

CAPITAL ADEQUACY AND RISK MANAGEMENT REPORT 2013

PILLAR 3

NIBC HOLDING



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Introduction

Goal and overview

NIBC's Capital Adequacy and Risk Management (Pillar 3) Report contains information that enables an assessment of the risk profile and capital adequacy of NIBC Holding N.V. This publication fulfils the requirements of the Basel II framework, as stipulated in the *Capital Requirements Directive 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 ratings-based approach 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
- Tax 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 2013 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 2013

The long-standing adverse economic environment and volatile market conditions in Europe persisted in 2013. The Netherlands, our main market, remained in recession for much of the year, with depressed business and consumer confidence subduing demand for banks' corporate lending and advisory services, as well as for residential mortgages. This climate is also encouraging many businesses to continue reducing their debt, rather than invest in new projects.

In 2013, we further enhanced our forward-looking, proactive attitude and structured disciplined approach to managing risk across all three lines of defence. 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 book, especially in the commercial real estate and shipping sectors. Besides the essential attention we paid to credit risk and market risk, we continued raising awareness of operational risk so that everyone at NIBC understands this is about ensuring our own people, systems and processes do not fail, and we do not make mistakes that result in business losses. We actively try to learn from operational deficiencies and ensure that lessons learned are shared across the organisation.

We are constantly working to develop a stronger risk culture and behaviour to underpin NIBC's strategic goals. Further examples of our actions and their outcomes in 2013 include:

- Through its credit and new product approval processes, Risk Management actively supported Corporate Banking in closing some landmark transactions, such as the managed account with Belgian insurer P&V, the conditional pass-through covered bond and the infrastructure Adriana CLO. It also supported Consumer Banking in the launch of NIBC Direct-branded mortgages;
- NIBC enhanced its asset quality by further de-risking its portfolio through the divestment of noncore assets;
- We received approval from DNB to use our internally developed models for the calculation of capital requirements for our bank counterparties exposure under the advanced Basel approach. This portfolio had been originally exempt from the approval we received in 2008;
- NIBC further strengthened and diversified its funding position. Liquidity remained key and was strong throughout the year. Interest rate risk management was further enhanced in view of the low interest rate environment and our changed funding model; and
- We further promoted bank-wide awareness of operational risk by increasing the frequency of *operational risk and control self-assessments (RCSA)* across all business units and countries. We appointed operational risk 'champions' in the first line to ensure early identification and proper management of risks and events.

Understanding client interest and the suitability of our products for our clients is embedded in our Corporate and Consumer Banking product offering. Especially 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 to these customers and of their need for smooth, efficient, effective and transparent service. Our expanding retail activity also increases the importance of managing reputational risks. We are building NIBC's strength and value while supporting the economies and communities in which we operate. Compliance with local and international laws and regulations – both the letter and the spirit – and corporate responsibility are cornerstone values of our risk management principles. This is integral to our client-focused model: by ensuring our clients thrive, so does NIBC. We wish to work with clients who meet our ethical, environmental, social and other sustainability standards and to fulfil our duty of care to all our clients.

We appointed a Regulatory Officer within the Compliance department to monitor developments in the regulatory field and to ensure adequate and timely implementation of regulatory requirements. Alongside the internal programme Banking on Trust, the Compliance department launched an e-learning tool on trust and integrity aimed at all NIBC employees. In addition, Risk Management continued expanding its internal training offering through tailor-made trainings and awareness sessions on credit skills and models, risk management topics in the Analyst Programme, regulation (such as EMIR/central clearing, AIFMD, clients' interests first and other compliance topics) and operational risk.

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 2014, our structured, disciplined and proactive approach to risk management supports us operating in an economic environment that remains fragile - although there are positive indicators of macroeconomic recovery as we enter the year.

Risk appetite and risk management strategy

Risk appetite within NIBC is defined as the level and type of risk a firm is able and willing to assume in its exposures and business activities, given its business objectives and obligations to stakeholders. Risk appetite is generally expressed through both quantitative and qualitative means and should consider extreme conditions and events. The outcomes of NIBC's Stress Testing framework and consequently risk appetite are reported quarterly to the *Risk Management Committee (RMC)* and *Risk Policy Committee (RPC)* by Risk Management. Based on budgets and forecasts, risk appetite outcomes are predicted on a forward-looking basis enabling management to consider NIBC's risk profile in strategic decision making. Limits are adjusted according to the bank's strategy, while temporary limits are considered if the business activities are unable to adapt to the bank's risk appetite within historically anticipated timelines. NIBC has defined a desired risk profile and a commensurate range in which it aims to operate in terms of liquidity, profitability and capital. While temporary limits and outcomes of the Risk Appetite Framework can be outside of this target zone, they should at all times be above NIBC's pre-defined Recovery thresholds. If NIBC is operating below these thresholds, its Recovery Plan is triggered in which measures have been formulated to recover towards an acceptable Risk Profile. Throughout NIBC, the desired risk profile is translated into Key Risk Indicators and risk limits.

