparties that have defaulted and therefore carry a PD of 100%.

The weighted average CCR of the non-defaulted clients improved during 2014 to 6+ with an average PD of 2.2% at 31 December 2014 (31 December 2013: 2.9%). 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 55-4 shows the distribution of the drawn and undrawn corporate loan exposure per CCR.
The numbers on the horizontal axis refer to NIBC's internal rating scale, whereas the letters in parentheses refer to the equivalent rating scale of Standard & Poor's. NR stands for not rateable, which was a negligible portion of the corporate loans (0.3% at 31 December 2014; 0.2% at 31 December 2013). NR is assigned to entities for which NIBC's corporate rating tools were not suitable at the time of rating.

55-4 Drawn and undrawn corporate loan exposure per CCR rating



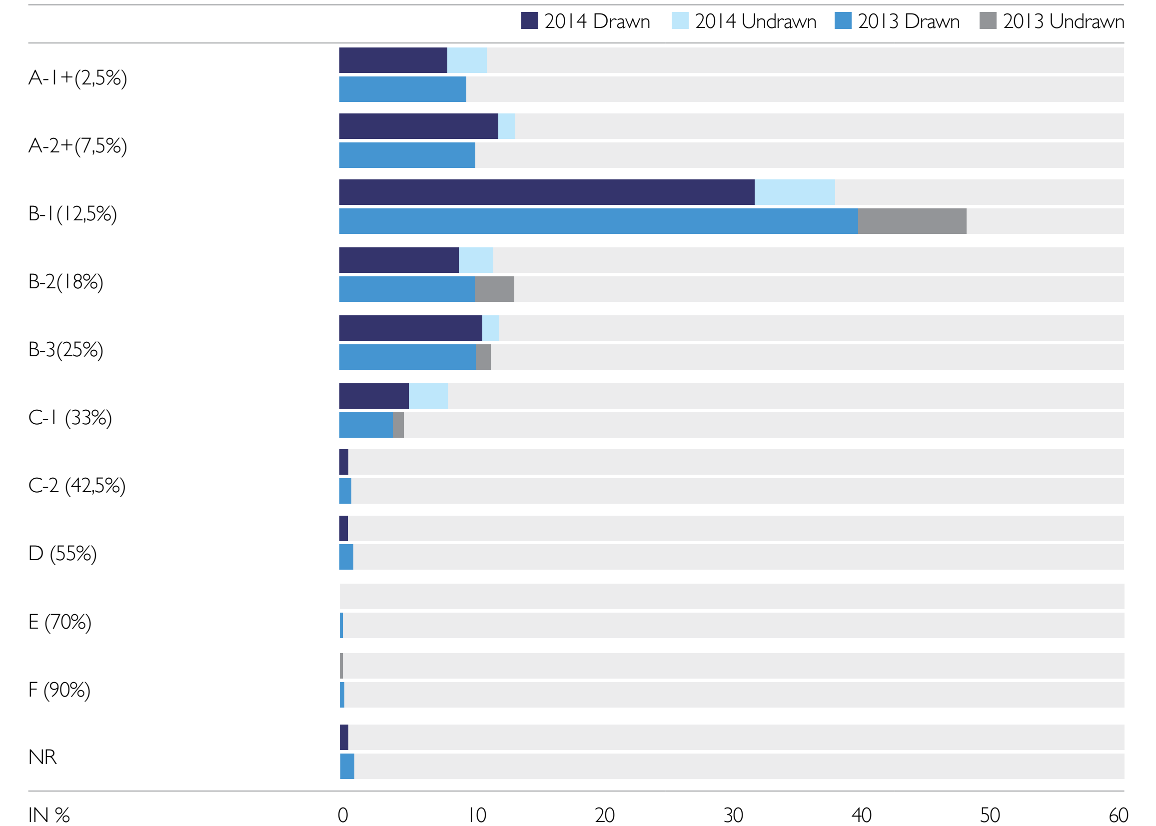
Collateral and LGD

NIBC's internal LGD scale consists of 7 grades (A-F) and 10 notches, each of which represents a different degree of recovery prospects and loss expectations. LGD ratings are facility-specific. The weighted average LGD remained stable at B-2 with an average LGD of 16.4% at 31 December 2014 (31 December 2013: 15.3%). The weighted average is calculated for non-defaulted loans. All facilities within NIBC have some form of collateralisation, resulting in LGDs concentrated in those LGD categories which correspond to high recoveries in the range of 80% and 90%.

Graph 55-5 shows the distribution of drawn and undrawn corporate loan exposures per LGD. The letters on the horizontal axis refer to NIBC's LGD grades and notches, whereas the numbers in parentheses refer to the loss percentage assigned to each LGD rating. NR was negligible (0.7% of corporate loans at 31 December 2014; 1.2% at 31 December 2013).

Note that the corporate loan exposure of graph 55-5 refers to non-defaulted exposure as the LGD is a measure of anticipated loss for facilities of a non-defaulted counterparty. Once a counterparty enters default, the impairment amount becomes a more meaningful measure of the loss.

55-5 Drawn and undrawn non-defaulted corporate loan exposure per LGD rating



The most significant types of collateral securing the loan and derivative portfolios are tangible assets, such as real estate, vessels, rigs and equipment. Exposures in the shipping and oil & gas sectors are primarily secured by moveable assets such as vessels and drilling vessels. The commercial real estate portfolio is primarily collateralised by mortgages on financed properties. Collateral value is estimated using third-party appraisers, whenever possible, or valuation techniques based on common market practice. For example, loan-to-value ratios are regularly tested and vessels are appraised semi-annually by external parties. Other commercial exposures are, to a large extent, collateralised by assets such as inventory, debtors, lease and other receivables and third-party credit protection (e.g. guarantees).

Arrears

The total arrears in the Corporate Loan portfolio increased slightly in 2014 to 0.9% of total the exposure at 31 December 2014 (31 December 2013: 0.8%). An overview of the amounts in arrear per arrear bucket is provided in tables 55-6 and 55-7. The exposure amounts refer to drawn and undrawn amounts of those facilities with an arrear, whereas the outstanding amounts refer to the drawn amounts only. The amounts in arrear are the actual amounts overdue at 31 December 2014 and 31 December 2013. The column labelled 'Impairment Amount' includes on-balance sheet impairment amounts only (31 December 2014: EUR 166 million; 31 December 2013: EUR 102 million). The inclusion of *Incurred but not Reported* (**IBNR**) impairment amounts on the line with no payment in arrear brings the total impairment amount for 31 December 2014 to EUR 170 million (31 December 2013: EUR 107 million). Tables 55-11 and 55-12 provide more information on impairment amounts.

55-6 Corporate loan amounts in arrear, 31 December 2014

	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	30	0.3%	29	0.4%	2.4	0.0%	-
6 - 30 days	20	0.2%	18	0.3%	0.2	0.0%	-
31 - 60 days	-	-	-	-	-	-	-
61 - 90 days	-	-	-	-	0.2	0.0%	-
SUBTOTAL LESS THAN 90 DAYS	**50**	**0.5%**	**47**	**0.7%**	**3**	**0.0%**	**-**
Over 90 days	70	0.8%	70	1.0%	64	0.9%	43
No payment in arrear	8,668	98.7%	7,041	98.3%	-	-	127
TOTAL	**8,789**	**100%**	**7,158**	**100%**	**67**	**0.9%**	**170**

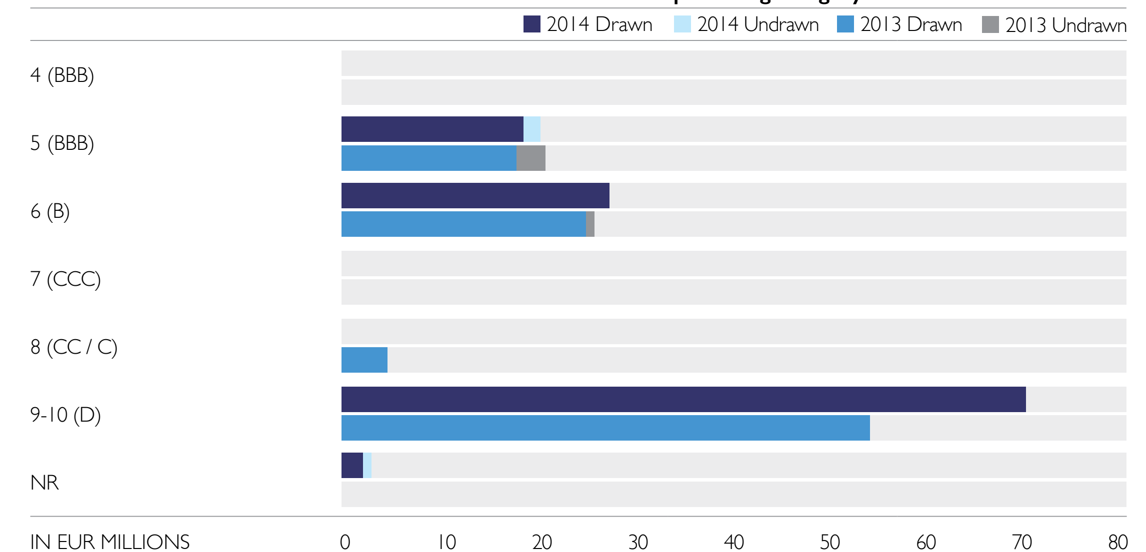
55-7 Corporate loan amounts in arrear, 31 December 2013

	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	50	0.7%	42	0.7%	2	0.0%	-
6 - 30 days	-	-	-	-	-	-	-
31 - 60 days	-	-	-	-	-	-	-
61 - 90 days	-	-	-	-	-	-	-
SUBTOTAL LESS THAN 90 DAYS	**50**	**0.7%**	**42**	**0.7%**	**2**	**0.0%**	**-**
Over 90 days	52	0.7%	52	0.8%	51	0.8%	29
No payment in arrear	7,310	98.6%	6,381	98.5%	-	-	78
TOTAL	**7,412**	**100.0%**	**6,475**	**100.0%**	**53**	**0.8%**	**107**

NIBC applies a threshold for determining whether a loan carries a non-material arrear. If the total arrear on facility level is lower than EUR 25,000 per facility, the age of the payment in arrear is below 30 days and the counterparty has not defaulted, then the arrear is considered insignificant. If arrears fall within the threshold, the exposure is placed on the 'no payment in arrear' line on tables 55-6 and 55-7. The application of this threshold does not influence the total arrears, which amounted to EUR 67 million at 31 December 2014 (31 December 2013: EUR 53 million).

Graph 55-8 displays the rating distribution of the exposure amounts (expressed as the sum of drawn and undrawn amounts) of all loans with an amount in arrear. The total exposure amount at 31 December 2014 was EUR 120 million (31 December 2013: EUR 102 million) and the total drawn amount at 31 December 2014 was EUR 117 million (31 December 2013: EUR 94 million). The increase in arrears occurred in the industry sector commercial real estate.

55-8 Distribution of drawn and undrawn amounts with an arrear per rating category



Forbearance and non-performing Corporate Loans

NIBC considers a client to be forborne if NIBC decides to modify and re-negotiate the original terms and conditions of the loan contract below NIBC standard market rate due to financial difficulty of the client. Loan facilities are considered re-negotiated when the initial contractual payment terms and conditions have been modified as a result of significant concerns about the borrowers' ability to meet the contractual obligations.

In 2014, NIBC developed a new Forbearance policy. Forbearance agreements may consist of:

- Providing a maturity date extension of a loan facility in order to give the borrower more time to deliver or enable a possible refinancing;
- Changing an amortizing loan facility into a bullet repayment at the maturity date in order to avoid the default of a borrower;
- A release of a material security interest without receiving appropriate value by way of repayment or alternative security offered; and
- Amendment of a material covenant breach impacting the borrower's ability to repay;
- Payment-in-kind of interest and/or principal payments for the purpose of maintaining the debt status as performing.

Individual cases where amendments are made in the original terms and conditions of the loan contract, which are not the result of financial difficulty of the borrower or which are within NIBC's current standard market terms and conditions, are not considered to be forborne.

All loan facilities are also subject to NIBC's impairment policy and are assessed when relevant impairment triggers have been met. 'Significant financial difficulty of the borrower' is one of the impairment triggers within NIBC. Forbearance is objective evidence of impairment and therefore an impairment test is considered for each forborne loan facility. Details of NIBC's impairment policy can be found in the *Accounting policies* section.

Tables 55-9 and 55-10 provide the total forborne outstanding in NIBC's Corporate Loan portfolio per industry sector and per region as at 31 December 2014. 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 2014, EUR 5 million non-performing outstanding was not forborne. Comparable figures for previous reporting years are not available.

Impairments of forborne facilities (excluding IBNR) amounted to EUR 165 million at 31 December 2014, which represented 15% of the total forborne balances. The total impairments of the Corporate Loan portfolio amounted to EUR 170 million at 31 December 2014, which represented 1.9% of the total Corporate Loan portfolio of EUR 8.8 billion.

Table 55-9 Forborne outstanding amount per industry sector, 31 December 2014

	Outstanding		**Total Outstanding**	**Impairment Amount**
IN EUR MILLIONS	**Non-performing**	**Performing**		
Commercial Real Estate	319	479	798	102
Infrastructure	51	60	111	10
Shipping	48	46	95	36
Services	22	37	59	6
Manufacturing	13	27	41	5
Wholesale/Retail/Leisure	11	8	19	6
TMT	7	-	7	-
Agriculture & Food	-	-	-	-
Financial Services	-	-	-	-
Oil & Gas	-	-	-	-
Other	-	-	-	-
IBNR Corporate Loans				4
TOTAL	**471**	**658**	**1,129**	**169**

Table 55-10 Forborne outstanding amount per region, 31 December 2014

	Outstanding		**Total Outstanding**	**Impairment Amount**
IN EUR MILLIONS	**Non-performing**	**Performing**		
Germany	349	376	725	105
The Netherlands	52	211	263	18
Rest of Europe	39	28	66	30
North America	24	27	51	12
United Kingdom	7	17	24	-
Asia/Pacific	-	-	-	-
Other	-	-	-	-
IBNR Corporate Loans				4
TOTAL	**471**	**658**	**1,129**	**169**

Impairment amounts

The Corporate Loan portfolio is reviewed by credit officers and risk management who monitor the quality of counterparties and the related collateral. Formal assessment of the entire portfolio takes place on a quarterly basis. All existing impairments are also reviewed. NIBC calculates an impairment amount by taking various factors into account, particularly the available collateral securing the loan and the corporate derivative exposure, if present. The loss amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If collateral is present, then the present value of the future cash flows reflects the foreclosure of collateral. More information on the method impairments are calculated is included in the *Accounting Policies* section.

NIBC determines a default at counterparty level, whereas an impairment amount is taken at facility level. When a default occurs, the entire exposure and outstanding amount of the borrower are classified as defaulted. If, however, an impairment amount is taken on a facility, only the exposure amount of that particular facility is classified as impaired.

In 2014, the total write-offs decreased significantly (EUR 20 million) compared to 2013 (EUR 90 million), mainly in the wholesale, retail & leisure, commercial real estate, services and TMT industry sectors. The stock of impairments however increased and amounted to EUR 170 million at year-end 2014 (year-end 2013: EUR 107 million). The increase in the stock of impairments in 2014 occurred mainly in our pre-crisis commercial real estate portfolio.

Tables 55-11 and 55-12 display an overview of the impairments at 31 December 2014 and 31 December 2013, subdivided in industry sectors and regions, respectively. The column labelled 'Exposure' includes both drawn and undrawn amounts.

