

CAPITAL ADEQUACY AND
RISK MANAGEMENT REPORT 2009

PILLAR 3

NIBC HOLDING

the bank
of choice

for decisive financial
moments

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Introduction

Goal and overview

NIBC's Capital Adequacy and Risk Management (Pillar 3) Report contains information that enables an assessment of the risk profile and capital adequacy of NIBC Holding N.V. This publication fulfils the requirements of the Basel II framework, as stipulated in the *Capital Requirements Directive (CRD)*. The CRD is legally enforced by Dutch law by the Financial Supervision Act (Wet Financieel Toezicht).

The CRD is based on the Basel II framework, which contains three pillars:

- Pillar 1 defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. These capital requirements need to be covered by regulatory own funds. NIBC received approval from the *Dutch Central Bank (DNB)* to use, as of 1 January 2008, the *Advanced Internal Ratings Based (AIRB)* approach for calculating solvency requirements regarding credit risk for its most important exposure classes, namely corporate and retail, and the *Internal Model Approach (IMA)* regarding market risk in the Trading book. Solvency requirements for the remaining portfolios and for operational risk are calculated using the Standardised approach.
- Pillar 2 covers the Supervisory Review Process. This consists of the *Internal Capital Adequacy Assessment Process (ICAAP)*, the bank's own assessment of its capital adequacy in relation to all its risks and the *Supervisory Review and Evaluation Process (SREP)*, the response of the Supervisor on the institution's ICAAP.
- Pillar 3 focuses on disclosure requirements, covering all relevant pieces of information for a market participant to assess the risk profile and capital adequacy of the credit institution. The risk disclosures are connected to the first pillar of the Basel II framework, as information is provided regarding the underlying exposures, risk weighted assets and regulatory capital.

NIBC's Capital Adequacy and Risk Management Report is prepared to meet the requirements of Pillar 3, as well as the increased need for transparency in the financial market. The Capital Adequacy and Risk Management Report follows the structure below:

- Risk management strategy & process
- Credit risk
- Market risk
- Operational risk
- Liquidity risk
- Securitisation exposures
- Internal capital adequacy assessment process
- Capital base components
- Capital adequacy

The scope of application in this report refers to NIBC Holding, henceforth referred to as NIBC. The main entity of NIBC Holding is NIBC Bank. Where necessary, a distinction between NIBC Holding and NIBC Bank is made explicitly. The starting point of the Basel II prudential scope of application is the consolidation scope of NIBC, according to the *International Financial Reporting Standards (IFRS)*. In line with the requirements of the CRD, a prudential filter is applied for non-financial subsidiaries.

These entities are excluded from the consolidation scope and are, instead, treated as investments in associates. Appendix 1 provides further details regarding the consolidation scope.

The credit exposures in this report are not directly comparable to the numbers in the Annual Report. The numbers in the Annual Report refer to book values and classifications in line with the IFRS requirements. The numbers in this report refer to *exposure at default (EAD)*, which is a risk measure of the potential amount outstanding in the event of default. EAD is, therefore, a different measure than on- and off-balance sheet amounts, and the method employed for its calculation differs per exposure class. A more detailed explanation on EAD can be found in the Credit Risk chapter.

NIBC's Risk Management and Capital Adequacy (Pillar 3) Report is produced at least on an annual basis and is published on NIBC's website (www.nibc.com). The report may also be published more frequently if special market circumstances require so. Information regarding risk management and key data on capital adequacy is presented in NIBC's Annual Report as well.

Risk Management Strategy & Process

Highlights of 2009

The financial crisis has transformed since it began in 2007. Ignited by the US sub-prime market, it swept through the structured credits' sector before being inflamed by the high leverage in the global economy. The shift to de-leveraging then took a heavy toll on the real economy.

NIBC moved early to de-risk its balance sheet, significantly reducing its exposure to market risk since 2007. We scaled back our already conservative appetite for credit risk in anticipation of a severe economic recession. Timely steps such as these meant our risk profile was in healthy shape last year.

The financial crisis has triggered a re-sequencing of risk priorities. Before the crisis, the emphasis was on credit, market and operational risk. Though controlling NIBC's liquidity has always been a major focus of Risk Management, liquidity risk became the department's top priority in 2009.

To ensure long-term liquidity, NIBC launched online retail savings programme NIBC Direct in Germany in 2009 and continued to expand NIBC Direct in the Netherlands. Retail savings now represent some 20% of our total funding. In addition to retail savings, NIBC also raised EUR 5 billion of funding under the Dutch State's Credit Guarantee Scheme.

Our second priority last year was to continue ensuring the quality of our assets. As was the case in the past, NIBC rigorously conducted a prudent assessment of risks before granting new lending. All the same, impairments have been an inevitable by-product of the economic downturn, for NIBC as for our peers.

Our third priority was taking a fundamental credit analysis approach to our securitisation portfolio. NIBC took its risk management to a higher level by creating a dedicated financial markets credit risk department, which covers the middle ground between market risk and credit risk.

DNB confirmed its approval of NIBC's use of the AIRB approach for calculating solvency requirements in 2009, the most sophisticated approach. DNB originally granted approval in 2008.

More generally, last year saw continuing development in risk management tools, methods and regulations in response to the crisis. A raft of new rules and regulations is now a constant factor for financial institutions.

Risk appetite and risk management strategy

NIBC has a clearly defined business model around two strategic pillars – Merchant Banking and Specialised Finance – focusing on mid-sized corporate clients in the Benelux and German areas, as well as being a meaningful player in a select number of asset classes. Indispensable to those pillars and the entire business of NIBC are the Treasury, Risk Management and Corporate Center departments. Because of its focus and the in-depth understanding of the business and its clients, NIBC has good understanding of the risks in this select number of markets. The risk strategy of NIBC is aligned with this business model, resulting in the following markets and portfolios, where the risks are concentrated:

- Credit risk in the Corporate Loan portfolio in six different asset classes (Commercial Real Estate, Infrastructure & Renewable Energy, Shipping, Corporate Lending, Leveraged Finance and Oil & Gas Services), and in the Residential Mortgage portfolio (consisting of Dutch and German residential mortgages). Further, credit risk exists also in the Investment Management loan portfolio. Investment Management loans are originated and monitored by the Investment Management BU (part of Merchant Banking) and may contain equity characteristics such as attached warrants or conversion features. Examples of this exposure include mezzanine loans, convertible loans and shareholder loans;
- Investment risk in equity investments;
- Market risk in the Treasury portfolios, mainly consisting of interest rate risk in the Trading¹ and Mismatch portfolio, and credit spread risk in the Debt Investments portfolio (Securitisations portfolio and portfolio of debt investments in financial institutions and sovereign entities).

The business model described above is also reflected in the *Economical Capital (EC)* framework, which is further described in the section *Internal Capital Adequacy Assessment Process*.

NIBC uses EC as a universal risk measure throughout the company. For each business activity EC is allocated and reported to the Asset & Liability Committee once every two weeks.

Risk management processes and governance

Under the supervision of the Managing Board and the Risk Policy Committee of the Supervisory Board, formal authority and ultimate decision-making in respect of risk management matters is the responsibility of four committees: the Risk Management Committee, the Asset & Liability Committee, the Transaction Committee and the Investment Committee. These committees are chaired by the *Chief Risk Officer (CRO)* and they ensure that assessment and acceptance of credit, market, investment and liquidity risk exposure is made independently of the business originators within the operating segments.

The *Risk Management Committee (RMC)* determines the overall risk appetite and risk profile at a strategic level, evaluates the risk management elements of new activities and products as well as reviews risks at portfolio level, sets country risk and sector limits, approves acceptance policies and guidelines and approves the risk policies and manuals. Three members of the Managing Board are members of the RMC, which also includes representatives from the Transaction Committee and the Asset & Liability Committee. As necessitated by the topics to be discussed, specialists in certain areas are also invited to the meetings of the RMC. The RMC meets monthly.

¹ This report uses the terms *Trading book* and *Trading portfolio* interchangeably.

The *Asset & Liability Committee (ALCO)* monitors the development of NIBC's balance sheet and market risk profile. The ALCO monitors traded market risks, exposure to interest rates and currency risks, the capital structure and liquidity position. The ALCO also approves large transactions such as securitisations and sets overall limits on risk exposures. The ALCO receives reports on all breaches of risk limits. Three members of the Managing Board are members of the ALCO. The ALCO meets once every two weeks.

The *Transaction Committee (TC)*, NIBC's credit committee, makes decisions on individual senior debt transactions, including credit conditions and parameters and lending and underwriting strategies, as well as evaluating opportunities for potential subsequent distribution of the asset. The TC sets credit limits, monitors exposure and decides on impairments. Three members of the Managing Board are members of the TC. Meetings of the TC take place twice a week.

The *Investment Committee (IC)* is responsible for investment risk. The IC approves transactions with respect to equity, Investment Management loans and subordinated debt exposures as well as impairments and revaluations for these assets. Two members of the Managing Board are members of the IC. The IC meets, in principle, on a weekly basis. Investment decisions of the Funds managed by Investment Management are made by the Investment Committees of the various Funds.

In addition to the above risk management committees, there is also the *Engagement and Compliance Committee (ECC)*, which is responsible for the prevention of potential commercial conflicts of interest and compliance issues in evaluating potential assignment for clients. All five members of the Managing Board are members of the ECC.

Finally, matters concerning operational risk are periodically discussed in the Managing Board. The Operational Risk Manager functionally reports to the CRO and is aligned with activities of the Internal Audit department.

Overlap of committee membership among Managing Board members contributes to consistency in communication and decision-making. In all risk management committees, at least two members are members of the Managing Board.

The CRO is supported by centralised risk management functions, which consist of three risk management departments, the *Credit Risk Management department (CRM)*, the *Asset & Liability Management and Market Risk department (ALM/MR)*, the *Financial Markets Credit Risk and Risk Policy department (FMCR/RP)*. These departments support the various risk management committees dedicated to monitoring the different risk categories NIBC faces.

CRM is responsible for the credit risk management of the Corporate Loan portfolio. CRM develops and implements policies and procedures regarding credit risk, advises on credit proposals and reviews potential impairments. The *Distressed Assets department (DA)* is a sub-department of CRM. DA manages assets which are defaulted/impaired, or at significant risk of becoming defaulted/impaired. Credit risk management of the Investment Management loans, as well as investment risk management of the private equity positions is the responsibility of the IC or the Investment Committee of one of the NIBC Funds (depending on whether the specific Investment Management loan or equity position is part of NIBC's direct portfolio or part of one of the NIBC Funds).

ALM manages balance-sheet and liquidity risk and supports NIBC's asset and liability management policies, as established by the ALCO. Additionally, ALM is responsible for the market risk management of the Residential Mortgage portfolio, contacts with rating agencies, model validation and parts of quantitative risk modelling.

The MR department is responsible for monitoring the market risk of the Treasury activities, both inside and outside the trading book. MR also manages the bank-wide currency position and co-ordinates the ongoing compliance with the Basel II regulation, including new legislation.

FMCR is responsible for managing issuer and counterparty credit risk resulting from NIBC's Treasury activities and financial market product execution, such as *Over The Counter (OTC)* derivatives with financial institutions and corporate entities. FMCR develops and implements policies and procedures regarding credit risk related to financial markets products, and advises on counterparty credit limits and issuer limits for financial institutions and corporate entities.

RP is a sub-department of FMCR and monitors risk on portfolio level. RP develops policies and methods for measuring risk, notably the credit rating system used to evaluate probability of default and loss given default in NIBC's credit portfolio. RP is also responsible for the reporting of credit portfolio information to the various users within NIBC. The RP department is pivotal in NIBC's Basel II process and also performs parts of quantitative risk modelling.

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 debt or financial payments on a timely basis or to comply with other conditions of an obligation or agreement, including the possibility of restrictions on or impediments to the transfer of payments from abroad.

Credit risk at NIBC exists in different shapes and forms. Almost every activity at NIBC is related to credit risk: credit risk is present in the Corporate Loan portfolio, the Residential Mortgage portfolio, the Debt Investments portfolio, cash management and derivatives. Credit risk is also present in NIBC's portfolio of Investment Management loans. It is the largest source of risk to which NIBC is exposed, representing approximately more than 90% of total *Risk Weighted Assets (RWA)* and of the company's capital requirements.

The Pillar 3 disclosure requirements prescribe that a credit institution classifies its assets in a number of standard exposure classes. For a credit institution using the AIRB approach, these exposure classes are defined in article 86 of the CRD. Table 1 presents the relationship between the classification in this report and the portfolios in the Annual Report:

Table 1: Comparison between Pillar 3 exposures classes and portfolios in NIBC's annual report

Pillar 3 exposure classes	Portfolios in Annual Report
Sovereigns	Debt investments in sovereign entities and cash at central banks.
Institutions	Debt investments in financial institutions, enhanced investments in financial institutions, and cash and derivative transactions with financial institutions.
Corporates	Corporate Loan portfolio, Investment Management Loan portfolio, and derivative transactions with corporate entities.
Retail	Dutch and German Residential Mortgage portfolio, excluding securitised portfolios.
Equities	Equity investments and credit fixed income funds.
Securitisations	European securitisations, US securitisations, and retained notes of own securitisations.
Other	Non-credit related exposures.

Apart from the above differences in classification, differences can also be found between the numbers presented in this report and the numbers in the risk paragraph and risk notes in NIBC's Annual Report. The main reasons that these numbers are not directly comparable are the following:

- For exposures treated under the AIRB approach, Pillar 3 numbers refer to EAD, a risk measure of the potential outstanding amount in the event of default. Counterparties typically tend to utilise their credit lines more intensively when approaching default, which implies that the amount outstanding at default is expected to be higher than the current outstanding amount.
- For undrawn parts of credit facilities, a credit conversion factor is applied on the Pillar 3 numbers, which cannot be recognised on the balance sheet.
- For derivative transactions, Pillar 3 numbers refer to the market value and add-on including the effect of netting and collateral.

Credit risk exposures

This section presents NIBC's credit risk exposures based on the definitions and approaches that are used in the calculation of capital requirements. In 2007, NIBC received approval by the DNB to use, as of 1 January 2008, the AIRB approach for the calculation of its capital requirements for the corporate and retail exposure classes. Furthermore, NIBC uses the internal ratings-based method for the securitisation exposure class and the simplified risk-weight approach for the equity exposure class. The AIRB approach is the most sophisticated approach within the Basel II framework for the calculation of capital requirements and it is based on internal estimation of various risk parameters. The section *Calculation of Risk Weighted Assets* further in this chapter provides more information on the ways that NIBC uses for the estimation of these parameters.