Currently, the risk appetite framework consists of four elements, for which limits have been formulated and approved by the RPC. These four elements are designed to review the adequacy of NIBC's capital and liquidity position under varying circumstances. They consist of targets on profit and loss and Fair Value losses due to

severe stress as defined in the Event Risk framework, buffer requirements to facilitate *Economic Capital* (EC) usage under stress, a minimum for the core Tier-1 capital ratio and restrictions on the outcome of three Liquidity Stress tests.

On an annual basis, Risk Management reviews all hypothetical, historical and regulatory scenarios used, to see if they are still relevant and comprehensive enough to capture all significant risks contained in NIBC's positions. The set of selected stress scenarios are designed to provide the business with incentive to improve asset quality and combined they provide a holistic overview of NIBC's risk profile and the sensitivities.

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 seven different sectors (Commercial Real Estate, Infrastructure & Renewables, Shipping & Intermodal, Industries & Manufacturing, Oil & Gas Services, Food, Agriculture & Retail, Technology, Media & Service) 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 and Mismatch books, 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 2013, 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 monthly to the Asset & Liability Committee.

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 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 members of these committees are representatives from risk management and from the business.

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.

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 NIBC is exposed to. These departments are Credit Risk Management, Restructuring & Distressed Assets, Market Risk Management, Risk Analytics & Model Validation, Financial Markets Credit Risk, Risk Policy & Reporting and Operational Risk Management. In 2013, *Asset & Liability Management (ALM)* moved to the new combined Treasury & ALM department to strengthen the first line of defence, to bring liquidity management responsibility close to the funding management responsibility and in order to take responsibility for the Banking book activities.

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.

The *Market Risk Management* department (**MRM**) is responsible for monitoring the market risk of the Treasury activities, both inside and outside the trading book. MRM also monitors the bank-wide currency

position. The *Risk Analytics & Model Validation* department (**RA/MV**) is mainly responsible for the development and maintenance of NIBC's Risk Appetite framework, Economic Capital modelling and reporting, performing regulatory and internal stress tests and model validation.

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 *New Product Approval Process* (**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**) since 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 91% 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 ratings-based approach 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 2013 and 2012.

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

IN EUR MILLIONS	2013				2012			
	Exposure	EAD	RWA	Capital requirement	Exposure	EAD	RWA	Capital requirement
AIRB APPROACH								
- of w hich corporate	8,229	7,868	3,678	294	9,700	9,234	4,561	365
- of w hich retail	4,591	4,591	651	52	4,526	4,526	760	61
- of w hich securitisations	1,401	1,401	926	74	1,428	1,428	1,025	82
- of w hich equities	379	379	1,401	112	354	354	1,310	105
SUBTOTAL	14,601	14,240	6,656	532	16,008	15,541	7,656	612
STANDARDISED APPROACH								
- of w hich institutions	1,825	1,586	498	40	1,677	1,444	486	39
- of w hich sovereign	1,236	1,236	0	0	1,676	1,676	0	0
- of w hich retail	250	250	125	10	327	327	127	10
- of w hich corporate	181	181	175	14	230	230	229	18
- of w hich equities	0	0	0	0	0	0	0	0
- of w hich other	45	45	45	4	47	47	47	4
SUBTOTAL	3,538	3,298	843	67	3,956	3,724	890	71
TOTAL CREDIT RISK	18,138	17,538	7,499	600	19,965	19,265	8,545	684

Small differences are possible in the table due to rounding

The RWA of NIBC decreased by 11% between 2013 and 2012 due to a variety of factors:

- The RWA for the *Corporate* exposure class decreased by 20% compared to 2012, mainly due to the continuation of actively divesting assets in the Corporate Loan portfolio. Consequently, the part of the portfolio treated under the Standardised Approach also further decreased;
- The total RWA's of the *Retail* portfolio decreased by 13%, mainly because of the improved credit quality of a larger part of the portfolio resulting in lower risk weights and RWAs. Next to this, the size of the German Residential Mortgages portfolio, which is treated under the Standardised Approach, decreased;
- The RWA consumption of the *Securitisations* exposure class decreased by 10%. This decrease is the result of the reduction of the total portfolio;

- The increase of 7% in the RWA of the *Equities* exposure class is mainly due to a debt-for-equity restructuring in 2013; and
- RWA for *Institutions* increased by 2%. This is mainly related to the increase in the size of NIBC's Debt Investments portfolio in 2013. Besides, the credit profile of the portfolio improved in 2013 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 2013. Table 4 shows a average breakdown of 2013 (based on beginning and end of the year).