55-11 Impairment per industry sector

	31 December 2014				**31 December 2013**			
IN EUR MILLIONS	**Exposure**	**Impaired Exposure**	**Impairment Amount**	**Write-offs**	**Exposure**	**Impaired Exposure**	**Impairment Amount**	**Write-offs**
Infrastructure	2,112	45	10	2	1,979	7	4	-
Shipping	1,387	48	36	11	1,161	70	31	-
Commercial Real Estate	1,294	304	102	-	1,301	292	48	27
Oil & Gas	1,244	-	-	-	864	-	-	-
Manufacturing	650	28	5	-	527	-	-	-
Financial Services	607	5	1	-	551	1	-	4
Services	483	14	6	7	398	25	13	16
Wholesale/Retail/Leisure	453	10	6	-	347	12	6	31
Agriculture & Food	289	-	-	-	168	-	-	-
TMT	172	-	-	-	109	-	-	12
Other	98	-	-	-	6	-	-	-
IBNR Corporate Loans			4				5	
TOTAL	**8,789**	**453**	**170**	**20**	**7,412**	**407**	**107**	**90**

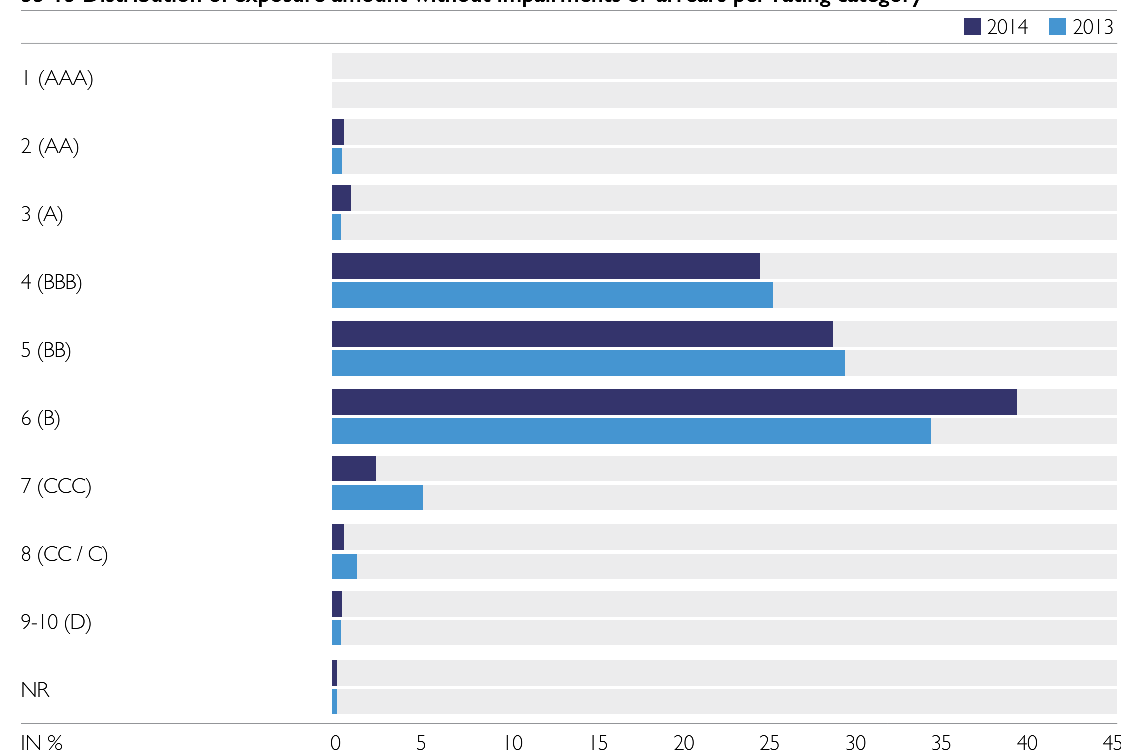
55-12 Impairment per region

	31 December 2014				31 December 2013			
IN EUR MILLIONS	Exposure	Impaired Exposure	Impairment Amount	Write-offs	Exposure	Impaired Exposure	Impairment Amount	Write-offs
The Netherlands	2,559	46	19	7	2,145	46	25	63
Germany	1,932	345	105	-	1,698	273	40	-
United Kingdom	1,765	-	-	2	1,449	-	-	27
Rest of Europe	1,227	39	30	-	1,106	34	24	-
North America	523	24	12	-	336	-	-	-
Asia/Pacific	494	-	-	11	401	54	13	-
Other	289	-	-	-	277	-	-	-
IBNR Corporate Loans			4				5	
TOTAL	**8,789**	**454**	**170**	**20**	**7,412**	**407**	**107**	**90**

Corporate loans without impairments or arrears

At 31 December 2014, the size of the corporate loan exposure carrying neither impairments nor arrears equalled EUR 8,280 million or 94% of the total Corporate Loan portfolio (31 December 2013: EUR 6,996 million or 93%). Graph 55-13 displays the distribution of exposure amounts without impairments or arrears, at 31 December 2014 and 31 December 2013. 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 2014: 0.2% of all loans without impairments or amounts in arrear; 31 December 2013: 0.3%).

55-13 Distribution of exposure amount without impairments or arrears per rating category



Country risk

Country risk is the likelihood that a country will not service its external debt obligations and reflects the risk that a country will not honour its external liabilities due to political, social, economic or financial turmoil. Country risk can potentially be an important cause of increased counterparty default risk since a large number of individual debtors could default at the same time. NIBC did not experience any counterparty defaults from this risk in 2014. NIBC has no direct sovereign debt exposure.

Investment loans

Investment loans are originated and monitored separately from the Corporate Loan portfolio. Investment loans are typically unsecured subordinated loans that contain equity characteristics such as attached warrants or conversion features. As such, investment loans typically carry a higher risk profile than corporate loans. Examples of these loans include mezzanine loans, convertible loans and shareholder loans.

The investment loan can be divided into indirect investments and direct investments. Indirect investments are investments made through *funds set up and managed by NIBC* (**NIBC Funds**) that are controlled by NIBC and thus consolidated into the financial statements of NIBC. Direct investments are all other investments.

Direct investments are approved by the *Investment Committee* (**IC**) of NIBC. Indirect investments are approved by the investment committees of the NIBC Funds, subject to the investment guidelines stipulated in the fund agreements between the manager of the NIBC Fund and the investors.

Investment officers monitor the quality of counterparties in the portfolio on a regular basis. On a quarterly basis, the entire Investment Loan portfolio is assessed for impairment. All existing impairments are reviewed. Impairments of indirect investments are determined by the manager of the NIBC Fund. All impairments are reviewed and approved by the IC.

The total size of the investment loans at 31 December 2014 was EUR 154 million (31 December 2013: EUR 126 million), of which 94% had been drawn (31 December 2013: 98%). 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 2014, the weighted average counterparty credit rating of non-defaulted investment loans remained stable at an internal rating 6 (31 December 2013: 6) on NIBC's internal rating scale (equivalent to B on external rating agencies' scales).

Tables 55-14 and 55-15 display a breakdown of investment loans per region and industry sector at 31 December 2014 and 31 December 2013.

55-14 Breakdown of investment loans per region

	31 December 2014		31 December 2013	
IN EUR MILLIONS	Exposure	%	Exposure	%
The Netherlands	120	78%	83	66%
Rest of Europe	23	15%	35	28%
United Kingdom	11	7%	8	6%
TOTAL	**154**	**100%**	**126**	**100%**

55-15 Breakdown of investment loans per industry sector

	31 December 2014		31 December 2013	
IN EUR MILLIONS	Exposure	%	Exposure	%
Financial Services	111	72%	115	91%
Manufacturing	18	12%	-	-
Wholesale/Retail/Leisure	11	7%	-	-
Agriculture & Food	8	5%	8	6%
TMT	6	4%	2	2%
Services	-	-	1	1%
Commercial Real Estate	-	-	-	-
Other	-	-	-	-
TOTAL	**154**	**100%**	**126**	**100%**

Arrears

The amounts in arrear as a percentage of exposure increased for the investment loans from 1.7% at year-end 2013 to 2.8% at year-end 2014.

55-16 Investment loan amounts in arrear, 31 December 2014

	Exposure		Outstanding		Amount in arrear		
IN EUR MILLIONS	TOTAL	% of Exposure	TOTAL	% of On-balance	TOTAL	% of On-balance	Impairment Amount
AGE OF PAYMENT IN ARREAR							
6 - 30 days	4	2.8%	4	2.8%	4	2.8%	1
No payment in arrear	150	97.2%	141	97.2%	-	-	-
TOTAL	**154**	**100%**	**145**	**100%**	**4**	**2.8%**	**1**

55-17 Investment loan amounts in arrear, 31 December 2013

	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							
Over 90 days	2	1.7%	2	1.7%	2	1.7%	2
No payment in arrear	124	98.3%	121	98.3%	-	0.0%	-
TOTAL	**126**	**100.0%**	**123**	**100.0%**	**2**	**1.7%**	**2**

Impairment amounts

At 31 December 2014, impairments on investment loans amounted to EUR 1 million (31 December 2013: EUR 2 million). Table 55-18 shows the breakdown of impairments and write-offs in industry sectors at 31 December 2014 and 31 December 2013. The column labelled 'Exposure' includes both drawn and undrawn amounts, and the column labelled 'Impairment Amount' refers to drawn amounts of impaired facilities. In 2014, EUR 2 million of write-offs occurred on investment loans.

55-18 Impairment per industry sector

	31 December 2014				31 December 2013			
IN EUR MILLIONS	Exposure	Impaired Exposure	Impairment Amount	Write-offs	Exposure	Impaired Exposure	Impairment Amount	Write-offs
Financial Services	111	4	1	-	115	1	-	-
Manufacturing	18	-	-	-	-	-	-	-
Wholesale/Retail/Leisure	11	-	-	-	-	-	-	-
Agriculture & Food	8	-	-	-	8	8	-	-
TMT	6	-	-	2	2	2	2	-
Services	0	-	-	-	1	-	-	-
Commercial Real Estate	0	-	-	-	-	-	-	-
Other	0	-	-	-	-	-	-	-
TOTAL	**154**	**4**	**1**	**2**	**126**	**11**	**2**	**-**

At 31 December 2014, the investment loans that carried neither impairments nor past-due amounts equalled EUR 150 million or 94% of total (31 December 2013: EUR 116 million or 92% of total).

Lease receivables

In 2014, NIBC obtained a leasing portfolio as a result of the acquisition of Gallinat-Bank AG in Germany. At the end of December 2014, the leasing portfolio amounted EUR 361 million through a forfeiting arrangement with a German leasing company. Strict criteria are in place to determine the eligibility of lease contracts for this programme and they entered into with German lessees to finance moveable objects such as trucks and trailers as well as small ticket leases for IT equipment, technology and smaller equipment. The contracts are to commercial clients in the German SME market and consist of hire purchase contracts, partially amortising lease contracts and fully amortising lease contracts. The servicing of this portfolio remains with the leasing company.

Residential mortgages

The composition of the Residential Mortgage portfolio at year-end 2014 and at year-end 2013 is displayed in Table 55-19.

55-19 Breakdown of Residential Mortgage portfolio

IN EUR MILLIONS	31 December 2014	31 December 2013
Dutch Own Book portfolio*	4,254	3,453
Dutch Securitised portfolio	3,637	3,878
German Own Book portfolio	167	233
TOTAL	**8,058**	**7,564**

* Including portfolio classified at amortised costs

Dutch Residential Mortgage portfolio

The Dutch Residential Mortgage portfolio contains NIBC Direct loans originated by business partners (insurance companies, mortgage chains and service providers) since 2013 as well as white label mortgage loans that were also originated by business partners, based on prescribed underwriting criteria.

Servicing and administration of the mortgage portfolio is outsourced to third-party servicers but special servicing is performed in-house.

At 31 December 2014, 34% of the Residential Mortgage portfolio (31 December 2013: 28%) 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 large part of the Dutch Residential Mortgage portfolio has been securitised. In most cases, NIBC has retained the junior notes and other positions related to these securitisation programmes. As a result the securitisation programmes are consolidated on NIBC's balance sheet. The total amount of the retained positions at 31 December 2014 was EUR 247 million (31 December 2013: EUR 348 million).

Risk governance Dutch Residential Mortgages

In order to control the credit risk in the origination of residential mortgages, an acceptance policy framework was formulated to screen residential mortgage applications.
Acceptance depends on the following underwriting criteria:

- Conformity with the Code of Conduct on Mortgage Credits of the Dutch Bankers Association;
- 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;
- Properties are occupied by the owner;
- Other criteria, such as type of property, maximum *Loan-To-Market Value* (**LTMV**) and maximum *Loan-To-Income* (**LTI**); and
- Underwriting criteria for mortgages with an NHG guarantee are set in accordance with the general terms and conditions set by the WEW. The WEW finances itself by a one-off up-front charge to the borrower as a percentage of the principal amount of the mortgage loan. The NHG guarantee covers losses on the outstanding principal, accrued unpaid interest, and disposal costs, caused by foreclosure.

Since 2013, major amendments in legislation have taken place. In 2014, the following amendments were implemented as well:

- NHG guaranteed loan amount decreased to EUR 265 thousand as per 1 July 2014. In addition, NHG mortgage providers are subject to a 10% first loss for NHG loans originated in 2014; and
- Maximum Loan-to-Value decreased to 104%.

Management of loans in arrear Dutch Residential Mortgages

In order to control the credit risk in the Dutch Residential Mortgage portfolio, NIBC has established procedures to manage all loan amounts in arrear. All amounts in arrear 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 arrear occur, the borrower receives a letter after the first day of arrears. Within two weeks, 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 need be, NIBC acquires these properties.

NIBC is also introducing a programme under which customers who may face potential financial difficulties are approached pro-actively with the intention of identifying and resolving difficulties before actual arrears arise.

Table 55-20 shows the arrears overview of the total Dutch Residential Mortgage portfolio at 31 December 2014 and 31 December 2013. Overall, the amount of loans in arrear decreased compared to year-end 2013.

55-20 Arrears overview, Dutch Residential Mortgage portfolio

IN %	31 December 2014	31 December 2013
No payment in arrear	97.0	95.9
0-30 days	1.3	1.9
31-60 days	0.4	0.6
61-90 days	0.3	0.3
Over 90 days	1.0	1.3
TOTAL (IN %)	**100**	**100**
TOTAL (IN EUR MILLION)	**7,891**	**7,331**

Forbearance Dutch Residential Mortgages

NIBC has developed a forbearance policy for mortgage clients experiencing financial difficulties and who consequently are unable to meet the original terms and conditions of the contract. The forbearance policy is defined, formalized and implemented in the standard working routines and processes and is similar to the policy applied for the corporate loan portfolio. However, NIBC applies a conservative approach when determining forborne clients in the Residential Mortgages portfolio and assumes a concession is granted for all clients with a payment arrear older than 90 days.

Since May 2013, NIBC has been providing a forbearance programme to its mortgagers who are experiencing financial difficulties. The Client Retention team of 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 each client who does not fully meet his financial obligations to NIBC. Forbearance solutions are also submitted to the Arrears Management Committee for further approval by management.
At 31 December 2014, EUR 151 million (1.9% of the total portfolio) is forborne of which EUR 37 million is performing and EUR 114 million non-performing.

Risk measurement Dutch Residential Mortgages

NIBC's rating methodology for residential mortgages has been used for determining regulatory capital requirements since 2008. The calculation of PD, LGD and EAD is performed by an internally-developed CRR/CRD IV AIRB model.

The PD estimates are dependent on a variety of factors, of which the key factors are debt-to-income and loan-to-value ratios. Minor factors that play a role in the PD estimates are several other mortgage loan characteristics, borrower characteristics and payment performance information. The PD scale is based on a continuous scale ranging from 0-100%.

The LGD estimates are based on a downturn scenario comparable to the downturn in the Dutch mortgage market in the 1980s. In this case, the indexed collateral value is stressed in order to simulate the proceeds of a sale or foreclosure of the collateral. The stress is dependent on the location and the absolute value of the collateral. Together with cost and time-to-foreclosure assumptions, an LGD is derived. The LGD estimate also takes into account whether a mortgage loan has an NHG guarantee, in which case the LGD estimate will be lower in comparison to a mortgage loan without the NHG guarantee. The LGD estimate is also based on a continuous scale.

The validation of these estimates is performed on historical data and is carried out annually. For the PD and LGD, the estimates are backtested against realised defaults and realised losses. In this way, it is ensured that the model functions correctly in a changing economic environment.

Table 55-21 shows the PD distribution of the Dutch Residential Mortgage portfolio at 31 December 2014 and 31 December 2013. A PD of 100% means that a borrower is more than 90 days in arrear. Mortgages without amounts in arrear all carry PDs below 2%.

55-21 PD allocation of Dutch residential mortgages

	Own book Dutch mortgages		Securitised Dutch mortgages	
IN %	31 December 2014	31 December 2013	31 December 2014	31 December 2013
PROBABILITY OF DEFAULT				
<= 1%	95.8	94.0	95.7	95.2
1%> <=2%	1.3	1.4	1.3	0.8
2%> <=5%	0.2	0.6	0.1	0.4
5%> <=99%	1.4	2.5	1.6	2.4
100%	1.3	1.5	1.3	1.2
TOTAL (IN %)	**100**	**100**	**100**	**100**
TOTAL (IN EUR MILLION)	**4,254**	**3,453**	**3,637**	**3,878**

Risk mitigation and collateral management Dutch Residential Mortgages

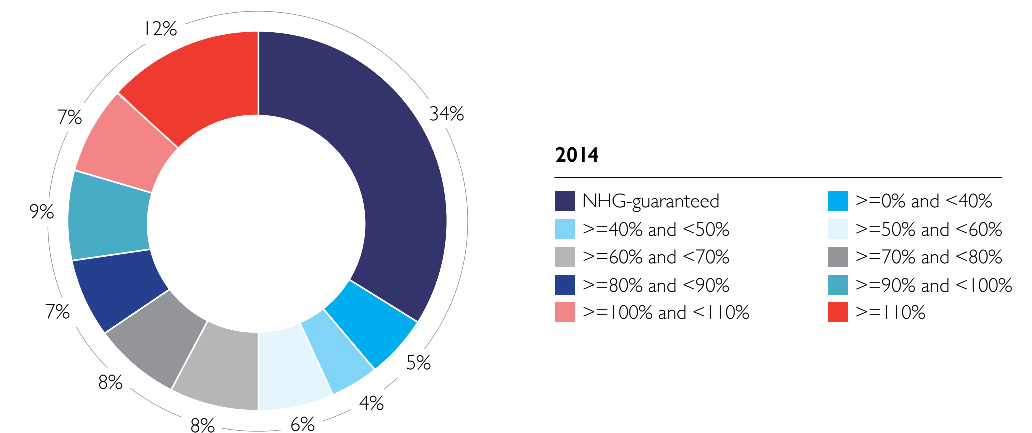
Credit losses are mitigated in a number of ways:

- The underlying property is pledged as collateral;
- 49% of the Dutch Own Book portfolio and 18% of the Securitised portfolio are covered by the NHG programme; and
- For the part of the Dutch portfolio that has been securitised, credit losses higher than the retained positions, excess spread and reserve accounts are attributable to investors in the securitisation programmes.