The Standardised approach applies to all other NIBC exposure classes containing credit risk. Over the course of 2010, NIBC aims to obtain regulatory approval for AIRB-compliant models for the institutions exposure class. The sovereign exposure class will remain under the Standardised approach, as NIBC has received a permanent exemption for this class by DNB.

Table 2 shows a breakdown of EAD, RWA and capital requirements between exposure classes and calculation approaches, as at 31 December 2009 and 2008.

Table 2: Breakdown of EAD, RWA and capital requirement for credit risk

IN EUR MILLIONS	2009			2008		
	EAD	RWA	Capital requirement	EAD	RWA	Capital requirement
AIRB APPROACH						
- of w hich corporate	8,356	5,206	417	7,687	4,346	348
- of w hich retail	4,573	624	50	4,780	624	50
- of w hich equities	501	1,847	148	582	2,148	172
- of w hich securitisations	1,106	892	71	1,300	735	59
SUBTOTAL	14,536	8,569	686	14,349	7,853	629
STANDARDISED APPROACH						
- of w hich sovereign	1,864	-	-	1,466	1	-
- of w hich institutions	3,993	775	62	2,512	743	59
- of w hich corporate	737	737	59	638	638	51
- of w hich retail	576	248	20	690	298	24
- of w hich equities	49	24	2	38	38	3
- of w hich other	92	92	7	96	96	8
SUBTOTAL	7,311	1,876	150	5,440	1,814	145
TOTAL CREDIT RISK	21,847	10,445	836	19,789	9,667	774

The RWA of NIBC increased by 4% between 2009 and 2008 and this is due to a variety of factors. Within credit risk, whereas RWA for the sovereign exposure stood at zero, those for institutions increased by 8%. The increase is related to the increase in the size of NIBC's Debt Investments portfolio.

The RWA for the corporate exposure class increased by 19%, mainly as a result of downward rating migrations in the Corporate Loan portfolio, as well as an increase in the size of this portfolio.

RWA for the retail exposure class decreased by 6%, due to the limited decrease in the size of the German Residential Mortgage portfolios.

The decrease of 15% in the RWA of the equity exposure class is due to the expiration of certain transactions.

RWA consumption for the securitisation exposure class increased by 21%. Even though the size of the Securitisations portfolio decreased, the increase in RWA results from the rating composition of the Securitisations portfolio. In 2009 all rating agencies adjusted their methodologies for the different securitisations asset classes. Consequently, a vast majority of all securitised products suffered from downgrades.

Breakdown of credit risk exposures

Table 3 shows a breakdown of exposure classes and exposure types under the AIRB and Standardised approaches, as at 31 December 2009. Table 4 shows a similar breakdown during 2009 on average.

Table 3: Breakdown of credit risk exposure types by exposure class, 31 December 2009

IN EUR MILLIONS					
Exposure Class	On-Balance	Off-Balance	Derivatives	Repo-Style	Total
AIRB APPROACH					
- of w hich corporate	6,899	1,054	403	-	8,356
- of w hich retail	4,567	6	-	-	4,573
- of w hich equities	395	106	-	-	501
- of w hich securitisations	1,052	54	-	-	1,106
SUBTOTAL	12,913	1,220	403	0	14,536
STANDARDISED APPROACH					
- of w hich sovereign	1,864	-	-	-	1,864
- of w hich institutions	2,592	101	744	556	3,993
- of w hich corporate	517	53	136	31	737
- of w hich retail	576	-	-	-	576
- of w hich equities	49	-	-	-	49
- of w hich other	92	-	-	-	92
SUBTOTAL	5,690	154	880	587	7,311
TOTAL	18,603	1,374	1,283	587	21,847

Table 4: Breakdown of credit risk exposure types by exposure class, average 2009

IN EUR MILLIONS						
Exposure Class	On-Balance	Off-Balance	Derivatives	Repo-Style		Total
AIRB APPROACH						
- of w hich corporate	6,590	1,025	406	-		8,022
- of w hich retail	4,658	19	-	-		4,676
- of w hich equities	402	139	-	-		541
- of w hich securitisations	1,160	43	-	-		1,203
SUBTOTAL	12,810	1,226	406	0		14,442
STANDARDISED APPROACH						
- of w hich sovereign	1,660	5	-	-		1,665
- of w hich institutions	2,024	121	626	483		3,253
- of w hich corporate	460	53	160	16		688
- of w hich retail	633	-	-	-		633
- of w hich equities	44	-	-	-		44
- of w hich other	94	-	-	-		94
SUBTOTAL	4,914	179	785	499		6,376
NIBC TOTAL	17,724	1,404	1,191	499		20,818

Tables 5 and 6 show the breakdown of exposures between regions and industry sectors, respectively. The geographical distribution of NIBC's assets corresponds to the company's strategy for focus in North Western Europe, with the Netherlands, the UK and Germany accounting for almost 80% of EAD. This percentage increases to 90% when the entire European Union is included.

Table 5: Breakdown of EAD per region, 31 December 2009

IN EUR MILLIONS								
Exposure Class	The Netherlands	United Kingdom	Germany	Europe	North America	Asia / Pacific	Other	Total
AIRB APPROACH								
- of w hich corporate	3,288	1,884	1,021	880	354	643	286	8,356
- of w hich retail	4,573	-	-	-	-	-	-	4,573
- of w hich equities	397	1	18	38	47	0	-	501
- of w hich securitisations	433	168	45	332	106	5	17	1,106
SUBTOTAL	8,691	2,053	1,084	1,250	507	648	303	14,536
STANDARDISED APPROACH								
- of w hich sovereign	1,809	-	-	51	-	-	4	1,864
- of w hich institutions	276	1,310	31	1,983	320	22	50	3,993
- of w hich corporate	502	10	109	95	4	16	1	737
- of w hich retail	21	-	555	-	-	-	-	576
- of w hich equities	36	-	-	0	10	-	3	49
- of w hich other	92	-	-	-	-	-	-	92
SUBTOTAL	2,736	1,320	695	2,130	334	38	59	7,311
TOTAL	11,427	3,373	1,779	3,380	841	686	362	21,847

From an industry-sector point of view, the sector with the highest EAD is retail (26% of total EAD), which contains NIBC's Residential Mortgage portfolios in the Netherlands and Germany, and securitisation notes of residential mortgage-backed securities.

The financial services sector (22% of total EAD) contains the vast majority of NIBC's institutions exposure class, as well as a few corporate exposures. About half of the corporate EAD in this sector relates to a loan to an investment-grade financial institution, collateralised by a pool of prime Dutch residential mortgages.

The commercial real estate sector (11% of total EAD) is spread over a variety of property financing, including multi-family properties, offices, retail properties, hotel financing and construction financing. About one fourth of this portfolio consists of financing of miscellaneous properties, including mixed use and industrial properties. In terms of geographical distribution, approximately 95% of the commercial real estate portfolio is located in the Netherlands and Germany, and the remainder in other EU countries.

Exposures to the shipping industry (6% of total EAD) include the three main shipping sub-sectors tankers, bulk vessels, container boxes and container vessels, which account for approximately 90% of the entire Shipping portfolio. The remainder of this portfolio includes, among others, financing of car and LNG carriers and oil and gas support assets, such as accommodation barges. Shipping exposures are well diversified between different countries, of which European Union countries (including the Netherlands, the UK and Germany) account for approximately one third of Shipping portfolio's EAD, South East Asia for approximately 40% and North America for almost 15%. Almost the entire exposure of NIBC to South East Asia relates to Shipping assets.

Other important segments in NIBC's Corporate Loan portfolio are trade, manufacturing and infrastructure, which together account for 16% of total EAD. These industry sectors contain exposures that mainly stem from the business lines of Infrastructure & Renewable Energy, Oil & Gas Services, Corporate Lending and Leveraged Finance. From a geographical point of view, all these business lines are concentrated in North Western Europe; Oil & Gas Services also has exposures in the North American and Asia/Pacific regions.

Table 6: Breakdown of EAD per industry sector, 31 December 2009

IN EUR MILLIONS														Total
Exposure Class	Aviation	Commer- cial Real Estate	Financial Services	Food / Agri- culture	Health / Educa- tion	Infra- struc- ture	Manu- factu- ring	Retail	Ship- ping	Govern- ments / Central Banks	Trade	Utilities	Other	
AIRB APPROACH														
- of which corporate	76	1,756	774	154	541	929	996	-	1,281	-	1,046	248	555	8,356
- of which retail	-	-	-	-	-	-	-	4,573	-	-	-	-	-	4,573
- of which equities	0	33	54	-	9	111	32	-	21	-	138	-	103	501
- of which securitisations	-	435	-	-	-	-	-	439	-	-	-	-	232	1,106
SUBTOTAL	76	2,224	828	154	550	1,040	1,028	5,012	1,302	0	1,184	248	890	14,536
STANDARDISED APPROACH														
- of which sovereign	-	-	50	-	-	-	-	-	-	1,814	-	-	-	1,864
- of which institutions	-	-	3,993	-	-	-	-	-	-	-	-	-	-	3,993
- of which corporate	0	263	43	21	3	12	81	-	3	-	58	5	248	737
- of which retail	-	-	-	-	-	-	-	576	-	-	-	-	-	576
- of which equities	-	-	-	-	-	-	-	-	-	-	-	-	49	49
- of which other	-	-	-	-	-	-	-	-	-	-	-	-	92	92
SUBTOTAL	0	263	4,086	21	3	12	81	576	3	1,814	58	5	389	7,311
TOTAL	76	2,487	4,914	175	553	1,052	1,109	5,588	1,305	1,814	1,242	253	1,279	21,847

Table 7 provides a breakdown of credit risk EAD per maturity. Approximately 45% of all of NIBC's credit risk exposures mature after the next 5 years.

Table 7: Breakdown of credit risk EAD per maturity, 31 December 2009

IN EUR MILLIONS					
Exposure Class	≤ 1 year	> 1 year - ≤ 2 years	> 2 years - ≤ 5 years	> 5 years	Total
AIRB APPROACH					
- of which corporate	1,092	692	3,434	3,138	8,356
- of which retail	6	26	27	4,514	4,573
- of which equities	501	-	-	-	501
- of which securitisations	27	50	103	926	1,106
SUBTOTAL	1,626	768	3,564	8,578	14,536
STANDARDISED APPROACH					
- of which sovereign	1,611	3	250	-	1,864
- of which institutions	1,075	1,614	565	739	3,993
- of which corporate	136	13	340	248	737
- of which retail	2	3	11	560	576
- of which equities	22	0	9	18	49
- of which other	-	-	-	92	92
SUBTOTAL	2,846	1,634	1,175	1,656	7,311
TOTAL	4,472	2,401	4,739	10,235	21,847

Calculation of Risk Weighted Assets

AIRB approach

Ratings and rating process in the AIRB approach

The AIRB approach for the corporate and retail exposure classes has been adopted by NIBC and approved by DNB since 1 January 2008. The ratings framework consists of the calculation of 3 main parameters: *Probability of Default (PD)*, *Loss Given Default (LGD)* and *Exposure at Default (EAD)*.

The PDs, LGDs and EADs that are calculated through NIBC's internal models are used for the calculation of *Expected Loss (EL)* and Pillar-1 Regulatory Capital (**RC**). Internal ratings enable an objective comparison of the credit risk of different types of assets, making them an essential tool for the commercial and risk management departments to determine whether a transaction fits NIBC's strategy and portfolio, as well as to determine an appropriate pricing and the *Risk-Adjusted Return on Capital (RAROC)*. *Economic Capital (EC)* and stress testing are additional areas, within Pillar 2, which make use of the above-mentioned parameters, although the values and methodologies for both EC and stress testing differ from those employed in Pillar 1. In particular, a market risk instead of a credit risk approach is used for a number of portfolios in Pillar 2. NIBC has developed a variety of stress test scenarios, both on total portfolio and sub-portfolio level, to evaluate the impact of the scenarios on its RWAs and Tier-1 ratio.

In addition to these three internally calculated parameters, a fourth parameter which influences the calculation of the Pillar-1 RC is the maturity.

This section explains how the PD, LGD and EAD are applied within the AIRB corporate and retail framework of NIBC.

Corporate

NIBC applies its internally-developed credit rating methodology since 2000. This methodology consists of two elements: a counterparty credit rating that reflects the probability of default of the borrower, and an anticipated loss element that expresses the potential loss in the event of default. All counterparties are reviewed at least once a year.

The basis for both the PD and the LGD methodologies is the application of expert judgement on a number of rating indicators. From a risk perspective, NIBC considers its corporate exposures to fall within four broad financing types (corporate lending, asset finance, acquisition finance and project finance), and for each of these financing types the relevant credit drivers and parameters are captured in the rating models.

NIBC enforces strict separation of responsibilities with respect to its internal rating methodologies and rating process, model development, model validation and internal audit.

Counterparty credit ratings and probability of default

The counterparty credit rating reflects the counterparty's capacity to meet its financial obligations in full and in time. Counterparty credit ratings do not incorporate any recovery issues, as these are captured through the LGD internal estimates.

NIBC's uses a through-the-cycle counterparty credit rating scale, which consists of 10 grades (1-10). Most of these grades are further divided in notches, by the addition of a plus or minus sign to show the relative standing within the rating grade. NIBC uses a total of 22 notches, each of which is mapped to the rating scale of the main international rating agencies. Each notch carries a PD, which quantifies the likelihood that the counterparty will go into default in the next one year. Furthermore, counterparty credit ratings are assigned a rating outlook. This assesses the potential direction of the counterparty credit rating over the medium term. In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions.

The general methodology for determining a counterparty's credit rating is based on several qualitative and quantitative rating indicators, such as the analysis of the business and financial profile of the counterparty, a cash flow analysis, a sovereign risk analysis, a peer-group analysis and a rating benchmark based on third-party models. Expert judgement is applied at the end of the rating process and determines what the final rating of the counterparty will be, taking into account the rating indicators of the various models.

