CAPITAL ADEQUACY AND RISK MANAGEMENT REPORT 2012

PILLAR 3

NIBC HOLDING

NIBC

Table of contents

Introduction 3

Risk Management Strategy & Process 5

Credit Risk 10

Market Risk 37

Operational Risk 43

Liquidity Risk 45

Securitisation Exposures 48

Internal Capital Adequacy Assessment Process 52

Capital Base Components 55

Capital Adequacy 58

Remuneration Policy 60

Appendix 1 – Scope of Application 61

Appendix 2 – List of Abbreviations 63

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 III* **(CRD III)**. The CRD III is legally enforced by Dutch law by the Financial Supervision Act **(Wft, Wet Financieel Toezicht)**.

The CRD III 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 the 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. Furthermore, NIBC uses the internal ratings-based method for the securitisation exposure class and the simplified risk-weight approach for the equity exposure class. Solvency requirements for the remaining portfolios and for operational risk are calculated using the Standardised Approach **(SA)**;
- 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 to the institution's ICAAP. Since 2011, DNB also analyses the *Internal Liquidity Adequacy Assessment Process* (**ILAAP**); and
- 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 Pillar 1 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
- Remuneration Policy

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 NIBC's 2012 Annual Report. The numbers in the Annual Report refer to book values and classifications, in line with 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 drawn and undrawn amounts, and the method employed for its calculation differs per exposure class and among credit institutions. 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 are presented in NIBC's Annual Report as well.

Risk Management
Strategy & Process

Highlights of 2012

The economic headwinds that persisted into 2012 continued to affect the financial sector: markets remained volatile, businesses and consumer confidence stayed weak and regulatory pressure increased.

We enhanced our forward-looking, proactive attitude and structured disciplined approach to risk management. We reviewed our risk and control framework to ensure that in the changing environment, risk appetite, culture and behaviour as well as accountability remain clear to everyone in the bank. We explicitly identified and communicated the boundaries within which we can continue to operate successfully, sustain profitability and improve our rating and client satisfaction. We ran several scenarios in order to promptly identify their potential impact on NIBC and take corrective measures in advance where feasible and desirable. These scenarios included a eurozone break-up, rating downgrades of financial institutions, and further pressure on the housing and overall real estate markets in the Netherlands. The annual DNB stress test was performed again. We continued de-risking our balance sheet by successfully restructuring certain distressed assets, selling more volatile debt and securitisation investments and reducing concentration in our Corporate Loan portfolio. In November, NIBC was the only Dutch bank to retain its current Standard & Poor's rating and outlook – showing the impact of assessing risks thoroughly, and then taking resolute action.

In light of the changing stakeholder and economic environment, Risk Management further enhanced collaboration with the Consumer and Corporate Banking strategic business units, teams in the Corporate Center and our international offices to ensure understanding, proactive management and control of their key risks. Special attention was paid to further developing a stronger risk culture and behaviour to underpin NIBC's strategic goals. We developed additional management information and tools to improve insight for our decision-makers into key credit, market and operational risks. Here are some examples of our actions and their outcomes:

- Excellent cooperation between Commercial Real Estate and Risk Management helped us restore some distressed real estate assets to a healthier state;
- Liquidity risk was very well controlled by Treasury and the *Asset & Liability Management team* **(ALM)**;
- Business continuity and information security policies were strengthened to reduce the risk of incidents;
- Our *New Product Approval Process* **(NPAP)** was re-tailored to better meet regulatory, customer and efficiency needs;
- Together with the Finance department, we developed a robust recovery and resolution plan that meets new EBA/DNB requirements; and
- Risk feedback was incorporated into the annual individual performance review process.

Last year, we further increased our capital base while strengthening and diversifying our funding position. We were again able to obtain unsecured wholesale funding in addition to the gradually growing depositor base. Liquidity remained key and was strong throughout the year. Retail savings in the Netherlands, Germany and Belgium via NIBC Direct increased to EUR 7.7 billion by the end of the year, continuing NIBC's Direct powerful growth since launching four years ago. Next to that, we issued a milestone EUR 300 million senior unsecured bond in May – our first unsecured transaction in five years and a clear sign of market faith in NIBC. In December, we issued a Norwegian krone-denominated senior unsecured bond of NOK 500 million and we bought back EUR 500 million of outstanding Government-backed debt securities.

As our Consumer Banking activities grow, we enjoy the trust of an increasing number of clients. We are keenly aware of our duty of care, our clients' needs for smooth, efficient, effective and transparent handling, and the importance of properly managing reputational risks. We are building NIBC's strength and value while supporting the economies and communities in which we operate. We attach great value to compliance with local and international laws and regulations and to corporate responsibility. This is integral to our client-focused model: by ensuring our clients thrive, so does NIBC. We work with clients who meet our ethical, environmental, social and other sustainability standards and to fulfil our duty of care to all our clients.

In line with previous years, NIBC had no sovereign debt exposure to Greece, Italy, Ireland, Spain and Portugal. All sovereign debt exposure in NIBC's portfolio consisted of cash placed at DNB and the Dutch State Treasury Agency.

For 2013, our structured, disciplined and proactive approach to risk management will stand us in good stead to address an environment that remains fragile - although there are glimmers of hope on the macroeconomic front as we enter the year.

Risk appetite and risk management strategy

At the level of the Supervisory Board, the Risk Policy Committee assists the Supervisory Board in overseeing all risks that NIBC is exposed to, the risk appetite and the relevant risk management framework. Risk appetite is determined by the Managing Board and then approved by the Supervisory Board. The bank's overall risk appetite is discussed by the Managing Board on a regular basis. Risk-related decisions are taken by various risk committees, which review, monitor and evaluate all new and existing risk exposures, operations and products in the light of existing risk management standards and risk appetite.

NIBC has a clearly defined business model around Corporate Banking and Consumer Banking. Next to the retail customers of Consumer Banking, Corporate Banking focuses on mid-sized corporate clients in the Benelux and Germany, and is a meaningful player in a select number of asset classes. Indispensable to Corporate and Consumer Banking and the entire business of NIBC are the Treasury, Risk Management and Corporate Center departments. Because of its focus and 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 eight different sectors (Commercial Real Estate, Infrastructure & Renewables, Shipping & Intermodal, Industries & Manufacturing, Oil & Gas Services, Food, Agriculture & Retail, Technology, Media & Services and Leveraged Finance) and in the Residential Mortgage portfolio (consisting of Dutch and German residential mortgages). Furthermore, credit risk exists also in the Investment Loan portfolio. Investment loans may contain equity characteristics such as attached warrants or conversion features. Examples of these exposures include mezzanine loans, convertible loans and shareholder loans. Finally, credit risk exists in our derivative, cash management and debt investments portfolios;
- Investment risk in equity investments; and
- Market risk in the Treasury portfolios, mainly consisting of interest rate risk in the Trading[1] and Mismatch portfolio, and credit spread risk in the Debt Investments portfolio. The latter consists of the Securitisations portfolio and the portfolio of debt investments in financial institutions and corporate entities. Note that in 2012, NIBC held zero debt investments of sovereign entities.

The business model described above is also reflected in the Economical Capital framework, which is further described in the section *Internal Capital Adequacy Assessment Process.* NIBC uses Economical Capital as a universal risk measure throughout the company. For each business activity, Economical Capital is allocated and reported to the Asset & Liability Committee once every two weeks.

Risk management organisation and governance

Risk management at NIBC includes credit, market, operational, liquidity, regulatory, and investment risk. NIBC operates under the 'three lines of defence' risk management model. In this model, the first line are the business units; the second risk management and other control functions, and the third line is Internal Audit. With its responsibilities as second line of defence, NIBC Risk Management monitors the risk appetite and controls and supports the business by providing the right framework and tools to manage risk. Under the supervision of the Managing Board and the *Risk Policy Committee* **(RPC)** of the Supervisory Board, formal authority and ultimate decision-making in respect of risk management matters is the responsibility of five committees: the *Risk Management Committee* (**RMC**), the *Asset & Liability Committee* (**ALCO**), the *Transaction Committee* (**TC**), the *Investment Committee* (**IC**) and the *Engagement and Compliance Committee* (**ECC**). These committees ensure that assessment and acceptance of risks and exposures is made independently of the business originators within the operating segments.

The RMC monitors the overall risk appetite and risk profile at a strategic level, evaluates new activities and products on client suitability and the bank's operational and risk management capabilities, as well as reviews risks at portfolio level, sets country risk and sector limits, approves acceptance policies and guidelines, new products and manuals. The RMC monitors all risk types at bank-wide level and sets the relevant policies. Furthermore, the RMC approves the *corporate social responsibility* **(CSR)** policy of NIBC.

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

The ALCO oversees the development of NIBC's balance sheet and market risk profile. It monitors traded market risks, exposure to interest rates and currency risks, the capital structure and the liquidity position. The ALCO also approves large funding transactions such as securitisations and sets overall limits on market risk exposures.

The TC, NIBC's credit committee, decides on individual debt transactions, including terms and conditions for lending and the acceptance of derivative counterparty exposures and underwriting strategies. It also evaluates opportunities for potential subsequent distribution of the asset. The TC sets counterparty exposure limits, monitors exposure and decides on impairments.

The IC is responsible for investment risk decisions. The IC approves transactions with respect to equity, Investment loans and subordinated debt exposures, as well as impairments and (r)evaluations for these assets. Investment decisions of the Funds are made by the Investment Committees of the various Funds.

The ECC's main focus is to prevent potential commercial conflicts of interest and compliance issues by evaluating potential assignment for clients.

Overlap of committee membership among Managing Board members contributes to consistency in communication and decision-making.

The risk committees are supported by a robust risk management organisation, which focuses on the daily monitoring and management of the risks that NIBC is exposed to. These departments are the Credit Risk Management and Restructuring & Distressed Assets Management department, Asset & Liability Management and Market Risk department, the Financial Markets Credit Risk and Risk Policy & Reporting department and the Operational Risk Management department.

Credit Risk Management **(CRM)** is responsible for managing the credit risk of the Corporate Loan portfolio. CRM develops and implements policies and procedures regarding credit risk, advises on credit proposals, reviews, waivers and amendments, and reviews impairments. Furthermore, CRM validates NIBC's internal counterparty credit ratings and loss given default ratings. *Restructuring & Distressed Assets Management* (**RDA**) manages assets which are defaulted and/or impaired, or at significant risk of becoming defaulted and/or impaired.

Asset & Liability Management **(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 *Market Risk & Risk Analytics* department **(MR)** is responsible for monitoring the market risk of the Treasury activities, both inside and outside the trading book. MR also monitors the bank-wide currency position.

Financial Markets Credit Risk **(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 derivatives with financial institutions and corporate entities. Credit risk management of the Investment loan

portfolio, as well as the investment risk management of the private equity positions are also the responsibility of FMCR. Next to that, 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. Furthermore, FMCR is responsible for implementing and managing country risk limits across NIBC.

The *Risk Policy & Reporting* department **(RP&R)** monitors risk on portfolio level. RP&R 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&R is also responsible for the reporting of credit portfolio information to various users within and outside NIBC. RP&R is pivotal in NIBC's Basel II process and also performs parts of quantitative risk modelling.

Operational Risk Management **(ORM)** is responsible for monitoring and managing operational risk stemming from NIBC's business and operational practices. ORM co-ordinates the NPAP and the bank-wide process of new activities with respect to the assessment of operational risk management, compliance and reporting capabilities.

Compliance & CSR **(C&C)** and Legal joined Risk Management in their reporting line to the Chief Risk Officer **(CRO)** in 2012, which not only further enhanced the cohesiveness of the second line of defence but also improved the management of risk.

Internal risk reporting and management information ensures that risks are discussed and assessed properly. Furthermore, they enable the Supervisory Board, the Managing Board and the risk committees to assess whether the bank's risk profile remains within the predetermined risk appetite framework. All stakeholders are informed through annual reports, interim reports and the Pillar 3 report. Every quarter, comprehensive reporting is reviewed by the Supervisory Board's RPC on all risk aspects.

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 time or to comply with other conditions of an obligation or agreement. The possibility of restrictions on or impediments to the transfer of payments from abroad also fall under credit risk.

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 Investment Loan portfolio, the Residential Mortgage portfolio, the Debt Investments portfolio (in corporate entities, financial institutions and securitisations), cash management and derivatives. It is the largest source of risk to which NIBC is exposed, representing approximately 89% of total *Risk Weighted Assets* **(RWA)** and of the company's capital requirements. Specifically for the Debt Investments portfolio, NIBC defines the credit risk as issuer risk, which is the credit risk of losing the principal amount on products such as bonds.

The Pillar 3 disclosure requirements prescribe that a credit institution classifies its assets into 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 III. Table 1 presents the relationship between the classification in this report and the portfolios in NIBC's Annual Report:

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

Pillar 3 exposure classes	Portfolios in Annual Report
Sovereign	Debt investments in sovereign entities and cash at central banks.
Institutions	Debt investments in financial institutions, and cash and derivative transactions with financial institutions.
Corporate	Corporate Loan portfolio, including guarantees, derivatives and debt investments in corporate entities, and Investment Loan portfolio.
Retail	Dutch and German Residential Mortgage portfolio, excluding securitised portfolios.
Equities	Equity investments and uncalled capital commitments.
Securitisations	Securitisation portfolio and retained notes of own securitisations.
Other	Non-credit related exposures.