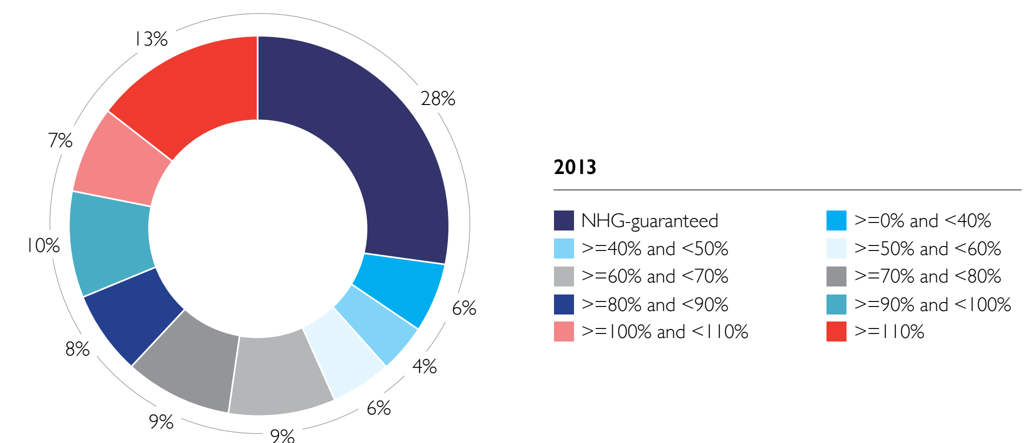
For the portfolio not covered by the NHG programme, the underlying property is the primary collateral for any mortgage loan granted, though savings and investment deposits may also serve as additional collateral.

An indicator for potential losses, taking into account indexation of house prices and seasoning, is achieved by calculating the *Loan-to-Indexed-Market-Value* (**LTIMV**). The indexation is made by using the CBS/Kadaster index, which is based on market observables. The Kadaster (national property register) is a public government register of real estate and their vested rights (e.g. ownership and mortgages). This register contains transaction data as well as CBS (Statistics Netherlands) data, which are used to construct a pricing index. Graphs 55-22 and 55-23 show a breakdown of the LTIMV for the total Dutch Residential Mortgage portfolio at 31 December 2014 and 31 December 2013. The average seasoning of the total portfolio is 9.0 years. LTIMV for all categories, (except the NHG guaranteed) remained relatively stable between in 2013 and 2014. The change in the NHG guaranteed category is due to new origination for NIBC Direct mortgages. 19% of the total portfolio has an LTIMV above 100%. For the remainder of the portfolio, the indexed collateral value is less than or equal to the nominal loan balance outstanding or is a NHG mortgage.

55-22 LTIMV of Dutch Residential Mortgage portfolio (EUR 7,891 million), 31 December 2014



55-23 LTIMV of Dutch Residential Mortgage portfolio (EUR 7,331 million), 31 December 2013



German Residential Mortgage portfolio

The German Residential Mortgage portfolio amounted to EUR 167 million at 31 December 2014 (31 December 2013: EUR 233 million). The majority of this portfolio was acquired from third parties via two portfolio purchases. The purchased portfolios contain highly seasoned loans with low LTMV.

The German Residential Mortgage portfolio was designated in 2011 as a legacy portfolio; therefore no new origination has taken place since 2011. In order to manage the credit risk of the German Residential Mortgage portfolio, NIBC has standardised procedures to manage all loan amounts in arrear. The arrear process starts directly by means of countered direct debits, i.e. when a direct withdrawal from the borrower's account fails. The Arrears Management team contacts the customer and claim the outstanding amount in letters sent every two weeks. If the standard dunning procedure is ineffective and no contact can be established with the client, individual reminders will follow to get insight into the reason for being in arrears. In case of private insolvency or payment in arrear beyond 90 days, responsibility is taken over by a special servicer (a legal firm specialised in handling arrears and foreclosures).

Table 55-24 displays an overview of the payments in arrear at 31 December 2014 and 31 December 2013 for the German Residential Mortgage portfolio. It is market practice in Germany to start the foreclosure procedure after being more than six months in arrear (180 days) and the foreclosure procedure takes, on average, around two years. Special Servicing Cancelled Loans are loans for which the contract has been legally terminated by the lender and are being handled by the special servicer. At 31 December 2014, only 56 loans (3% of the total exposure) had been transferred to special servicing and cancelled, from a total portfolio of approximately 2,000 mortgages.

55-24 Arrears overview, German Residential Mortgage portfolio

IN %	31 December 2014	31 December 2013
No payment in arrear	89.2	91.6
0-30 days	2.7	2.6
31-60 days	2.0	1.3
61-90 days	0.6	0.5
Over 90 days	1.2	1.0
Special Servicing Cancelled Loans	4.3	3.0
TOTAL (IN %)	**100**	**100**
TOTAL (IN EUR MILLION)	**167**	**233**

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.

This portfolio does not contain any sovereign risk exposures.

Risk monitoring and measurement

Risk is controlled by setting single issuer limits and, in some cases, programme limits. All single issuer limits are approved by the TC or by delegated authority to the *Financial Markets Credit Risk* (**FMCR**) department. Apart from single issuer limits, risk is also monitored by assessing credit spread risk. Both sensitivity analysis (*basis point values,* **BPVs**) and *Value at Risk* (**VaR**) numbers are used.

Note 56 on Market Risk contain 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 and corporate entities; 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 2014 to EUR 402 million at 31 December 2014 (31 December 2013: EUR 711 million). Of the total exposure, 50% (31 December 2013: 41%) were covered bonds. The remaining 50% (31 December 2013: 59%) was senior unsecured debt.

In 2014, NIBC began to use internal ratings to assess the creditworthiness of a financial institution. Table 55-25 shows a slight deterioration of the credit risk profile in comparison to 2013, as the debt investments are rated more conservative by NIBC than by the external rating agencies.

The amount of EUR 402 million at 31 December 2014 represents the maximum credit risk exposure, without taking into account the presence of any collateral that could be repossessed in case of default. The portfolio did not contain any *credit default swap* (**CDS**) exposures.

55-25 Debt of financial institutions and corporate entities, 31 December 2014

IN EUR MILLIONS	AAA	AA	A	BBB	BB	<= B	NR	Total
Financial institutions	177	-	157	52	-	6	-	392
Corporate entities	-	-	-	10	-	-	-	10
TOTAL	**177**	**-**	**157**	**62**	**-**	**6**	**-**	**402**

55-26 Debt of financial institutions and corporate entities, 31 December 2013

IN EUR MILLIONS	AAA	AA	A	BBB	BB	<= B	NR	Total
Financial institutions	207	93	322	51	-	-	6	679
Corporate entities	-	-	-	21	-	-	11	32
TOTAL	**207**	**93**	**322**	**72**	**-**	**-**	**17**	**711**

At both 31 December 2014 and 31 December 2013, the portfolio of debt from financial institutions and corporate entities had no impairments and contained no arrears.

Securitisations

NIBC has been an active participant on the securitisation market in the past decade, both as an originator and investor in securitisations.

Tables 55-27 and 55-28 present an overview of NIBC's total securitisation exposure resulting from its activities as investor in securitisations. The exposure relating to NIBC's activities as an originator can be split into exposures related to consolidated and non-consolidated securitisations. If a securitisation programme is consolidated on NIBC's balance sheet, the exposure to the underlying collateral is excluded from the securitisation exposure and included in the total exposures presented in note 55 on credit risk in the corporate loans or residential mortgages sections. NIBC's total exposure as an originator to consolidated securitisations was EUR 349 million at 31 December 2014 (31 December 2013: EUR 400 million).

NIBC distinguishes two Securitisation sub-portfolios: the portfolio of Western European Securitisations and the Liquidity Investments portfolio.

NIBC's total securitisation exposure (investor and non-consolidated originator) decreased to EUR 788 million at 31 December 2014 (31 December 2013: EUR 981 million), mainly due to a decrease of the Liquidity Investments 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 381 million at 31 December 2014 (31 December 2013: EUR 472 million). The Liquidity Investments portfolio was set up to invest part of NIBC's excess liquidity in the securitisation market. Investments are limited to AAA rated RMBS transactions backed by Dutch collateral or European ABS and are eligible to be pledged as collateral with the *European Central Bank* (**ECB**). Apart from the strict mandate, each investment is pre-approved by FMCR. Exposure in this portfolio decreased to EUR 407 million at 31 December 2014 (31 December 2013: EUR 508 million).

55-27 Exposure to securitised products, 31 December 2014

BOOK VALUE, IN EUR MILLIONS	AAA	AA	A	BBB	BB	<BB	Total
EU - ABS	-	-	-	-	-	1	1
EU - CDO	-	21	19	7	17	36	100
EU - CMBS	-	8	7	-	72	91	178
EU - RMBS	6	9	58	16	-	13	102
TOTAL WESTERN EUROPEAN SECURITISATIONS	**6**	**38**	**84**	**23**	**89**	**141**	**381**
NL - RMBS AAA Liquidity portfolio	300	-	-	-	-	-	300
EU- ABS AAA Liquidity portfolio	107	-	-	-	-	-	107
TOTAL SECURITISATION EXPOSURE	**413**	**38**	**84**	**23**	**89**	**141**	**788**

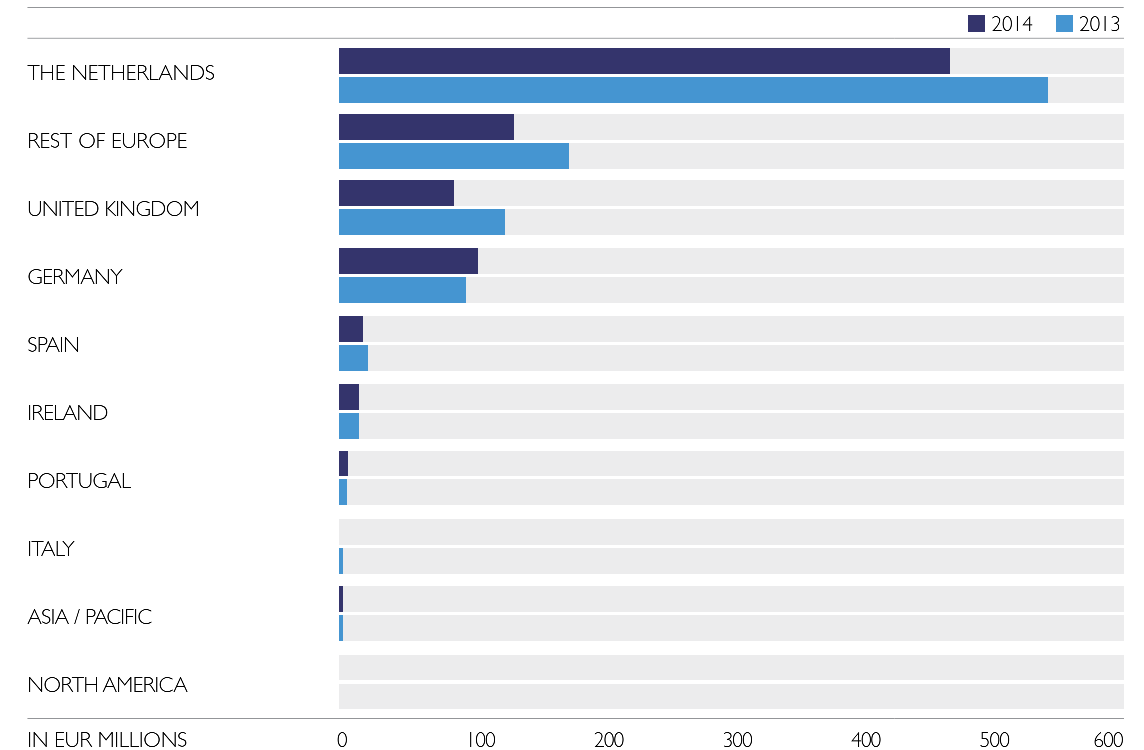
55-28 Exposure to securitised products, 31 December 2013

BOOK VALUE, IN EUR MILLIONS	AAA	AA	A	BBB	BB	<BB	Total
EU - ABS	-	1	-	-	-	2	3
EU - CDO	3	20	42	13	11	32	121
EU - CMBS	10	17	14	6	82	94	223
EU - RMBS	11	19	53	29	1	13	126
TOTAL WESTERN EUROPEAN SECURITISATIONS	**24**	**57**	**109**	**48**	**94**	**141**	**472**
NL - RMBS AAA Liquidity portfolio	374	-	-	-	-	-	374
EU- ABS AAA Liquidity portfolio	134	-	-	-	-	-	134
TOTAL SECURITISATION EXPOSURE	**532**	**57**	**109**	**48**	**94**	**141**	**981**

Geographic distribution of securitisations

Graph 55-29 presents the distribution of the Securitisations portfolio by geographic region at 31 December 2014 and 31 December 2013. 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 (58%), Germany (12%) and the United Kingdom (11%). NIBC's exposure in Ireland, Italy, Spain and Portugal is limited and had decreased to EUR 33 million at 31 December 2014 (31 December 2013: EUR 39 million). Approximately 65% of this exposure is investment grade exposure. NIBC had no exposure in Greece at 31 December 2014 or 2013.

55-29 Distribution of securitisations per region, 31 December 2014 (EUR 788 million) and 31 December 2013 (EUR 981 million)



Impairments on securitisations

The majority of the Securitisations portfolio is reported at amortised cost or available for sale for accounting purposes and the respective assets are subject to a quarterly impairment analysis. The stock of impairments increased slightly to EUR 45 million at 31 December 2014 (31 December 2013: EUR 42 million).

Securitisations without impairments

Table 55-30 presents the rating breakdown of securitisation exposure that did not carry an impairment amount at 31 December 2014 (EUR 778 million). The total amount of securitisations without impairments at 31 December 2013 was EUR 970 million.

55-30 Distribution of securitisation exposure without impairments per rating category, 31 December 2014

BOOK VALUE, IN EUR MILLIONS	AAA	AA	A	BBB	BB	<BB	Total
SECURITISATION EXPOSURE WITHOUT IMPAIRMENTS	**413**	**38**	**84**	**23**	**89**	**131**	**778**

55-31 Distribution of securitisation exposure without impairments per rating category, 31 December 2013

BOOK VALUE, IN EUR MILLIONS	AAA	AA	A	BBB	BB	<BB	Total
SECURITISATION EXPOSURE WITHOUT IMPAIRMENTS	**532**	**57**	**109**	**48**	**94**	**130**	**970**

Cash management

NIBC is exposed to credit risk as a result of cash management activities. In 2014, 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 2014, NIBC's total cash amounted EUR 1,212 million (31 December 2013: EUR 1,795 million). The decrease in cash was mainly a result of the redemptions and buy-backs of government-guaranteed funding. EUR 477 million of the cash was held at DNB and Deutsche Bundesbank, EUR 706 million at financial institutions and the remaining EUR 29 million at corporate entities (securitisation-related liquidity facilities).

55-32 Cash, 31 December 2014

IN EUR MILLIONS	AAA	AA	A	≤BBB	Total
Cash and balances with central banks	474	-	3	-	477
Financial institutions	-	-	688	18	706
Corporate entities	15	4	10	-	29
TOTAL	**489**	**4**	**701**	**18**	**1,212**

55-33 Cash, 31 December 2013

IN EUR MILLIONS	AAA	AA	A	≤BBB	Total
Cash and balances with central banks	1,150	-	-	-	1,150
Financial institutions	-	-	396	127	523
Corporate entities	4	-	39	79	122
TOTAL	**1,154**	**-**	**435**	**206**	**1,795**

At year-end 2014, EUR 1,579 million cash collateral has been excluded from the cash management exposure (year-end 2013: EUR 1,129 million) as this amount is restricted cash that relates to derivatives with a negative fair value and can be netted with these negative exposures. At both 31 December 2014 and 31 December 2013, 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 2014, EUR 881 million of NIBC's derivative portfolio excluding netting, collateral and PFE has been centrally cleared. For corporate counterparties, both the loan and derivative are treated as a single package whereby the derivative often benefits from the security/collateral supporting the loan exposure.

Exposures

Tables 55-34 and 55-35 display NIBC's exposures from credit risk in derivatives allocated across the rating class of the underlying counterparty. Exposure is the sum of the positive marked-to-market value of derivative contracts, excluding the effect of netting and collateral exchange. Due to amortisation and limit origination, the total derivative exposure excluding netting and collateral increased in 2014 to EUR 2,851 million at 31 December 2014 (31 December 2013: EUR 2,800 million).

55-34 Derivative exposure excluding netting and collateral, 31 December 2014

IN EUR MILLIONS	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total
Financial institutions	-	33	1,649	414	-	-	-	-	-	3	2,099
Corporate entities	26	-	6	386	41	211	57	-	25	-	752
TOTAL	**26**	**33**	**1,655**	**800**	**41**	**211**	**57**	**-**	**25**	**3**	**2,851**

55-35 Derivative exposure excluding netting and collateral, 31 December 2013

IN EUR MILLIONS	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total
Financial institutions	-	48	2,145	2	-	-	-	-	-	-	2,195
Corporate entities	30	1	4	226	57	176	82	19	10	-	605
TOTAL	**30**	**49**	**2,149**	**228**	**57**	**176**	**82**	**19**	**10**	**-**	**2,800**

Collateral

To the extent possible, NIBC attempts to limit credit risk arising from derivatives. NIBC enters into bilateral collateral agreements with financial institutions to mitigate credit risk in OTC derivatives by means of CSAs. Positive marked-to-market values can be netted with negative marked-to-market values and the remaining exposure is mitigated through bilateral collateral settlements. Accepted collateral is mainly cash collateral, which is usually exchanged on a daily basis. The primary counterparties in these CSAs are large international banks with ratings of A or higher. NIBC generally carries out daily cash collateral exchanges to account for changes in the market value of the contracts included in the CSA.