The performance of the counterparty credit rating methodology is back-tested annually in order to ensure that consistency is kept throughout the portfolio and to measure the discriminatory power of the counterparty credit ratings. Furthermore, NIBC regularly benchmarks its counterparty credit ratings with external parties. The last benchmark took place in 2009 and showed a good overall degree of performance between NIBC's ratings and the credit estimates of the external party. It also showed a good relative ranking of asset credit quality, as well as meaningful granularity in NIBC's counterparty credit rating scale.

Loss given default

Whereas counterparty credit ratings are assigned on a counterparty level, LGD ratings are facility-specific. The LGD ratings reflect the pre-tax loss that can be expected in a downward scenario on a facility, if a counterparty defaults. 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.

NIBC's LGD philosophy is similar to the approach for counterparty credit ratings. The LGD methodology is also based on a combination of qualitative and quantitative rating indicators that include, among others, the assessment of the available collateral and/or guarantees, the seniority of the loan, the applicable jurisdiction, and the quality of the counterparty's assets. Once the various LGD drivers have been assessed, the final LGD rating is based upon expert judgement.

As is the case for counterparty credit ratings, the maintenance of NIBC's LGD models involves benchmarking and back-testing. Furthermore, NIBC is a founding member of the *Pan-European Credit Data Consortium (PECDC)*, the largest international loan loss data pooling entity. This enables NIBC to exchange anonymous loss data with other large international banks for the purposes of enhancing LGD modelling capabilities, sharing of best practices, LGD calibration and benchmarking.

Exposure at default and credit conversion factor

A third element of the AIRB approach is the calculation of the EAD. It is defined as the amount that is expected to be outstanding at the moment that a counterparty defaults. Counterparties typically tend to utilise their credit lines more intensively when approaching default, which implies that the amount outstanding at default is expected to be higher than the current outstanding amount.

In order to quantify the additional expected utilisation, NIBC applies a *credit conversion factor (CCF)* on the undrawn portion of every credit facility. The main driver for the value of the CCF is the type of the credit facility (e.g. committed or uncommitted facility, loan, guarantee, derivative, etc.). NIBC produces its own internal estimates of CCF, based on the utilisation of defaulted credit facilities at the time of default and one year prior to default, which are a combination of internal defaulted facilities and defaulted facilities from the PECDC data pool. These internal estimates are then benchmarked to external estimates from other PECDC member banks.

Overview of AIRB corporate exposures

Table 8 provides an overview of corporate AIRB EAD types, broken down by NIBC rating grade (equivalent Standard & Poor's ratings are provided in parentheses). The table also provides the average PD and LGD, weighted against EAD. As assets with a rating of 9/10 have already defaulted, the notion of LGD as used for non-defaulted assets is no longer applicable. Losses are therefore estimated through a separate impairment model, in order to determine the impairment amounts.

2009 was characterised by an overall downward trend in credit counterparty ratings as a result of the credit crisis, and the majority of loans were downgraded by one notch, on average. The average weighted counterparty credit rating in the corporate exposure (excluding defaulted assets) class stood at 6+ on NIBC's internal rating scale at 31 December 2009, compared to a 5- in 2008. On the contrary, weighted-average LGDs remained stable at 22%.

Table 8: Breakdown of corporate AIRB EAD by weighted average PD, weighted average LGD and EAD type, 31 December 2009

IN EUR MILLIONS						
Rating Scale	WA PD	WA LGD	On-balance	Off-balance	Derivatives	Total
1/2 (AAA/AA)	0.03%	4.43%	105	13	1	119
3 (A)	0.08%	9.45%	474	-	6	480
4 (BBB)	0.29%	19.10%	821	220	94	1,135
5 (BB)	1.62%	17.34%	2,414	529	138	3,081
6 (B)	4.09%	28.52%	2,181	264	134	2,579
7 (CCC)	10.05%	24.46%	324	25	11	360
8 (CC/C)	27.70%	42.61%	75	2	1	78
9/10 (D)	100.00%	n/a	505	1	18	524
TOTAL			6,899	1,054	403	8,356

Retail

The AIRB approach applies to NIBC's Dutch residential mortgage portfolio. The calculation of PD, LGD and EAD is performed by an in-house developed Basel II AIRB model, which has been in use since 2006. 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 which 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 (forced) sale of the collateral. The stress is dependant 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 a *Dutch government guarantee (NHG guarantee)*, for which 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 EAD is set equal to the net exposure (balance outstanding minus built-up savings value) for all mortgage loans, except for non-amortising (in this case interest-only loans). For the non-amortising loans, 3 months of accrued interest is added to the EAD.

The validation of these estimates is performed on historical data and is carried out on a yearly basis. For the PD and LGD, the estimates are back tested against realised defaults and realised losses. In this way it is ensured that the model still functions correctly in a changing economic environment.

At 31 December 2009, EUR 711 million of credit protection by means of a *credit default swap (CDS)* structured in a synthetic securitisation (Provide Orange) was in place in connection with NIBC's Residential mortgages own book.

Overview of AIRB retail exposures

Table 9 provides an overview of retail AIRB EAD types, broken down by PD buckets. The table provides also the average PD and LGD, weighted against EAD. Note that the numbers in this table refer to the Dutch residential mortgage portfolio of NIBC.

Table 9: Breakdown of retail AIRB EAD by weighted average PD, weighted average LGD and EAD type, 31 December 2009

IN EUR MILLIONS					
PD bucket	WA PD	WA LGD	On-balance	Off-balance	Total
0.1% - 0.2%	0.13%	9.28%	1,180	1	1,181
0.3% - 0.4%	0.30%	13.76%	1,646	2	1,648
0.5% - 0.6%	0.49%	20.83%	1,125	1	1,126
0.7% - 0.9%	0.71%	30.82%	420	1	421
1% - 2%	1.16%	38.95%	55	1	55
2% - 5%	4.10%	17.71%	51	0	51
5% - 99%	17.27%	24.44%	61	0	61
100%	100.00%	19.07%	29	0	29
TOTAL			4,567	6	4,573

Equities

NIBC uses the simple risk weight approach for equity investments. Under the simple risk weight approach the RWA is calculated by multiplying the exposure amount by 190% for private equity exposures in sufficiently diversified portfolios, 290% for exposures traded on listed exchanges and 370% for other exposures. The EAD for equities amounts to EUR 501 million, of which EUR 492 million attracts a 370% risk weight (non-listed companies) and EUR 9 million a 290% risk weight (listed companies).

Securitisations

NIBC uses the IRB approach for securitisation exposures, both for purchased securitisations as well as for retained notes of own securitisations. Under the IRB approach, the RWA is calculated by multiplying the exposure amount by the appropriate risk weight. The risk weight depends upon the external rating, the granularity of the pool and the seniority of the pool. Alternatively, for retained notes of own securitisations, NIBC uses the IRB capital charge had the underlying exposures not been securitised (KIRB). This is applicable in the case where the capital requirement under the KIRB approach is lower than the capital requirement under the IRB approach for the securitisation exposure class. More detailed risk information about NIBC's securitisation exposures can be found in the securitisations section.

Table 10: Risk weights of securitisation exposures, 31 December 2009

IN EUR MILLIONS								Total
Risk weight	<10%	10% - 20%	25% - 50%	60% - 100%	250% - 650%	1250% or deducted		
Retained	83	66	16	45	23	92	325	
Purchased	0	500	66	102	70	44	781	
TOTAL	83	566	82	147	93	136	1,106	

Standardised Approach

For the calculation of RWA under the Standardised approach, the book value of the on-balance sheet exposure is multiplied by a risk weight, depending on the exposure type and the external rating. The off-balance sheet exposures are multiplied by both a risk weight and a credit conversion factor. The risk weights are prescribed in the CRD (Annex VI, part 1):

- All of NIBC's sovereign exposures are exposures with a zero risk weight.
- The risk weight for institutions is mostly 0% (repo transactions with a high rated sovereign bond as underlying), 20% (all short-term investment-grade exposures and long-term exposures with a rating equal or higher than AA-) and 50% (long-term exposures with a rating between BBB- and A+). All exposures with a 10% risk weight are related to covered bonds.
- The corporate exposure class carries a risk weight of 100%. It mainly contains non-rateable exposures and derivatives to corporate counterparties.
- The retail exposure consists of the German mortgage portfolio. Part of the exposure, which is fully secured by residential property, receives a 35% risk weight and the other part receives a 100% risk weight.
- The equity exposure carrying a 100% risk weight refers to the *Credit Fixed Income Fund (CFIF)* portfolio, which contains investments in fixed income funds managed by hedge funds and asset managers. The exposures under the risk weight 'Other' concern funds to which NIBC applies a look-through approach, resulting in an average risk weight.

Overview of Standardised portfolios

Tables 11 and 12 provide a breakdown of EAD and RWA, respectively, by exposure class, together with the applicable risk weight.

Table 11: Standardised EAD per risk weight, 31 December 2009

IN EUR MILLIONS									Total
Exposure Class	0%	10%	20%	35%	50%	100%	150%	Other	
Sovereign	1,864	-	-	-	-	-	-	-	1,864
Institutions	1,229	290	1,661	-	806	-	7	-	3,993
Corporate	-	-	-	-	-	737	-	-	737
Retail	-	-	-	505	-	71	-	-	576
Equities	-	-	9	-	-	12	-	28	49
Other	-	-	-	-	-	92	-	-	92
TOTAL	3,093	290	1,670	505	806	912	7	28	7,311

Table 12: Standardised RWA per risk weight, 31 December 2009

IN EUR MILLIONS									Total
Exposure Class	0%	10%	20%	35%	50%	100%	150%	Other	
Sovereign	-	-	-	-	-	-	-	-	0
Institutions	-	29	332	-	403	-	11	-	775
Corporate	-	-	-	-	-	737	-	-	737
Retail	-	-	-	177	-	71	-	-	248
Equities	-	-	2	-	-	12	-	10	24
Other	-	-	-	-	-	92	-	-	92
TOTAL	0	29	334	177	403	912	11	10	1,876

Credit risk mitigation

Institutions

The exposures to financial institutions are either related to OTC derivative transactions, or to debt investments (in tradable securities), or to cash management activities (money-market and repo transactions), or to credit derivatives. Details about credit risk management for OTC derivative transactions can be found in the relevant section about counterparty credit risk. NIBC only enters into repo transactions if they are secured by highly-rated bonds. Some debt investments of financial institutions are secured by collateral (covered bonds) or benefit from state guarantees. The latter are classified as sovereign exposures.

Corporate

An important element in NIBC's credit approval process is the assessment of collateral. Almost all exposures under the corporate exposure class have some form of collateralisation, with the main exception of IM loan exposures. IM loans may contain equity characteristics such as attached warrants or conversion features; examples of this exposure include mezzanine loans, convertible loans and shareholder loans, which are typically unsecured instruments.

Collateralised exposures can be secured by mortgages on real estate and ships, by receivables, lease receivables or liens on machinery and equipment, or by third-party guarantees and other similar agreements. An exposure is deemed to be collateralised, fully or partly, if such assets are legally pledged in support of the exposure.

In general, NIBC requests collateral to protect its interests. NIBC ascribes value to collateral provided that the collateral is sufficiently liquid, that documentation is effective and that enforcing NIBC's legal rights to the collateral will be successful. The type and quantity of the collateral depends on the type of transaction, the counterparty and the risks involved. The most significant types of collateral securing the corporate exposure class are tangible assets, such as real estate, ships and equipment.

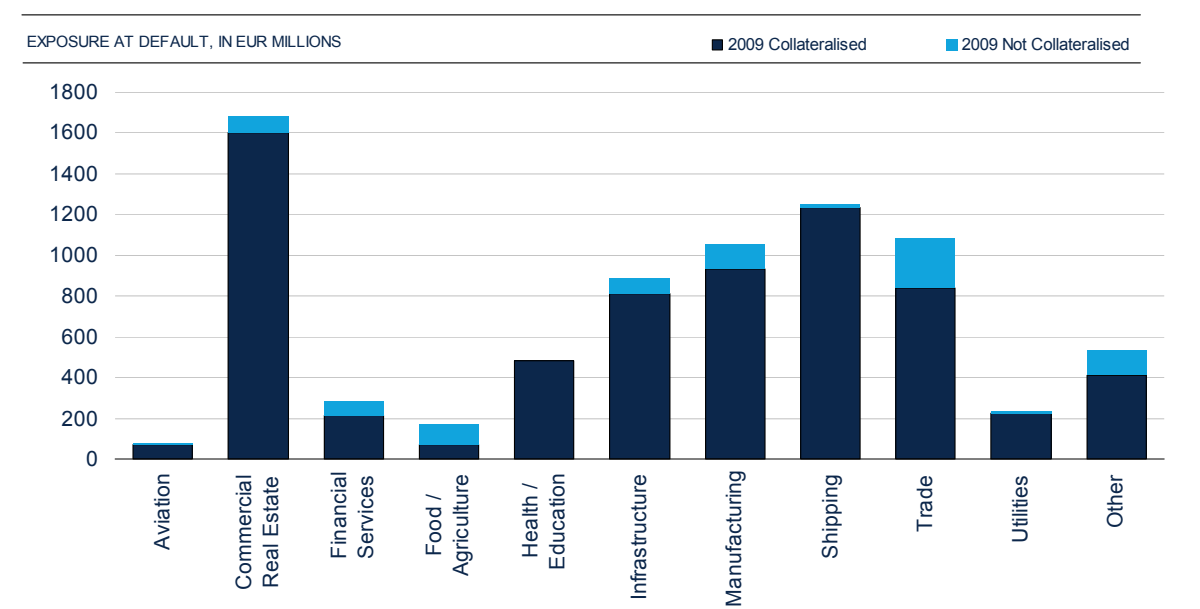
NIBC initially values collateral based on fair market value when structuring a transaction, and evaluates the collateral (semi-) annually during the lifetime of the exposure. NIBC typically seeks confirmation from independent third-party experts that its interests are legally enforceable. Exposures in the shipping and oil and gas sectors are secured by moveable assets such as ships and drilling

vessels. Exposures in the commercial real estate sector are 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.

Other corporate exposures are, to a large extent, collateralised by assets such as equipment, inventory, debtors, and third-party credit protection (e.g. guarantees). The value of these types of collateral can be more difficult to determine, therefore such collateral is attributed a nil value in order to be conservative.