Apart from the above mentioned differences in classification, differences can also be found between the numbers presented in this report and the numbers in the risk management 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 to the numbers in the Pillar 3 report, which cannot be recognised on the balance sheet. This credit conversion factor is incorporated in the calculation of EAD;

- For derivative transactions, Pillar 3 numbers refer to the marked-to-market value and add-on, including the effect of netting and collateral. The add-on reflects a potential future change in the marked-to-market value during the remaining lifetime of the derivative contract; and
- The treatment of some securitised exposures differs due to differences in de-recognition requirements in IFRS and Wft.

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* in this chapter provides more information on the methods NIBC uses for the estimation of these parameters.

The Standardised Approach applies to all other NIBC exposure classes containing credit risk.

Table 2 shows a breakdown of exposure, EAD, RWA and capital requirement per exposure class and calculation approach at 31 December 2012 and 2011.

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

	2012				2011			
IN EUR MILLIONS	Exposure	EAD	RWA	Capital require-ment	Exposure	EAD	RWA	Capital require-ment
AIRB APPROACH								
- of which corporate	9,700	9,234	4,561	365	10,313	10,166	6,017	481
- of which retail	4,526	4,526	760	61	3,940	3,940	536	43
- of which securitisations	1,428	1,428	1,025	82	1,532	1,532	1,250	100
- of which equities	354	354	1,310	105	461	461	1,704	137
SUBTOTAL	**16,008**	**15,541**	**7,656**	**612**	**16,245**	**16,099**	**9,507**	**761**
STANDARDISED APPROACH								
- of which sovereign	1,676	1,676	0	0	2,526	2,526	0	0
- of which institutions	1,677	1,444	486	39	1,809	1,638	572	46
- of which retail	327	327	127	10	399	398	155	12
- of which corporate	230	230	229	18	346	346	340	27
- of which equities	0	0	0	0	1	1	1	0
- of which other	47	47	47	4	53	53	53	4
SUBTOTAL	**3,956**	**3,724**	**890**	**71**	**5,133**	**4,961**	**1,121**	**89**
TOTAL CREDIT RISK	**19,965**	**19,265**	**8,545**	**684**	**21,378**	**21,061**	**10,628**	**850**

Small differences are possible in the table due to rounding

The RWA of NIBC decreased by 20% between 2011 and 2012 due to a variety of factors:

- The RWA for the *Corporate* exposure class decreased by 25% compared to 2011, mainly due to actively divesting assets in the Corporate Loan portfolio. Consequently, the part of the portfolio treated under the Standardised Approach also decreased. Both the average CCR and LGD rating of the Corporate Loan portfolio improved in 2012 compared to 2011 which resulted in a lower RWA consumption;
- The total RWA's of the *Retail* portfolio increased by 28%, mainly because of buybacks of own securitisation programmes and as a result of this, more mortgages are reported under the AIRB approach for credit risk;
- The RWA consumption of the *Securitisations* exposure class decreased by 18%. This decrease is mainly the result of the active sale of lower rated assets and investments in higher rated notes resulting in a improved credit quality of the exposure in the investor part of the securitisations portfolio;
- The decrease of 23% in the RWA of the *Equities* exposure class is due to the several divestments in the non-core part of the Equity portfolio in 2012; and
- RWA for *Institutions* decreased by 15%. As in 2011, this decrease is related to the decrease in the size of NIBC's Debt Investments portfolio, due to regular repayments. Besides, the credit profile of the portfolio improved in 2012 through increased investments in covered bonds.

Breakdown of credit risk exposures

Table 3 shows a breakdown of EAD between exposure classes and exposure types under both the AIRB and the Standardised approach at 31 December 2012. Table 4 shows a average breakdown of 2012 (based on beginning and end of the year).

Table 3 Breakdown of credit EAD types by exposure class, 31 December 2012

IN EUR MILLIONS Exposure Class	On-Balance	Off-Balance	Derivatives	Total
AIRB APPROACH				
- of which corporate	7,500	771	963	9,234
- of which retail	4,525	0	0	4,526
- of which securitisations	1,323	0	105	1,428
- of which equities	311	43	0	354
SUBTOTAL	**13,660**	**814**	**1,068**	**15,541**
STANDARDISED APPROACH				
- of which sovereign	1,676	0	0	1,676
- of which institutions	1,154	3	286	1,444
- of which retail	327	0	0	327
- of which corporate	190	30	10	230
- of which equities	0	0	0	0
- of which other	47	0	0	47
SUBTOTAL	**3,394**	**33**	**296**	**3,724**
TOTAL	**17,054**	**848**	**1,364**	**19,265**

Small differences are possible in the table due to rounding

Table 4 Breakdown of credit EAD types by exposure class, average 2012

IN EUR MILLIONS Exposure Class	On-Balance	Off-Balance	Derivatives	Total
AIRB APPROACH				
- of which corporate	7,734	1,031	934	9,700
- of which retail	4,232	1	0	4,233
- of which securitisations	1,390	0	90	1,480
- of which equities	352	55	0	407
SUBTOTAL	**13,709**	**1,087**	**1,025**	**15,820**
STANDARDISED APPROACH				
- of which sovereign	2,101	0	0	2,101
- of which institutions	1,172	3	366	1,541
- of which corporate	234	41	13	288
- of which retail	362	0	0	362
- of which equities	1	0	0	1
- of which other	50	0	0	50
SUBTOTAL	**3,920**	**43**	**379**	**4,342**
NIBC TOTAL	**17,629**	**1,130**	**1,403**	**20,163**

Small differences are possible in the table due to rounding

Table 5 shows the breakdown of EAD between regions. The geographical distribution of NIBC's assets corresponds to the company's strategy to focus on North Western Europe, with the Netherlands, the United Kingdom and Germany accounting for 83% of the total EAD. This percentage increases to more than 90% when the rest of Europe is included. With respect to corporate exposures, the Asia/Pacific region mainly contains NIBC's exposures to the sectors shipping and oil & gas. Exposures to the oil & gas sector are also located in North America, as well as in the region 'Other', consisting mainly of Brazil, United Arab Emirates and Qatar.

Table 5 Breakdown of EAD per region, 31 December 2012

IN EUR MILLIONS Exposure Class	The Netherlands	United Kingdom	Germany	Rest of Europe	Asia / Pacific	North America	Other	Total
AIRB APPROACH								
- of which corporate	2,847	1,929	2,020	938	794	386	319	9,234
- of which retail	4,526	0	0	0	0	0	0	4,526
- of which securitisations	984	141	24	209	0	70	0	1,428
- of which equities	287	11	0	29	0	26	0	354
SUBTOTAL	**8,643**	**2,082**	**2,044**	**1,177**	**794**	**482**	**319**	**15,541**
STANDARDISED APPROACH								
- of which sovereign	1,676	0	0	0	0	0	0	1,676
- of which institutions	402	436	58	330	0	218	0	1,444
- of which retail	0	0	327	0	0	0	0	327
- of which corporate	132	19	21	49	1	7	0	230
- of which equities	0	0	0	0	0	0	0	0
- of which other	47	0	0	0	0	0	0	47
SUBTOTAL	**2,257**	**455**	**406**	**379**	**1**	**225**	**0**	**3,724**
TOTAL	**10,900**	**2,538**	**2,450**	**1,556**	**796**	**707**	**320**	**19,265**
TOTAL (in %)	**57%**	**13%**	**13%**	**8%**	**4%**	**4%**	**2%**	**100%**

Small differences are possible in the table due to rounding

Table 6 shows the breakdown of EAD between industry sectors.

Table 6 Breakdown of EAD per industry sector, 31 December 2012

IN EUR MILLIONS

Exposure Class	Retail Markets	Infrastructure & Renewables	Commercial Real Estate	Financial Services	Government / Central Banks	Shipping	Oil & Gas
AIRB APPROACH							
- of which corporate	0	2,550	2,152	621	0	1,468	916
- of which retail	4,526	0	0	0	0	0	0
- of which securitisations	950	0	305	0	0	0	0
- of which equities	0	85	17	27	0	0	0
SUBTOTAL	**5,476**	**2,635**	**2,475**	**649**	**0**	**1,468**	**916**
STANDARDISED APPROACH							
- of which sovereign	0	0	0	0	1,676	0	0
- of which institutions	0	0	0	1,438	5	0	0
- of which retail	327	0	0	0	0	0	0
- of which corporate	0	0	1	120	0	1	5
- of which equities	0	0	0	0	0	0	0
- of which other	0	0	0	0	0	0	0
SUBTOTAL	**327**	**0**	**1**	**1,558**	**1,681**	**1**	**5**
TOTAL	**5,803**	**2,635**	**2,476**	**2,207**	**1,681**	**1,469**	**922**
TOTAL (in %)	**30%**	**14%**	**13%**	**11%**	**9%**	**8%**	**5%**

Small differences are possible in the table due to rounding

IN EUR MILLIONS

Exposure Class	Wholesale, Retail & Leisure	Services	Manufacturing	TMT	Agriculture & Food	Other	Total TOTAL
AIRB APPROACH							
- of which corporate	466	424	413	126	96	0	9,234
- of which retail	0	0	0	0	0	0	4,526
- of which securitisations	0	0	0	0	0	172	1,428
- of which equities	35	38	16	0	0	137	354
SUBTOTAL	**501**	**462**	**429**	**126**	**96**	**309**	**15,541**
STANDARDISED APPROACH							
- of which sovereign	0	0	0	0	0	0	1,676
- of which institutions	0	0	0	0	0	0	1,444
- of which retail	0	0	0	0	0	0	327
- of which corporate	16	4	11	19	11	42	230
- of which equities	0	0	0	0	0	0	0
- of which other	0	0	0	0	0	47	47
SUBTOTAL	**16**	**4**	**11**	**19**	**11**	**89**	**3,724**
TOTAL	**517**	**466**	**440**	**145**	**107**	**398**	**19,265**
TOTAL (in %)	**3%**	**2%**	**2%**	**1%**	**1%**	**2%**	**100%**

Small differences are possible in the table due to rounding

Retail Markets

The sector with the highest EAD is Retail Markets (30% of total EAD), which contains NIBC's Residential Mortgage portfolios in the Netherlands and Germany, and securitisation notes of *residential mortgage-backed securities* **(RMBS)**. The total EAD of the portfolio increased mainly because of buybacks of own securitisation programmes and as a result of this, more mortgages are reported under the AIRB approach for credit risk. With respect to mortgages, the origination volume of NIBC since 2009 has been very limited and mainly focused on further advances for our exisiting customers. Due to prepayments, the mortgage portfolio is decreasing at an expected rate in line with our forecast. The amount of RMBS transactions decreased during 2012, as a result of

the retained notes and repurchases of NIBC's own securitisations. The RMBS exposures in which NIBC acted as an investor decreased as well. For more information about these exposures, refer to the various *Retail* sections in this report for the Residential Mortgage portfolio and to the chapter on *Securitisations* for the RMBS.

Infrastructure & Renewables

The next largest sector is Infrastructure & Renewables with a total EAD of EUR 2,635 million at 31 December 2012. The EAD relates almost exclusively to corporate loan and derivative exposures (97%) with the remaining relating to equity exposures. In terms of geographical distribution, 62% of the portfolio's EAD is located in the United Kingdom, 15% in Germany, 15% in the Netherlands, 8% in the rest of Europe and the remainder - in North America. The portfolio spans across various industry sub-sectors, of which education (25%), healthcare (21%), roads & railways (13%), electricity and gas production (11%), water supply, waste and sewerage (9%) and renewable energy (6%) are the most important ones.

The market witnessed an increased appetite from institutional investors in 2012, to which the sector reacted by increasing its focus on the capital markets and applying the team's expertise to execute advisory mandates.

Next to that, the growth in the renewables segment continued in 2012, driven by the attractiveness and availability of transactions. In 2012, NIBC increased its presence particularly in the solar segment after closing its first solar transaction in 2011. Due to, among other, the fixed feed-in-tariff, NIBC has a special focus on German renewables transactions. NIBC's German Renewables portfolio has not been affected by a reduction of feed-in-tariffs because the tariffs are locked in at the start of the projects. The EAD of the renewables sub-sector amounted to EUR 361 million at 31 December 2012, an increase around 12% compared to one year ago. Of this portfolio, 53% was located in Germany, 29% in the United Kingdom, 13% in the Netherlands and the remainder predominantly in other EU countries.

The credit quality of the portfolio slightly improved throughout 2012. In 2012, the weighted average CCR remained stable at 5 (BB), while the weighted average LGD rating improved from B-2 (18%) to B-1 (12.5%).

With respect to risks in the portfolio, a significant distinction can be made between assets in construction (approximately 28% of the portfolio) and in operational phase (approximately 72% of the portfolio). The risk profile of the construction phase is strongly related to the risk profile of the construction company involved. At the same time, the construction phase is characterised by substantial security packages, including performance bonds and letters of credit. The existence of such security packages results in a better-than-average risk profile, despite the current increased risk profile of individual construction companies. Throughout the portfolio, only the established Western European construction companies are involved in the infrastructure projects.
About 83% of the projects carry only availability risk and no market risks. The decrease in projects with only availability risk compared to 2011 (90%) is a result of the increase in renewable transactions. As the availability risk is passed through to the operating and maintenance contractor, the remaining risk is that of the off-taker. For true *Private Finance Initiative* **(PFI)** transactions, 100% of the off-takers are government-related entities.