Terms and conditions of these CSAs are in line with general *International Swaps and Derivatives Association* (**ISDA**) credit support documents. Collateral from CSAs significantly decreases the credit exposure on derivatives, as presented in table 55-36 at 31 December 2014 and in table 55-37 at December 2013.

55-36 Derivative exposure including netting and collateral, 31 December 2014

IN EUR MILLIONS	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total
Financial institutions	-	1	127	10	-	-	-	-	-	2	140
Corporate entities	26	-	6	386	41	211	57	-	25	-	752
TOTAL	**26**	**1**	**133**	**396**	**41**	**211**	**57**	**-**	**25**	**2**	**892**

55-37 Derivative exposure including netting and collateral, 31 December 2013

IN EUR MILLIONS	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total
Financial institutions	-	-	-	242	-	-	-	-	-	-	242
Corporate entities	-	30	-	4	223	56	173	82	19	10	597
TOTAL	**-**	**30**	**-**	**246**	**223**	**56**	**173**	**82**	**19**	**10**	**839**

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 strong 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, they are considered insignificant and are therefore excluded. The application of the threshold does not influence the total arrears for 2014 and 2013. For both years, the total arrears that are considered insignificant are below EUR 100,000.

Table 55-38 displays an overview of the arrears for corporate derivatives at 31 December 2014 and 31 December 2013 as well as the exposures (marked-to-market values) these arrears refer to. There were no amounts in arrear for derivatives with financial institutions. As shown in Table 55-38, at 31 December 2014, a marked-to-market exposure of EUR 27 million carried an arrear of EUR 6 million (31 December 2013: exposure of EUR 31 million with an arrear of EUR 5 million).

55-38 Arrears overview, corporate derivative exposure

	2014		2013	
IN EUR MILLIONS	Exposure (MtM)*	Amount in arrear	Exposure (MtM)*	Amount in arrear
AGE OF PAYMENT IN ARREAR				
1 - 5 days	21	1	23	2
6 - 30 days	-	-	-	-
31 - 60 days	-	-	-	-
61 - 90 days	-	-	-	-
SUBTOTAL LESS THAN 90 DAYS	**21**	**1**	**23**	**2**
Over 90 days	6	5	8	3
No payment in arrear	725	-	574	-
TOTAL	**752**	**6**	**605**	**5**

* MtM: Marked-to-Market value

56 Market risk

NIBC defines market risk as the current and prospective volatility in its earnings and capital as a result of movements in market prices. Market risk, therefore, includes price risk, interest rate risk and foreign exchange risk, both within and outside the Trading book. For fixed-income products, market risk also includes credit spread risk, which is the risk due to movements of underlying credit curves. The predominant market risk drivers for NIBC are interest rate risk and credit spread risk.

For interest rate risk purposes, the activities of NIBC can be divided in 3 books:

- The Trading book contains interest rate positions, which are either customer driven or, to a limited extent, proprietary trading. These positions are taken with the purpose to obtain short-term profits;
- The Mismatch book contains the long-term strategic interest rate position of the bank. Positions are limited to currencies in which NIBC has lending activities, i.e. EUR, GBP and USD; and
- All other portfolios, jointly referred to as the Banking book, do not contain material interest rate risk, as it is the policy of the bank to concentrate the interest rate risk in either the Trading book or Mismatch book.

Risk monitoring and measurement

Interest *Basis Point Value* (**BPV**), credit BPV, interest *Value at Risk* (**VaR**), credit VaR and total VaR measures are calculated on a daily basis and reviewed by the Market Risk department:

- Interest and credit BPV measure the sensitivity of the market value to a change of one basis point in each time bucket of the interest rate curve and credit spread curve, respectively. 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. A negative amount represents a loss, a positive amount represents a gain;

- The interest VaR, credit spread VaR and total VaR measure 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, credit spreads and both simultaneously. For the Trading book, additional VaR scenarios based upon daily historical market data are used, both for limit-setting as well as for the calculation of the capital requirement. VaR as displayed in the tables below is always represented as a positive number, indicating a potential loss; and
- As future market price developments may differ from those that are contained by the four-year history, the risk analysis is complemented by a wide 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 all the indicators (BPV and VaR, interest, credit and total). The limits and utilisation are reported to the ALCO once every two weeks. Any significant breach of market risk limits is reported to the CRO and CFO immediately. The income statement for the Trading book is also monitored daily.

Exposures

Interest rate risk in the Trading book

The Trading book only consists of books which from a regulatory perspective fall under the market risk treatment. These books only contain interest rate derivatives (swaps, futures and interest rate options). The overall market risk in this book is limited, as is evidenced by the actual level of the VaR. For the whole book a VaR limit of EUR 2.25 million applies. The VaR limit was not exceeded at any time during 2014.

56-1 Key risk statistics of the Trading book

	2014		2013	
IN EUR THOUSANDS	Interest rate BPV	Interest rate VaR	Interest rate BPV	Interest rate VaR
Max[1]	-75	578	-92	693
Average	-10	316	-30	330
Min[2]	0	111	1	124
YEAR-END	**49**	**462**	**14**	**173**

[1] Max: value farthest from zero
[2] Min: value closest to zero

The book is primarily used for facilitating derivative transactions with corporate clients. Furthermore activities also comprise position-taking in short-term interest rates, money market and bond futures. Basis risk, cross-currency spread risk and interest rate spread risk between positions in swaps and bond futures are also taken into account in the VaR. The increase in VaR in 2014 compared to 2013 does not represent an increased risk appetite but is rather coincidental as the management of the Trading desk identified more opportunities in 2014.

Interest rate risk in the Mismatch book

NIBC concentrates the strategic interest rate risk position of NIBC in the Mismatch book. This book exclusively contains swap positions with which a view on future interest rate developments is taken. In 2013 NIBC opened a new mismatch position in GBP. Subsequently, new EUR and USD mismatch positions were opened in 2014, while the GBP mismatch has been enlarged.

56-2 Key risk statistics of the Mismatch book

	2014		2013	
IN EUR THOUSANDS	Interest rate BPV	Interest rate VaR	Interest rate BPV	Interest rate VaR
Max[1]	-292	2,438	-126	1,772
Average	-192	1,862	-51	740
Min[2]	-109	1,351	-13	174
YEAR-END	**-292**	**1,935**	**-115**	**1,570**

[1] Max: value farthest from zero
[2] Min: value closest to zero

At year-end of 2014, 45% of the mismatch position was held in EUR, 40% in GBP and 15% in USD.

Interest rate risk in the Banking book

Apart from the Trading book and the Mismatch book, interest rate risk is also present in the following books (henceforth collectively referred to as 'Banking book'):

- Corporate Treasury Book;
- Debt Investments book; and
- Residential Mortgage book.

The Corporate Treasury Book contains the funding activities of NIBC and the Corporate and Investment loan books. The Debt Investments book consists of a legacy structured credits book and retained notes in own securitisations, both with negligible interest rate risk. The residential mortgage book consists of two portfolios:

- The "old" mortgage portfolio, EUR 6.3 billion of which EUR 167 million in Germany. This portfolio is measured on fair value. The hedging strategy of this book is based upon interest rate sensitivity, including a discount spread;
- At the end of 2013 NIBC started originating mortgages under the NIBC Direct label. This portfolio grew significantly to about EUR 1 billion at year-end 2014. This portfolio is measured on amortised cost. The hedging strategy of this book is based upon notional amounts, i.e. excluding a credit spread.

However, the interest rate sensitivity of both books is measured identically, i.e. by taking into account a credit spread.

In early 2013, NIBC changed the modelling of on-demand savings and subsequently refined the model in 2014. In consequence, the visible interest rate risk in the Corporate Treasury book, and hence in the Banking book, increased significantly. NIBC decided not to hedge all this interest rate risk at once, but applied a policy to hedge this interest rate risk gradually. At year-end 2014, nearly all the interest rate risk in the on-demand savings had been hedged. The current interest rate sensitivity in the banking book is almost entirely related to the sensitivity of the AC mortgage book, due in part to a different hedging strategy and in part to the mortgages in the pipeline, which are already hedged.

Tables 56-3 and 56-4 illustrate in EUR the interest rate sensitivity for EUR, USD and GBP in the Trading, Mismatch and Banking books at year-end 2013 and 2014. For other currencies, the interest rate risk is minimal.

56-3 Interest rate statistics, 31 December 2014

	BPV			
IN EUR THOUSANDS	Trading	Mismatch	Banking	Total
EUR	-1	-130	219	88
USD	49	-43	11	17
GBP	1	-118	1	-116
Other	-	-	-	-
TOTAL	**49**	**-291**	**231**	**-11**

56-4 Interest rate statistics, 31 December 2013

	BPV			
IN EUR THOUSANDS	Trading	Mismatch	Banking	Total
EUR	21	-3	171	189
USD	-2	-10	9	-3
GBP	-5	-102	-19	-126
Other	-	-	1	1
TOTAL	**14**	**-115**	**162**	**61**

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 visible currency position at month end is the position prior to hedging. The total open foreign currency position, by nominal amount, at month end is typically around EUR 25 million, in line with historical figures over the last few years.

57 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 and assets relevant for liquidity risk by the remaining contractual maturities at 31 December. The amounts disclosed in the tables for the non-derivative financial liabilities are contractual undiscounted cash flows. Financial liabilities at fair value through profit or loss are therefore restated to nominal amounts. The estimated interest cash flows related to the liabilities are reported on a separate line item. The financial assets relevant for managing liquidity risk are based on the fair value (discounted cash flows) for those assets which are classified at fair value through profit or loss or available-for-sale.

The differences between the table and the stress scenario are caused mainly by the following items that are included in the stress scenario analysis but not in the maturity calendar of the consolidated balance sheet:

- New asset production;
- Collateralised funding capacity of internal securitisations and individual bonds; and
- Conservative assumptions with respect to possible cash outflows (e.g. CSA collateral, callable funding).

57-1 Liquidity maturity calendar, 31 December 2014

IN EUR MILLIONS	Not dated	Payable on demand	Due within three months	Due between three and twelve months	Due between one and five years	Due after five years	Total
LIABILITIES (UNDISCOUNTED CASH FLOWS)							
FINANCIAL LIABILITIES AT AMORTISED COST							
Due to other banks	-	27	655	2	248	227	1,159
Deposits from customers	-	4,667	1,161	1,354	2,345	655	10,182
Own debt securities in issue	-	-	5	28	1,411	620	2,064
Debt securities in issue related to securitised mortgages	-	-	18	20	24	3,286	3,348
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)							
Own debt securities in issue	-	-	-	-	-	30	30
Debt securities in issue structured	-	-	7	40	139	608	794
OTHER FINANCIAL LIABILITIES							
Other liabilities	-	-	-	161	-	-	161
Current tax	-	-	-	-	-	-	-
Deferred tax	-	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	4	4
SUBORDINATED LIABILITIES							
Amortised cost	-	-	-	-	3	64	67
Fair value through profit or loss	-	-	-	-	17	359	376
TOTAL LIABILITIES (excluding derivatives)		**4,694**	**1,846**	**1,605**	**4,187**	**5,853**	**18,185**
Estimated contractual interest cash flows	-	-	60	158	653	2,104	2,975
TOTAL LIABILITIES (excluding derivatives, including estimated contractual interest rate cash flows)"	**-**	**4,694**	**1,906**	**1,763**	**4,840**	**7,957**	**21,160**
TOTAL ASSETS RELEVANT FOR MANAGING LIQUIDITY RISK AT FAIR VALUE (excluding derivatives and interest cash flows)	**2,028**	**1,122**	**407**	**970**	**4,230**	**11,490**	**20,247**

57-2 Liquidity maturity calendar, 31 December 2013

IN EUR MILLIONS	Not dated	Payable on demand	Due within three months	Due between three and twelve months	Due between one and five years	Due after five years	Total
LIABILITIES (UNDISCOUNTED CASH FLOWS)							
FINANCIAL LIABILITIES AT AMORTISED COST							
Due to other banks	-	8	272	110	394	233	1,017
Deposits from customers	-	4,857	584	829	1,823	546	8,639
Own debt securities in issue	-	-	1	1,730	766	611	3,108
Debt securities in issue related to securitised mortgages	-	-	5	-	16	3,504	3,525
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)							
Own debt securities in issue	-	-	-	5	-	29	34
Debt securities in issue structured	-	-	4	43	246	572	865
OTHER FINANCIAL LIABILITIES							
Other liabilities	-	-	-	137	-	-	137
Current tax	-	-	-	8	-	-	8
Deferred tax	-	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	16	16
SUBORDINATED LIABILITIES							
Amortised cost	-	-	-	-	1	56	57
Fair value through profit or loss	-	-	20	-	18	329	367
TOTAL LIABILITIES (excluding derivatives)		**4,865**	**886**	**2,862**	**3,264**	**5,896**	**17,773**
Estimated contractual interest cash flows	-	-	32	319	878	2,769	3,998
TOTAL LIABILITIES (excluding derivatives, including estimated contractual interest rate cash flows)	**-**	**4,865**	**918**	**3,181**	**4,142**	**8,665**	**21,771**
TOTAL ASSETS RELEVANT FOR MANAGING LIQUIDITY RISK AT FAIR VALUE (excluding derivatives and interest cash flows)	**1,619**	**1,570**	**688**	**1,070**	**3,967**	**10,557**	**19,471**

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 2014 and 2013. The amounts disclosed in the tables are the contractual undiscounted cash flows.

57-3 Liquidity maturity calendar of derivatives, 31 December 2014

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	265	521	1,533	1,542	3,861
Outflow	(285)	(532)	(1,535)	(1,088)	(3,440)
Credit derivatives					
Inflow	-	-	-	-	-
Outflow	-	-	-	-	-
DERIVATIVES USED FOR HEDGING					
Interest rate derivatives (net settled)					
Inflow	16	63	128	19	226
Outflow	(9)	(48)	(130)	(14)	(201)
TOTAL INFLOW	**281**	**584**	**1,661**	**1,561**	**4,087**
TOTAL OUTFLOW	**(294)**	**(580)**	**(1,665)**	**(1,102)**	**(3,641)**

57-4 Liquidity maturity calendar of derivatives, 31 December 2013

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	275	587	2,148	1,516	4,526
Outflow	(325)	(618)	(2,224)	(1,181)	(4,348)
Credit derivatives					
Inflow	1	1	-	-	2
Outflow	1	(1)	(4)	-	(6)
DERIVATIVES USED FOR HEDGING					
Interest rate derivatives (net settled)					
Inflow	22	69	200	18	309
Outflow	(13)	(58)	(198)	(20)	(289)
TOTAL INFLOW	**298**	**657**	**2,348**	**1,534**	**4,837**
TOTAL OUTFLOW	**(339)**	**(677)**	**(2,426)**	**(1,201)**	**(4,643)**

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.

57-5 Liquidity maturity calendar off-balance sheet, 31 December 2014

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	1,537	-	-	-	1,537
Committed facilities with respect to residential mortgages financing	373	-	-	-	373
Capital commitments	18	-	-	-	18
Guarantees granted	95	-	-	-	95
Irrevocable letters of credit	3	-	-	-	3
	2,026	**-**	**-**	**-**	**2,026**

57-6 Liquidity maturity calendar off-balance sheet, 31 December 2013

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	910	-	-	-	910
Committed facilities with respect to residential mortgages financing	359	-	-	-	359
Capital commitments	38	-	-	-	38
Guarantees granted	99	-	-	-	99
Irrevocable letters of credit	6	-	-	-	6
	1,412	**-**	**-**	**-**	**1,412**

58 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 shareholder's equity 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 approach. If the business model of an activity is trading, distribution or investing for a limited period, a market risk approach based upon VaR and scaled to a one-year horizon is used to calculate the EC usage. A business model based on 'buy-to-hold' or investing to maturity leads to a credit risk approach being applied, based upon estimations of PD and LGD. Add-ons for operational risk and country risk are also calculated. Furthermore, NIBC allocates EC for business risk, reputation risk and model risk on a group-wide level.

The EC approach differs from the CRR/CRDIV approach in which only the trading books are assigned a market risk approach. In the CRR/CRDIV framework, activities that are not trading but have a business model based on distribution or investment for a limited period are often assigned a credit risk approach, following CRR/CRDIV regulations or regulatory industry practice, whereas in the EC framework NIBC applies a market risk approach similar to that of the trading activities. Risks and EC are monitored accordingly.

The main differences between the EC capital and CRR/CRDIV framework come from the Residential Mortgage portfolio, the Securitisations portfolio and NIBC's interest rate mismatch position. EC is determined by a market risk approach for these activities. The CRR/CRDIV approach is either a credit risk approach (residential mortgages and securitisations) or is not part of the CRR/CRD IV Pillar 1 at all (mismatch position).