Graph 1 shows the breakdown of collateralised and uncollateralised exposures by industry sector at 31 December 2009. The term *collateralised* may indicate full or partial collateralisation and includes all collateral types, regardless of the value that NIBC attributes to them.

Graph 1: Breakdown of (un)collateralised EAD per industry sector, 31 December 2009



Retail

Dutch residential mortgage portfolio

Credit losses are mitigated in a number of different ways:

- The underlying property is pledged as collateral;
- Under Dutch law NIBC has full recourse on the borrower;
- 15% of the Dutch Own Book portfolio and 43% of the Dutch Securitised portfolio are covered by the NHG programme;
- Approximately 48% of the Dutch portfolio has been securitised;
- NIBC has concluded a synthetic securitisation (Provide Orange) by means of a *credit default swap (CDS)* with *Kreditanstalt für Wiederaufbau (KfW)*, a government-owned bank, in which the credit risk of the underlying portfolio of EUR 711 million is transferred.

For the portfolio not covered by the CDS or 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.

A measurement 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 using the index of the Dutch Land Registry Office (Kadaster), which is based on market observables. For the part of the portfolio not covered by the CDS or the NHG programme, only 11% has an LTiMV above 100%. For the remainder of the portfolio, the indexed collateral value is sufficient to cover the entire loan balance outstanding.

German residential mortgage portfolio

As is the case in the Netherlands, the underlying property is the primary collateral for any mortgage loan granted. In contrast to the Dutch market, most of mortgage loans contain an annuity repayment, leading to a lower outstanding balance during the lifetime of the loan. The majority of the underlying collateral for the German portfolio is located in former West Germany.

Overview of impaired and past-due exposures

Impaired and past-due exposures

Sovereign and Institutions

In 2009 NIBC did not take any impairments on these exposure classes.

Corporate

NIBC assesses whether there is an indication of impairment of corporate loans classified as assets available for sale assets, or as loans and receivables at amortised cost on an individual basis and at least quarterly. 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, among others, the determination of expected future cash flows and their timing, the market value of collateral, and market discount rates. 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 calculates an impairment amount by taking certain factors into account, particularly the available collateral securing a loan. An impairment amount is recorded only if the total outstanding amount is greater than the sum of the net present value of the realisable collateral value and any other cash flow that NIBC expects to collect on the loan.

Table 8 in the section *Calculation of Risk Weighted Assets* presented a breakdown of the corporate exposure class in NIBC's internal rating scale. Counterparties with a default rating (9/10) represent a total EAD of EUR 524 million, but this does not necessary mean that all these counterparties carry an impairment amount. Reasons for not always taking an impairment amount for a defaulted counterparty may be e.g. over-collateralisation or NIBC's expectation of future cash-flow generation.

In 2009, NIBC reviewed its internal definitions for defaulted and impaired exposure in order to allow further differentiation between these assets. Whereas in 2008 these definitions were aligned and were both applied at a counterparty level, as of 2009 NIBC considers a default occurring at a counterparty level, whereas an impairment is taken at the facility level. According to NIBC's new definitions, when a default occurs (in line with the Basel II definition) then the entire exposure and outstanding amount of the borrower are classified as defaulted. On the contrary, if an impairment amount is taken against a facility, only the outstanding amount of that particular facility is classified as impaired. This means that all obligors with impaired facilities are considered to be in default and carry a default rating of 9 or 10, but not all defaulted facilities are considered impaired.

Tables 13 and 14 show a breakdown per region and industry sector respectively, of the impairment amounts (EUR 140 million) on the corporate exposure class per year-end 2009. The column labelled *Impaired EAD Corporate* shows the EAD of those facilities only that carry an impairment amount (EUR 315 million). The difference between the impaired EAD on facility level and the impairment amount can be explained again due to the presence of collateral or to NIBC's expectation of future cash-flow generation.

The impact of the credit crisis on the corporate exposures was stronger in 2009 compared to previous years but it still remained at acceptable levels. There was an increase in the level of provisioning but impairments did not reach extreme levels, in part due to the high level of collateralisation. However, the impact of the crisis differed between the various corporate segments. Most new provisions were taken in the leveraged finance and corporate lending business lines, but other parts of the corporate exposures carry either zero (e.g. oil and gas services) or negligible impairments and write-offs (e.g. commercial real estate, shipping, infrastructure & renewable energy).

Table 13: Breakdown of impairments on corporate exposure class per region, 31 December 2009

IN EUR MILLIONS			
Region	Total EAD Corporate	Impaired EAD Corporate	Impairment
The Netherlands	3,790	154	81
United Kingdom	1,894	88	20
Germany	1,130	55	30
Europe	975	-	0
North America	358	14	9
Asia / Pacific	660	4	0
Other	286	-	0
TOTAL	9,093	315	140

Table 14: Breakdown of impairments on corporate exposure class per industry sector, 31 December 2009

IN EUR MILLIONS			
Industry sector	Total EAD Corporate	Impaired EAD Corporate	Impairment
Aviation	76	32	17
Commercial Real Estate	2,019	15	6
Financial Services	817	140	31
Food/Agriculture	175	1	0
Health/Education	544	6	6
Infrastructure	941	14	11
Manufacturing	1,077	33	29
Shipping	1,284	3	0
Trade	1,104	71	39
Utilities	253	-	-
Other	803	0	0
TOTAL	9,093	315	140

Past due loan amounts are reported to the TC on a monthly basis. Payments may be past due for a number of reasons. However, late payments are not automatically assumed to be uncollectible. Table 15 presents the corporate exposures with a past-due amount. The table also shows those EADs with technical past-due amounts. These are the past-due amounts between 1 and 5 days and may be caused by various operational reasons.

Retail

In order to manage credit losses more closely, the arrears management for residential mortgages takes place in-house. This ensures a dedicated team focused on maximising recoveries.

The first month in arrear is managed by the servicers, as in many cases late payments within the first 30 days are related to operational issues. When past-due amounts are outstanding longer than one month, the arrears management is transferred to the NIBC Arrears Management department. Table 15 shows the past-due amount overview of the retail exposure class at 31 December 2009. The table also shows those EADs with technical past-due amounts. These amounts contain those borrowers with a past-due amount below EUR 250.

In 2009, the impairment amount taken on the Dutch residential mortgage portfolio was EUR 3 million. No impairments were taken on the German residential mortgage portfolio.

Table 15: EAD with a past-due amount, corporate and retail exposure classes, 31 December 2009

IN EUR MILLIONS	Corporate EAD	Retail EAD
Technical past-due amounts	181	5
1-30 days	117	83
31-60 days	38	22
61-90 days	14	10
SUBTOTAL LESS THAN 90 DAYS	350	120
Over 90 days	104	33
No payment arrear	8,639	4,996
TOTAL	9,093	5,149

Equities

NIBC determines an impairment on the equity investments available for sale held in NIBC's investment portfolio, if there has been a significant or prolonged decline in the fair value below the original cost (including previous impairment losses). NIBC uses expert 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 of which the securities NIBC holds, a decline in industry or sector performance, adverse changes in technology, operational problems or insufficient cash flows.

Tables 16 and 17 present an overview of impairments on equity exposures per region and industry sector respectively. The columns labelled *Impaired EAD Equity* present the remaining EAD after the impairment has been taken. This remainder can, therefore, be smaller than the impairment amount.

Table 16: Breakdown of impairments on equity exposure class per region, 31 December 2009

IN EUR MILLIONS			
Region	Total EAD Equity	Impaired EAD Equity	Impairment
The Netherlands	433	3	17
United Kingdom	1	0	2
Germany	18	0	21
Europe	39	6	11
Asia / Pacific	0	-	-
North America	56	0	47
Other	3	-	-
TOTAL	550	9	98

Table 17: Breakdown of impairments on equity exposure class per industry sector, 31 December 2009

IN EUR MILLIONS			
Rating Sector	Total EAD Equity	Impaired EAD Equity	Impairment
Aviation	0	-	0
Commercial Real Estate	33	0	1
Financial Services	54	0	20
Food/Agriculture	-	-	-
Health/Education	9	-	-
Infrastructure	111	-	-
Manufacturing	32	0	12
Shipping	21	2	1
Trade	138	7	17
Utilities	-	-	-
Other	152	0	47
TOTAL	550	9	98

Securitisations

As of 1 July 2008, NIBC reclassified all its securitisation exposures from fair value through profit or loss to amortised cost, with the exception of synthetics and equity tranches, as IFRS does not allow such an accounting treatment for these products. Synthetics are still classified as fair value through profit or loss, while equity tranches were reclassified as available for sale (fair value through equity). Therefore, impairments for the securitisation exposures only refer to the period after 30 June 2008. The impairment amount takes the carrying value as reference. This carrying value is the market value as at 30 June 2008, adjusted for 'pull-to-par' effects. For equity exposures, the impairment amount is equal to the difference between the carrying value prior to the impairment and the current market value. For the other tranches the impairment amount is equal to the difference between the carrying value and the expected cash flows, discounted by the original effective yield, if positive.

Table 18 shows a breakdown of impairments on securitisations per collateral type. The column labelled *Impaired EAD Securitisation* presents the remaining EAD after the impairment has been taken. The total impairment amount on the Securitisations portfolio as at 31 December 2009 was EUR 131 million, a EUR 95 million increase compared to 31 December 2008.

Table 18: Breakdown of impairments on securitisation exposure class per collateral type, 31 December 2009

IN EUR MILLIONS			
	Total EAD Securitisation	Impaired EAD Securitisation	Impairment
RMBS	405	0	0
CMBS	334	-	-
CDO/CLO	201	3	38
ABS	29	-	-
TOTAL EUROPEAN SECURITISATIONS NIBC BANK	969	3	38
NL - RMBS AAA	31	-	-
TOTAL TREASURY LIQUIDITY INVESTMENTS NIBC BANK	31	-	-
US - Collateralised ¹	2	-	-
TOTAL US SECURITISATIONS NIBC BANK	2	-	-
TOTAL SECURITISATIONS NIBC BANK	1,002	3	38
US CMBS	6	-	-
US CRE-CDO	96	13	93
US RMBS	2	-	-
TOTAL US SECURITISATIONS NIBC HOLDING	104	13	93
TOTAL SECURITISATIONS NIBC HOLDING	1,106	16	131

¹ Concerns EU CDO exposure with predominantly US collateral.

Expected loss versus realised losses

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 (*Expected Loss, EL*) and actual loss (*Realised Loss, RL*) experience. The EL is a statistical measure that is based on the calculated PD, LGD and EAD, and it represents the average loss that NIBC expects to incur. The RL is the actual loss that NIBC has experienced at the end of a given year.

As already mentioned in the section on impairments, the impact of the credit crisis on the corporate exposures was stronger in 2009 compared to previous years but it still remained at acceptable levels. There was an increase in the level of provisioning but impairments did not reach extreme levels, in part due to the high level of collateralisation. However, the impact of the crisis differed between the various corporate segments. Most new provisions were taken in the leveraged finance and corporate lending business lines, but other parts of the corporate exposures carry either zero (e.g. oil and gas services) or negligible impairments and write-offs (e.g. commercial real estate, shipping, infrastructure & renewable energy).

Table 19 shows the average losses in basis points in 2009 and 2008. Losses are attributed to the year in which the counterparty enters default according to the Basel II definition. The losses are based on the actual write-off on the loans and on the outstanding provision (31 December 2009) in case the default was unresolved at year-end. Consequently, average losses are not necessarily constant, given that provisions change over time. The losses are related to the non-defaulted portfolio at the start of the year, containing on- and off-balance sheet amounts.

Table 19 shows that the realised loss for the corporate exposure class is higher than the expected loss. This is due to the fact that NIBC's internal AIRB models produce through-the-cycle ratings.

Table 19: Expected Loss (EL) versus Realised Loss (RL)

Exposure Class	2009		2008	
	EL	RL	EL	RL
Corporate	0.43%	0.92%	0.31%	0.67%
Retail	0.20%	0.05%	0.16%	0.02%

Counterparty Credit Risk

This paragraph deals with *counterparty credit risk (CCR)*. NIBC defines counterparty credit risk as the credit risk resulting from OTC derivative transactions, where there is no formal Exchange and none or limited initial investment, such as *interest rate swaps (IRS)*, *credit default swaps (CDS)* and *foreign exchange (FX)* transactions. Money-market deposit transactions and repo transactions are not included in CCR. Instead, these are included in the credit exposures on financial institutions.

NIBC is exposed to CCR from derivative transactions both with corporate clients as well as with financial institutions. For both types of counterparties, CCR is measured similarly, being the sum of the positive replacement value and add-on. The add-on reflects the potential future change in marked-to-market value during the remaining lifetime of the derivative contract. All derivative transactions are legally covered by *International Swaps and Derivatives Association (ISDA)* agreements. Derivative transactions with corporate clients are concluded as part of the relationship management. Capital and credit limits for corporate clients are allocated on a one-obligor basis. Although the credit risk resulting from CCR is monitored in conjunction with other exposures to these clients, no specific collateral is requested for these exposures.

For its most important financial counterparties, NIBC has mitigated the CCR by using a *Credit Support Annex (CSA)*. Under this annex the credit exposures after netting are mitigated by the posting of (cash) collateral. Limits for financial counterparties cover both money-market exposures and derivative exposures and are based upon a combination of external ratings, market developments like CDS spreads, and expert judgement. NIBC values derivative contracts in a uniform way, i.e. no counterparty-specific credit reserves are used in the valuation of derivatives contracts.

Table 20 shows the breakdown of EAD, RWA and capital requirements for derivatives at 3 December 2009.

Table 20: Breakdown of EAD, RWA and capital requirement for derivatives, 31 December 2009

IN EUR MILLIONS	EAD	RWA	Capital requirement
AIRB APPROACH			
- of which corporate	403	254	20
STANDARDISED APPROACH			
- of which institutions	1,300	338	27
- of which corporate	167	167	13
TOTAL DERIVATIVES	1,870	759	60

As discussed above, the EAD for derivatives is based on the sum of the positive replacement value (marked-to-market value) and applicable add-on. For corporate exposures using the AIRB approach, the PD is derived from the counterparty credit rating and the LGD is equal to the facility weighted-average LGD. For institutions and corporate exposures for which the Standardised approach is used, the risk weight of the counterparty is used in the calculation of the RWA.