Commercial Real Estate

The EAD size of the Commercial Real Estate sector amounted to EUR 2,476 million at 31 December 2012, which contains NIBC's commercial real estate corporate loans and securitisation notes of *commercial mortgage-backed securities* **(CMBS)**.

With respect to the corporate EAD, the commercial real estate sector showed stable credit quality in 2012. At 31 December 2012, the weighted average CCR of the portfolio was 6 (B) and the weighted average LGD rating was B-1 (12.5%).

In 2012, the emphasis was on active portfolio management with frequent screenings and semi-annual reviews of key clients. Credit default swap protection (EUR 202 million) was purchased and significant steps were taken in restructuring defaulted clients, which resulted in a better overall portfolio quality. More than 79% of the portfolio is appraised every year by external parties, in line with the increased focus on external and timely valuations. Early engagement with clients is pursued to discuss upcoming redemptions and loan repayments.

Commercial Real Estate remains a well-diversified portfolio across various commercial real estate classes. The properties are located in the Netherlands (50%), Germany (48%) and the United Kingdom (2%). Residential commercial property financing accounts for 57% of the portfolio, which significantly reduces the concentration risk in the underlying collateral pool given the large number of tenants. The majority of NIBC's residential properties are located in Germany (78%), where in general the market has remained strong. Other prominent segments relate to offices (10%), financing of development companies (9%), mixed-use (7%) and hotels (6%).

With respect to the securitisations exposures within the commercial real estate sector, the EAD of EUR 305 million includes includes the retained notes of the Mesdag Delta securitisation. NIBC has retained notes for an amount of EUR 143 million. More information on our CMBS exposure can be found in the *Securitisations* section.

Financial Services

The exposures in Financial Services amounted to a total EAD of EUR 2,207 million at 31 December 2012 (11% of total EAD), which contains nearly all of NIBC's institutions exposure class, as well as certain corporate exposures. At 31 December 2012, the weighted average CCR of all corporate exposures in this sector was 5- (BB-) and the weighted average LGD rating was B-2 (18%). The average LGD rating in this sector increased due to the repayment of a large loan (EUR 400 million) to an investment-grade financial institution which was collateralised by a pool of prime Dutch residential mortgages (LGD A-2: 7.5%). Information about the credit quality and the risk weights of the institutions' exposures is given in the section *Standardised Approach*. In terms of geographical distribution, 42% of the EAD in the financial services sector is located in the Netherlands, 21% in the United Kingdom, 11% in North America, 9% in Germany and the remainer is in the rest of Europe.

Government/Central Banks

The sector Government/Central Banks (EUR 1,681 million or 9% of total EAD) is made up nearly exclusively of NIBC's sovereign exposures. All sovereign exposures are related to cash placed with DNB and the Dutch State Treasury Agency. NIBC has zero sovereign debt exposure to Greece, Italy, Ireland, Spain and Portugal.

Shipping

The sector Shipping is almost exclusively comprised by exposures in the corporate exposure class, containing NIBC's Shipping & Intermodal (container box) portfolio. The shipping sector and, more specifically, deep-sea shipping, is a long-established activity within NIBC. Despite its volatile nature, as a result of imbalances in supply of tonnage and demand for transport in the markets, the shipping franchise has performed well over the past years, due to NIBC's selective and conservative approach in the origination and management of transactions.

The portfolio size reduced in 2012, despite new transactions broadening the client base. The EAD of all shipping exposures was EUR 1,469 million at 31 December 2012. Tankers represented 35% of the Shipping portfolio, bulk carriers 27%, container boxes (intermodal) 11% and container vessels 10%. The remainder of the portfolio included, among other, financing of car carriers. Geographical distribution remained stable, with borrowers being mainly active in Asia/Pacific (40%), Europe (35%) and North America (15%).

The adverse economic conditions that the industry has been experiencing for the past years continued throughout 2012. The sector did experience one new default in the beginning of 2012.

Active portfolio management, which remained a high priority on an on-going basis, resulted in a stable credit quality. At the 31 December 2012, the weighted average CCR of the portfolio was 6 (B) and the weighted average LGD rating was B-1 (12.5%).

Oil & Gas

Oil & Gas performed well in 2012 and the EAD of the portfolio grew to EUR 922 million or 5% of the total portfolio. Throughout the year, the sector continued diversifying its client base and product scope and further established its presence in the reserve-based lending and offshore support segments. This sector only contains corporate exposures. The total EAD in this portfolio is split over five main subsectors of which offshore support vessels (34%), drilling (28%) and production (21%) are the most prominent subsectors. In terms of geographical focus, the sector is balanced across Europe (44%), Asia/Pacific (21%) and North America (16%) and the assets are located all over the world in key oil and gas areas.

In 2012, the overall risk profile remained solid with no defaults, impairments or arrears. The portfolio did not experience adverse situations, despite the turbulent financial markets during 2012. The credit quality of the oil & gas portfolio remained stable during 2012 and at 31 December 2012, the weighted average CCR was 5- (BB-) and the weighted average LGD rating was B-1 (12.5%). The majority of corporate financings are well secured, including the new transactions closed in 2012.

Other sectors

The remaining sectors in NIBC's portfolio together account for 11% of the total EAD. With the exception of a few exposures in the equities and securitisations exposure classes, they all contain corporate exposures. More specifically, the Services sector consists of non-financial service providers such as transport, storage, healthcare, education and logistics. Manufacturing mainly focuses on industrial production, consumer products and chemicals. The majority of the counterparties in these sectors are medium-sized to large-sized companies in the Netherlands, Germany and the United Kingdom, which account for around 86% of the corporate EAD.

In 2012, NIBC strengthened its sector focus, further concentrating on industries, where it possesses strong expertise and knowledge and where it can best assist its clients to achieve their strategic ambitions. As a result, in early 2012, corporate lending was split into three sectors being Industries & Manufacturing, Technology, Media & Services and Food, Agri & Retail. This resulted in Leveraged Finance being the only department concentrated on a product type and covering a variety of sectors.

The average credit quality remained stable compared to 2011 and ranged in the 6+ to 6 (B+ to B) categories in terms of weighted average CCR, whereas the weighted average LGD was between 18-25% (B-2 to B-3 categories). The exposures in these sectors also contain certain leveraged finance transactions, which bring the weighted average LGDs slightly below the average of the total corporate EAD. This is due to the fact that leveraged finance deals have security packages which are relatively less strong than asset (e.g. shipping, commercial real estate) or project (e.g. infrastructure) financing.

The size of our leveraged finance portfolio slightly decreased in 2012, mainly due to reduced deal volume in the market and through sales in the secondary markets. NIBC continued its selective approach with respect to origination and its focus on proactive and forward-looking portfolio management. Consistent with the increased sector emphasis, Leveraged Finance pursued client alignment with the NIBC sectors. The portfolio is granular and well diversified, spread across NIBC key industries and geographies with a clear focus on mid-market companies.

The main portfolio risks are concentration risk and the current economic conditions. A mitigating factor for concentration risk is that the large exposures are mainly related to reputable corporate clients. Furthermore, the transactions are highly collateralised, in line with the sector-driven segments.

Table 7 provides a breakdown of credit EAD per legal maturity. Almost 57% of all of NIBC's credit risk exposures will mature within the next five years.

Table 7 Breakdown of credit risk EAD per maturity, 31 December 2012

IN EUR MILLIONS Exposure Class	≤ 1 year	> 1 year - ≤ 2 years	> 2 years - ≤ 5 years	> 5 years	Total
AIRB APPROACH					
- of which corporate	901	1,049	3,833	3,451	9,234
- of which retail	3	2	22	4,499	4,526
- of which securitisations	522	171	573	162	1,428
- of which equities	354	0	0	0	354
SUBTOTAL	**1,780**	**1,221**	**4,428**	**8,111**	**15,541**
STANDARDISED APPROACH					
- of which sovereign	1,676	0	0	0	1,676
- of which institutions	1,041	209	111	82	1,444
- of which retail	327	0	0	0	327
- of which corporate	116	31	51	31	230
- of which equities	0	0	0	0	0
- of which other	0	0	0	47	47
SUBTOTAL	**3,160**	**241**	**163**	**161**	**3,724**
TOTAL EAD	**4,940**	**1,462**	**4,591**	**8,272**	**19,265**

Small differences are possible in the table due to rounding

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 implemented by NIBC after the approval by DNB since 1 January 2008. The ratings framework consists of the calculation of three main parameters: *Probability of Default* **(PD)**, *Loss Given Default* **(LGD)** and *Exposure at Default* (**EAD)**.

The PD, LGD and EAD 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 the appropriate pricing. *Economic Capital* **(EC)**, *risk-adjusted return on capital* **(RAROC)** and stress testing are areas within Pillar 2, which make use of the above-mentioned parameters, although the 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 RWA levels and Tier-1 ratio. For more information on the differences between NIBC's calculations under Pillar 1 and Pillar 2, we refer to the *ICAAP* chapter.

NIBC enforces strict separation of responsibilities with respect to its internal rating methodologies and rating process, model development, model validation and internal audit. The roles and responsibilities of each involved unit are explicitly set out in internal policies and manuals, also in conformity with the stipulations of Basel II with respect to model governance.

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 on the facility in the event of default of the borrower. 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.

In terms of counterparty credit rating, the credit quality is concentrated in the 5 and 6 categories in NIBC's internal rating scale (BB and B categories respectively in external rating agencies' scales). The fact that NIBC's corporate exposures are concentrated in sub-investment grade ratings is counterbalanced by the fact that almost all exposures have some form of collateralisation. Exposures can be collateralised by mortgages on real estate and vessels, by (lease) receivables, pledges on machinery and equipment, or by third-party guarantees and other similar agreements. As a result, NIBC's LGDs are concentrated in those LGD categories that correspond to recoveries in the range of 80% and 90%, which are relatively high for the banking industry.

Counterparty credit ratings and probability of default

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

NIBC's uses a through-the-cycle CCR 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. The CCRs 9 and 10 are assigned to counterparties that have already defaulted and therefore carry a PD of 100%. Furthermore, CCRs are assigned a rating outlook. This assesses the potential direction of the CCR 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 CCR 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 and a peer-group analysis. 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 CCR methodology is back-tested annually in order to ensure that consistency is kept throughout the portfolio and to measure the discriminatory power and the ranking ability of the CCRs. Furthermore, NIBC regularly benchmarks its CCRs with external parties.

Loss given default

Whereas CCRs are assigned on a counterparty level, LGD ratings are facility-specific. The LGD ratings reflect the loss that can be expected on a facility in a downturn scenario, 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 CCRs. 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 CCRs, the maintenance of NIBC's LGD models involves benchmarking and back-testing. 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.

In 2011, NIBC benchmarked its LGDs with an external party. The vast majority of NIBC's LGD estimates were in line with the estimates of the external party.

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 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. term loan, working capital facility, guarantee, 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 anonymously 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 ratings of external rating agencies 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.

The fact that these exposures are in default does not necessary mean that all the 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 the company future cash-flow generation. The section on special attention exposures contains more information on defaulted and impaired counterparties.

Since 2010, NIBC has been using an internally developed methodology for the calculation of RWA for the defaulted EAD. Whereas RWA and RC for the non-defaulted corporate exposures are calculated based on the standard Basel AIRB formula, the RWA and RC for the defaulted corporate exposures are a function of the impairment amount, if present, and the proportion of the impairment amount to the defaulted EAD. This methodology results in additional RWA and RC for the corporate exposure class, in line with NIBC's wish for more prudent capital calculations on its defaulted exposures in times of an economic downturn.

Despite the continuing deteriorating economic conditions, 2012 showed a stable quality in CCRs. The weighted average PD for almost all rating grades was slightly lower compared to 2011. For the total corporate exposure class, the weighted average PD was 2.39%, also lower compared to 2011. The average weighted CCR in the

corporate exposure class (excluding defaulted assets) was 6+ on NIBC's rating scale (B+ in the rating scales of rating agencies), both at 31 December 2012 and at 31 December 2011. The weighted-average LGD improved to 16.2% at 31 December 2012 from 16.9% at 31 December 2011. The relative stability in CCRs, the slightly better PDs and the improved LGDs under difficult economic circumstances reveal NIBC's focus on active portfolio management (active divestment of assets) and very selective origination.

Table 8 Breakdown of corporate AIRB EAD by weighted average PD, weighted average LGD and EAD type, 31 December 2012

IN EUR MILLIONS Rating Scale	WA PD	WA LGD	On-balance	Off-balance	Derivatives	Total
1/2 (AAA/AA)	0.03%	9.12%	85	0	0	85
3 (A)	0.08%	14.00%	17	0	0	17
4 (BBB)	0.29%	14.99%	1,595	189	349	2,133
5 (BB)	1.04%	14.12%	2,029	328	292	2,650
6 (B)	3.39%	18.31%	2,849	221	267	3,338
7 (CCC)	12.26%	20.69%	331	32	17	380
8 (CC/C)	28.63%	11.36%	47	0	0	47
9/10 (D)	100.00%	n.a.	545	1	37	583
TOTAL	**2.39%**	**16.2%**	**7,500**	**771**	**963**	**9,234**

Retail

The AIRB approach applies to NIBC's Dutch Residential Mortgage portfolio. The calculation of PD, LGD and EAD is performed by a Basel II AIRB model developed internally, 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 that play a role in the PD estimates are several other mortgage loan characteristics, borrower characteristics and payment performance information. The PD scale is based on a continuous scale ranging from 0 - 100%.