Capital allocation

NIBC allocates EC to all its business activities in the form of limits set by the ALCO and calculates the amount of EC usage of each business based on the risk of its activities:

- For the Corporate Loan portfolio, NIBC calculates EC usage by means of a credit risk approach largely based upon the CRR regulatory capital formula and an add-on for concentration risk;
- For the Debt Investments and Trading portfolios, the Residential Mortgage portfolio and the interest rate mismatch position, NIBC uses a market risk approach to determine EC usage. EC usage for these portfolios is calculated using VaR, calculated with four years of historical data and scaled to a one-year horizon; and
- For the Investment loans, NIBC calculates EC usage by applying a credit approach based upon the CRR regulatory capital formula. NIBC uses fixed percentages for the equity investments.

CRR/CRDIV regulatory capital

The objective of CRR/CRDIV is to enhance the capital adequacy of the banking industry by making it more responsive to risk. CRR/CRDIV II is structured on three pillars:

- Pillar 1 describes the capital adequacy requirements for three risk types; credit risk, market risk and operational risk;
- Pillar 2 describes the additional *supervisory review and evaluation process* (**SREP**), where regulators analyse the *internal capital adequacy assessment process* (**ICAAP**) of the individual banks. Since the end of 2011, Dutch Central Bank also analyses the *internal liquidity adequacy assessment process* (**ILAAP**); and
- In Pillar 3 the required risk reporting standards are displayed, supporting additional market discipline in the international capital markets.

Under CRR/CRDIV and subject to approval from the regulator, banks have the option to choose between various approaches, each with a different level of sophistication in risk management, ranging from 'standardised' to 'advanced'.

For credit risk, NIBC adopted the AIRB approach as further specified in CRR/CRDIV for its corporate, retail and institutional exposure classes. NIBC started using the AIRB approach at 1 January 2008. A small residue of exposures is measured on the standardised approach.

For market risk, NIBC adopted an internal model VaR approach.

For measuring operational risk, NIBC adopted the standardised approach, which is based on prescribed business-line activities.

The basis for Pillar 2 is NIBC's ICAAP, which is NIBC's self-assessment of risks not captured by Pillar 1, i.e. the link between NIBC's risk profile, its risk management and risk mitigation, and NIBC's capital planning.

Under Pillar 3, NIBC publishes its regulatory disclosures regarding its capital structure, capital adequacy, liquidity risk, risk management objectives/policies and risk-weighted assets each year. The Pillar 3 disclosures are published on the same date as the Annual Report on NIBC's website.

The following table displays the composition of regulatory capital as at 31 December 2014 and 31 December 2013 (Basel III). NIBC complies with the CRR/CRDIV capital requirements, which formally require a minimum Core Tier-1 ratio (incl. capital buffer) of 7% and a Total Capital ratio (incl. capital buffer) of 10.5%.

IN EUR MILLIONS	2014	2013
TIER-1		
Called-up share capital	80	80
Share premium	237	237
Eligible reserves	1,430	1,420
Regulatory adjustments	(212)	(147)
CORE TIER-1 CAPITAL	**1,535**	**1,590**
Innovative hybrid Tier-1 capital	-	44
Non-innovative hybrid Tier-1 capital	196	222
Regulatory adjustments	(31)	(66)
TOTAL TIER-1 CAPITAL	**1,700**	**1,790**
TIER-2		
Reserves arising from revaluation of property and unrealised gains on available-for-sale equities	-	20
Qualifying subordinated liabilities	177	127
Regulatory adjustments	(31)	(66)
TOTAL TIER-2 CAPITAL	**146**	**81**
TOTAL BIS-CAPITAL	**1,846**	**1,871**

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Company income statement

for the year ended 31 December

IN EUR MILLIONS	NOTE	2014	2013
Results of participating interests after tax	6	107	146
Other results after tax		(83)	(124)
NET PROFIT FOR THE YEAR		**24**	**22**

Company statement of comprehensive income

for the year ended 31 December

	2014			**2013**		
IN EUR MILLIONS	**Before tax**	**Tax charge/ (credit)**	**After tax**	**Before tax**	**Tax charge/ (credit)**	**After tax**
PROFIT FOR THE YEAR	**30**	**6**	**24**	**28**	**6**	**22**
OTHER COMPREHENSIVE INCOME						
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS						
Remeasurements of defined-benefit plans	(10)	(2)	(8)	(3)	(1)	(2)
Revaluation of property, plant and equipment	-	-	-	-	-	-
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS						
Net result on cash flow hedging instruments	19	2	17	(30)	(8)	(22)
Revaluation of loans and receivables	-	-	-	-	-	-
Revaluation of equity investments	6	1	5	3	-	3
Revaluation of debt investments	9	3	6	2	1	1
TOTAL OTHER COMPREHENSIVE INCOME	**24**	**4**	**20**	**(28)**	**(8)**	**(20)**
TOTAL COMPREHENSIVE INCOME	**54**	**10**	**44**	**-**	**(2)**	**2**

Company balance sheet

before profit appropriation, at 31 December

IN EUR MILLIONS	NOTE	2014	2013
Assets			
Cash and balances with central banks	1	426	1,150
Due from other banks	2	1,965	1,516
Loans and receivables	3	14,274	13,468
Interest-bearing securities	4	1,297	1,904
Equity investments	5	2	2
Participating interests in group companies	6	986	695
Other participating interests	7	-	-
Property, plant and equipment	8	24	12
Assets held under financial lease	9	-	14
Derivative financial instruments	10	3,445	3,292
Prepayments and accrued income	11	76	119
TOTAL ASSETS		**22,495**	**22,172**

IN EUR MILLIONS	NOTE	2014	2013
Liabilities			
Due to other banks	12	1,202	1,087
Deposits from customers	13	12,787	11,841
Debt securities	14	2,971	4,002
Other liabilities	15	55	70
Derivative financial instruments	10	3,308	3,055
Provisions	16	25	31
SUBORDINATED LIABILITIES			
Amortised cost	17	63	57
Fair value through profit or loss	18	253	241
TOTAL LIABILITIES		**20,664**	**20,384**
SHAREHOLDER'S EQUITY			
Share capital	19	80	80
OTHER RESERVES			
Share premium	19	238	238
Hedging reserve	19	61	44
Revaluation reserve	19	19	3
Retained earnings		1,409	1,437
Net profit		24	22
Interim and final dividend paid		-	(36)
TOTAL PARENT SHAREHOLDER'S EQUITY		**1,831**	**1,788**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**22,495**	**22,172**
Contingent liabilities	21	97	104
Irrevocable facilities	21	1,341	906

Company statement of changes in shareholder's equity

IN EUR MILLIONS	Attributable to parent shareholder						
	Share capital	Other reserves[1]	Retained earnings	Remeasurements of defined benefit plans	Net profit	Distribution charged to profit	Total shareholders' equity
BALANCE AT 1 JANUARY 2013	**80**	**312**	**1,385**	**(7)**	**73**	**(19)**	**1,824**
Transfer of net profit 2012 to retained earnings	-	-	54	-	(73)	19	-
Total comprehensive income for the year ended 31 December 2013	-	(18)	-	(2)	22	-	2
Dividend paid[2]	-	-	(20)	-	-	(16)	(36)
Net investment hedge foreign currency	-	-	(3)	-	-	-	(3)
Other	-	-	1	-	-	-	1
BALANCE AT 31 DECEMBER 2013	**80**	**294**	**1,417**	**(9)**	**22**	**(16)**	**1,788**

IN EUR MILLIONS	Attributable to parent shareholder						
	Share capital	Other reserves[1]	Retained earnings	Remeasurements of defined benefit plans	Net profit	Distribution charged to profit	Total shareholders' equity
BALANCE AT 1 JANUARY 2014	**80**	**294**	**1,417**	**(9)**	**22**	**(16)**	**1,788**
Transfer of net profit 2013 to retained earnings	-	-	6	-	(22)	16	-
Total comprehensive income for the year ended 31 December 2014	-	28	-	(8)	24	-	44
Net investment hedge foreign currency	-	-	(2)	-	-	-	(2)
Transfer of defined benefit plans	-	-	(17)	17	-	-	-
Transfer of realised depreciation revalued property, plant and equipment	-	(4)	5	-	-	-	1
BALANCE AT 31 DECEMBER 2014	**80**	**318**	**1,409**	**-**	**24**	**-**	**1,831**

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

2 Ordinary interim and final dividend paid in 2013 to the shareholder.

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. Under Section 402 of Title 9 of Book 2 of the Netherlands Civil Code, it is sufficient for the company's income statement to present only the income of group companies and other income and expenses after income tax.

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.

Investments in subsidiaries

Subsidiaries, 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 subsidiaries' profits or losses is recognised in the income statement. Its movement in reserves is recognised in reserves.

If losses of group companies that are attributable to the company exceed the carrying amount of the interest in the group company (including separately presented goodwill, if any, and including other unsecured receivables), further losses are not recognised unless the company has incurred obligations or made payments on behalf of the group company to satisfy obligations of the group company. In such a situation, NIBC recognises a provision up to the extent of its obligation.

NOTES
to the company financial statements

1 Cash and balances with central banks

IN EUR MILLIONS	2014	2013
Cash and balances with central banks	426	1,150
	426	**1,150**
CASH AND BALANCES WITH CENTRAL BANKS CAN BE CATEGORISED AS FOLLOWS:		
Receivable on demand	329	744
Not receivable on demand	97	406
	426	**1,150**
THE LEGAL MATURITY ANALYSIS OF CASH AND BALANCES WITH CENTRAL BANKS NOT RECEIVABLE ON DEMAND IS AS FOLLOWS:		
Three months or less	-	300
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	5	15
Longer than five years	-	-
Assets with central banks due to mandatory reserve deposits	92	91
	97	**406**

Cash and balances with central banks included EUR 383 million on the current account balance held with Dutch Central Bank (2013: EUR 798 million).

Balances held with central banks are interest bearing.

The fair value of this balance sheet item does not materially deviate from its face value, due to the short-term nature of the underlying assets.

2 Due from other banks

IN EUR MILLIONS	2014	2013
Current accounts	279	131
Deposits with other banks	1,634	1,375
Due from group companies	52	10
	1,965	**1,516**
DUE FROM OTHER BANKS CAN BE CATEGORISED AS FOLLOWS:		
Receivable on demand	331	141
Cash collateral placements posted under CSA agreements	1,620	1,231
Not receivable on demand	14	144
	1,965	**1,516**
THE LEGAL MATURITY ANALYSIS OF DUE FROM OTHER BANKS NOT RECEIVABLE ON DEMAND IS AS FOLLOWS:		
Three months or less	1	138
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	9	2
Longer than five years	4	4
	14	**144**

There were no subordinated loans outstanding due from other banks in 2014 and 2013.

The fair value of this balance sheet item does not materially deviate from its face value due to the short-term nature of the underlying assets and the credit quality of the counterparties.

Other than from group companies, NIBC does not have receivables from other participating interests.

No impairments were recorded in 2014 and 2013 on the amounts due from other banks.

An amount of EUR 1,620 million (2013: EUR 1,231 million) related to cash collateral given to third parties and was not freely available to NIBC.

NIBC transacted several reverse repurchase transactions with third parties. The related disclosures are included in note 20 Repurchase and resale agreements and transferred financial assets.

3 Loans and receivables

IN EUR MILLIONS	2014	2013
Loans - amortised cost	5,691	5,806
Loans - fair value through profit or loss	541	713
Group companies - amortised cost	8,042	6,949
	14,274	**13,468**
THE LEGAL MATURITY ANALYSIS OF LOANS AND RECEIVABLES IS AS FOLLOWS:		
Three months or less	2,255	3,168
Longer than three months but not longer than one year	781	985
Longer than one year but not longer than five years	4,522	4,636
Longer than five years	6,716	4,679
	14,274	**13,468**
THE MOVEMENT IN IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**97**	**117**
Additional allowances	100	68
Write-offs/disposals	(20)	(90)
Amounts released	(9)	(8)
Unwinding of discount adjustment	(10)	(4)
Other (including exchange differences)	1	14
BALANCE AT 31 DECEMBER	**159**	**97**

On 1 July 2008, following the IAS 39 amendments, an amount of EUR 74 million of the impairments related to the available-for-sale loans were reclassified to the loans category at amortised cost. The total amount of loans in the available-for-sale category net of impairments was reclassified to the loans category at amortised cost as at 1 July 2008. The impairments at 31 December 2014, related to the available-for-sale loans reclassified to the loans category at amortised cost on 1 July 2008, amounted to EUR 28 million (31 December 2013: EUR 28 million).

If NIBC had fair valued the loans classified as amortised cost using the valuation methodology applied to loans designated as available-for-sale as per 31 December 2014, then the carrying amount would have changed at the balance sheet date by nil (2013: EUR 58 million, decreased) excluding group companies. NIBC hedges its interest rate risk from these assets.

The maximum credit risk exposure including undrawn credit facilities arising on loans at amortised cost amounts to EUR 7,031 million (2013: EUR 6,649 million), excluding the group companies.

The total amount of subordinated loans in this item was EUR 53 million in 2014 (2013: EUR 57 million), of which nil (2013: nil) has been guaranteed by the Dutch State. No subordinated loans are included with respect to group companies.

As per 31 December 2014, EUR 12 million (2013: EUR 12 million) was guaranteed by the Dutch State.

For the impact of the reclassifications following IASB amendments 'IAS 39 Financial Instruments: Recognition and Measurements' on the income statement and on shareholder's equity, see notes to the consolidated financial statements 2014 of NIBC.

Impairment losses of loans at amortised cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

As a policy, NIBC does not provide loans to its executives.

4 Interest-bearing securities

IN EUR MILLIONS	2014	2013
Amortised cost	315	523
Available-for-sale	945	1,300
Fair value through profit or loss	6	50
Held for trading	31	31
	1,297	**1,904**

The previous table displays the IFRS accounting treatment of interest bearing securities. All interest-bearing securities are non-government. All held for trading interest-bearing securities are listed.

IN EUR MILLIONS	2014	2013
INTEREST-BEARING SECURITIES AT AMORTISED COST, AVAILABLE-FOR-SALE AND DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS CAN BE CATEGORISED AS FOLLOWS:		
Listed	1,147	1,726
Unlisted	119	147
	1,266	**1,873**
THE LEGAL MATURITY ANALYSIS OF INTEREST-BEARING SECURITIES AT AMORTISED COST, AVAILABLE-FOR-SALE AND DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS IS AS FOLLOWS:		
Three months or less	17	118
Longer than three months but not longer than one year	29	196
Longer than one year but not longer than five years	349	598
Longer than five years	871	961
	1,266	**1,873**
THE MOVEMENT IN INTEREST-BEARING SECURITIES AT AMORTISED COST, AVAILABLE-FOR-SALE AND DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**1,873**	**1,617**
Additions	545	1,241
Disposals (sale and/or redemption)	(1,177)	(974)
Impairments and changes in fair value	3	(3)
Exchange differences	22	(8)
BALANCE AT 31 DECEMBER	**1,266**	**1,873**

Subordinated assets included in interest-bearing securities amounted to EUR 22 million (2013: EUR 24 million).

Interest-bearing securities do not include assets issued and bought by NIBC for market making purposes. Any such assets are eliminated from the balance sheet.

Interest income from interest-bearing securities and other fixed-income instruments is recognised in interest and similar income at the effective interest rate. Fair value movements (excluding interest) are recognised in net trading income.

The portion of fair value changes in 2014 included in the balance sheet amount (designated at fair value through profit or loss) at 31 December 2014 relating to the movement in credit spreads amounted to nil (2013: EUR 1 million debit, being an increase in the carrying amount).

If NIBC had fair valued the interest bearing securities classified as amortised cost, then the balance sheet amount would have decreased at the balance sheet date by EUR 17 million (2013: EUR 105 million). This decrease reflects both changes due to interest rates and credit spreads.

In 2014, impairments on interest bearing assets amounted to EUR 2 million (2013: EUR 2 million).

As at 1 July 2008, certain debt investments from the available-for-sale and held for trading category were reclassified to debt investments at amortised cost.

For the impact of the implementation of IASB amendments 'IAS 39 Financial Instruments: Recognition and Measurements' on the income statement and on shareholder's equity, see the notes to the consolidated financial statements of NIBC.

5 Equity investments

IN EUR MILLIONS	2014	2013
Available-for-sale	2	2
Fair value through profit or loss	-	-
	2	**2**
EQUITY INVESTMENTS CAN BE CATEGORISED AS FOLLOWS:		
Listed	-	-
Unlisted	2	2
	2	**2**
THE MOVEMENT IN EQUITY INVESTMENTS AT AVAILABLE-FOR-SALE MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**2**	**3**
Disposals (sale and/or capital repayments)	(1)	(8)
Gains/(losses) from changes in fair value	1	7
BALANCE AT 31 DECEMBER	**2**	**2**
THE MOVEMENT IN IMPAIRMENT LOSSES ON EQUITY INVESTMENTS AT AVAILABLE-FOR-SALE:		
BALANCE AT 1 JANUARY	**-**	**-**
Write-offs	-	-
BALANCE AT 31 DECEMBER	**-**	**-**
THE MOVEMENT IN EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**-**	**1**
Additions	1	-
Disposals (sale and/or capital repayments)	(2)	(2)
Gains/(losses) from changes in fair value	1	1
BALANCE AT 31 DECEMBER	**-**	**-**

Impairment losses for equity investments at available-for-sale are defined as the difference between the fair value of equity investments that exhibit indicators of impairment and original cost.