Table 21: Gross positive fair value, netting benefits, reduction from collateral and resulting net fair value exposure from derivative contracts

IN EUR MILLIONS	2009
Gross exposure	2,825
Netting benefits	(1,846)
Reduction from collateral	(164)
Net current exposure	815

NIBC uses credit derivatives both to protect its Debt Investments portfolio as well as to create credit exposures, although the latter is significantly reduced as part of the de-risking policy that NIBC started implementing in 2007. Tables 22 and 23 show the breakdown of all CDS contracts:

Table 22: Breakdown of CDS contracts by exposure class

IN EUR MILLIONS		
CDS contract exposure class	Sold protection	Bought protection
Sovereign	-	-
Institutions	148	7
Corporate	49	64
Securitisations	30	771
TOTAL	227	842

Table 23: Breakdown of CDS contracts by name type

IN EUR MILLIONS		
CDS contract name type	Sold protection	Bought protection
Single name	148	7
Multiple name	79	835
TOTAL	227	842

As discussed in the retail section, the largest outstanding CDS contract (EUR 711 million) is protection bought linked to the synthetic securitisation of the banks' mortgage portfolio (Provide Orange).

Market Risk

NIBC defines market risk as the current and prospective threat to 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 portfolio. For fixed-income products, market risk also includes credit spread risk, which is the risk due to movements of underlying credit curve. The predominant market risk drivers for NIBC are interest rate risk and credit spread risk.

The trading portfolio of NIBC is the result of customer-driven transactions and limited trading for its own account in interest-rate risk products. Interest rate risk outside the Trading portfolio of NIBC is limited to centrally managed mismatch positions. For all other banking activities, only residual positions are allowed, given that the basic principle of NIBC is to hedge the interest rate risk from assets, liabilities and off-balance sheet instruments. Given the policy of limited trading activities within NIBC, the capital requirements are, in general, small.

FX risk arises primarily from principal investments, customer-driven loans and funding or mismatch positions in foreign currencies. The general principle is to hedge FX risk completely, although small residual positions, e.g. from profits in foreign currencies, are allowed.

Market risk RWA and capital requirements for 31 December 2009 and 2008 are given in table 24. RWA in 2009 reduced by 32% compared to 2008 because of the lower risk profile of the Trading portfolio at the end of 2009. This should be regarded more as incidental rather than a structural decline in RWA.

Table 24: Breakdown of EAD, RWA and capital requirement for market risk

IN EUR MILLIONS	31 December 2009		31 December 2008	
	RWA	Capital requirement	RWA	Capital requirement
- of which trading portfolio VaR	54	4	100	8
- of which FX Standardised approach	44	4	45	4
TOTAL MARKET RISK	98	8	145	12

Governance

The objectives of the market risk function are to measure, report and control the market risk of NIBC, both inside and outside the Trading portfolio. For this purpose, a common framework applies across the whole institution. For all books with interest or credit spread risk, limits are defined and positions are monitored daily. The risk management and control function is independent of the trading activities. The market risk position is reported to the ALCO once every two weeks. Any requests for new limits also have to be approved by the ALCO.

The risk appetite for interest rate risk is set, among others, by the *value-at-risk (VaR)* limits. For the Trading portfolio a VaR limit (99% confidence level, 1 day holding period) of EUR 3 million is set; for the Mismatch portfolio a VaR limit of EUR 7 million applies and the VaR on consolidated basis should be below of EUR 10 million.

Measurement methods

NIBC uses multiple risk measures to capture all aspects of market risk. These include interest *basis point value (BPV)*, credit BPV, interest VaR and credit VaR measures are calculated on a daily basis for the major currencies and are reviewed by the Market Risk department:

- Interest and credit BPV measure the sensitivity of the market value for a change of one basis point in each time bucket of the interest rate and credit spread, respectively;
- 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 upon four years of historical data for weekly changes in interest rates, credit spreads and both simultaneously. For the Trading portfolio additional VaR scenarios based upon daily historical market data and a 10-day holding period are used, both for limit-setting as well as for the calculation of the capital requirement. Not only is the use of daily market data for the Trading portfolio a regulatory requirement, but this portfolio only contains liquid plain vanilla interest rate products. For these products reliable daily market data are available. Outside the Trading portfolio, however, less liquid positions are kept, for which reliable daily market data, especially for credit spreads, are not available;
- 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.

Stress testing

In addition to the VaR, NIBC has defined a number of stress tests. These stress tests consist both of historical events as well as potential extreme market conditions, which have not (yet) materialised. Market risk stress tests are conducted and reported daily, both on portfolio as well as on a consolidated level. Below some examples of stress tests are mentioned:

- Historical interest rate spike 1994, where long-term interest rates rose by 275 basis points in Europe and by 250 basis points in the US.
- Credit crisis 2008, where credits spreads rose significantly.
- Hypothetical scenario, where interest rates shift by -100 basis points or + 100 basis points.
- Hypothetical scenario, where credit spreads rise significantly.

Regulatory capital for market risk in the Trading portfolio

Since 2008, NIBC has supervisory approval to use the Internal Models Approach (IMA) for market risk in the Trading portfolio. Annex VII, part B of the European directive 2006/48/EC sets the requirements for systems and controls regarding exposures in the Trading portfolio. NIBC complies in all material aspects with these requirements. As given in table 24 the capital requirement for market risk at the end of 2009 equalled EUR 8 million.

VaR

Although trading positions change daily, Graph 2 shows that the average level of risk during 2008 was maintained in 2009. During 2009, this portfolio consisted solely of interest rate-driven exposures. Activities comprise short-term (up to two years) interest position-taking, money market and bond futures trading and swap spread position taking. The interest rate spread risk between positions in swaps and bond futures is also taken into account in the VaR. The portfolio is also used for facilitating derivative transactions with corporate clients. As a further insight in the risk characteristics of the Trading book, table 25 shows the key statistics of the VaR numbers for the Trading portfolios in 2009.

Graph 2: development of VaR in the Trading portfolio during 2008 and 2009

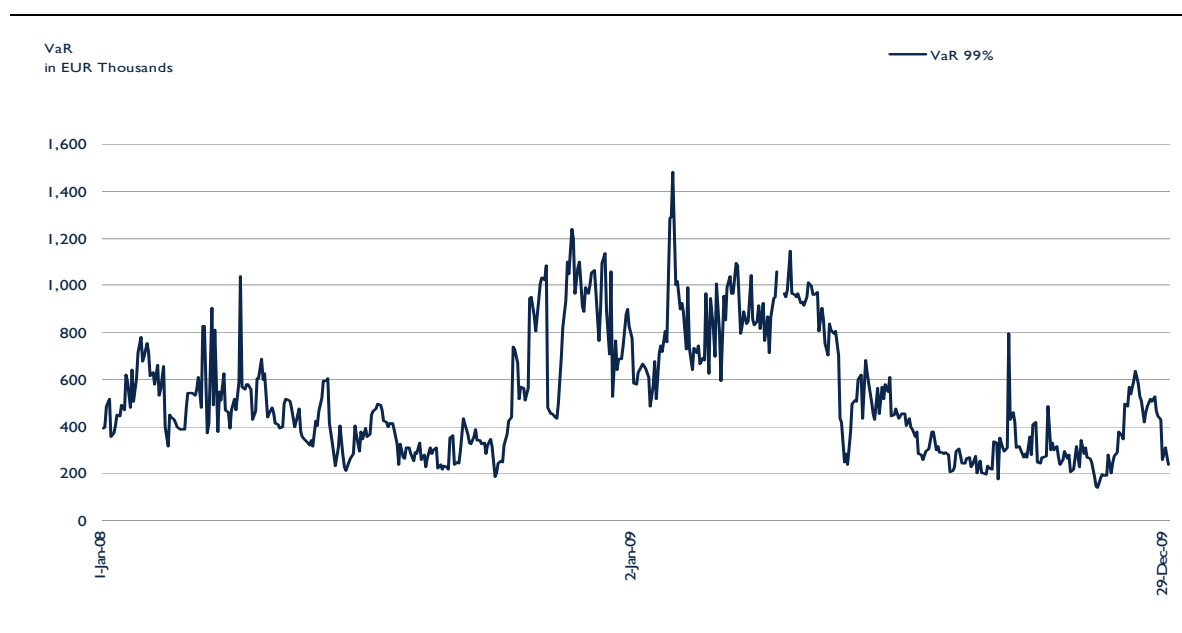


Table 25: Key risk statistics, Trading portfolio 2009

IN EUR THOUSANDS	Interest rate	
	BPV	VaR
Max*	(248)	1,482
Average	(53)	540
Min*	111	138
YEAR-END 2009	(30)	253

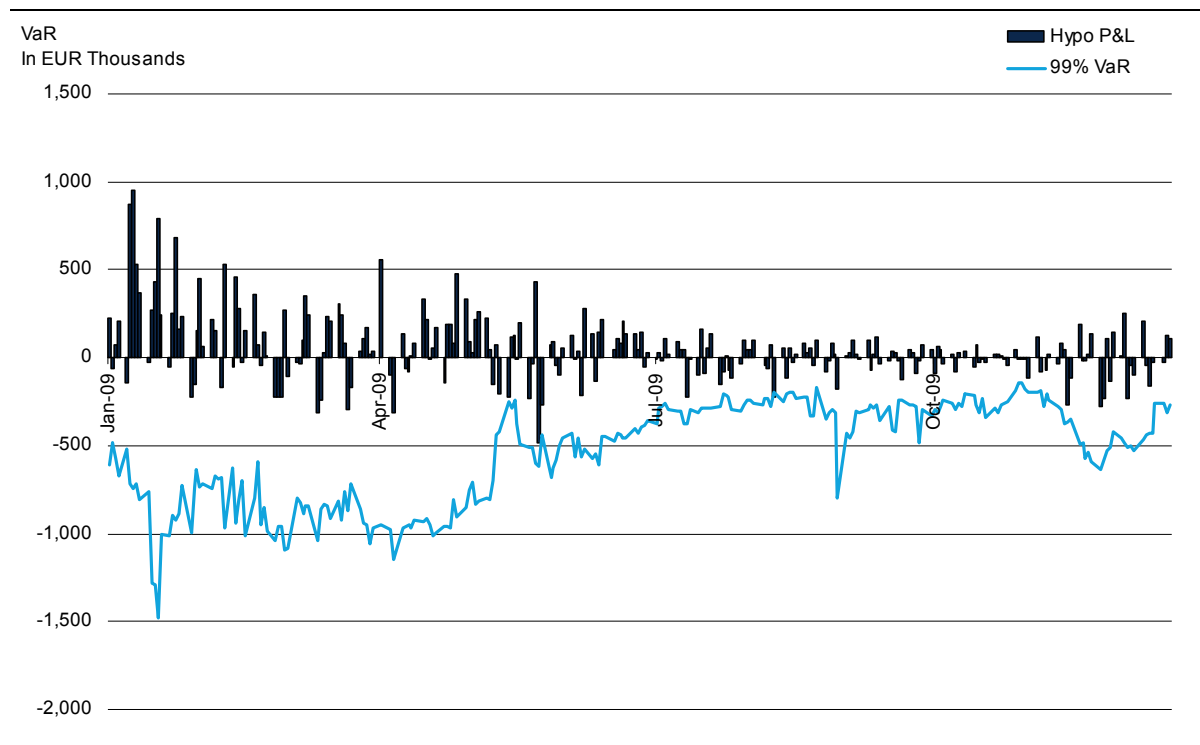
* Min: value closest to zero, Max: value farthest from zero

Back testing

Back testing for the Trading portfolios is conducted in accordance with the guidelines of the Basel Committee on Banking Supervision. For the Trading book the 1-day 99% VaR is back tested with the hypothetical *profit or loss (P&L)*. The hypothetical P&L is calculated based upon the end-of-day trading position and the change in market rates from the trading day to the next business day using full revaluation. In 2008, the volatility in the markets increased significantly, causing an increase in the number of outliers. This has been the reason to investigate the assumptions in the VaR model and

has resulted in a significant improvement, in particular in the usage of the underlying historical market data. Graph 3 shows the hypothetical P&L and 99% VaR figures for 2009. The total number of outliers during this period amounted to one.

Graph 3: Back test results of the Trading portfolio during 2009



Market risk outside the Trading portfolio

Interest rate risk in the Mismatch portfolios

NIBC concentrates its strategic interest rate risk position in the Mismatch portfolios. Next to the USD Mismatch portfolio, which was reported in 2008, a EUR Mismatch portfolio was set up in 2009. These portfolios exclusively contain swap positions, with which a view on future interest rate developments is taken.

Interest rate risk in the Banking book

Apart from the Trading portfolio and the Mismatch portfolios, interest rate risk is also contained in the following portfolios (henceforth collectively referred to as 'Banking book'):

- Debt Investments portfolio;
- Residential Mortgage portfolio; and
- Residual Interest Rate Risk portfolio.

The interest rate risk in these portfolios is significantly below the risk contained in the Mismatch portfolios, as it is the policy of NIBC to hedge the interest rate risk in these portfolios.

NIBC uses an economic value approach to model interest rate risk in the Banking book. Corporate loans and deposits are modelled based upon the contractual re-pricing date, without prepayment. For mortgages, a dedicated prepayment model is used, where prepayment depends upon the remaining interest period and is calibrated regularly using realised historical prepayments. On-demand retail

savings are treated like overnight deposits. All cash flows are discounted by applying a swap curve plus the appropriate credit spread curve.

Table 26 shows the interest rate sensitivity from an economic perspective for EUR, USD and GBP. For the other currencies the interest rate risk is minimal. The impact of a larger interest rate movement (parallel shock of plus or minus 100 basis points) is shown in table 27.

Table 26: Interest rate sensitivity at 31 December 2009

IN EUR THOUSANDS	BPV			Total
	Trading	Mismatch	Banking	
EUR	(40)	(480)	85	(435)
USD	10	(247)	14	(223)
GBP	0	0	49	49
Other	1	0	2	3
TOTAL	-30	-727	151	-606

Table 27: Effect of an interest rate shock on economic value at 31 December 2009

IN EUR THOUSANDS		
Interest rate shock	-100bp	+100bp
EUR	43,447	(42,137)
USD	22,869	(21,430)
GBP	(5,174)	4,613
Other	(327)	336
TOTAL	60,815	(58,618)

Credit spread risk

Within Treasury, credit spread risk is mainly concentrated in the Debt Investments portfolio and comprises investments in financial institutions and sovereign entities, securitised products and enhanced investments. NIBC's total credit spread sensitivity at 31 December 2009 (-0.414 million EUR/bp) has not changed much compared to 31 December 2008 (-0.401 million EUR/bp). However, the allocation of credit spread risk over the different portfolios has shifted more from the Securitisation portfolio to the portfolios containing investments in financial institutions and state-guaranteed bonds.