The LGD estimates are based on a downturn scenario comparable to the downturn in the Dutch mortgage market in the 1980s. In this case, the indexed collateral value is stressed in order to simulate the proceeds of a (forced) sale of the collateral. The stress is dependent on the location of the collateral and its absolute value. Together with assumptions about cost and time to foreclosure, 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 is 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 (outstanding balance 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.

Due to the deteriorated economic environment, the last years showed an increase in losses; in 2012, the losses were comparable to 2011. The number of defaults increased, as well as the losses arising from these defaults (LGD parameter) increased. Actual credit losses in the Dutch and German portfolios have, nevertheless, been low in the past years. The performance of NIBC's securitised mortgage portfolio is good compared to other Dutch RMBS issuers, as evidenced by arrears levels and realised loss levels.

Overview of AIRB retail exposures

Table 9 provides an overview of retail AIRB EAD types, broken down by PD buckets. The table also provides the average PD and LGD, weighted against EAD. Note that the numbers in this table refer to the Dutch Residential Mortgage portfolio of NIBC. The weighted average PD and LGD of the retail portfolio increased between 2011 and 2012. At 31 December 2011, the WA PD and LGD were 1.46% and 17% respectively.

Table 9 Breakdown of retail AIRB EAD by weighted average PD, weighted average LGD and EAD type, 31 December 2012

IN EUR MILLIONS					
PD bucket	**WA PD**	**WA LGD**	**On-balance**	**Off-balance**	**Total**
0.1% - 0.2%	0.11%	11.96%	1,528	0	1,528
0.3% - 0.4%	0.30%	17.28%	1,215	0	1,215
0.5% - 0.6%	0.50%	23.41%	896	0	896
0.7% - 0.9%	0.71%	28.77%	525	0	525
1% - 2%	1.10%	30.91%	106	0	106
2% - 5%	4.37%	17.68%	42	0	42
5% - 99%	16.07%	25.71%	155	0	155
100%	100.00%	25.67%	58	0	58
TOTAL	**2.21%**	**18.7%**	**4,525**	**1**	**4,526**

Equities

NIBC uses the simple risk weight approach for equity investments. Under this approach, the RWA is calculated by multiplying the exposure amount by 370%. The total EAD for equities amounts to EUR 354 million.

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 and seniority of the pool and on whether the transaction is a resecuritisation. Alternatively, for retained notes of own securitisations, NIBC uses the IRB capital charge had the underlying exposures not been securitised (KIRB approach).

This approach is applicable when 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 EAD, 31 December 2012

IN EUR MILLIONS Risk weight	< 10%	10% - 20%	25% - 50%	60% - 100%	150% - 225%	250% - 850%	1250% or deducted	Total
Retained	211	99	141	77	0	43	98	671
Purchased	376	145	76	27	31	53	49	757
TOTAL	**587**	**244**	**218**	**105**	**31**	**97**	**147**	**1,428**

Small differences are possible in the table due to rounding

Standardised Approach

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

- All of NIBC's sovereign exposures are exposures with a zero risk weight and are all related to cash placed with DNB and the Dutch State Treasury Agency. NIBC has zero sovereign debt exposure to Greece, Italy, Ireland, Spain and Portugal;
- The risk weight for institutions is mostly either 20% (all short-term investment-grade exposures and long-term exposures with a rating equal to or higher than AA-) or 50% (long-term exposures with a rating between BBB- and A+);
- The corporate exposure class carries a risk weight of 100%. It mainly contains non-rateable exposures and derivatives to corporate counterparties; and
- The retail exposure consists of the German Residential Mortgage portfolio. Part of the exposure, which is fully secured by residential property, receives a 35% risk weight and the other part receives a 75% 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 2012

IN EUR MILLIONS Exposure Class	0%	20%	35%	50%	75%	100%	Total
Sovereign	1,676	0	0	0	0	0	1,676
Institutions	5	777	0	662	0	0	1,444
Retail	0	0	294	0	33	0	327
Corporate	0	0	0	0	0	230	230
Equities	0	0	0	0	0	0	0
Other	0	0	0	0	0	47	47
TOTAL	**1,681**	**777**	**294**	**662**	**33**	**277**	**3,724**

Table 12 Standardised RWA per risk weight, 31 December 2012

IN EUR MILLIONS Exposure Class	0%	20%	35%	50%	75%	100%	Total
Institutions	0	155	0	331	0	0	486
Corporate	0	0	0	0	0	229	229
Retail	0	0	103	0	24	0	127
Equities	0	0	0	0	0	0	0
Sovereign	0	0	0	0	0	0	0
Other	0	0	0	0	0	47	47
TOTAL	**0**	**155**	**103**	**331**	**24**	**276**	**890**

Table 13 provides a breakdown of our Debt Investments per exposure class. The size of our Debt Investment portfolio was reduced in the course of 2012 by 15% to EUR 601 million. The credit profile of this portfolio improved in 2012 through increased investments in covered bonds. Of the total portfolio 40% was covered bonds, the remaining 60% was unsecured debt.

Table 13 Breakdown of Debt Investments per exposure class, 31 December 2012

IN EUR MILLIONS Exposure Class	EAD	RWA	Capital requirement
Institutions	584	222	18
Corporate	17	17	1
TOTAL	**601**	**239**	**19**

Credit risk mitigation

Institutions

The exposures to financial institutions are either related to *over-the-counter* **(OTC)** derivative transactions, or to debt investments (in tradable securities), or to cash management activities (money-market and repo transactions). Details about credit risk management for OTC derivative transactions can be found in the *Counterparty Credit Risk* section. 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).

Corporate

An important element in NIBC's credit approval process is the assessment of collateral. Almost all exposures in the corporate exposure class have some form of collateralisation, with the main exception of Investment loan exposures. Investment 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 vessels, by receivables, lease receivables or pledges 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 the collateral it accepts 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, vessels, rigs, *floating, production, storage & offloading* (**FPSO**) units and equipment.

NIBC initially values collateral based on fair market value when structuring a transaction, and evaluates the collateral and its value (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 & gas sectors are secured by assets such as ships and drilling vessels. The commercial real estate portfolio is primarily collateralised by mortgages on financed properties. Collateral value is estimated using third-party appraisers, whenever possible, or valuation techniques based on common market practice. Other corporate exposures are, to a large extent, collateralised by assets such as 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 often attributed a nil value.

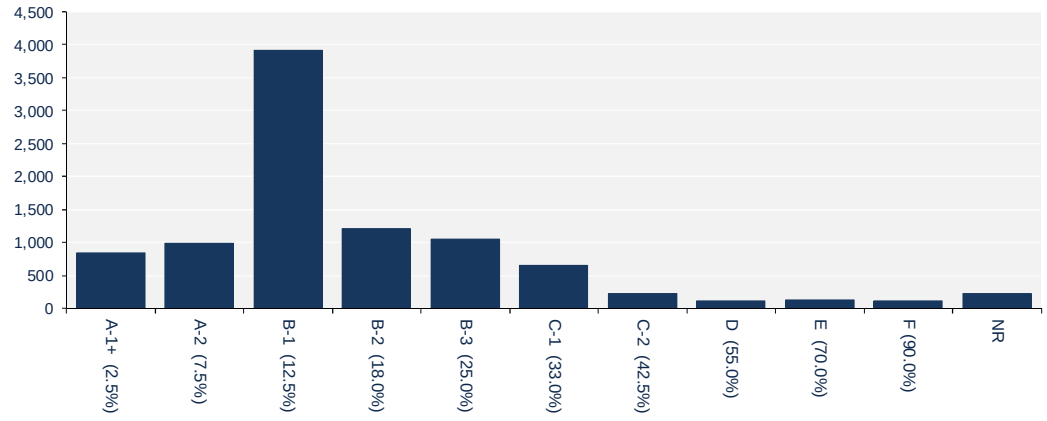
Graph 1 shows the distribution of corporate EAD per internal LGD rating. Note that the corporate exposures of the graph refer to non-defaulted exposures, given that the LGD is a measure of anticipated loss from the facilities of a non-defaulted counterparty. When a counterparty defaults, the impairment amount is a more meaningful measure of the loss. More information on impairment amounts can be found in the next section.

LGD ratings are facility-specific. As described in previous sections, an LGD rating reflects the 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. In graph 1 the letters on the horizontal axis refer to NIBC's LGD grades and notches, whereas the numbers inside the parentheses refer to the loss percentage assigned to each LGD rating. **NR** stands for *not rateable*. NR is assigned to entities to which NIBC's corporate rating tools were not applicable at the time of rating. Exposures in the NR category fall under the Standardised Approach.

The LGD methodology is based on a combination of qualitative and quantitative rating indicators that include, among others, the assessment of the realisable collateral value, guarantees, the seniority of the exposure, 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. The assessment of the available collateral is the basis for NIBC's LGD analysis. In determining the realisable collateral value, which is based upon recent appraisals, NIBC applies a number of haircuts on the collateral's fair market value. These haircuts are mainly driven by the type of collateral, the liquidity, the business cycle of the industry, the costs for forced collateral sales and other work-out expenses.

NIBC's LGDs are concentrated in those LGD categories that correspond to recoveries in the range of 80% and 90%, which are relatively high for the banking industry. NIBC's weighted average LGD for the corporate exposure class at 31 December 2012 was 16.2%, improved in comparison to 2011 (16.9%).

Graph 1 Breakdown of corporate EAD (EUR 9,463 million) per LGD rating, 31 December 2012



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 to the borrower;
- 16% of the Dutch Own Book portfolio (and 43% of the Dutch Securitised portfolio) are covered by the NHG programme; and
- Approximately 32% of the Dutch portfolio has been securitised (based on a credit risk view).

For the portfolio not covered by the NHG programme, the underlying property is the primary collateral for any mortgage loan granted, though savings and investment deposits may also serve as additional collateral.
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 by using the index of the Dutch Land Registry Office (Kadaster), which is based on market observables. For the total portfolio 18% has an LtIMV above 100%. For the remainder of the portfolio, there is either coverage by the NHG programme or the indexed collateral value is sufficient to cover the entire loan balance outstanding.

The relatively low loss levels, together with the relatively high seasoning of the portfolio gives comfort about the credit risk in the Residential Mortgage portfolio.

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 the mortgage loans contain an annuity repayment, leading to a lower outstanding loan balance during the lifetime of the loan.

Overview of defaulted, non-performing and impaired exposure

Sovereign and Institutions

In 2012, NIBC did not take any impairments on these exposure classes.

Corporate

Portfolio managers within the commercial sectors and risk management credit officers at CRM and FMCR departments monitor the quality of corporate counterparties on a regular basis. On a quarterly basis, all corporate exposures are assessed for impairment and all existing impairments are reviewed.

NIBC considers a range of factors that have a bearing on the future cash flows that it expects to receive from the defaulted exposure, 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 duration of any recovery process. Judgements are made in the process, including, among other, the determination of expected future cash flows and their timing, the market value of collateral, and market discount rates. Furthermore, NIBC's judgements a 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 the loan and, if present, the corporate derivative exposure. The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future losses that have not been incurred). If collateral is present, then the present value of the future cash flows includes the foreclosure value of collateral.

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 583 million (31 December 2011: EUR 987 million), but this does not 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.

When a default occurs (in line with the Basel II definition[2]), then the entire EAD of the borrower is classified as defaulted. On the contrary, if an impairment amount is taken against a facility, only the EAD of that particular facility is classified as impaired.

2 According to the Basel II definition, a default is determined on borrower level. A default is indicated by using a 9 or 10 rating in NIBC's internal rating scale. A default is considered to have occurred with respect to a particular obligor if either of the two following events have taken place: i) The bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realising security (if held). Ii) The obligor is past due more than 90 days on any material credit obligation to the banking group.

Tables 14 and 15 show a breakdown of the defaulted, non-performing and impaired exposure of the corporate exposure class per region and industry sector at 31 December 2012. The column labelled *Defaulted EAD Corporate* shows the total EAD of counterparties carrying a internal default rating 9 or 10 (EUR 583 million). *Non-performing EAD Corporate* shows the EAD of those facilities carrying an amount in arrear in interest and/or principal payments greater than 90 days and those facilities carrying an amount in arrear in interest and/or principal less than 90 days with an impairment amount (EUR 276 million). *Impaired EAD Corporate* shows the EAD of those facilities carrying an impairment amount (EUR 471 million). The difference between the impaired EAD on facility level and the impairment amount can be explained by the presence of collateral or NIBC's expectation of future cash-flow generation. Note that the EAD amount under the column labelled *Impaired EAD Corporate* includes the impairment amount.