6 Participating interests in group companies

IN EUR MILLIONS	2014	2013
Participating interests in group companies	986	695
	986	**695**
THE MOVEMENT IN PARTICIPATING INTERESTS IN GROUP COMPANIES MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**695**	**632**
Purchases and investments	182	-
Disposals	-	(1)
Revaluation	4	3
Dividend received	-	(81)
Results of group companies	107	146
Exchange differences	(2)	(4)
BALANCE AT 31 DECEMBER	**986**	**695**

The group companies are unlisted. Participating interests in group companies are measured at net asset value.

7 Other participating interests

IN EUR MILLIONS	2014	2013
Other participating interests	-	-
	-	**-**

Other participating interests are accounted for at net asset value.

The other participating interests are not registered as credit institutions.

There are no significant restrictions on the ability of other participating interests to transfer funds to the investor in the form of cash dividends, or repayment of loans.

There is no unrecognised share of losses of other participating interests, both for the period and cumulatively.

8 Property, plant and equipment

IN EUR MILLIONS	2014	2013
Land and buildings (in own use)/lease hold improvements	20	7
Other fixed assets	4	5
	24	**12**
THE MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**12**	**12**
Additions	2	4
Revaluations	1	-
Transferred from assets held under financial lease	14	-
Depreciation	(5)	(4)
BALANCE AT 31 DECEMBER	**24**	**12**
THE ACCUMULATED DEPRECATION IN PROPERTY, PLANT AND EQUIPMENT CAN BE CATEGORISED AS FOLLOWS:		
Land and buildings (in own use)/leasehold improvements	32	14
Other fixed assets	15	13
	47	**27**

For information about insurance of property, plant and equipment please see note 28 of the consolidated financial statements.

There is no property, plant and equipment pledged as security for liabilities.

There were no contractual commitments for the acquisition of property, plant and equipment at 31 December 2014 and 31 December 2013.

The fair value of land and buildings (in own use) does not materially deviate from its carrying value. NIBC's land and buildings in own use were last revalued as of 31 December 2014 based on an external appraisal carried out in December 2014.

9 Assets held under financial lease

IN EUR MILLIONS	2014	2013
Assets held under financial lease	-	14
	-	**14**
THE MOVEMENT IN ASSETS HELD UNDER FINANCIAL LEASE MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**14**	**15**
Transferred to property, plant and equipment	(14)	-
Depreciation	-	(1)
BALANCE AT 31 DECEMBER	**-**	**14**

10 Derivative financial instruments

IN EUR MILLIONS	2014	2013
DERIVATIVE FINANCIAL ASSETS		
Derivative financial assets used for hedge accounting	187	141
Derivative financial assets - other	3,258	3,151
	3,445	**3,292**
DERIVATIVE FINANCIAL LIABILITIES		
Derivative financial liabilities used for hedge accounting	37	17
Derivative financial liabilities - other	3,271	3,038
	3,308	**3,055**

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 funding;
- FX and cross-currency swaps to fund the non-euro loans to customers or to transform non-euro funding into euros;
- Client-driven derivative transactions and hedges resulting from this activity; and
- Limited proprietary trading, mainly money market and bond futures.

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 56 Market Risk of the consolidated financial statements.

Derivative financial instruments used for hedge accounting at 31 December 2014

	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	86	247	3,636	3,969	139	37
Interest currency rate swaps	-	6	17	23	6	-
	86	**253**	**3,653**	**3,992**	**145**	**37**
DERIVATIVES ACCOUNTED FOR AS CASH FLOW HEDGES OF INTEREST RATE RISK						
OTC PRODUCTS:						
Interest rate swaps	-	-	1,639	1,639	42	
	-	**-**	**1,639**	**1,639**	**42**	**-**
TOTAL DERIVATIVES USED FOR HEDGE ACCOUNTING	**86**	**253**	**5,292**	**5,631**	**187**	**37**

Derivative financial instruments used for hedge accounting at 31 December 2013

	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	596	1,880	2,770	5,246	133	15
Interest currency rate swaps	-	-	26	26	6	-
	596	**1,880**	**2,796**	**5,272**	**139**	**15**
DERIVATIVES ACCOUNTED FOR AS CASH FLOW HEDGES OF INTEREST RATE RISK						
OTC PRODUCTS:						
Interest rate swaps	-	-	828	828	2	2
	-	**-**	**828**	**828**	**2**	**2**
TOTAL DERIVATIVES USED FOR HEDGE ACCOUNTING	**596**	**1,880**	**3,624**	**6,100**	**141**	**17**

Derivative financial instruments - other at 31 December 2014

IN EUR MILLIONS	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
INTEREST RATE DERIVATIVES						
OTC PRODUCTS:						
Interest rate swaps	3,755	11,482	60,673	75,910	3,227	3,079
Interest rate options (purchase)	-	-	257	257	2	-
Interest rate options (sale)	10	11	246	267	-	2
	3,765	**11,493**	**61,176**	**76,434**	**3,229**	**3,081**
CURRENCY DERIVATIVES						
OTC PRODUCTS:						
Interest currency rate swaps	188	644	1,974	2,806	11	169
Currency/cross-currency swaps	110	-	-	110	7	-
	298	**644**	**1,974**	**2,916**	**18**	**169**
OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)						
OTC PRODUCTS:						
Credit default guarantees given	19	-	-	19	-	1
Credit default guarantees received	24	-	-	24	-	-
Other swaps	-	-	36	36	11	20
Other OTC	-	1	-	1	-	-
	43	**1**	**36**	**80**	**11**	**21**
TOTAL DERIVATIVES - OTHER	**4,106**	**12,138**	**63,186**	**79,430**	**3,258**	**3,271**

Derivative financial instruments - other at 31 December 2013

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	2,782	8,472	57,862	69,116	2,957	2,944
Interest rate options (purchase)	-	-	156	156	3	-
Interest rate options (sale)	-	25	144	169	-	3
	2,782	**8,497**	**58,162**	**69,441**	**2,960**	**2,947**
CURRENCY DERIVATIVES						
OTC PRODUCTS:						
Interest currency rate swaps	193	496	1,994	2,683	126	20
Currency/cross-currency swaps	-	-	-	-	-	-
	193	**496**	**1,994**	**2,683**	**126**	**20**
OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)						
OTC PRODUCTS:						
Credit default guarantees given	13	-	-	13	-	2
Credit default guarantees received	107	-	-	107	-	1
Other swaps	-	44	650	694	64	68
Other OTC	-	2	-	2	1	-
	120	**46**	**650**	**816**	**65**	**71**
TOTAL DERIVATIVES - OTHER	**3,095**	**9,039**	**60,806**	**72,940**	**3,151**	**3,038**

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		2014	2013
Fair value pay - fixed swaps (hedging assets)	**assets**	-	1
Fair value pay - fixed swaps (hedging assets)	**liabilities**	(37)	(13)
		(37)	**(12)**
Fair value pay - floating swaps (hedging liabilities)	**assets**	145	138
Fair value pay - floating swaps (hedging liabilities)	**liabilities**	-	(2)
		145	**136**

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		2014	2013
Fair value receive - fixed swaps	**assets**	42	-
Fair value receive - fixed swaps	**liabilities**	-	-
		42	**-**
Fair value receive - floating swaps	**assets**	-	2
Fair value receive - floating swaps	**liabilities**	-	(2)
		-	**-**

Sum of fair value and cash flow hedges of interest rate risk

IN EUR MILLIONS		2014	2013
Fair value pay swaps	**assets**	145	139
Fair value receive swaps	**assets**	42	2
		187	**141**
Fair value pay swaps	**liabilities**	(37)	(15)
Fair value receive swaps	**liabilities**	-	(2)
		(37)	**(17)**

The average remaining maturity (within which the related cash flows are expected to enter into the determination of profit and loss) is five years (2013: three years).

11 Prepayments and accrued income

IN EUR MILLIONS	2014	2013
Accrued interest	1	1
Defined-benefit pension asset[1]	-	2
Current tax	2	2
Deferred tax assets	24	25
Accrued income and prepayments	49	89
	76	**119**

[1] For further specification of the defined-benefit pension asset please see note 40 Employee benefits of the consolidated financial statements.

IN EUR MILLIONS	2014	2013
Deferred tax assets	24	25
Deferred tax liabilities[2]	(22)	(15)
	2	**10**

[2] Deferred tax liabilities as disclosed in note 16 Provisions.

IN EUR MILLIONS	2014	2013
THE AMOUNTS OF DEFERRED INCOME TAX ASSETS, WITHOUT TAKING INTO CONSIDERATION THE OFFSETTING OF BALANCES WITHIN THE SAME JURISDICTION, WERE AS FOLLOWS:		
Debt securities	-	2
Remeasurements of defined-benefit plans	-	3
Tax losses carried forward	24	26
	24	**31**
THE AMOUNTS OF DEFERRED INCOME TAX LIABILITIES, WITHOUT TAKING INTO CONSIDERATION THE OFFSETTING OF BALANCES WITHIN THE SAME JURISDICTION, WERE AS FOLLOWS:		
Equity investments	-	-
Cash flow hedges	20	16
Property, plant and equipment	2	3
Net investment hedge foreign currency	-	2
	22	**21**
	2	**10**

IN EUR MILLIONS	2014	2013
THE GROSS MOVEMENT ON THE DEFERRED INCOME TAX ACCOUNT MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**10**	**6**
EMPLOYEE BENEFIT OBLIGATIONS:		
Charged/(credited) to the remeasurements of defined-benefit plans	(3)	1
LOANS (REPORTED AS AVAILABLE-FOR-SALE):		
Fair value remeasurement charged/(credited) to revaluation reserve	-	-
DEBT INVESTMENTS (REPORTED AS AVAILABLE-FOR-SALE):		
Fair value remeasurement charged/(credited) to revaluation reserve	(2)	(1)
PROPERTY, PLANT AND EQUIPMENT (REPORTED AT FAIR VALUE):		
Fair value remeasurement (charged)/credited to revaluation reserve	1	-
EQUITY INVESTMENTS (REPORTED AS AVAILABLE FOR SALE):		
Fair value remeasurement charged/(credited) to revaluation reserve	-	1
CASH FLOW HEDGES:		
Fair value remeasurement charged/(credited) to hedging reserve	(4)	7
NET INVESTMENT HEDGE		
Fair value remeasurement charged/(credited) to currency revaluation reserve	2	(2)
Tax losses carried forward	(2)	(2)
BALANCE AT 31 DECEMBER	**2**	**10**

12 Due to other banks

IN EUR MILLIONS	2014	2013
Due to other banks	1,202	1,087
	1,202	**1,087**
DUE TO OTHER BANKS CAN BE CATEGORISED AS FOLLOWS:		
Payable on demand	74	85
Not payable on demand	1,128	1,002
	1,202	**1,087**
THE LEGAL MATURITY ANALYSIS OF DUE TO OTHER BANKS NOT PAYABLE ON DEMAND IS AS FOLLOWS:		
Three months or less	655	272
Longer than three months but not longer than one year	-	107
Longer than one year but not longer than five years	246	390
Longer than five years	227	233
	1,128	**1,002**

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 20 Repurchase and resale agreements and transferred financial assets.

At 31 December 2014, an amount of EUR 268 million (2013: EUR 269 million) related to cash collateral received from third parties.

13 Deposits from customers

IN EUR MILLIONS	2014	2013
Deposits from customers	12,787	11,841
	12,787	**11,841**
DEPOSITS FROM CUSTOMERS CAN BE CATEGORISED AS FOLLOWS:		
Certificates of deposits	4,658	-
Due to customers	8,129	11,841
	12,787	**11,841**
DEPOSITS FROM CUSTOMERS CAN BE CATEGORISED AS FOLLOWS:		
Payable on demand	4,658	4,856
Not payable on demand	8,129	6,985
	12,787	**11,841**
THE LEGAL MATURITY ANALYSIS OF DEPOSITS FROM CUSTOMERS NOT PAYABLE ON DEMAND IS AS FOLLOWS:		
Three months or less	2,861	3,379
Longer than three months but not longer than one year	1,428	879
Longer than one year but not longer than five years	2,941	1,823
Longer than five years	899	904
	8,129	**6,985**

Interest is recognised in interest expense and similar charges on an effective interest basis.

The balance sheet item included EUR 3,653 million (2013: EUR 3,231 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.

14 Debt securities

IN EUR MILLIONS	2014	2013
Bonds and notes issued - amortised costs	2,055	3,141
Bonds and notes issued - fair value through profit or loss	858	829
Fair value hedge adjustment on amortised cost bonds and notes issued	58	32
	2,971	**4,002**
THE LEGAL MATURITY ANALYSIS OF DEBT SECURITIES IS AS FOLLOWS:		
Three months or less	16	5
Longer than three months but not longer than one year	68	1,782
Longer than one year but not longer than five years	1,604	998
Longer than five years	1,283	1,217
	2,971	**4,002**

All of the issued notes according and subject to (i) the Rules governing the 2008 Dutch Scheme and (ii) the Guarantee Certificate issued under those Rules in respect of these notes had matured at 2 December 2014. The Dutch State has unconditionally and irrevocably guaranteed payment of all amounts of principal and interest due by NIBC up to nil (2013: EUR 1,303 million) of these notes. These Rules and that Guarantee Certificate are available at www.dsta.nl.

The balance sheet item includes debentures and other negotiable fixed-income debt investments, other than subordinated items.

15 Other liabilities

IN EUR MILLIONS	2014	2013
Interest	6	-
Accruals	24	22
Payables	25	22
Finance lease liabilities	-	18
Current tax	-	8
	55	**70**

Finance lease liabilities

The lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in event of default.

IN EUR MILLIONS	2014	2013
THE LEGAL MATURITY ANALYSIS OF THE GROSS FINANCE LEASE LIABILITIES - MINIMUM LEASE PAYMENTS - IS AS FOLLOWS:		
One year or less	-	2
Longer than one year but not longer than five years	-	22
Longer than five years	-	-
	-	**24**
THE PRESENT VALUE OF THE FINANCIAL LEASE LIABILITIES CAN BE CATEGORISED AS FOLLOWS:		
Gross financial lease liability	-	24
Future finance charge of finance leases	-	(6)
	-	**18**
THE LEGAL MATURITY ANALYSIS OF THE PRESENT VALUE OF FINANCE LEASE LIABILITIES IS AS FOLLOWS:		
One year or less	-	2
Longer than one year but not longer than five years	-	16
Longer than five years	-	-
	-	**18**

16 Provisions

IN EUR MILLIONS	2014	2013
Deferred tax liabilities	22	15
Employee benefits	3	16
	25	**31**

For further specification of the defined-benefit pension asset please see note 40 Employee benefits of the consolidated financial statements.

The movement in deferred tax is disclosed in note 11 Prepayments and accrued income.

17 Subordinated liabilities - amortised cost

IN EUR MILLIONS	2014	2013
Subordinated loans qualifying as Tier-1 capital	-	44
Subordinated loans	63	13
	63	**57**
THE LEGAL MATURITY ANALYSIS OF SUBORDINATED LIABILITIES IS AS FOLLOWS:		
One year or less	-	-
Longer than one year but not longer than five years	1	1
Longer than five years but not longer than ten years	-	-
Longer than ten years	62	56
	63	**57**

All of the above loans are subordinated to the other liabilities of NIBC. Due to new CRR/CRDIV requirements regarding additional Tier-1 capital instruments, non-qualifying subordinated loans amounted to EUR 50 million (2013: EUR 44 million). Interest expense of EUR 2 million was recognised on subordinated liabilities during the year 2014 (2013: EUR 4 million). In 2014, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item (2013: nil).

The subordinated liabilities reflect four transactions (2013: four transactions), of which the largest three total EUR 62 million (2013 largest three: EUR 56 million).

18 Subordinated liabilities - designated at fair value through profit or loss

IN EUR MILLIONS	2014	2013
Subordinated loans qualifying as Tier-1 capital	152	133
Subordinated loans	101	108
	253	**241**
THE LEGAL MATURITY ANALYSIS OF SUBORDINATED LIABILITIES IS AS FOLLOWS:		
One year or less	-	21
Longer than one year but not longer than five years	16	15
Longer than five years but not longer than ten years	-	-
Longer than ten years	237	205
	253	**241**

All of the above loans are subordinated to the other liabilities of NIBC. EUR 152 million (2013: EUR 133 million) relates to non-qualifying capital instruments grandfathered in additional Tier-1 capital. These securities are perpetual securities and may be redeemed by NIBC only with the prior approval of the Dutch Central Bank. Interest expense of EUR 18 million was recognised on subordinated liabilities during the year 2014 (2013: EUR 17 million). In 2014, no gains or losses were realised on the repurchase of liabilities with respect to this balance sheet item (2013: nil).

The subordinated liabilities reflect eight transactions (2013: nine transactions), of which the largest three total EUR 175 million (2013 largest three: EUR 147 million).

19 Shareholder's equity

The ultimate controlling company is New NIB Limited, a company incorporated in Ireland.

Share capital

IN EUR MILLIONS	2014	2013
Paid-up capital	80	80
	80	**80**

	2014	2013
THE NUMBER OF AUTHORISED SHARES IS SPECIFIED AS FOLLOWS:		
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 per (B,C,D,E1-E3) preference share	1.00	1.00
Par value per (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.