Foreign exchange risk

As stated previously, it is the policy of NIBC to hedge its currency risk as much as possible. NIBC uses the Standardised approach for the calculation of regulatory capital for currency risk. At year-end 2009, the capital requirement for FX risk was EUR 4 million.

Operational Risk

NIBC's definition of operational risk is based on the Basel II definition. Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes or systems, from human error or external events including legal risk that affect NIBC's reputation, operational earnings and/or have an adverse effect on capital value. In addition, reputation and strategic business risk are included as sub-categories of operational risk. For the organisation, both of these risk categories are driven by operational risk components.

The *Operational Risk Manager (ORM)* reports functionally to the CRO and is aligned with the activities of the Internal Audit department. The mission of the ORM is to actively promote a 'no-surprises' operating environment, which provides for the transparent and consistent management of operational risk across all activities of NIBC. The mission is undertaken in order to stimulate operational excellence, pro-actively manage operational risk, and meet legal and regulatory requirements.

The responsibility of monitoring and managing operational risk lies with the ORM and the business unit managers, who are responsible for implementing the enterprise-wide operational risk framework. The framework sets out the roles and responsibilities for management supervision, as well as those tools and methods used within NIBC for identifying, measuring, reporting, monitoring, and controlling operational risk. Sound Practices for the Management and Supervision of Operational Risk, published by the Basel Committee on Banking Supervision, has been used in the development of the operational risk framework to ensure robust and effective management and supervision. The framework is based on the principle that NIBC's Managing Board and Supervisory Board and senior management are actively involved in risk management, and that NIBC's risk management system is independent, conceptually sound and implemented with integrity. Finally, NIBC needs to ensure that there are sufficient resources available to execute the purpose and strategy of operational risk management and the business units, as well as implement control, compliance and audit functions.

Operational risk is managed at both group and divisional level. The Managing Board provides consistency and oversight of significant operational issues, and oversees the adoption of best practice across NIBC. At the divisional level and below, managers are responsible for adherence to the operational risk management policy framework, for oversight of all operational risks specific to the business, and for reporting of all operational events and losses. The ORM, working in conjunction with business unit managers, has developed tools to assist in managing, monitoring, reporting and reducing the effects of operational risk. The tools utilised by managers provide for an integrated view of the risk self-assessment, control identification, action planning, and event and loss registration. This integrated view assists in identifying, evaluating, and reducing operational risk and planning mitigation measures. The evaluation process assists in identifying emerging operational risk issues and determining how they should be pro-actively managed.

NIBC has incorporated operational risk management into all its business processes. Operational risk is monitored on a daily basis as part of the 'in control' process and formal self-assessments are performed annually. The self-assessment forms the basis for the In Control and Responsibility Statement of the annual report. 'In control' reporting seeks to ensure that the operational risk management policy framework is integrated into the daily activities of all employees and that it forms an integral part of the internal control system. The reporting system is focused on control of the identified risks related to the operational execution of the different business activities.

The capital requirement under the Standardised Approach is the sum of the requirement per individual business line. Within each business line, gross income is the indicator that serves as a proxy for the scale of business operations and as such, the likely scale of operational risk exposure within each of these business lines. The capital requirement for each business line is calculated by multiplying the average gross income for the past three years by a factor assigned to that business line. This factor serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate level of gross income for that business line.

The calculation is used to determine the regulatory capital and the EC requirement for operational risk and is performed annually by NIBC's Finance department. Table 29 shows the amount of RWA and the capital requirement for operational risk as at year-end 2009 and 2008.

Table 29: Breakdown of EAD, RWA and capital requirement for operational risk

IN EUR MILLIONS	2009		2008	
	RWA	Capital requirement	RWA	Capital requirement
Standardised approach	704	56	704	56
TOTAL OPERATIONAL RISK	704	56	704	56

Liquidity Risk

NIBC defines liquidity risk as the inability of the company 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 current credit and liquidity crisis made liquidity risk management even more important. NIBC was able to maintain a sound liquidity position in the difficult times of 2008 and 2009 due to the prudent and conservative liquidity and funding policy in the past, as well as by diversifying funding sources. The expansion of the online retail savings programme NIBC Direct, as well as medium-term note issues using the Dutch State's Credit Guarantee Scheme, were the major funding initiatives undertaken in 2009. In addition, NIBC was able to maintain the collateralised funding capacity that creates additional liquidity buffers.

Stress scenario

Based on projections prepared by the business units and reviewed by risk management, and the current asset and liability maturity profiles, a liquidity stress test is prepared and presented once every two weeks to the ALCO, in order to create continuous monitoring of the liquidity position. This stress scenario assumes a worldwide liquidity shortage in which no unsecured wholesale funding can be raised by NIBC and external sales or securitisations of assets are not possible. In addition, the following assumptions are made:

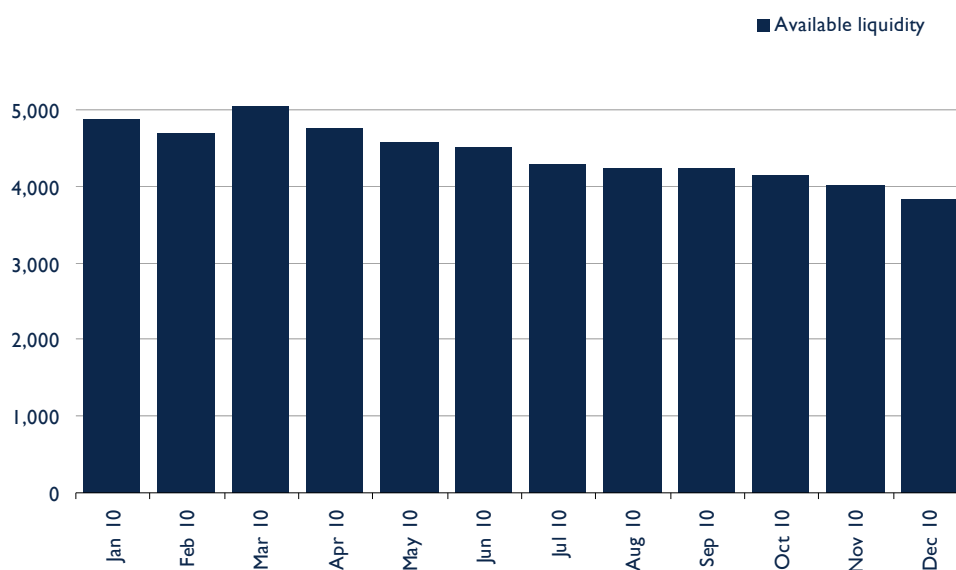
- In order to maintain NIBC's business franchise, it is assumed that new asset production continues at a level where the current books are maintained constant;
- A conservative amount of expected retail savings' proceeds are included;
- Conservative assumptions are made for prepayments, callable funding and collateral cash-out flows (payments from **CSAs**);
- A conservative liquidity buffer is maintained for intraday payments;

Graphs 4 and 5 show the strong liquidity buffer in the stress scenario at year-end 2009 and year-end 2008. Although this analysis focuses on the next 12 months, the liquidity buffer in the liquidity stress test remains positive for longer periods.

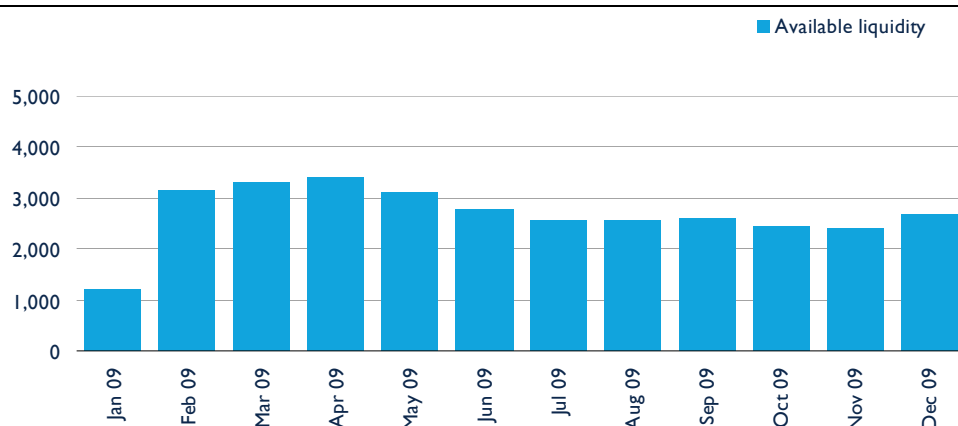
The available liquidity, as presented in the graphs that follow, is comprised of:

- A projected pool of cash plus collateralised funding capacity, minus a buffer for intraday payments and potential CSA collateral cash outflows, at each month end;
- A reduction to the available pool created by maturing liabilities and other projected outflows (e.g. from new business); and
- An increase in the available pool created by maturing assets and a conservative estimate of retail funding proceeds in 2010.

Graph 4: Stress scenario, short-term analysis, 31 December 2009



Graph 5: Stress scenario, short-term analysis, 31 December 2008



A comparison of the forecast 12-month liquidity stress test at 31 December 2008 with the forecast test at 31 December 2009 shows that the outcome of the stress test after 12 months is positive in both years. Furthermore, the liquidity measures taken in 2009, as explained below, resulted in a better liquidity position at the end of 2009 than it had been forecast at the end of 2008.

At the end of 2009, a large buffer of cash and collateralised funding capacity is available to cover the expiring funding in 2010. Due to the additional government-guaranteed issues in 2009 and higher than expected new retail savings proceeds, the realised liquidity buffer at the end of 2009 turned out to be higher than expected at the beginning of 2009. In 2010 the liquidity buffer of NIBC is expected to remain at a comfortably high level.

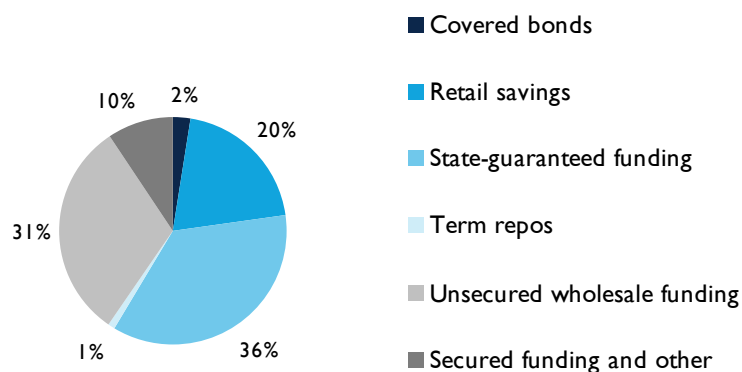
In addition to the 12-month liquidity stress analysis above, NIBC also conducts a liquidity analysis over a period of 36 months once every two weeks. This analysis assumes a possible growth in the size of the books in combination with funding initiatives as, for example, certain forms of secured

funding. The analysis assumes no issuance of wholesale unsecured funding. The outcome of this 36-month liquidity analysis shows again a positive buffer throughout the period.

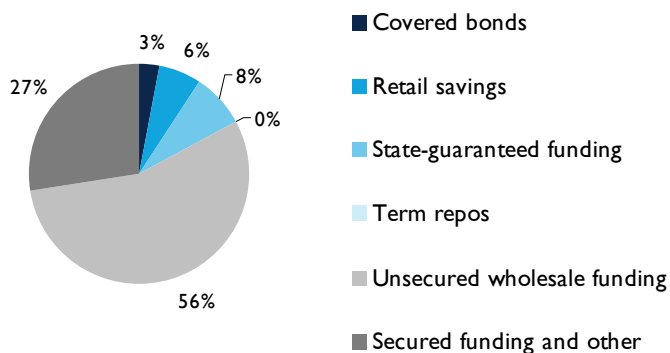
Funding

NIBC further diversified its funding base by the initiatives mentioned earlier. An overview of the Funding portfolio at 31 December 2009 and 31 December 2008 is shown in graphs 6 and 7. Note that the numbers of total funding for both years exclude funding from external securitisations.

Graph 6: Breakdown of total Funding portfolio, 31 December 2009 (EUR 18,150 million)



Graph 7: Breakdown of total Funding portfolio, 31 December 2008 (EUR 16,115 million)



Securitisation Exposures

Overview and strategy

NIBC as originator

NIBC has been active in the securitisation and structuring market for over ten years. The types of collateral for these securitisations include residential mortgages, commercial mortgages, leveraged loans and securitisations. NIBC's *Dutch MBS* residential mortgage programme was established in 1997. In 2003, NIBC started its North Westerly *Collateralised Loan Obligations (CLO)* programme. In 2004, NIBC became the collateral manager of its first US *Collateralised Debt Obligations (CDO)* transaction. In 2006, NIBC launched its introductory *Commercial Mortgage-Backed Securities (CMBS)* transaction under its MESDAG programme. In addition, NIBC has acted as arranger and lead manager on a number of third-party transactions. Table 30 gives an overview of the cumulative nominal amounts, which are outstanding at 31 December 2009 and of which NIBC was originator:

Table 30: Cumulative nominal amounts of NIBC's securitisations

IN EUR MILLIONS	Traditional originator	Synthetic originator	Total
UNDERLYING ASSET			
Residential mortgages	4,788	813	5,601
Commercial mortgages	2,348	-	2,348
CLO	1,126	-	1,126
TOTAL	8,262	813	9,075

Objectives

NIBC's objectives in relation to securitisation activities are:

- Transfer of credit risk;
- Obtain funding, reduce funding cost and diversify its funding sources;
- Offer its real estate clients access to the capital markets;
- Earn management fees on the assets under management;
- Generate fee income by structuring third-party transactions;
- Earn fees on ancillary roles in securitisations.