As in previous years, the impact of the credit crisis on the corporate exposures was also felt in 2012. However, the impairment level remained at an acceptable level. Compared to 2011, the total impairment amount of the corporate exposure class increased by EUR 13 million. New impairments were taken on shipping and commercial real estate exposures, with other parts of the corporate exposures carry either no impairments (e.g. oil & gas) or very small amounts (e.g. infrastructure, agriculture & food and wholesale/retail/leisure). Impairments on our commercial real estate portfolio increased in 2012 from EUR 38 million in 2011 to EUR 49 million in 2012.

Table 14 Breakdown of defaulted, non-performing and impaired exposure in corporate exposure class per region, 31 December 2012

IN EUR MILLIONS Region	Total EAD Corporate	Defaulted EAD Corporate	Non-performing EAD Corporate	Impaired EAD Corporate	Impairment
The Netherlands	2,979	274	96	259	67
Germany	2,041	100	78	26	7
United Kingdom	1,949	105	16	83	29
Rest of Europe	987	37	20	36	22
Asia / Pacific	796	51	51	51	12
North America	393	15	15	15	0
Other	319	0	0	0	0
IBNR					6
TOTAL	**9,464**	**583**	**276**	**471**	**143**
IN % TOTAL EAD		**6.2%**	**2.9%**	**5.0%**	

IBNR stands for *incurred but not reported*.

Table 15 Breakdown of defaulted, non-performing and impaired exposure in corporate exposure class per industry sector, 31 December 2012

IN EUR MILLIONS Industry sector	Total EAD Corporate	Defaulted EAD Corporate	Non-performing EAD Corporate	Impaired EAD Corporate	Impairment
Infrastructure	2,550	27	7	21	4
Commercial Real Estate	2,154	287	125	216	49
Shipping	1,469	87	87	86	30
Oil & Gas	922	0	5	0	0
Financial Services	741	33	32	33	5
Wholesale/Retail/Leisure	483	18	6	9	7
Services	428	67	11	55	26
Manufacturing	424	21	0	7	4
TMT	145	29	2	29	11
Agriculture & Food	107	14	0	14	1
Other	42	0	0	0	0
IBNR					6
TOTAL	**9,464**	**583**	**276**	**471**	**143**
IN % TOTAL EAD		**6.2%**	**2.9%**	**5.0%**	

Amounts in arrear are reported to the RMC every quarter. Payments might be overdue because of various reasons. However, late payments that are not yet received are not automatically assumed to be uncollectible.

Table 16 presents the corporate EADs with an amount in arrear. The amounts between 1 and 5 days may be caused by various operational reasons. The vast majority of the EAD of EUR 232 million that appears as having an amount in arrear for above 90 days is collateralised by German multi-family residential real estate and (chemical) tankers.

Table 16 EAD with an amount in arrear, corporate exposure class, 31 December 2012

IN EUR MILLIONS	Corporate EAD	Amount in arrear
1 - 5 days	70	9.2
6 - 30 days	0	0.0
31 - 60 days	0	0.0
61 - 90 days	26	0.8
SUBTOTAL LESS THAN 90 DAYS	**96**	**10.0**
Over 90 days	232	169.3
No payment arrear	9,135	0.0
TOTAL	**9,464**	**179.3**

Small differences are possible in the table due to rounding

Retail

As the residential mortgage portfolios in the Netherlands and Germany are on accounting classification fair value through profit or loss, the notion of impairments is not applicable on NIBC's retail exposure class. The last years showed an increase in losses, due to current market circumstances; in 2012 the losses were comparable with 2011. The number of defaults increased, as well as the losses arising from these defaults (LGD parameter) increased. Actual credit losses in the Dutch and German portfolios have, nevertheless, been low in the past years. The performance of NIBC's securitised mortgage portfolio is good compared to other Dutch RMBS issuers as evidenced by arrears levels and realised loss levels.

NIBC has an in-house arrears management department, actively managing arrears, foreclosures and residual debts of its Dutch Residential Mortgage portfolio. Table 17 shows an overview of the retail EAD with an amount in arrear at 31 December 2012. The table also shows those EADs with technical past-due amounts. These amounts contain those borrowers with an amount in arrear below EUR 250.00. At 31 December 2012, the amount in arrear was EUR 6.2 million (0.1% of the portfolio EAD).

Table 17 EAD with an amount in arrear, retail exposure class, 31 December 2012

IN EUR MILLIONS	Retail EAD	Amount in arrear
Technical past-due amounts	19	0.0
1 - 30 days	121	0.8
31 - 60 days	49	0.6
61 - 90 days	19	0.3
SUBTOTAL LESS THAN 90 DAYS	**209**	**1.8**
Over 90 days	63	4.4
No payment arrear	4,581	0.0
TOTAL	**4,853**	**6.2**

Equities

NIBC determines an impairment on the equity investments available for sale held in NIBC's Equity Investments 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 18 and 19 present an overview of impairments on equity exposures per region and industry sector respectively. The columns labelled *Impaired EAD Equity after impairment* present the remaining EAD after the impairment has been taken. This remainder EAD can, therefore, be smaller than the impairment amount. The impairment amount of EUR 78 million in Tables 18 and 19 relates mainly to NIBC's equity participations in a German financial institution and a fund investment in North America; these impairments were taken in previous years.

Table 18 Breakdown of impairments on equity exposure class per region, 31 December 2012

IN EUR MILLIONS

Region	Total EAD Equity after impairment	Impaired EAD Equity after impaiment	Impairment
The Netherlands	287	0	18
Rest of Europe	29	1	0
North America	26	19	40
United Kingdom	11	0	0
Asia / Pacific	0	0	0
Germany	0	0	20
Other	0	0	0
TOTAL	**354**	**19**	**78**

Small differences are possible in the table due to rounding

Table 19 Breakdown of impairments on equity exposure class per industry sector, 31 December 2012

IN EUR MILLIONS

Industry Sector	Total EAD Equity after impairment	Impaired EAD Equity after impairment	Impairment
Infrastructure	85	0	0
Wholesale/Retail/Leisure	35	0	0
Financial Services	28	19	60
Services	38	0	10
Commercial Real Estate	17	0	0
Manufacturing	16	1	0
Shipping	0	0	1
Agriculture & Food	0	0	0
Other	137	0	8
TOTAL	**354**	**19**	**78**

Small differences are possible in the table due to rounding

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. Synthetics are still classified at 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 and only for the portion that is on accounting classification at amortised cost. 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 the 'first loss' notes, 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 20 shows a breakdown of (stand-alone) impairments on securitisations per collateral type. The column labelled *Impaired EAD Securitisation after impairment* presents the remaining EAD after the impairment has been taken. The total impairment amount for NIBC Holding on the Securitisations portfolio as at 31 December 2012 was zero; for NIBC Bank it was EUR 47 million.

Table 20 Breakdown of impairments on securitisation exposure class per collateral type, 31 December 2012

IN EUR MILLIONS	Total EAD Securitisation after impairment	Impaired EAD Securitisation after impairment	Impairment
ABS	4	0	0
CDO/CLO	140	11	31
CMBS	298	7	15
RMBS	574	0	1
NL - RMBS AAA Liquidity Portfolio	342	0	0
TOTAL WESTERN EUROPEAN SECURITISATIONS	**1,358**	**18**	**47**
US - New Amsterdam Fund	**70**	**0**	**0**
TOTAL SECURITISATION EXPOSURE	**1,428**	**18**	**47**

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 over the course of a given year.

The impact of the credit crisis on the corporate exposure class was less pronounced in 2012 compared to the period 2008-2011; however, 2012 began in the same challenging way that 2011 ended. The first half year of 2012 was difficult mainly due to the persisting Euro zone debt crisis.

The impact of the crisis differed between the various corporate segments. In 2012, new impairments were taken mainly in the shipping and commercial real estate sectors. In other parts of the corporate exposure class, impairments remained either stable (e.g. sectors technology, media & telecommunications and infrastructure & renewables) or nil (e.g. sectors oil & gas and food & agriculture). Write-offs of previously impaired exposures were taken for certain exposures in the services and shipping sectors.

With respect to retail exposures, an increase in defaults and losses was observed in the last years due to difficulties within the residential mortgage market. However in 2012, the number of defaults and the losses arising from these defaults (LGD parameter) remained fairly stable. Actual credit losses in the Dutch and German Residential Mortgage portfolios have, nevertheless, been low in the past years. The performance of NIBC's securitised mortgage portfolio is stronger compared to other Dutch RMBS issuers as evidenced by arrears levels and realised loss levels.

The relatively low loss levels together with the relatively high seasoning of the portfolio gives us comfort about the credit risk in our mortgage portfolio.

Table 21 shows the realised and expected losses in basis points in 2012 and 2011 for NIBC's corporate and retail exposure classes. Despite the difficult markets, 2012 ended with lower realised losses for NIBC (22 basis points) compared to 2011 (40 basis points). For the corporate exposure class, realised losses refer to the impairment movements and write-offs that took place in each year. For the retail exposure class, realised losses refer to the actual losses that were incurred in each year. Expected losses are related to the non-defaulted portfolios of each year.

Table 21 Expected Loss (EL) versus Realised Loss (RL) in basis points of EAD for corporate and retail exposure classes

2012		2011	
EL	RL	EL	RL
35	22	39	40

Counterparty Credit Risk

NIBC defines counterparty credit risk as the credit risk resulting from OTC derivative transactions, where there is none or limited initial investment, such as *interest rate swaps* **(IRS)**, *credit default swaps* **(CDS)** and *foreign exchange* **(FX)** transactions.

NIBC is exposed to counterparty credit risk from derivative transactions both with corporate clients as well as with financial institutions. For both types of counterparties, counterparty credit risk is measured similarly, being the sum of the positive replacement value and the add-on. The add-on reflects the potential future change in the 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 with the client. Capital and credit limits for corporate clients are allocated on a one-obligor basis. The credit risk resulting from counterparty credit risk is monitored in combination with other exposures (e.g. loans) to these clients, and in the majority of cases, the security of the loan is also applicable to the derivative exposure.

For nearly all of its financial counterparties, NIBC has mitigated the counterparty credit risk 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 money-market, repo and derivative exposures and are based upon a combination of external ratings, market developments like CDS spreads, and expert judgement. NIBC has started clearing eligible OTC derivatives with LCH Clearnet in order to mitigate counterparty credit risk and to comply with EMIR-regulation. Existing portfolios are selectively back loaded to the clearing house.

In line with market practice, IFRS *credit value adjustments* (**CVA**) are incorporated into the derivative valuations to reflect the risk of default of the counterparty. The CVA is calculated at the counterparty level as the sum of the present value of the expected loss (PD x LGD x expected exposure profile) estimated over the lifetime of all outstanding OTC derivative contracts.

As of 2014, the European-wide *Capital Requirements Directive* **(CRR/CRD IV)** introduces a capital charge for CVA risk for all derivatives excluding those with sovereigns, pension funds and non-financial counterparties. The exemption of derivatives with non-financial counterparties implies limited impact of the introduction of the CVA capital charge on the NIBC's Tier 1 capital ratio.

Table 22 shows the breakdown of EAD, RWA and capital requirement for derivatives at 31 December 2012.

Table 22 Breakdown of EAD, RWA and capital requirement for derivatives, 31 December 2012

IN EUR MILLIONS	EAD	RWA	Capital requirement
AIRB APPROACH			
- of which corporate	963	370	30
- of which securitisations	105	69	5
STANDARDISED APPROACH			
- of which corporate	10	10	1
- of which institutions	286	141	11
TOTAL DERIVATIVES	**1,364**	**589**	**47**

As discussed above, the EAD for derivatives is based on the sum of the positive replacement value (marked-to-market value) and the applicable add-on. For corporate exposures using the AIRB approach, the PD is derived from the CCR of the corporate counterparty, and the LGD is set 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 23 Gross and net fair value exposure from derivative contracts

IN EUR MILLIONS	2012
Gross exposure	3,927
Netting benefits	(2,713)
Reduction from collateral	(233)
Net current exposure	981

NIBC has a limited number of CDS transactions to protect its exposure in the portfolio. In 2012, protection has been bought by means of a EUR 202 million Credit Default Swap for a transaction in our commercial real estate portfolio. Tables 24 and 25 show the breakdown of all CDS contracts:

Table 24 Breakdown of CDS contracts by exposure class (nominal amounts)

IN EUR MILLIONS CDS contract exposure class	Sold protection	Bought protection
Sovereign	0	0
Institutions	50	0
Corporate	10	226
Securitisations	11	26
TOTAL	**71**	**252**

Table 25 Breakdown of CDS contracts by name type (nominal amounts)

IN EUR MILLIONS CDS contract name type	Sold protection	Bought protection
Single name	54	202
Multiple name	17	51
TOTAL	**71**	**252**

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 FX 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 curves. The predominant market risk drivers for NIBC are interest rate risk and credit spread risk. The capital requirement for market risk stems from the Trading portfolio, which is based on internal models, and the overall FX position of the bank, for which the standardised method is used.

The Trading portfolio of NIBC contains customer-driven derivatives transactions and limited proprietary trading in interest-rate risk products. Interest rate risk outside the Trading portfolio of NIBC is restricted 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. The capital requirement for the trading activities is small, in line with the limited trading activity. FX risk arises primarily from principal investments, customer-driven loans and funding or mismatch positions in foreign currencies. The general guiding principle for market risk management is to hedge FX risk completely, although small residual positions, e.g. from profits in foreign currencies, are allowed.