Other reserves

IN EUR MILLIONS	2014	2013
OTHER RESERVES ARE COMPRISED OF:		
Share premium	238	238
Hedging reserve - cash flow hedges	61	44
Revaluation reserve - equity investments (available-for-sale)	7	1
Revaluation reserve - debt securities (available-for-sale)	(1)	(7)
Revaluation reserve - property, plant and equipment	13	18
Remeasurements of defined-benefit plans	-	(9)
	318	**285**

IN EUR MILLIONS	Share premium	Hedging reserve	Revaluation reserve	Remeasure-ments of defined-benefit plans	Total
BALANCE AT 1 JANUARY 2013	**238**	**66**	**8**	**(7)**	**305**
Net result on cash flow hedging instruments	-	(22)	-	-	(22)
Revaluation of equity investments (net of tax)	-	-	3	-	3
Revaluation of debt securities (net of tax)	-	-	1	-	1
Revaluation of property, plant and equipment (net of tax)	-	-	-	-	-
Remeasurements of defined-benefit plans	-	-	-	(2)	(2)
TOTAL RECOGNISED DIRECTLY THROUGH OTHER COMPREHENSIVE INCOME IN EQUITY	**-**	**(22)**	**4**	**(2)**	**(20)**
BALANCE AT 31 DECEMBER 2013	**238**	**44**	**12**	**(9)**	**285**

IN EUR MILLIONS	Share premium	Hedging reserve	Revaluation reserve	Remeasure-ments of defined-benefit plans	Total
BALANCE AT 1 JANUARY 2014	**238**	**44**	**12**	**(9)**	**285**
Net result on cash flow hedging instruments	-	17	-	-	17
Revaluation of equity investments (net of tax)	-	-	6	-	6
Revaluation of debt securities (net of tax)	-	-	6	-	6
Revaluation of property, plant and equipment (net of tax)	-	-	-		-
Remeasurements of defined-benefit plans	-	-	-	(8)	(8)
TOTAL RECOGNISED DIRECTLY THROUGH OTHER COMPREHENSIVE INCOME IN EQUITY	**-**	**17**	**12**	**(8)**	**21**
Transfer to retained earnings	-	-	(5)	17	12
BALANCE AT 31 DECEMBER 2014	**238**	**61**	**19**	**-**	**318**

If NIBC had not reclassified financial assets in 2008, additional fair value gains recognised for the year 2014 in the income statement and additional gains recognised in the revaluation reserve in shareholder's equity would have amounted to a net of tax gain of EUR 14 million (2013: net of tax gain of EUR 18 million) and a net tax gain of EUR 6 million (2013: net of tax gain of EUR 23 million) respectively. Impairment charges would have amounted to nil for these assets that were reclassified out of available-for-sale into loans and receivables. For more information, see note 44 of the consolidated financial statements.

Information on NIBC's solvency ratios is included in the risk management section of this Annual Report.

At 31 December 2014, retained earnings and net profit attributable to the parent shareholder included unrealised fair value changes on residential mortgages (own book and securitised), certain non-listed trading assets, derivatives related to residential mortgages (own book and securitised) and these non-listed trading assets, and on associates designated at fair value through profit or loss and liabilities designated at fair value through profit or loss. With respect to unrealised fair value gains arising on these instruments, a statutory reserve of EUR 247 million (2013: EUR 202 million) has been established and included in other reserves. At the balance sheet date, no further statutory reserve had been established for 2014 or 2013 for associates measured using the net equity method. At the reporting date, the statutory reserve for currency translation differences was nil for both 2014 and 2013.

Including the revaluation and hedging reserves displayed in note 43 of the consolidated financial statements, total legal reserves at 31 December 2014 amount to EUR 328 million (2013: EUR 266 million).

20 Repurchase and resale agreements and transferred financial assets

For a specification of the Repurchase and resale agreements and transferred financial assets, see note 46 of the consolidated financial statements.

21 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 relating 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 up to five years. Expirations are not concentrated in any period.

The contractual amounts of commitments (excluding residential mortgages commitments which are measured at fair value through profit or loss) and contingent liabilities are set out in the following table by category. In the 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	2014	2013
CONTRACT AMOUNT:		
Undrawn facilities and capital commitments	1,341	906
Guarantees and letters of credit	97	104
	1,438	**1,010**

In 2014 and 2013, there were no guarantees to group companies.

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 49 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., Panrnib 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.

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.

22 Assets pledged as security

For a specification of the assets pledged as security, please see note 49 of the consolidated financial statements.

23 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 2014, the total assets held by NIBC on behalf of customers were EUR 1,732 million (2013: EUR 1,995 million).

24 Related party transactions

For a specification of the related party transactions, see note 51 of the consolidated financial statements.

25 Principal subsidiaries and associates

For a specification of the principal subsidiaries and associates, see note 52 of the consolidated financial statements.

26 Financial risk management

Please see notes 55 to 58 of the consolidated financial statements, for NIBC's risk management policies.

27 Number of employees

The number of FTEs decreased from 596 at 31 December 2013 to 584 at 31 December 2014.

28 Remuneration

For the remuneration of the Statutory Board members and Supervisory Board members, see notes 8 and 54 of the consolidated financial statements.

At 31 December 2014 and 31 December 2013, there were no receivables outstanding with current and former members of the Statutory Board and Supervisory Board.

The Hague, 3 March 2015

Managing Board

Paulus de Wilt, *Chief Executive Officer, Chairman*
Herman Dijkhuizen, *Chief Financial Officer*
Rob ten Heggeler, *Chief Client Officer*
Petra van Hoeken, *Chief Risk Officer*

Supervisory Board

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

OTHER INFORMATION

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Auditor's report

Independent auditor's report

To: the general meeting and supervisory board of NIBC Bank N.V.

Report on the financial statements 2014

Our opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of NIBC Bank N.V. as at 31 December 2014 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the company financial statements give a true and fair view of the financial position of NIBC Bank N.V. as at 31 December 2014 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2014 of NIBC Bank N.V., The Hague ('the company'). The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2014;
- the following statements for 2014: the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2014;
- the company income statement for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

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T: +31 (0) 88 792 00 20, F: +31 (0) 88 792 96 40, www.pwc.nl

'PwC' is the brand under which PricewaterhouseCoopers Accountants N.V. (Chamber of Commerce 34180285), PricewaterhouseCoopers Belastingadviseurs N.V. (Chamber of Commerce 34180284), PricewaterhouseCoopers Advisory N.V. (Chamber of Commerce 34180287), PricewaterhouseCoopers Compliance Services B.V. (Chamber of Commerce 51414406), PricewaterhouseCoopers Pensions, Actuarial & Insurance Services B.V. (Chamber of Commerce 54226368), PricewaterhouseCoopers B.V. (Chamber of Commerce 34180289) and other companies operate and provide services. These services are governed by General Terms and Conditions ('algemene voorwaarden'), which include provisions regarding our liability. Purchases by these companies are governed by General Terms and Conditions of Purchase ('algemene inkoopvoorwaarden'). At www.pwc.nl more detailed information on these companies is available, including these General Terms and Conditions and the General Terms and Conditions of Purchase, which have also been filed at the Amsterdam Chamber of Commerce.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of NIBC Bank N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the managing board that may represent a risk of material misstatement due to fraud. Furthermore, we considered and placed reliance on the company's internal controls relevant to our audit.

Materiality

- Overall materiality: € 2.5 million which represents the average of 5% of profit before tax over the past three years, adjusted for non-recurring expenses of € 18 million relating to the levy charged in 2014 by the Dutch government due to the nationalisation of SNS Reaal .

Audit scope

- We conducted audit work in three locations, being NIBC Bank N.V., NIBC Bank Deutschland AG and Olympia Nederland Holding B.V.
- We paid particular attention to the acquisition of NIBC Bank Deutschland AG (formerly named Gallinat Bank AG) that took place in 2014.
- Visits were conducted twice to the NIBC Bank Deutschland AG and once to the Olympia Nederland Holding B.V. component audit teams.

Key audit matters

- Impairment of corporate loans.
- Valuation of residential mortgages.
- Valuation of own liabilities.
- Acquisition of NIBC Bank Deutschland AG.

Auditor's report

Materiality

The scope of our audit is influenced by the application of materiality. Our audit opinion aims on providing reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	€ 2.5 million (2013: € 3.0 million).
How we determined it	Average of 5% of profit before tax (excluding the non-recurring levy charged for the nationalisation of SNS Reaal of € 18 million) over the past three years.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that profit before tax is an important metric for the financial performance of the company. Due to the volatility of the results of the company we believe that the use of a three years average is appropriate. Given the non-recurring effect of the levy charged for the nationalisation of SNS Reaal we adjusted our materiality for this.

We also take misstatements and/or possible misstatements into account that, in our judgment, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above € 125,000 (2013: € 150,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

NIBC Bank N.V. is the ultimate parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of NIBC Bank N.V.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

The group audit focused on the significant components of the company. These are NIBC Bank N.V., NIBC Bank Deutschland AG and Olympia Nederland Holding B.V. In our view, due to their

significance and/or risk characteristics, each of these components required an audit of their complete financial information. For NIBC Bank N.V. and the entities in the group for which accounting is performed at NIBC Bank N.V., the group engagement team performed the audit work. For NIBC Bank Deutschland AG and Olympia Nederland Holding B.V. we used component auditors from PwC Germany and another audit firm who are familiar with the local laws and regulations to perform this audit work.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. The group engagement team visits the component teams on an annual basis. In the current year the group engagement team visited the NIBC Bank Deutschland AG component audit team twice due to the acquisition this year.

The group consolidation, financial statement disclosures and a number of complex items are audited by the group engagement team. These include, impairment on goodwill of consolidated non-financial companies, fair value of financial instruments, impairment of debt investments and securitisations and special purpose entities.

By performing the procedures above at components, combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Key audit matter	***How our audit addressed the matter***
Impairment of corporate loans *See the accounting policies "financial assets reported at amortised cost", the critical accounting estimates and judgements "impairment of corporate loans", note 11 "impairment of financial assets" and note 16 "loans (amortised cost)".* Corporate loans classified as loans and receivables at amortised cost amount to € 7.226 million as at 31 December 2014. The company assesses whether there is an indication of impairment of corporate loans classified as loans and receivables at amortised cost for the individually significant items. As required by EU-IFRS, impairments are based on incurred losses at balance sheet date. When an impairment trigger is identified an impairment assessment is performed which	Our audit included testing of the company's credit management procedures, with a focus on internal controls to ensure the timely recognition and measurement of impairments for corporate loan losses. We examined a selection of individual loan exposures in detail, and challenged management's assessment and calculations of the recoverable amount. This assessment comprises, on a loan by loan basis, an evaluation of management's assessment of expected future cash flows and the value of available collateral. In selecting the loan exposures for our detailed inspection, we applied professional judgement with an emphasis on exposures to sectors that pose an increased uncertainty for recovery in the current market circumstances, being commercial real estate,

Auditor's report

Key audit matter	How our audit addressed the matter
includes subjective elements such as the determination of expected future cash flows and their timing and the market value of available collateral. The company's judgements may change in time as new information becomes available, or as recovery strategies evolve, resulting in frequent revisions of scenario's and to individual impairments, on a case-by-case basis. The company has controls in place by which the company regularly revises the methodology and assumptions used for estimating both the amount and timing of future cash flows, to reduce any differences between loss estimates and actual loss experiences. For corporate loans that are individually not impaired, the company assesses on a collective basis whether further impairment losses are present in the portfolio of accumulated loans with a similar risk. Through the use of models, the company estimates and accounts for incurred but not reported impairment losses based on the emergence period and historical loss and recovery rates. Given the impact of the scenario's on the outcome and the subjectivity involved in the judgments made, we considered this to be an important item for our audit.	shipping and leveraged finance. We tested the models used for determining and calculating the provision for impairment losses that are already incurred, however have not been reported. Also, we validated the inputs into these models relating to the emergence period and historical loss estimates and experiences. Finally, we assessed the completeness and accuracy of the disclosures relating to corporate loans classified as loans and receivables to assess compliance with disclosure requirements included in EU-IFRS.
Valuation of residential mortgages *See the accounting policies "financial instruments designated upon initial recognition as fair value through profit or loss", the critical accounting estimates and judgements 'residential mortgages', note 5 "net trading income", note 22 residential mortgages own book (designated at fair value through profit or loss), and note 23 "securitised residential mortgages (designated at fair value though profit or loss".* At 31 December 2014 residential mortgages own book and securitised residential mortgages designated at fair value through profit or loss amount to € 3.342 million and € 3.638 million respectively as at 31 December 2014. For residential mortgages (residential mortgages own book and securitised mortgages) at fair value through profit or loss movements together with the gains and losses on the derivatives used to hedge interest rate risk arising on the portfolio are presented in net trading income. On the balance sheet, residential mortgages are reported as either securitised or own book. The valuation of residential mortgages is determined through a valuation model in which the expected cash flows are discounted to present value using interbank zero-coupon rates and a discount spread which includes a cost of fund component and estimates for other risk and cost elements. The company analyses both observed offered mortgage rates and observable residential mortgage backed securities (RMBS)	Our audit included testing of the company's 's internal controls throughout the valuation process and the process of analysis of analytical reviews conducted by the company to validate the output from the valuation model. In testing the valuation of residential mortgages at 31 December 2014 we validated the appropriateness of the methodology and the model used by the company to determine the valuation. Also, we evaluated documentation prepared by the company in the valuation process, including minutes of internal meetings and analysis of assumptions. Furthermore, we tested and challenged the underlying assumptions used in the valuation with external data sources. Key assumptions in the valuation include the RMBS spread (adjusted for the impact of ECB measures), prepayment rate, supplemented with estimates for other risk and cost elements. For these audit procedures we made use of our internal valuation specialists. Finally, we assessed the completeness and accuracy of the disclosures relating to valuation of residential mortgages designated at fair value through profit or loss to assess compliance with disclosure requirements included in EU-IFRS.

Key audit matter	How our audit addressed the matter
transactions as the basis to estimate the cost of fund component of the discount spread used in the valuation. At 31 December 2014 the company applied the RMBS spread, as the company concluded that the observable primary RMBS transactions provide the best basis to estimate the discount spread. In addition, NIBC made an adjustment to the discount spread to reflect that ECB measures had a significant impact on RMBS spreads during the course of 2014. Given the subjectivity in the determination of the discount spread, we determined this to be a significant item for our audit.	
Valuation of own liabilities *See the accounting policies "financial instruments at fair value through profit or loss", the critical accounting estimates and judgements "own liabilities designated at fair value through profit or loss", note 5 "net trading income", note 37 "own debt securities in issue (designated at fair value through profit or loss)", note 38 "debt securities in issue structured (designated at fair value through profit or loss)" and note 42 "subordinated liabilities (designated at fair value through profit or loss)".* At 31 December 2014 own debt securities in issue, debt securities in issue structured and subordinated liabilities designated at fair value through profit or loss amount to € 35 million, € 823 million and € 253 million respectively as at 31 December 2014. The company values own liabilities (own debt securities in issue, debt securities in issue structured and subordinated liabilities) designated at fair value through profit or loss, using models through which the value of each individual financial liability in the portfolio is determined. These liabilities consist of notes issued with embedded derivatives for which the valuation is determined using valuation models. For each class of financial liabilities at fair value through profit or loss, the expected cash flows are discounted to present value using a risk free rate and an estimate for the own credit spread. Since the market for cash and synthetic funding and protection of the company is inactive and/or infrequent, management also identified a number of observable data points to substantiate its own credit spread. These data points include primary unsecured issuances by the company, primary unsecured and subordinated issuances by other financial institutions, the company's CDS spread, actual transactions in paper of the company and industry index developments. Where applicable, observed data inputs have been adjusted to reflect the company's credit rating and the characteristics of the portfolio. This analysis results in a range of data points in which the applied credit spread at 31 December 2014 falls.	Our audit included testing of the company's 's internal controls throughout the valuation process and the process of analysis of analytical reviews conducted by the company to substantiate the output from the valuation models. In addition, we assessed the appropriateness of the methodology and the model used by NIBC to determine the valuation. Also, we evaluated analysis and documentation prepared by the company in the valuation process, including analysis and support for available data points to determine the own credit spread of the company. Furthermore, we tested and challenged the appropriateness of these data points which included reconciliation of data to supporting evidence and further analysis of available benchmark data. We also tested any adjustments made by the company to reflect its credit rating and the characteristics of the portfolio in the applied data points. Finally, we reconstructed the range of data points to conclude whether management's estimate of its own credit spread falls within the acceptable range. Finally, we assessed the completeness and accuracy of the disclosures relating to the valuation of own liabilities designated at fair value through profit or loss to assess compliance with disclosure requirements included in EU-IFRS.

Auditor's report

Key audit matter	*How our audit addressed the matter*
Given the subjectivity in the determination of the own credit spread of the company, we determined this to be an important item for our audit.	
Acquisition of NIBC Bank Deutschland AG *See note 48 "business combinations".* In 2014 the company acquired NIBC Bank Deutschland AG (formerly named Gallinat Bank AG), a bank in Germany specialised in financing, leasing products and private banking. In order to account for this acquisition the company performed purchase price accounting at the determined acquisition date of 30 April 2014. The purpose of the purchase price accounting was to determine the fair value of assets and liabilities assumed, the consideration paid and any goodwill or negative goodwill on the purchase. The acquisition of NIBC Bank Deutschland AG was an important transaction during the current year and material to the financial statements.	Our audit consisted of testing the opening balance sheet of NIBC Bank Deutschland AG at 30 April 2014 based on German accounting principles. In the purchase price accounting process we tested the adjustments made to translate the opening balance sheet from local accounting principles to EU-IFRS. Also, we challenged the methodology and inputs applied by management to identify and value the assets and liabilities assumed. In particular, we paid special attention to the fair value of the loan portfolio that was acquired in the transaction. Consequently, we tested the consideration paid and the resulting negative goodwill from the acquisition. For these audit procedures we made use of our internal valuation specialists. Finally, we assessed the completeness and accuracy of the disclosures relating to the acquisition of NIBC Bank Deutschland AG to assess compliance with disclosure requirements included in EU-IFRS.