Roles and involvement

NIBC has fulfilled the following roles in the securitisation process:

- Arranger (structuring) of both third-party and proprietary securitisation transactions;
- Underwriter in securitisation transactions involving both third-party and proprietary transactions;
- Collateral manager for a number of managed CDO/CLO transactions;
- Swap counterparty for a number of residential and commercial mortgage securitisations;
- Liquidity facility provider for a number of residential and commercial mortgage securitisations;

- Calculation agent and principal paying for a number of residential and commercial mortgage securitisations;
- Company administrator for a number of securitisations;
- Investor in securitisations.

Securitisation activity in 2009

During 2009, NIBC structured a number of asset-backed securities as collateral for collateralised funding purposes. This contributed to NIBC's sources of funding during 2009 in the face of the contracting market for inter-bank lending and the investor base for securitisations. The results of the above transactions are not included in the quantitative disclosures as credit risk transfer with regard to the exposures securitised has not been recognised for the purposes of Pillar-1 capital requirements.

Names of the External Credit Assessment Institutions used for securitisations

NIBC uses Fitch, Moody's and Standard & Poor's to rate its securitisations. Most of the *Residential Mortgage-Backed Securities (RMBS)* securitisations are rated by Fitch and Moody's. For the other type of securitisations also Standard & Poor's is one of the rating agencies.

Accounting policy

NIBC consolidates securitisation *Special Purpose Entities (SPE)* in its financial statements when:

- It will obtain the majority of the benefits of the activities of an SPE;
- It retains the majority of the residual ownership risks related to the assets in order to obtain the benefits from its activities;
- It has decision-making powers to obtain the majority of the benefits;
- The activities of the SPE are being conducted on NIBC's behalf according to NIBC's specific business needs so that it obtains the benefits from the SPE operations. Such an evaluation is necessarily subjective.

NIBC does not consolidate SPEs that it does not control.

NIBC as investor

Next to its role as originator of securitised products, NIBC has also been active as an investor in securitised products. Halfway through 2007 NIBC ceased its activities as an active investor in securitised products and significantly reduced its securitisation exposure. Next to individual asset sales, the complete North American RMBS portfolio was closed, while the remaining US Securitisations portfolio (consisting of CMBS and CRE-CDO) was transferred from NIBC Bank to NIBC Holding. With these actions, NIBC Bank's exposure to the North American securitisation market decreased to a single position (a European CDO with primarily North American underlying collateral), equalling EUR 2 million at 31 December 2009. The European Securitisations portfolio is held by NIBC Bank and includes a new liquidity portfolio containing Dutch AAA-rated RMBS securities.

Securitisation exposures at NIBC Bank

Under this heading several overviews regarding the securitisation exposures (retained and purchased) of **NIBC Bank** are presented, detailing underlying collateral type, credit quality and

vintage. The numbers in this section are slightly different from those in the risk notes of the annual report, because the IFRS rules for consolidating securitisation exposures differ from Pillar 3 classifications under the securitisation framework, especially for derivative exposures

Table 31 provides an overview of NIBC Bank's exposures in securitisations at 31 December 2009.

Table 31: EAD of Securitisations portfolio at NIBC Bank, 31 December 2009

IN EUR MILLIONS	Investor	Originator	Total
RMBS	305	100	405
CMBS	157	177	334
CDO/CLO	163	38	201
ABS	19	10	29
TOTAL EUROPEAN SECURITISATIONS CREDITS NIBC BANK	644	325	969
NL - RMBS AAA	31	-	31
TOTAL TREASURY LIQUIDITY INVESTMENTS NIBC BANK	31	-	31
US - Collateralised ¹	2	-	2
TOTAL US SECURITISATIONS NIBC BANK	2	-	2
TOTAL SECURITISATIONS NIBC BANK	677	325	1,002

¹ Concerns EU CDO exposure with predominantly US collateral.

Credit quality of Securitisations portfolio

The credit quality is based on an internal composite, following Basel guidelines, including external ratings from Standard & Poor's, Moody's and Fitch. The non-rated portion of the portfolio relates to first loss positions in both NIBC's own securitisations as well as third-party securitisations, which have been marked down to between 1% and 10% of their nominal value at 31 December 2009.

Table 32: Rating distribution of Securitisations portfolio (investor), 31 December 2009

IN EUR MILLIONS	AAA	AA	A	BBB	Below BBB	NR	Total
RMBS	135	55	48	40	27	-	305
CMBS	53	20	35	26	23	-	157
CDO/CLO	-	33	50	37	43	-	163
ABS	10	6	1	1	1	-	19
TOTAL EUROPEAN SECURITISATIONS NIBC BANK	198	114	134	104	94	-	644
NL - RMBS AAA	31	-	-	-	-	-	31
TOTAL TREASURY LIQUIDITY INVESTMENTS NIBC BANK	31	-	-	-	-	-	31
US - Collateralised ¹	0	2	-	0	0	0	2
TOTAL US SECURITISATIONS NIBC BANK	0	2	-	0	0	0	2
TOTAL SECURITISATIONS NIBC BANK	229	116	134	104	94	0	677

¹ Concerns EU CDO exposure with predominantly US collateral.

Table 33: Rating distribution of retained positions in the Securitisations portfolio (originator), 31 December 2009

IN EUR MILLIONS	Derivatives	AAA	AA	A	BBB	Below BBB	NR	Total
RMBS	35	3	-	16	10	21	15	100
CMBS	8	92	-	2	2	73	-	177
CDO/CLO	1	-	-	29	3	4	1	38
ABS	10	-	-	-	-	-	-	10
TOTAL EUROPEAN SECURITISATIONS NIBC BANK	54	95	-	47	15	98	16	325
NL - RMBS AAA	-	-	-	-	-	-	-	-
TOTAL TREASURY LIQUIDITY INVESTMENTS NIBC BANK	-	-	-	-	-	-	-	-
US - Collateralised ¹	-	-	-	-	-	-	-	-
TOTAL US SECURITISATIONS NIBC BANK	-	-	-	-	-	-	-	-
TOTAL SECURITISATIONS NIBC BANK	54	95	-	47	15	98	16	325

¹ Concerns EU CDO exposure with predominantly US collateral.

Vintage of Securitisations portfolio

NIBC's Securitisations (investor) portfolio has a fairly favourable vintage with just below 65% stemming from 2005 and earlier, albeit this percentage can differ among collateral classes.

Table 34: Vintage of Securitisations portfolio (investor), 31 December 2009

IN EUR MILLIONS	RMBS	CMBS	CDO/CLO	ABS	LIQUIDITY	US Coll.	Total
2009	-	-	-	-	23	-	23
2008	-	-	-	-	4	-	4
2007	1	17	32	-	-	0	50
2006	59	71	27	-	-	0	157
2005	40	41	17	3	-	-	101
2004	88	28	54	3	-	-	173
2003	60	-	9	12	1	-	82
2002	24	-	24	-	-	-	48
2001	16	-	-	-	3	-	19
2000	17	-	-	-	-	-	17
1999	-	-	-	-	-	2	2
1998	-	-	-	1	-	0	1
TOTAL	305	157	163	19	31	2	677

Table 35: Vintage of Securitisations portfolio (originator), 31 December 2009

IN EUR MILLIONS	RMBS	CMBS	CDO/CLO	ABS	LIQUIDITY	US Coll.	Total
2009	-	-	-	-	-	-	-
2008	-	-	-	-	-	-	-
2007	17	162	-	-	-	-	179
2006	-	15	1	-	-	-	16
2005	41	-	10	-	-	-	51
2004	15	-	16	-	-	-	31
2003	27	-	11	10	-	-	48
2002	-	-	-	-	-	-	-
2001	-	-	-	-	-	-	-
2000	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	-
1998	-	-	-	-	-	-	-
TOTAL	100	177	38	10	-	-	325

Securitisation exposures at NIBC Holding

In 2007 the US Securitisations portfolio was sold from NIBC Bank to NIBC Holding. This section gives the characteristics of this portfolio and also includes the sum of all European and North American exposures. Tables 36 and 37 present the rating distribution and vintage of the US Securitisations portfolio in **NIBC Holding** as at 31 December 2009.

Table 36: Rating distribution of US Securitisations portfolio (investor), 31 December 2009

IN EUR MILLIONS	AAA	AA	A	BBB	Below BBB	NR	Total
US CMBS	-	-	-	4	2	-	6
US CRE-CDO	6	10	13	11	56	-	96
US RMBS	1	1	0	-	-	-	2
TOTAL US SECURITISATIONS NIBC HOLDING	7	11	13	15	58	-	104

Table 37: Vintage of US Securitisations portfolio, 31 December 2009

IN EUR MILLIONS	US CMBS	US CRE-CDO	US RMBS	Total
2009	-	-	2	2
2008	-	-	-	-
2007	1	18	-	19
2006	3	54	-	57
2005	2	15	0	17
2004	-	9	-	9
2003	-	-	-	-
2002	-	0	-	0
2001	-	-	-	-
2000	-	-	-	-
1999	-	-	-	-
1998	-	-	-	-
TOTAL	6	96	2	104

Internal Capital Adequacy Assessment Process

The *Internal Capital Adequacy Assessment Process (ICAAP)* of each institution refers to the process with which risks and related capital are internally measured, allocated and managed, and by which the adequacy of capital available is assessed.

The internal capital requirements of NIBC under the ICAAP are based upon an internal EC framework. In addition to this, NIBC has an extensive framework of historical and theoretical stress scenarios that analyse the impact of severe shocks in the credit risk or market risk environment. The outcomes of these stress scenarios are compared to the available EC as well as the calculated EC usage.

Economic capital

EC is the amount of capital that NIBC allocates as a buffer against potential losses from business activities, based upon its assessment of risks. It differs from Basel II regulatory capital, as NIBC sometimes assesses the specific risk characteristics of its business activities in a different way than the general regulatory method. Relating the risk-based EC of each business to its profit, results in a calculation of its RAROC. EC and RAROC are key tools used in support of the capital allocation process according to which shareholders' equity is allocated as efficiently as possible based on expectations of both risk and return. The usage of EC is reported once every two weeks to the ALCO. The ALCO resets the maximum allocation level of EC to and within each business, taking into account business expectations and the desired risk profile. EC allocation is based on a one-year risk horizon, using a 99.9% confidence level. This confidence level means that there is a probability of 0.1% that losses in a period of one year will be larger than the allocated EC.

EC 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 investment for a limited period of time, a market risk approach is used based upon VaR and scaled to a one-year horizon to calculate the EC usage. A business model equal to 'buy-to-hold' or investment to maturity means that a credit risk approach is applied based upon estimations of PD and LGD. For all activities, add-ons for operational risk are calculated. In addition, NIBC allocates EC for business risk, reputation risk and model risk on a group-wide level.

The EC approach differs from the regulatory capital approach, in which only the trading books are assigned a market risk approach. Activities that have a business model equal to distribution or investment for a limited period of time are, in some cases, assigned a credit risk approach in the regulatory capital framework due to Basel II regulations or regulatory industry practice. For these business model categories, NIBC applies a market risk approach in the EC framework similar to the trading activities, as for all of these activities the market price becomes relevant at a certain point in time. Risks and EC are therefore monitored accordingly.

Furthermore, note that the terminology of portfolios in the EC framework differs from the exposure classes on which regulatory capital is calculated in Pillar 1. Table 1 in the chapter on Credit Risk provides a summary of how the various portfolios of NIBC are mapped to the Pillar 1 exposure classes.

The main differences between the EC and regulatory capital framework exist for the Residential Mortgage portfolio, the European Securitisations portfolio as investor and NIBC's interest rate mismatch position. EC is determined by a market risk approach for these activities because of their business model. The regulatory capital approach for these portfolios is either included in credit risk (mortgages and securitisations) or not included at all within Basel II Pillar 1 (mismatch position). As the EC methodology may differ significantly among financial institutions, it is more appropriate to compare regulatory capital for the purpose of industry comparison of market risk and credit risk exposures.

EC usage

EC is allocated to all business activities in the form of limits set by the ALCO. The amount of EC usage of each business is then calculated based on the risk of its activities.

- For the Corporate Loan portfolio, which uses a major part of EC, EC usage is calculated using a credit risk approach based upon the Basel II regulatory capital formula and an add-on for concentration risk;
- For the Debt Investments and Trading portfolios, Residential Mortgage portfolio and the interest rate mismatch position, a market risk approach is used to determine EC usage. EC usage for these portfolios is calculated using VaR, calculated with four years of historical data and scaled to a one-year horizon;
- For the Investment Management Loan portfolio, EC usage is calculated by applying a credit risk approach based upon the Basel II regulatory capital formula; and
- For the Equity Investments portfolio, fixed percentages are used.

Table 38 shows the EC usage per business activity. In its market risk EC calculation, NIBC takes diversification effects into account between credit spread and interest rate risk. Diversification occurs from the fact that not all risks will occur at the same time. Therefore, the sum of EC for these market risks on a stand-alone basis will be higher than the amount of EC if these risks are combined. This reduction of EC is defined as diversification. The EC framework does not take into account diversification effects between the different risk categories (credit, market and operational risk).

EC per business activity

Table 38: EC usage per business activity

IN EUR MILLIONS	31 December 2009	31 December 2008	Difference
Corporate Loan portfolio	493	428	15%
Residential Mortgage portfolio	262	280	-6%
Debt Investments and Trading portfolio	376	274	37%
Investment Management Loans and Equity Investment portfolio	185	201	-8%
Interest Rate Mismatch portfolio	252	122	107%
Operational risk	71	95	-26%
Reputation risk	100	100	0%
Business risk	100	100	0%
Model risk	20	20	0%
ECONOMIC CAPITAL USAGE	1,859	1,618	15%
Diversification effect	(306)	(295)	4%
TOTAL ECONOMIC CAPITAL USAGE			
NET OF DIVERSIFICATION EFFECT AT 31 DECEMBER	1,553	1,323	17%

The changes in the usage of EC at year-end 2009 are owed to a variety of factors. The increase of 15% noted for the Corporate Loan portfolio was the result of downward rating migrations in the portfolio, as well as an increase in the size of the portfolio. The usage of the Residential Mortgage portfolio declined by 6%, due to a limited decrease in the size of this portfolio. Furthermore, the EC usage of the debt investments and trading portfolios increased by 37%, because of a higher valuation of assets resulting from credit spread tightening, and the establishment of a short-term liquidity portfolio that relates to the cash surplus of NIBC. A decrease of 8% was noted for the portfolios of Investment Management Loans and Equity Investments, due to revaluations and impairments. Lastly, the EC usage of the interest rate mismatch position increased by 107%, because of the re-establishment of strategic mismatch positions by NIBC.