Market risk RWA and capital requirement for 31 December 2012 and 2011 are given in table 26. The RWA throughout 2012 fluctuated between EUR 266 million and EUR 332 million. The increase of the RWA in the trading portfolio compared to 2011 is due to the implementation of the CRD III directive to more than double capital requirements based on stressed VaR next to the VaR.

Table 26 Breakdown of RWA and capital requirement for market risk

	31 December 2012		31 December 2011	
IN EUR MILLIONS	RWA	Capital requirement	RWA	Capital requirement
- of which trading portfolio VaR	304	24	234	19
- of which FX Standardised approach	20	2	10	1
TOTAL MARKET RISK	**324**	**26**	**244**	**20**

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 rate 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. Any major breach of market risk limits is reported to the CRO on a daily basis and acted upon immediately. In 2012, there was one major limit breach. The income statement of the Trading portfolio is also monitored daily.

The risk appetite for interest rate risk is set, among others, by the *value-at-risk* **(VaR)** limits. For the Trading portfolio, the VaR limit (99% confidence level, one-day holding period) was kept constant at EUR 2.25 million during 2012. For the Mismatch portfolios, the VaR limit was held constant at EUR 11.5 million during 2012.

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. These measures are calculated on a daily basis 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. In 2010, NIBC updated its interest rate risk methodology by introducing multiple forward curves for each repricing frequency (overnight, 1 month, 3 months and 6 months) and differentiating between forward curves and discount curves. In 2011, the interest rate risk framework was further brought in line with market practice by differentiating in the discount curve for collateralised and non-collateralised transactions;
- 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 (including the effect of basis risk), 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; and
- As future market price developments may differ from those that are contained by the four-year history, the risk analysis is complemented by a wide set of scenarios, including scenarios intended as stress testing and vulnerability identification, both based on historical events and on possible future events.

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

Regulatory capital for market risk in the Trading portfolio

In 2008, NIBC received supervisory approval by DNB 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. Under CRD 3, which became effective at 31 December 2011, the capital requirement for market risk in the Trading portfolio for banks using internal models is based on the combination of the VaR and *Stressed VaR* **(SVaR)**. At the end of 2011, NIBC received approval for the Stressed VaR model. The Stressed VaR uses the same methodology as the normal VaR, but based upon a different historical period. Currently, 2008 is used as historical period to determine the Stressed VaR.

VaR

By nature, trading positions fluctuate during the year. This is illustrated in graph 2, which shows the development of the VaR for the Trading portfolio over the years 2011 and 2012.

Throughout 2012, the 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 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.

Graph 2 Development of VaR in the Trading portfolio during 2011 and 2012

Table 27 Key risk statistics, Trading portfolio 2012

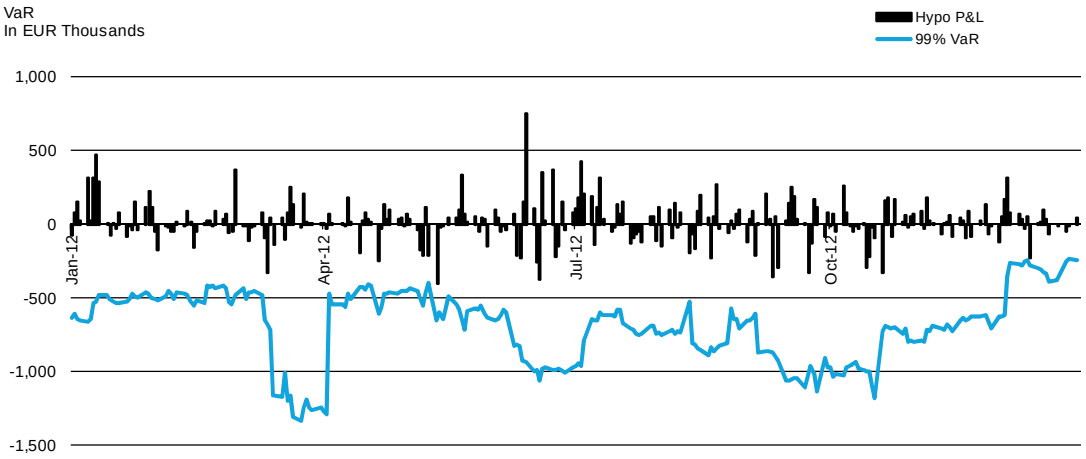
	Interest rate		
IN EUR THOUSANDS	BPV	VaR	SVaR
Max*	(111)	(1,336)	(2,542)
Average	(35)	(690)	(1,137)
Min*	(0)	(230)	(502)
YEAR-END 2012	**(7)**	**(243)**	**(543)**

*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 one-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. Graph 3 shows the hypothetical P&L and 99% VaR figures for 2012. There was no outlier in 2012, which gives comfort that the model does not underestimate the risk.

Graph 3 Back test results of the Trading portfolio during 2012



Market risk outside the Trading portfolio

Interest rate risk in the Mismatch portfolios

NIBC concentrates the strategic interest rate risk position of NIBC in the Mismatch portfolio. This portfolio exclusively contains swap positions with which a view on future interest rate developments is taken. During 2011, both EUR and USD mismatch positions were offset with opposite transactions (i.e. they were effectively closed), thus significantly reducing NIBC's market risk position. In light of the low interest rate environment NIBC did not reopen a mismatch position in 2012.

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
- Corporate Treasury book, which mainly contains the funding and the loans of the bank.

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 repricing date, without prepayment. For mortgages, a dedicated prepayment model is used, where prepayment depends upon the remaining interest period and which is calibrated regularly using realised historical prepayments. On-demand retail savings are modelled as zero coupon bonds with approximately equal notional amounts and a maturity ranging from one to nine months. Cash flows are discounted by applying a swap curve plus the appropriate credit spread curve. Only for transactions, which are part of a CSA agreement, cash flows are discounted on the overnight curve.

Table 28 shows the interest rate sensitivity from an economic value 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 29. As shown, the interest rate risk both inside and outside the Trading Books is limited, mainly because the bank decided to close the mismatch positions.

Table 28 Interest rate sensitivity, 31 December 2012

IN EUR THOUSANDS	BPV			
	Trading	**Mismatch**	**Banking**	**Total**
EUR	(10)	(3)	90	77
USD	12	(18)	42	36
GBP	(9)	0	19	10
Other	0	0	4	4
TOTAL	**(7)**	**(21)**	**155**	**127**

Table 29 Effect of an interest rate shock on economic value, 31 December 2012

IN EUR THOUSANDS		
Interest rate shock	**-100bp**	**+100bp**
EUR	(7,187)	8,067
USD	(3,571)	3,658
GBP	(1,044)	963
Other	(422)	403
TOTAL	**(12,224)**	**13,091**

Credit spread risk

Within Treasury, credit spread risk is concentrated in the Debt Investments portfolio, which contains investments in financial institutions, corporate entities and securitised products. NIBC's total credit spread

sensitivity declined from -0.443 million EUR/bp at 31 December 2011 to -0.380 million EUR/bp at 31 December 2012. This decline is mostly related to a reduction in the Securitisations portfolio.

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 2012, the capital requirement for FX risk was EUR 2 million.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This is the definition of the Basel Committee on Banking Supervision. NIBC has chosen to include legal, reputation and strategic business risk as operational risks. The *Operational Risk Management* **(ORM)** department is concerned with all operational risks that affect NIBC's reputation, operational earnings and/or have adverse effects on capital as a result of operational losses.

In NIBC's three lines of defence model, the ORM department is part of the second-line function. NIBC's operational risk management framework outlines principles for the roles, responsibilities and accountabilities for front-to-back ORM. Staff is responsible for adherence to the framework and the operational risk policies, which include oversight of all operational risks specific to the business and reporting of operational risk events and losses.

The ORM department monitors and manages operational risk at group level, develops policies and processes (such as the new product approval process) and provides methodology and tools. In the course of 2012, five new products were launched by NIBC. The tools utilised give an integrated view of the risk self-assessment, control identification, action planning, and event and loss registration. They also support the constant process of evaluating and reducing operational risk, and planning mitigation measures. The department also co-ordinates the development of forward-looking scenario analysis: these are hypothetical external or internal scenarios with which it is ensured that a plan exists in case these events occur, or that preventive measures are taken. Examples of such scenarios include business continuity plans for buildings, key technology systems and key processes of the bank, a possible exit of a country from the Eurozone, stress in the Dutch banking sector, large-scale staff unavailability due to e.g. a pandemic, and other hypothetical events for which a forward-looking action plan is necessary. Overall, attention to operational risk was heightened and a reorganisation of the team took place in 2012.

NIBC has sought to build operational risk management into all its business processes. Operational risks are managed on a daily basis and self-assessments are performed semi-annually. The year-end self-assessments form the basis for NIBC's 'In Control Report' section 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 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 of 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 determination of the regulatory capital requirement for operational risk is performed annually by NIBC's Finance department. Table 30 shows the amount of RWA and the capital requirement for operational risk as at year-end 2012 and 2011.

The operational risk calculation includes data from the three years preceding the reporting year to determine the regulatory capital charge and is restated yearly after the publication of the Annual Report. Operational risk at year-end 2011 included the years 2008, 2009 and 2010 and the operational risk at year-end 2012 was based on the years 2009 to 2011. As the operating income in 2008 was lower by EUR 347 million compared to the income in 2011, the RWA and capital requirements for operational risk increased at year-end 2012.

Table 30 Breakdown of RWA and capital requirement for operational risk

	2012		2011	
IN EUR MILLIONS	RWA	Capital requirement	RWA	Capital requirement
Standardised approach	771	62	507	41
TOTAL OPERATIONAL RISK	**771**	**62**	**507**	**41**

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 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 the credit crisis due to a prudent liquidity and funding policy in the past, as well as by diversifying funding sources. Following the funding diversification of the past years, the major funding initiatives undertaken in 2012 were the further expansion of the online retail savings programme NIBC Direct from EUR 6.1 billion to EUR 7.7 billion, the buy-back of EUR 0.5 billion government-guaranteed debt as well as renewed RMBS issuances. It should also be noted that NIBC displayed its presence in and access to the unsecured senior debt market, by placing two transactions of in total EUR 0.4 billion. These initiatives ensured that NIBC is well prepared for the repayment of maturing government-guaranteed debt in April and December 2014. In addition, NIBC was able to maintain its liquidity buffers of highly liquid assets and collateralised funding capacity throughout 2012.

Stress scenarios

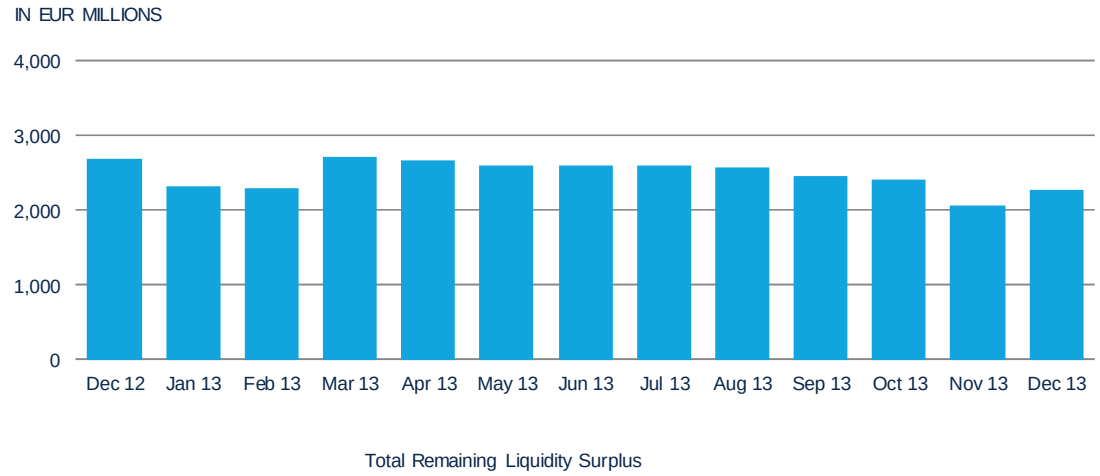
NIBC has expanded its liquidity stress testing framework in 2012. Whereas per 31 December 2011 a single market-wide liquidity stress test was shown, currently three distinct liquidity stress tests are in use in order to better assess the resilience to deteriorating circumstances in a stressed environment:

- A 12-month market-wide liquidity crisis, resulting in no access to wholesale funding and worsening market variables (rating migration, additional haircuts on market value of collateral, CSA cash outflow, slowing prepayments, etc.);
- A 12-month institution-specific stress test, resulting a significant outflow of retail savings and no access to ECB-financing in the first three months in addition to having no access to wholesale funding; and
- A 6-month combined stress test that combines elements from the aforementioned market-wide and institution-specific liquidity stress tests.