Responsibilities of the managing board and the supervisory board

The managing board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the managing board in accordance with Part 9 of Book 2 of the Dutch Civil Code, and for
- such internal control as the managing board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the managing board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the managing board should prepare the financial statements using the going concern basis of accounting unless the managing board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The managing board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit has been performed with a high but not absolute level of assurance which makes it possible that we did not detect all frauds or errors.

A more detailed description of our responsibilities is set out in the appendix to our report.

Report on other legal and regulatory requirements

Our report on the report on the managing board and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the report of the managing board and other information):

- We have no deficiencies to report as a result of our examination whether the report of the managing board , to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the report of the managing board, to the extent we can assess, is consistent with the financial statements.

Our appointment

We were appointed as auditors of NIBC Bank N.V. following the passing of a resolution by the shareholders at the annual meeting held on 7 April 2014 and has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 14 years.

Amsterdam, 3 March 2015
PricewaterhouseCoopers Accountants N.V.

Original has been signed by R.E.H.M. van Adrichem RA

Auditor's report

Appendix to our auditor's report on the financial statements 2014 of NIBC Bank N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of:

- 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 intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the managing board.
- Concluding on the appropriateness of 's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/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 and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 deficiencies in internal control that we identify during our audit.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the

key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Profit appropriation

List of Principal Participating Interests of NIBC

NIBC Bank Deutschland AG, Frankfurt	100%
Parnib Holding N.V., The Hague	100%
Counting House B.V., The Hague	100%
B.V. NIBC Mortgage Backed Assets, The Hague	100%
NIBC Principal Investments B.V., The Hague	100%
NIBC Financing B.V., The Hague	100%
Olympia Nederland Holding B.V., The Hague	100%

Profit appropriation

IN EUR MILLIONS	**2014**
Result available for shareholder's distribution	24
	24

IN EUR MILLIONS	**2014**
Interim dividend paid 2014	-
Proposed final dividend 2014	-
Transferred to retained earnings	24
	24

Subsequent events

There are no subsequent events.

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 on the website is available in English, Dutch and German. Financial information (annual reports, full-year and half-year results releases and trading updates) is available in English.

To receive press releases and other NIBC news, please subscribe to our e-mail service by sending an e-mail to info@nibc.com.

Questions and Remarks

We invite all stakeholders to ask their questions and share their remarks.

- General questions and remarks can be addressed to Corporate Communications, telephone +31 70 342 56 25 / e-mail info@nibc.com;
- Questions and remarks related to bond investments can be addressed to Debt Investor Relations, telephone +31 70 342 98 36 / e-mail info@nibc.com;
- Questions and remarks related to CSR can be addressed to the CSR department, e-mail csr@nibc.com;
- You can find NIBC's complaints procedures here. For NIBC Direct in the Netherlands you can find our complaints procedures here, for NIBC Direct Germany here and for NIBC Direct Belgium you can find our complaints procedure here (Dutch) or here (French).

Principal subsidiaries and offices

THE NETHERLANDS

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Corporate responsibility reporting scope

This Annual Report is an integrated report. We have chosen to combine all our financial, economic, social and environmental information into one document because all these factors are integral to NIBC's strategy and operations.

The non-financial key figures for this report were confirmed by the departments that are responsible for the data, through a template that includes definitions, reporting considerations, analytics and relevant controls. The reported non-financial key figures were subject to Internal Audit's audit procedures.

Scope

Unless specified otherwise, this report includes figures and information for NIBC Bank N.V. (including all international offices and wholly-owned subsidiaries established by NIBC for our business purposes). In the Key Figures section, the absenteeism rate relates to our office in The Hague only. Employee figures reflect the situation on 31 December 2014, and include those employees who remained in service at NIBC following the acquisition of Gallinat-Bank AG in April 2014.

NIBC continues to be a signatory to the UN Global Compact. This report contains details of our progress as regards the 10 Global Compact principles.

Criteria

The contents of this Annual Report and the selection of non-financial key figures are based on the following criteria:

- Assessment of materiality. We report on NIBC's strategy and the elements that we have identified as most relevant for us as a company and for our stakeholders. Please see our Materiality Assessment report and materiality matrix for an overview of these elements; and
- Legal and regulatory requirements. For NIBC, the principal regulatory requirements are contained in the Dutch Corporate Governance Code and the Banking Code. Please see the Corporate Governance sector for more details.

Accountability and reporting standards

Our non-financial key figures are prepared in accordance with the reporting criteria and guidelines of the GRI G4 'core' option. We have applied the GRI G4 guidelines and the Financial Services Sector Supplement, with no exceptions. The GRI matrix and glossary of definitions can be found in the appendices available on our website.

Compared to 2013 there have been some changes in the calculation methods of the following indicators:

- The Corporate Banking NPS score is based on responses from clients for which NIBC completed a new transaction, as well as existing customers. In 2013 the score was only based on customer feedback from clients with new deals/transactions;
- NIBC Direct Customer Survey score is based on feedback from NIBC Direct Savings customers in Netherlands, Germany and Belgium. In 2013 this score was only based on customers from NIBC Direct in the Netherlands;
- The NIBC Netherlands absenteeism percentage now only relates to the average absenteeism of one year (2014), while previously the average absenteeism of the last two years was reported. The absenteeism rate for 2013 alone was 2.76% compared with the figure of 2.65% originally. reported for 2013, which covered two years; and
- In 2014, the employee engagement survey made use of an updated set of questions, so results are not fully comparable to previous years.

Materiality Assessment

We engaged with various 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 mainly confirmed our chosen sustainability strategy but will also help us to better focus our efforts. Going forward, we will continue putting our clients' interests first by offering clear and sustainable solutions. We will focus further on identifying and understanding sustainability developments and opportunities to help our clients achieve their goals.

Assurance

Non-financial key figures are as relevant to NIBC as financial data. For this reason, we have engaged PwC to provide reasonable assurance on the non-financial key figures in our Key Figures overview (see page 4-7). PwC has not performed review procedures on any other non-financial information in this report.

These non-financial key figures were determined through a materiality analysis of the indicators are the most relevant for NIBC and our stakeholders. We therefore decided to ask PwC to provide assurance on these specific data.

Such an external assessment is a logical step on our path towards ever greater transparency. At the same time, we have opted for a gradual phased approach that takes account of the time and cost impact on our organisation. PwC's assurance work is performed in accordance with the COS 3000 standard.

NIBC's Internal Audit department plays an important role in the assurance of our data. This department applies an ongoing risk-based approach to audit NIBC's operational processes as part of our three lines of defence risk management model. For more information, please see the Risk Management section.

Corporate responsibility assurance report

Assurance report

To: the Managing Board of NIBC Bank N.V.

Engagement and responsibilities

We have audited the Non-Financial Key (NFK) Figures for the year 2014 as included in the Key Figures Table, section non-financial key figures and employees, on page 7 in the Annual Report 2014 of NIBC Bank N.V., The Hague, (hereafter: NIBC), in which NIBC renders account of its performance related to these figures.

We provide reasonable assurance on the following NFK figures, the related disclosures included in the GRI table, in the annual report:

- NPS score Corporate Banking clients
- NIBC Direct customer survey score (The Netherlands, Belgium and Germany included)
- % of new corporate clients screened against sustainability policy framework
- Number of new clients with increased sustainability risk assessment
- Number of project finance transactions closed in line with Equator Principles
- Fines or sanctions for non-compliance with laws and regulations
- Total number of FTEs end of year
- Absenteeism (only The Hague office included)
- Employee Engagement
- Training expenses per employee (EUR)
- Male/ female ratio
- Male/ female ratio top management
- Employee turnover - employees started/left

The Managing Board of NIBC is responsible for the preparation of the NFK figures. We are responsible for providing an assurance report on the selected NFK figures.

NIBC's reporting criteria

NIBC developed its reporting criteria on the basis of the G4.0 Guidelines of the Global Reporting Initiative (GRI). The reporting criteria are explained on pages 264 and 265 in the Annual Report. We consider the reporting criteria to be relevant and appropriate for our audit.

Scope and work performed

We planned and performed our audit procedures on the NFK figures in accordance with Dutch law, including the Dutch Assurance Standard 3000 'Assurance engagements other than audits or reviews of historical financial information'.

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'PwC' is the brand under which PricewaterhouseCoopers Accountants N.V. (Chamber of Commerce 34180285), PricewaterhouseCoopers Belastingadviseurs N.V. (Chamber of Commerce 34180284), PricewaterhouseCoopers Advisory N.V. (Chamber of Commerce 34180287), PricewaterhouseCoopers Compliance Services B.V. (Chamber of Commerce 51414406), PricewaterhouseCoopers Pensions, Actuarial & Insurance Services B.V. (Chamber of Commerce 54226368), PricewaterhouseCoopers B.V. (Chamber of Commerce 34180289) and other companies operate and provide services. These services are governed by General Terms and Conditions ('algemene voorwaarden'), which include provisions regarding our liability. Purchases by these companies are governed by General Terms and Conditions of Purchase ('algemene inkoopvoorwaarden'). At www.pwc.nl more detailed information on these companies is available, including these General Terms and Conditions and the General Terms and Conditions of Purchase, which have also been filed at the Amsterdam Chamber of Commerce.

Audit procedures focus on obtaining reasonable assurance, substantiated by sufficient and appropriate supporting audit evidence.

Our most important audit procedures for the selected 13 NFK figures, amongst others, were:

- assessing the acceptability of the materiality analysis performed by NIBC in order to determine the in-scope non-financial key figures;
- assessing the acceptability of the reporting policies and consistent application of this, such as assessment of the reasonableness of estimates made by Management;
- evaluating the systems and processes for data gathering, internal controls and processing of information, such as the aggregation process of data to the information as presented in the non-financial key figures table;
- evaluating internal and external documentation to determine whether the non-financial key figures are adequately substantiated.
- evaluating the consistency of disclosures regarding the non-financial key figures in the Annual Report.

We believe that the information we have obtained from our audit is sufficient and appropriate to provide a basis for our opinion.

Opinion

Based on our audit procedures performed, in our opinion the NFK figures for the year 2014 as presented on page 7 of the Annual Report 2014 and their related disclosures are, in all material respects, presented reliably and adequately, in accordance with NIBC's reporting criteria.

Basis of preparation and selection of the selected NFK figures

Without qualifying our opinion we draw your attention to page 265 of NIBC's 2014 Annual Report, which describes that the NFK figures as presented on page 7 of the Annual Report do not provide a complete overview of all sustainability information of NIBC. We have not been engaged to perform any procedures on other indicators and information in NIBC's 2014 Annual Report. Consequently we do not report on NIBC's 2014 Annual Report other than the indicated NFK figures.

Use of this report

This assurance report has been prepared in accordance with our engagement for the Managing Board of NIBC and is published for information purposes only.

Amsterdam, 3 March 2015
PricewaterhouseCoopers Accountants N.V.

Original signed by R.E.H.M. van Adrichem RA

Abbreviations

AC	Audit Committee
ABSPP	Asset-Backed Securities Purchase Programme
ACC	Audit & Compliance Committee
AFM	Netherlands Authority for the Financial Markets
AIRB	Advanced Internal Ratings Based
ALCO	Asset & Liability Committee
ALM	Asset & Liability Management
BKR	Bureau Krediet Registratie (Dutch National Credit Register)
BPVs	Basis Point Value
CAO	Collective Labour Agreement
CCDRs	Conditional Common Depositary Receipts
CCR	Counterparty Credit Rating
CDC	Collective Defined Contribution
CDO	Collateralised Debt Obligation
CDRs	Common Depositary Receipts
CDS	Credit Default Swaps
CEBS Guidelines	Committee of European Banking Supervisors Guidelines
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRO	Chief Risk Officer
CGUs	Cash-Generating Units
Council	Employees' Council
CRDRs	Conditional Restricted Depositary Receipts
CRE	Commercial Real Estate
CSA	Credit Support Annexes
CSR	Corporate Social Responsibility
CVAs and DVAs	Credit Valuation Adjustments & Debit Valuation Adjustments
DACB	Dutch Association of Covered Bond Issuers
DNB	Dutch Central Bank
DNB Principles	DNB Principles on Sound Remuneration Policies
DRs	Depositary Receipts
DSA	Dutch Securitisation Association
EBA	European Banking Authority
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EC	Engagement Committee
EC	Economic Capital
ECB	European Central Bank
EE	Expected Exposure
EL	Expected Loss
EP	Equator Principles
ESF	Einlagensicherungsfonds
FAR	Food, Agri, Retail & Other
FMCR	Financial Markets Credit Risk
the Foundation	Stichting Administratiekantoor NIBC Holding
FTEs	Full-Time Equivalents
FVtPL	Fair value through profit or loss
GGBs	Government-Guaranteed Bonds
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
IBNR	Incurred but not Reported
IC	Investment Committee
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
I&M	Industries & Manufacturing
I&R	Infrastructure & Renewables
ISDA	International Swaps and Derivatives Association
LGD	Loss Given Default
LTI	Loan-to-Income
LTI	Long-Term Incentive plan
LTIMV	Loan-to-Indexed-Market-Value
LTMV	Loan-to-Market Value
MtM	Marked-to-Market value
NACE	Statistical Classification of Economic Activities in the European Community
NHG Guarantee	Dutch government guarantee
NIBC	NIBC Bank N.V.
NIBC Funds	Funds set up and managed by NIBC
NIBC Holding	NIBC Holding N.V.
NPAP	New Product Approval Process
NPS	Net Promoter Score
O&G	Oil & Gas Services
OTC	Over The Counter
PD	Probability of Default
PFE	Potential Future Exposure
PSUs	Phantom Share Units
PwC	PricewaterhouseCoopers Accountants N.V.
QE	Quantitative Easing
RAROC	Risk-Adjusted Return On Capital
RC	Regulatory Capital
RCSA	Risk and Control Self-Assesment
RDRs	Restricted Depositary Receipts
Repos	Securities sold subject to repurchase agreements
Reverse repos	Securities purchased under agreements to resell
RLCC	Risk management, Legal, Compliance & Corporate Social Responsibility
RMBS	Residential Mortgage-Backed Securities
RMC	Risk Management Committee
RNC	Remuneration and Nominating Committee
RPC	Risk Policy Committee
RPSUs	Restricted Phantom Share Units
RPTC	Related Party Transactions Committee
RWA	Risk Weighted Assets
S&I	Shipping & Intermodal
S&P	Standard & Poor's
SPE	Special Purpose Entities
SREP	Supervisory Review and Evaluation Process
STI	Short-Term Incentive
TC	Transaction Committee
TMS	Technology, Media & Services
the Option Plan	Option Plan
TLTRO	Targeted Longer Term Refinancing Operation
VaR	Value at Risk
Wbfo	Wet beloning financiële ondernemingen
WEW	Stichting Waarborgfonds Eigen Woningen (Social Housing Guarantee Fund)
YFTH	Young Financials The Hague

ANNUAL REPORT 2014

Layout and production by:
MCR. Reclamebureau. The Hague, the Netherlands

Text by:
Stampa Communications, Amsterdam, the Netherlands and London, United Kingdom

Printed by:
NIBC Bank N.V.

Photography by:
Studio Oostrum, Alain de Kruijff, the Netherlands

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DISCLAIMER

Presentation of information

This annual report (**Annual Report**) of NIBC Bank N.V. (**NIBC**) has been prepared in accordance with *International Financial Reporting Standards as adopted by the European Union* (**IFRS-EU**) and with Title 9 of Book 2 of the Netherlands Civil Code.

Cautionary statement regarding forward-looking statements

Certain statements in this Annual Report are not historical facts and are 'forward-looking' statements that relate to, among other things, NIBC's business, result of operation, financial condition, plans, objectives, goals, strategies, future events, future revenues and/or performance, capital expenditures, financing needs, plans or intentions, as well as assumptions thereof. These statements are based on NIBC's current view with respect to future events and financial performance. Words such as 'believe', 'anticipate', 'estimate', 'expect', 'intend', 'predict', 'project', 'could', 'may', 'will', 'plan', 'forecast', 'target' and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve uncertainties and are subject to certain risks, including, but not limited to (i) general economic conditions, in particular in NIBC's core and niche markets, (ii) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness (iii) performance of financial markets, including developing markets, (iv) interest rate levels, (v) credit spread levels, (vi) currency exchange rates, (vii) general competitive factors, (viii) general changes in the valuation of assets (ix) changes in law and regulations, including taxes (x) changes in policies of governments and/or regulatory authorities, (xi) the results of our strategy and investment policies and objectives, and (xii) the risks and uncertainties as addressed in this Annual Report, the occurrence of which could cause NIBC's actual results and/or performance to differ from those predicted in such forward-looking statements and from past results.

The forward-looking statements speak only as of the date hereof. NIBC does not undertake any obligation to update or revise forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise. Neither do NIBC nor any of its directors, officers or employees make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

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