Stress scenarios

The event risk framework is part of the Pillar II framework for Basel II within NIBC. On a quarterly basis, results of the event risk analysis are presented to the ALCO and to the Risk Policy Committee, providing senior management and the Supervisory Board members with information that can be taken into account in decisions regarding risk appetite. At NIBC, stress scenarios focus on vulnerability testing of portfolios, assessing the impact of extreme events and benchmarking EC calculations. Several scenarios based on both historical events, as, for example, the Asian crisis or the internet bubble, and hypothetical scenarios as, for example, a severe recession or stagflation, are applied.

Capital Base Components

The capital base, also referred to as regulatory capital, is calculated in accordance with the Dutch legislation and the EU Capital Requirements Directive. The available regulatory capital is based on capital contributed by subsidiaries covered by prudential consolidation accounts, which should, without restrictions or time constraints, be available to cover risks and absorb potential losses. All amounts are included net of tax charges.

The available regulatory own funds at NIBC are classified under two main categories, Tier-1 capital and Tier-2 capital. The two main components in the regulatory own funds are core equity and subordinated debt. The key terms and conditions of each of these categories are summarised below.

The capital ratio is calculated by dividing the regulatory capital by RWA.

Tier-1 capital

Tier-1 capital is composed of eligible capital, eligible reserve, innovative hybrid Tier-1 capital, and non-innovative hybrid Tier-1 capital after deduction of eligible items.

Eligible capital

Eligible capital consists of share capital, share premium and repurchased own shares (treasury shares are deducted).

Eligible reserve

Eligible reserve consists primarily of retained earnings, minority interest and net profit from current year. Retained earnings are earnings from previous years. Minority interests reflect the equity of minority shareholders in a subsidiary. Net profit is included after verification by the external auditor.

Non-Innovative hybrid Tier-1 capital

Non-Innovative hybrid Tier-1 instruments are deeply subordinated debt instruments, senior only to Shareholders' Equity. They have an indeterminate duration and a relatively high capacity for loss absorption. These instruments must meet strict rules predefined by DNB.

Innovative hybrid Tier-1 capital

Innovative hybrid Tier-1 instruments are deeply subordinated debt instruments, senior only to Shareholders' Equity. They have an indeterminate duration, but step up calls that could give an incentive to exercise and have a relatively high capacity for loss absorption. These instruments must meet strict rules predefined by DNB.

Deduction from Tier-I capital

Intangible assets

The deducted intangible assets contain goodwill.

Securitisation exposures

NIBC has purchased subordinated bonds, which are either non-rated or have a sub-investment grade rating, issued by various securitisation entities. According to the CRD and Dutch legislation, these subordinated bonds are deducted from regulatory own funds. 50% should be deducted from Tier-1 capital and 50% should be deducted from Tier-2 capital.

AIRB provision excess of expected loss

The difference between EL and provisions made for the related exposures is adjusted in the regulatory own funds. The negative difference (when EL amount is larger than the provision amount) is included in the regulatory own funds as shortfall. According to the rules in the CRD and Dutch legislation, the shortfall amount shall be deducted from the regulatory own funds and be divided into 50% in Tier-1 capital and 50% in Tier-2 capital.

Tier-2 capital

The Tier-2 capital is composed of subordinated debt instruments, revaluation reserve after deduction of eligible items. Tier-2 capital includes two types of subordinated debt instruments; perpetual (upper Tier-2) and dated (lower Tier-2) instruments. The total Tier-2 capital may not exceed 50% of the amount of Tier-1 capital and lower Tier-2 capital may not exceed 50% of Tier-1 capital. The limits are set after deductions.

The amount eligible for inclusion in the Tier-2 capital is reduced by 20% per annum if the remaining maturity is less than five years.

Revaluation reserve

Revaluation reserve contains unrealised gains from equity holdings classified as available for sale and revaluation of property.

Deductions from Tier-2 capital

Securitisation exposures

NIBC has purchased subordinated bonds issued by various securitisation entities. According to the CRD and Dutch legislation, the subordinated bonds are deducted from regulatory own funds. 50% should be deducted from Tier-1 capital and 50% should be deducted from Tier-2 capital.

AIRB provision excess of expected loss

Adjustments are made in the regulatory own funds for the difference between EL and provisions made for the related exposures. The negative difference (when EL amount is larger than the provision amount) is included in the regulatory own funds as shortfall. According to the rules in the CRD and Dutch legislation, the shortfall amount shall be deducted from the regulatory own funds and be divided into 50% in Tier-1 capital and 50% in Tier-2 capital.

A summary of items included in the regulatory capital is presented in Table 39.

Table 39: Items included in the regulatory capital of NIBC Holding N.V.

IN EUR MILLIONS	2009	2008
TIER 1		
Called up share capital	1407	1,408
Share premium	535	538
Own shares (Treasury shares)	(5)	(10)
Eligible capital	1,937	1,936
Retained earnings	(323)	89
Net profit	(22)	(414)
Minority interests	19	17
Eligibles Reserves	(326)	(308)
Deduction of Intangibles assets	(121)	(121)
Deduction of certain securitisation exposures not included in risk-weighted assets	(24)	(16)
Deduction excess of expected losses over impairment allowances	(31)	(39)
Deductions from Tier 1 capital	(176)	(176)
CORE TIER-1 CAPITAL	1,435	1,452
Innovative hybride Tier-1 capital	89	130
Non-innovative hybride Tier-1 capital	221	229
TOTAL TIER-1 CAPITAL	1,745	1,811
TIER-2		
Qualifying subordinated liabilities		
Undated loan capital	32	-
Dated loan capital	238	268
Revaluation reserve	30	38
Equity investments		
Property		
Deduction of certain securitisation exposures not included in risk-weighted assets	(24)	(16)
Deduction excess of expected losses over impairment allowances	(31)	(39)
TOTAL TIER-2 CAPITAL	245	251
TOTAL REGULATORY CAPITAL (capital base)	1,990	2,062

Capital Adequacy

The capital adequacy of NIBC is managed at NIBC Holding level.

The principal ratios for reviewing the capital adequacy of NIBC are the Tier-1 ratio and the BIS ratio. These ratios, which were implemented by the *Bank for International Settlements (BIS)*, are intended to promote comparability between financial institutions. They are based on the Basel II Accord.

NIBC monitors developments in the ratios on a monthly basis, including comparison between the expected ratios and the actual ratios. These ratios indicate capital adequacy to mitigate on-balance credit risks, including off-balance sheet commitments, market risks, operational risks and other risk positions expressed as risk weighted items in order to reflect their relative risk. During the year ended 31 December 2008, NIBC complied amply with the capital requirements imposed by the Dutch Central Bank, which require a minimum Tier-1 ratio of 4% and a minimum BIS ratio of 8%.

Capital ratios

The Tier-1 ratio is defined as Tier-1 capital divided by RWA.

The BIS ratio is defined as Total Capital (which is the sum of Tier-1 capital and Tier-2 capital) divided by RWA.

The Tier-1 ratio decreased from 16.7% at 31 December 2008 to 15.5% at 31 December 2009, and the BIS ratio decreased from 19.0% at 31 December 2008 to 17.7% at 31 December 2009.

Tables 40 and 41 show the summary of capital ratios, capital requirements and RWA for NIBC.

Table 40: Capital ratios of NIBC Holding N.V.

	2009	2008
	Basel II	Basel II
IN EUR MILLIONS	Actual	Pro-forma
CAPITAL RATIOS		
Core Tier-1 ratio	12.8	13.4
Tier-1 ratio	15.5	16.7
BIS ratio	17.7	19.0

Table 41: Breakdown of EAD, capital requirements and RWA of NIBC Holding N.V.

IN EUR MILLIONS	2009			2008		
	EAD	RWA	Capital requirement	EAD	RWA	Capital requirement
CREDIT RISK	21,847	10,445	836	19,789	9,667	774
AIRB APPROACH						
- of w hich corporates	8,356	5,206	417	7,687	4,346	348
- of w hich retail	4,573	624	50	4,780	624	50
- of w hich equities	501	1,847	148	582	2,148	172
- of w hich securitisations	1,106	892	71	1,300	735	59
STANDARDISED APPROACH						
- of w hich sovereigns	1,864	-	-	1,466	1	-
- of w hich institutions	3,993	775	62	2,512	743	59
- of w hich corporates	737	737	59	638	638	51
- of w hich equities	49	24	2	38	38	3
- of w hich retail	576	248	20	690	298	24
- of w hich other	92	92	7	96	96	8
MARKET RISK		98	8		145	12
- of w hich trading book VaR		54	4		100	8
- of w hich FX Standardised approach		44	4		45	4
OPERATIONAL RISK		704	56		704	56
Standardised approach		704	56		704	56
ADJUSTMENTS FOR TRANSITION RULES		-	-		346	27
Add on Basel I floor		-	-		346	27
TOTAL (including Basel I floor)	21,847	11,247	900	19,789	10,862	869

Appendix 1

Scope of Application

NIBC financial consolidation scope is based on IFRS, which is determined in accordance with IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates, IAS 31, Interest in Joint Ventures, and SIC 12 Consolidation Special Purpose Entities.

Subsidiaries are all entities (including special purpose entities) controlled by NIBC Holding N.V. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or currently convertible are considered when assessing whether the company controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

NIBC applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Minority interests in the net assets and net results of consolidated subsidiaries are shown separately on the balance sheet and income statement.

A joint venture exists where NIBC has a contractual arrangement with one or more parties to undertake activities typically, though not necessarily, through entities that are subject to joint control. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. NIBC combines its share of the joint venture's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in NIBC's financial statements.

Associates are those entities over which NIBC has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Except as otherwise described below, investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

With effect from 1 January 2007, all newly acquired investments in associates held by the venture capital organisation within the operating segment Merchant Banking, which is considered to be a venture capital organisation, as that term is used in IAS 28, are designated upon initial recognition as financial assets at fair value through profit or loss. These assets are initially recognised at fair value and subsequent changes in fair value are recognised in the income statement in the period of the change in fair value.

Tables 1-5 present the entities that form part of the capital base of NIBC Holding N.V.

Table 1: Group principal undertakings included in the capital base

Subsidiaries of NIBC Holding H.V.	Voting power	Domicile	Consolidation method
NIBC Bank N.V.	100%	Netherlands	Purchase method
NIBC Investment Management N.V.	100%	Netherlands	Purchase method
NIBC Investments N.V.	100%	Netherlands	Purchase method

Table 2: Principal undertakings of NIBC Bank N.V. included in the capital base

Subsidiaries of NIBC Bank N.V.	Voting power	Domicile	Consolidation method
NIBC Bank Ltd	100%	Singapore	Purchase method
BV NIBC Mortgage Backed Assets	100%	Netherlands	Purchase method
Parnib Holding N.V.	100%	Netherlands	Purchase method
NIBC Foreign Debt Fund XIII B.V.	100%	Netherlands	Purchase method
Counting House B.V.	100%	Netherlands	Purchase method
NIBC Principal Investments B.V.	100%	Netherlands	Purchase method
Vredezicht 's-Gravenhage 110 B.V.	100%	Netherlands	Purchase method

Table 3: Principal investments of NIBC N.V. in associates included in the capital base

Associates of NIBC Bank H.V.	Voting power	Domicile	Consolidation method
De Nederlandse Participatie Maatschappij voor de Nederlandse Antillen N.V. *)	100%	Netherlands	Equity method
PE Express I B.V., Breskens	37.5%	Netherlands	Equity method
PE Express II B.V., Breskens	37.5%	Netherlands	Equity method
PE Express III B.V., Breskens	35%	Netherlands	Equity method
PE Express IV B.V., Breskens	35%	Netherlands	Equity method

*) In view of the control exercised by the government over the policy of NIBC's wholly owned associate De Nederlandse Participatie Maatschappij voor de Nederlandse Antillen N.V., this company has not been treated as a subsidiary.

Table 4: Prudential filter: subsidiaries treated as associates included in the capital base

Subsidiaries of NIBC Bank H.V.	Voting power	Domicile	Consolidation method
GRW Reinfurt GmbH	93.4%	Germany	Equity method
NIBusker Holding B.V.	75.0%	Netherlands	Equity method

Table 5: Joint Venture of NIBC Bank N.V. included in the capital base

Joint Venture of NIBC Bank H.V.	Voting power	Domicile	Consolidation method
SR-Hypotheek	50%	Netherlands	Proportionate method

Appendix 2

List of Abbreviations

ABS	Asset-Backed Securities
AIRB	Advanced Internal Ratings' Based (approach)
ALCO	Asset & Liability Committee
ALM/MR	Asset & Liability Management and Market Risk department
BIS	Bank for International Settlements
BPV	Basis-point Value
CCF	Credit Conversion Factor
CCR	Counterparty Credit Risk
CDO	Collateralised Debt Obligations
CDS	Credit Default Swap
CFIF	Credit Fixed Income Funds
CLO	Collateralised Loan Obligations
CMBS	Collateralised Mortgage-Backed Securities
CRE	Commercial Real Estate
CRM	Credit Risk Management department
CRO	Chief Risk Officer
CSA	Credit Support Annex
DA	Distressed Assets department
DNB	Dutch Central Bank
EAD	Exposure at Default
EC	Economic Capital
ECB	European Central Bank
ECC	Engagement and Compliance Committee
EL	Expected Loss
FMCR	Financial Markets Credit Risk department
FX	Foreign Exchange
IC	Investment Committee
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IMA	Internal Model Approach
IRS	Interest Rate Swaps
ISDA	International Swaps and Derivatives Association
LGD	Loss Given Default
LTiMV	Loan-to-Indexed Market Value
NHG Guarantee	Dutch government guarantee
ORM	Operational Risk Manager
OTC	Over-the-Counter derivatives
P&L	Profit & Loss account
PD	Probability of Default
PECDC	Pan-European Credit Data Consortium

RAROC	Risk-Adjusted Return on Capital
RC	Pillar-1 Regulatory Capital
RL	Realised Loss
RMBS	Residential Mortgage-Backed Securities
RMC	Risk Management Committee
RP	Risk Policy department
RWA	Risk Weighted Assets
SPE	Special Purpose Entity
SREP	Supervisory Review and Evaluation Process
TC	Transaction Committee
VaR	Value-at-Risk

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