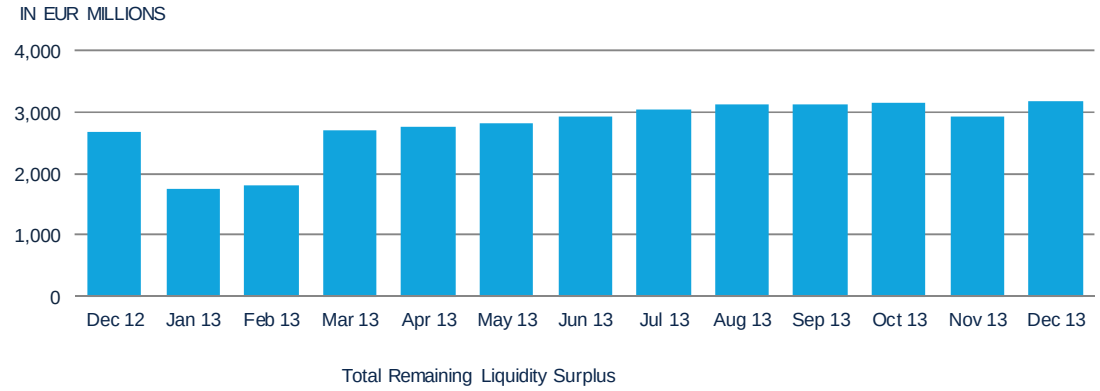
These liquidity stress tests are based on projections, prepared by the business units and reviewed by ALM, and the current asset and liability maturity profiles. The outcome of the liquidity stress tests is prepared and presented biweekly to the ALCO, in order to create continuous monitoring of the liquidity position. As no like-for-like liquidity stress test outcomes were available as of 31 December 2011, only the results as of 31 December 2012 are shown.

Graphs 4 to 6 show the outcomes of the 12-month market-wide stress test, the 12-month institution-specific stress test and the 6-month combined stress tests. Dependent on the stress test, the projected liquidity surplus consists of the cash position, ECB capacity and non-ECB eligible liquidity portfolio assets and is adjusted monthly for maturing assets and liabilities and the outflows as prescribed by the liquidity stress tests. For each of the three stress tests, the outcomes remain positive throughout its horizon.

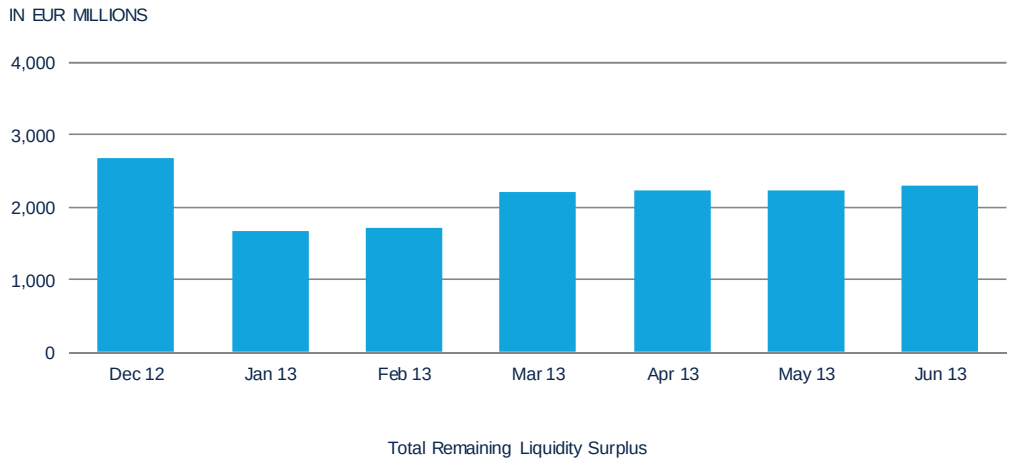
Graph 4 Market Stress Scenario, short-term analysis, 31 December 2012



Graph 5 Institution Specific Stress Scenario, short-term analysis, 31 December 2012



Graph 6 Combined Stress Scenario, short-term analysis, 31 December 2012

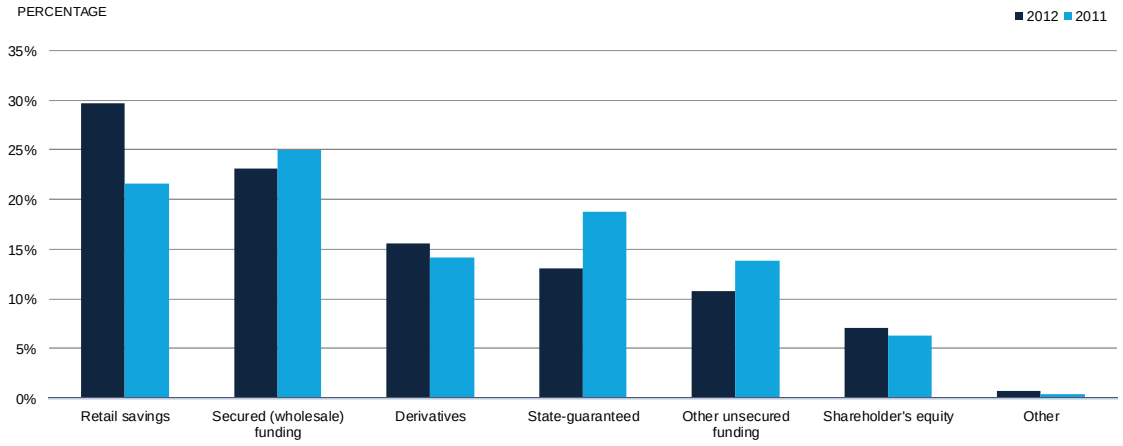


In addition to the 12-month liquidity stress analysis described above, NIBC also conducts liquidity analyses over longer periods once every two weeks. These analyses assume more or less stable portfolios in combination with new funding initiatives as the ones mentioned. The outcome of, for example, a three or five year 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 total liabilities at 31 December 2012 and 31 December 2011 is shown in graph 7. The liabilities overview is based upon total balance sheet amounts and includes non-funding items such as the fair value of the derivatives portfolio.

Graph 7 Breakdown of Total Liabilities, 31 December 2012 (EUR 25,915 million) and 31 December 2011 (EUR 28,226 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 Residential Mortgage Backed Securities* (**RMBS**) programme was established in 1997. NIBC's residential mortgage programme was later extended with the Sound and Essence issues. 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 31 gives an overview of the cumulative nominal amounts at 31 December 2012 of which NIBC was originator:

Table 31 Cumulative nominal amounts of NIBC's securitisations

IN EUR MILLIONS	Total
UNDERLYING ASSET	
Residential mortgages	3,083
Commercial mortgages	2,058
CLO	2,587
TOTAL	**7,728**

At 31 December 2012, there were no synthetic originated securitisations in NIBC's Securitisations portfolio.

Objectives

NIBC's objectives in relation to securitisation activities are:

- Transfer of credit risk;
- Obtain funding, reduce funding cost and diversify funding sources;
- Offer its real estate clients access to the capital markets;
- Earn management fees on the assets under management;
- Support selected clients in their funding needs;
- Offering attractive yields and quality investments for investors; and
- 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 paying agent for number of residential and commercial mortgage securitisations;
- Company administrator for a number of securitisations; and
- Investor in securitisations.

Securitisation activity in 2012

In 2012, NIBC approached the securitisation market with one new issue. Dutch MBS 2012-XVII was issued under the RMBS programme Dutch MBS, while Dutch MBS XII and Dutch MBS XIV have been called.

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 RMBS securitisations are rated by Fitch and Moody's. For the other type of securitisations, Standard & Poor's is also 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; and
- 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.

The Annual Report contains more detailed information on the accounting policies used by NIBC.

NIBC as investor

Next to its role as originator of securitised products, NIBC has also been active as an investor in securitised products. In 2007, NIBC's perspective on the securitisation market changed and a policy of active de-risking was implemented for both the Western European and North American portfolio. As part of this policy, the complete North American RMBS portfolio was divested and the remaining North American portfolio (consisting of CMBS and CRE-CDO) was transferred from NIBC Bank to NIBC Holding. The Western European portfolio was also significantly reduced in size but remained within NIBC Bank.

At the end of 2009, NIBC set up a Liquidity Investments portfolio. This portfolio was set up to invest part of NIBC's excess liquidity in the securitisation market. Investments are limited to AAA-rated RMBS transactions backed by Dutch collateral, and are eligible to be pledged as collateral with the *European Central Bank* **(ECB).**

In addition to this restrictive mandate, each investment is pre-approved by both the Market Risk and Financial Markets Credit Risk departments.

Securitisation exposures

Under this heading, several overviews regarding the securitisation exposures (retained and purchased) of NIBC Bank are presented, detailing underlying collateral type and credit quality. The figures in this section are 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. Table 32 provides an overview of NIBC Holding's exposures in securitisations at 31 December 2012.

Table 32 EAD of Securitisations portfolio at NIBC Holding, 31 December 2012

IN EUR MILLIONS	Investor	Originator	Total
ABS	4	0	4
CDO/CLO	116	24	140
CMBS	138	160	298
RMBS	146	428	574
NL - RMBS AAA Liquidity portfolio	342	0	342
TOTAL WESTERN EUROPEAN SECURITISATIONS	**746**	**613**	**1,359**
US - New Amsterdam Fund	70	0	70
TOTAL SECURITISATION EXPOSURE	**815**	**613**	**1,428**

Credit quality of Securitisations portfolio

The credit quality is based on an internal composite, following Basel II 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 and third-party securitisations, which have been marked down to between 1% and 10% of their nominal value at 31 December 2012.

Table 33 Rating distribution of Securitisations portfolio (investor), 31 December 2012

IN EUR MILLIONS	AAA	AA	A	BBB	BB	Below BB	Total
ABS	0	1	0	0	0	3	4
CDO/CLO	2	24	40	19	11	19	116
CMBS	54	23	11	22	11	17	138
RMBS	16	20	55	33	10	13	146
NL - RMBS AAA Liquidity portfolio	342	0	0	0	0	0	342
TOTAL WESTERN EUROPEAN SECURITISATIONS (INVESTOR)	**415**	**68**	**106**	**74**	**32**	**52**	**746**
US - New Amsterdam Fund	3	9	8	26	23	0	**70**
TOTAL SECURITISATION EXPOSURE (INVESTOR)	**417**	**77**	**115**	**100**	**55**	**52**	**815**

Table 34 Rating distribution of retained positions in the Securitisations portfolio (originator), 31 December 2012

IN EUR MILLIONS	AAA	AA	A	BBB	BB	Below BB	Total
ABS	0	0	0	0	0	0	0
CDO/CLO	8	10	0	0	2	4	24
CMBS	0	4	9	73	2	72	160
RMBS	108	118	111	35	38	19	428
TOTAL SECURITISATION EXPOSURE (ORIGINATOR)	**116**	**132**	**120**	**108**	**42**	**96**	**613**

In 2012, a large part of the portfolio has been sold (VECA portfolio). The remaining EAD in NIBC Holding Securitisations represents the stake in the New Amsterdam Fund of EUR 70 million, which is scheduled to reduce according to our strategy to further divest our US Securitisation portfolio.

Internal Capital Adequacy Assessment Process

The *Internal Capital Adequacy Assessment Process* **(ICAAP)** of each institution refers to the process in 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 Economic Capital framework. In addition to this, NIBC has set up an extensive framework of historical and theoretical stress scenarios that analyse the impact of severe shocks in the credit risk and market risk environment. The outcomes of these stress scenarios are compared to the available Economic Capital as well as the calculated Economic Capital usage.

Economic capital

Economic Capital (**EC**) is the amount of capital that NIBC allocates as a buffer against potential losses from business activities, based upon its internal 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 *Risk-Adjusted Return On Capital* or RAROC, a risk-weighted measure of return. 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 steered in the ALCO. The ALCO adjusts the maximum allocation level of EC to and within each business, taking into account business expectations and the desired risk profile.

EC methodology

NIBC uses the business model of each activity as the basis for determining the corresponding 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 historical simulation, increased with add-ons for, among other, specific risk and prepayment risk. 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, EAD and LGD. Some exceptions can be made on the basis of the accounting treatment. If assets are accounted for on Fair Value through Profit and Loss deviation from the business model setup are considered on a case-by-case basis to encompass potential profit & loss swings in the EC estimations. For equity investments, a separate EC framework is used. EC for operational risk and country risk is also calculated, as are bank-wide EC charges for business risk, reputational risk, model risk and property risk; property risk (for NIBC's fixed assets). NIBC uses a bank-wide EC framework and fully attributes these charges to business portfolios.

- For both the Corporate Loan portfolio and the Investment Loan portfolio, the EC usage is calculated using a credit risk approach based upon the Basel II regulatory capital formula and an add-on for concentration risk. This portfolio represent the largest part of NIBC Economic Capital;
- For the Debt Investments and Trading portfolios, and the Residential Mortgage portfolio, a market risk approach is used to determine EC usage. Historical data are used to simulate scenarios from which EC is calculated;
- For the Equity Investments, fixed percentages are used, and;
- Other risk types have a fixed EC charge.

The main differences between the EC and regulatory capital framework exist in the Residential Mortgage portfolio, the Securitisations portfolio and NIBC's liquidity portfolio. EC is determined by a market risk approach for these activities because of their business model and accounting classification, while a credit risk approach is used for calculation of Regulatory Capital. As the EC methodology may differ significantly among financial institutions, it is more appropriate to compare the regulatory capital ratios for the purpose of industry comparison of market risk and credit risk exposures.

The EC calculation is based on a one-year risk horizon, using a 99.95% confidence level. This confidence level means that there is a probability of 0.05% that losses in a period of one year will be larger than the allocated EC, based on a constant portfolio and no management intervention.

Diversification

NIBC recognises diversification within market risk as well as diversification between different risk types. The diversification benefit in EC for market risk reflects that portfolios may offset each other, reducing risk. EC is, therefore, calculated at top level and attributed to the underlying portfolios. The difference between this allocated EC and the standalone EC for a portfolio is referred to as diversification.

Table 35 shows the EC per risk type for NIBC Holding and the changes compared to 2011.

Table 35 EC usage per risk type

IN EUR MILLIONS	31 December 2012	31 December 2011	Difference
Market Risk	515	527	-2%
Credit Risk	512	597	-14%
Equity Risk	198	230	-14%
Operational Risk	66	43	52%
Bankwide EC Charges	225	225	0%
Total Undiversified	**1,515**	**1,622**	**-7%**
Diversification effects between risk types	(359)	(345)	4%
TOTAL DIVERSIFIED ECONOMIC CAPITAL	**1,156**	**1,277**	**-9%**

Notable Changes

- 31 December 2011 figures for Market and Equity Risk have been adjusted compared with previous report to reflect some allocation changes and to obtain a like-for-like comparision with 2012 figures;
- Credit risk decreased mainly due to a reduction of the exposures in Commercial Real Estate and Leveraged Finance and improvements of the PDs and LGDs within the Corporate Loan Portfolio;
- Equity risk decreased because of a reduction in the size of NIBC's equity exposure;
- EC for operational risk is consistent with the RC methodology for operational risk, but scaling is applied to obtain a 99.95% confidence level; and
- Bank-wide charges for business risk, reputational risk and model risk are identical to end of 2011.

Stress scenarios

The event risk framework is part of the Pillar 2 framework for Basel II within NIBC. On a quarterly basis, results of the event risk analysis are presented to the RMC and to the RPC, providing senior management and the Supervisory Board members with information that can be taken into account in decisions regarding risk appetite. The event risk report considers the impact of various historical and hypothetical stress scenarios on the P&L, equity and capital ratios of NIBC. Examples of historical scenarios are the Asia crisis, the 9/11 events and the Internet Bubble. Examples of hypothetical scenarios are a deepened credit crisis, a stagflation scenario and large interest rate shifts.

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 be available, without restrictions or time constraints, 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, being Tier-1 capital and Tier-2 capital. The two main components in the regulatory own funds are core equity and subordinated debt. Profit of the year is included in the Tier-1 capital after deductions for proposed dividend. The key terms and conditions of each of these categories are summarised below.

The capital ratio is calculated by dividing the regulatory capital by the risk weighted assets.

Tier-I 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 after deductions for proposed dividend. Retained earnings are earnings from previous years. Minority interest reflects the equity of minority shareholders in a subsidiary. Net profit is included after verification by the external auditor.

Innovative Tier-I hybrid capital

Innovative Tier-1 hybrid 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 exercise and have a relatively high capacity for loss absorption. These instruments must meet strict rules predefined by DNB.

Non-innovative Tier-I hybrid capital

Non-innovative Tier-1 hybrid 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.

Deduction from Tier-I capital

Intangible assets

The deducted intangible assets contain goodwill.

Funding revaluation

Unrealized gains and losses that have resulted from changes in the fair value of liabilities that are due to changes in NIBC's own credit risk.

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

An adjustment is made for the difference between EL and provisions for the related exposures 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. The deduction of 50% is from Tier-1 capital and the remaining 50% from 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 and dated instruments. The total Tier-2 capital may not exceed 50% of the amount of Tier-1 capital and dated Tier-2 capital may not exceed 50% of Tier-1 capital. The limits are set after deductions.

The amount possible to include in the Tier-2 capital related to dated loan capital is reduced if the remaining maturity is less than five years. The outstanding amount in the specific issue is deducted by 20% for each year beyond 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

An adjustment is made for the difference between EL and provision for the related exposures 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. The deduction of 50% is from Tier-1 capital and the remaining 50% from Tier-2 capital. A summary of items included in the regulatory capital is as follows:

Table 36 Items included in the regulatory capital of NIBC Holding N.V., 2012 and 2011

IN EUR MILLIONS	2012	2011
TIER-1		
Called-up share capital	1,408	1,408
Share premium	532	535
Deduction of own shares (treasury shares)	(1)	(3)
Eligible reserves	(291)	(305)
Net profit	82	34
non-controlling interestss	-	1
Deduction of goodwill	(121)	(121)
Regulatory adjustments	(251)	(94)
CORE TIER-1 CAPITAL[1]	**1,358**	**1,455**
Innovative hybrid Tier-1 capital	46	47
Non-innovative hybrid Tier-1 capital	230	233
TOTAL TIER-1 CAPITAL	**1,634**	**1,735**
TIER-2		
Reserves arising from revaluation of property and unrealised gains on available for sale equities	12	22
Qualifying subordinated liabilities		
Undated loan capital	36	36
Dated loan capital	103	158
Regulatory adjustments	(56)	(95)
TOTAL TIER-2 CAPITAL	**95**	**121**
	1,729	**1,856**

1 Adjusted to European Banking Authority (EAB) definition. This definition of capital comprises the highest quality capital instruments.

Changes in Core Tier-1 and Tier-1 capital

The core Tier-1 capital decreased by EUR 96 million. Despite the positive contribution of the net profit of the year (including proposed dividend) of EUR 82 million, regulatory adjustments result in a decrease of core Tier-1 capital. Main reason in the movement of regulatory adjustments is the structured funding revaluation. Total Tier-1 capital decreased by EUR 100 million.

Changes in Tier-2 capital

The Tier-2 capital decreased by EUR 26 million. The main reasons are the buy-back of dated loan capital and movement in regulatory adjustments.

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 the developments in its 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 at 31 December 2012, 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 of NIBC Holding

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

NIBC Holding's Tier-1 capital ratio was 16.9% at end-2012. This is a healthy position that also implies that NIBC Holding can fulfil the tightened Basel III requirements that will be introduced in the coming years.

Tables 37 show the capital ratios of NIBC Holding.

Table 37 NIBC Holding N.V. capital ratios, Basel II

in %	2012	2011
CAPITAL RATIOS		
Core Tier-1 ratio	14.1	12.8
Tier-1 ratio	16.9	15.2
BIS ratio	17.9	16.3

Capital ratios of NIBC Bank

The same definitions for capital ratios apply as given above.

NIBC Bank's Tier-1 capital ratio was 18.1% at end-2012. This is a healthy position that also implies that NIBC Bank can fulfil the tightened Basel III requirements that will be introduced in the coming years.

Tables 38 show the capital ratios of NIBC Bank.

Table 38 NIBC Bank N.V. capital ratios, Basel II

in %	2012	2011
CAPITAL RATIOS		
Core Tier-1 ratio	15.3	**13.8**
Tier-1 ratio	18.1	**16.2**
BIS ratio	19.1	**17.5**

Table 39 shows the capital requirements and RWA for NIBC Holding.

Table 39 Breakdown of EAD, capital requirements and RWA of NIBC Holding N.V.

	2012			2011		
IN EUR MILLIONS	EAD	RWA	Capital requirement	EAD	RWA	Capital requirement
CREDIT RISK	**19,265**	**8,545**	**684**	**21,061**	**10,628**	**850**
AIRB APPROACH						
- of which corporate	9,234	4,561	365	10,166	6,017	481
- of which retail	4,526	760	61	3,940	536	43
- of which securitisations	1,428	1,025	82	1,532	1,250	100
- of which equities	354	1,310	105	461	1,704	137
STANDARDISED APPROACH						
- of which sovereign	1,676	0	0	2,526	0	0
- of which institutions	1,444	486	39	1,638	572	46
- of which retail	327	127	10	398	155	12
- of which corporate	230	229	18	346	340	27
- of which equities	0	0	0	1	1	0
- of which other	47	47	4	53	53	4
MARKET RISK		**324**	**26**		**244**	**20**
- of which trading book VaR		304	24		234	19
- of which FX Standardised approach		20	2		10	1
OPERATIONAL RISK		**771**	**62**		**507**	**41**
Standardised approach		771	62		507	41
TOTAL	**19,265**	**9,641**	**772**	**21,061**	**11,379**	**911**

Remuneration Policy

The Supervisory Board reviewed and amended NIBC's Remuneration Policy in 2012. The review took into account all relevant regulations and guidelines: the Dutch Corporate Governance Code, the Dutch Banking Code, the *DNB Principles on Sound Remuneration Policies* (**DNB Principles**), including additional DNB guidance on the implementation of the DNB Principles and the *Committee of European Banking Supervisors Guidelines on Remuneration Policies and Practices* (**CEBS Guidelines**). In 2012, DNB assessed the Remuneration Policy of NIBC and concluded that it was in line with the DNB Principles.

NIBC's Remuneration Policy is sustainable, balanced and in line with our chosen strategy and risk appetite. It identifies the following five key principles: remuneration is (i) aligned with business strategy; (ii) appropriately balanced between shortterm and long-term; (iii) differentiated and relative to the realisation of performance objectives and the results of the bank; (iv) externally competitive and internally fair; and (v) managed in an integrated, total compensation manner. In response to social developments and further regulatory changes, the Supervisory Board decided to further amend the Remuneration Policy for the Managing Board in early 2012. This resulted in an even more sustainable and long-term Remuneration Policy. The amendment includes eliminating short-term variable compensation altogether and strengthening the existing long-term compensation element.

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

The 2012 Annual Report contains a detailed overview of NIBC's remuneration policy.

Appendix 1
Scope of Application

NIBC's 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 (SPE)) over which the group has the power, directly or indirectly, to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the group 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 the 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 (as that term is used in IAS 28) within NIBC are designated upon initial recognition as financial assets at Fair Value through Profit or :oss. 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 N.V.	Voting power	Domicile	Consolidation method
NIBC Bank N.V.	100%	The Netherlands	Purchase method
NIBC Venture Capital N.V.	100%	The Netherlands	Purchase method
NIBC Credit Management Inc.	100%	The United States	Purchase method
NIBC Investment Management N.V.	100%	The Netherlands	Purchase method
NIBC Investments N.V.	100%	The 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%	The Netherlands	Purchase method
Parnib Holding N.V.	100%	The Netherlands	Purchase method
Counting House B.V.	100%	The Netherlands	Purchase method
NIBC Principal Investments B.V.	100%	The Netherlands	Purchase method

Table 3 Prudential filter: subsidiaries treated as associates included in the capital base

Subsidiaries of NIBC Bank N.V.	Voting power	Domicile	Consolidation method
Olympia Nederland Holding B.V.	100.0%	The Netherlands	Equity method

Appendix 2
List of Abbreviations

ACC	Audit and Compliance Committee
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 Rating
CDO	Collateralised Debt Obligations
CDS	Credit Default Swap
CFO	Chief Financial Officer
CLO	Collateralised Loan Obligations
CMBS	Collateralised Mortgage-Backed Securities
CRD	Capital Requirements Directive
CRDR	Conditional Restricted Depositary Receipts
CRM	Credit Risk Management (department)
CRO	Chief Risk Officer
CSA	Credit Support Annex
CVA	Credit Value Adjustments
DNB	Dutch Central Bank
EAD	Exposure at Default
EBA	European Banking Authority
EC	Economic Capital
ECB	European Central Bank
ECC	Engagement and Compliance Committee
EL	Expected Loss
FAR	Food, Agriculture and Retail
FMCR	Financial Markets Credit Risk (department)
FX	Foreign Exchange
FPSO	Floating, Production, Storage and Offloading
IC	Investment Committee
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity 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
LTI	Long Term Incentive (compensation)
LtIMV	Loan-to-Indexed Market Value
MR	Market Risk & Risk Analytics (department)
NHG Guarantee	Dutch government guarantee
NPAP	New Product Approval Process
ORM	Operational Risk Management (department)
OTC	Over-the-Counter derivatives
P&L	Profit & Loss account
PD	Probability of Default
PSU	Phantom Share Units
PECDC	Pan-European Credit Data Consortium
RAROC	Risk-Adjusted Return on Capital
RC	Pillar-1 Regulatory Capital
RDA	Restructuring & Distressed Assets Management (deparment)
RL	Realised Loss
RMBS	Residential Mortgage-Backed Securities
RMC	Risk Management Committee
RNC	Remuneration and Nominating Committee
RPC	Risk Policy Committee
RP&R	Risk Policy and Reporting (department)
RWA	Risk Weighted Assets
SA	Standardized Approach
SPE	Special Purpose Entity
SREP	Supervisory Review and Evaluation Process
STI	Short Term Incentive (compensation)
SVaR	Stressed VaR
TC	Transaction Committee
TMS	Technology, Media and Services
VaR	Value-at-Risk
Wft	Wet op het Financieel Toezicht

NIBC Holding N.V.
Carnegieplein 4
2517 KJ The Hague, the Netherlands
P.O. Box 380
2501 BH The Hague, the Netherlands
www.nibc.com