Table 3 Breakdown of credit EAD types by exposure class, 31 December 2013

IN EUR MILLIONS				
Exposure Class	On-Balance	Off-Balance	Derivatives	Total
AIRB APPROACH				
- of w hich corporate	6,682	563	623	7,868
- of w hich retail	4,590	1	0	4,591
- of w hich securitisations	1,235	0	166	1,401
- of w hich equities	340	39	0	379
SUBTOTAL	12,847	603	789	14,240
STANDARDISED APPROACH				
- of w hich institutions	1,201	1	383	1,586
- of w hich sovereign	1,236	0	0	1,236
- of w hich retail	250	0	0	250
- of w hich corporate	152	29	0	181
- of w hich equities	0	0	0	0
- of w hich other	45	0	0	45
SUBTOTAL	2,884	30	383	3,298
TOTAL	15,731	634	1,173	17,538

Small differences are possible in the table due to rounding

Table 4 Breakdown of credit EAD types by exposure class, average 2013

IN EUR MILLIONS				
Exposure Class	On-Balance	Off-Balance	Derivatives	Total
AIRB APPROACH				
- of w hich corporate	7,091	667	793	8,551
- of w hich retail	4,558	1	0	4,559
- of w hich securitisations	1,279	0	136	1,415
- of w hich equities	326	41	0	366
SUBTOTAL	13,253	709	928	14,891
STANDARDISED APPROACH				
- of w hich institutions	1,177	2	335	1,515
- of w hich sovereign	1,456	0	0	1,456
- of w hich corporate	171	30	5	206
- of w hich retail	289	0	0	289
- of w hich equities	0	0	0	0
- of w hich other	46	0	0	46
SUBTOTAL	3,139	32	340	3,511
NIBC TOTAL	16,392	741	1,268	18,401

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 84% of the total EAD. This percentage increases to 93% 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 2013

IN EUR MILLIONS								
Exposure Class	The Netherlands	United Kingdom	Germany	Rest of Europe	North America	Asia / Pacific	Other	Total
AIRB APPROACH								
- of w hich corporate	2,416	1,682	1,662	1,108	318	405	279	7,868
- of w hich retail	4,591	0	0	0	0	0	0	4,591
- of w hich securitisations	998	157	41	204	0	1	0	1,401
- of w hich equities	319	10	0	20	29	0	0	379
SUBTOTAL	8,324	1,849	1,703	1,332	346	406	279	14,240
STANDARDISED APPROACH								
- of w hich institutions	603	563	10	250	159	0	0	1,586
- of w hich sovereign	1,236	0	0	0	0	0	0	1,236
- of w hich retail	0	0	250	0	0	0	0	250
- of w hich corporate	146	19	9	2	0	5	0	181
- of w hich equities	0	0	0	0	0	0	0	0
- of w hich other	45	0	0	0	0	0	0	45
SUBTOTAL	2,030	582	270	252	159	5	0	3,298
TOTAL	10,354	2,431	1,973	1,584	506	411	279	17,538
TOTAL (in %)	59%	14%	11%	9%	3%	2%	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 2013

IN EUR MILLIONS							
Exposure Class	Retail Markets	Financial Services	Infrastructure & Renewables	Commercial Real Estate	Government / Central Banks	Shipping	Oil & Gas
AIRB APPROACH							
- of w hich corporate	0	734	2,192	1,569	0	1,134	786
- of w hich retail	4,591	0	0	0	0	0	0
- of w hich securitisations	759	0	0	278	0	0	0
- of w hich equities	0	80	83	15	0	0	0
SUBTOTAL	5,350	813	2,275	1,862	0	1,134	786
STANDARDISED APPROACH							
- of w hich sovereign	0	0	0	0	1,150	0	0
- of w hich institutions	0	1,585	0	0	0	0	0
- of w hich retail	250	0	0	0	0	0	0
- of w hich corporate	0	28	20	7	0	0	5
- of w hich equities	0	0	0	0	0	0	0
- of w hich other	0	0	0	0	0	0	0
SUBTOTAL	250	1,614	20	7	1,150	0	5
TOTAL	5,601	2,427	2,295	1,869	1,150	1,134	790
TOTAL (in %)	32%	14%	13%	11%	7%	6%	5%

Small differences are possible in the table due to rounding

IN EUR MILLIONS							
Exposure Class	Manufacturing	Wholesale/ Retail/Leisure	Services	Agriculture & Food	TMT	Other	TOTAL
AIRB APPROACH							
- of w hich corporate	482	337	393	149	95	0	7,868
- of w hich retail	0	0	0	0	0	0	4,591
- of w hich securitisations	32	0	0	0	0	332	1,401
- of w hich equities	11	141	30	0	0	18	379
SUBTOTAL	525	478	423	149	95	350	14,240
STANDARDISED APPROACH							
- of w hich institutions	0	0	0	0	0	0	1,586
- of w hich sovereign	0	0	0	0	0	86	1,236
- of w hich retail	0	0	0	0	0	0	250
- of w hich corporate	3	0	0	19	11	87	181
- of w hich equities	0	0	0	0	0	0	0
- of w hich other	0	0	0	0	0	45	45
SUBTOTAL	3	0	0	19	11	218	3,298
TOTAL	529	478	423	168	106	568	17,538
TOTAL (in %)	3%	3%	2%	1%	1%	3%	100%

Small differences are possible in the table due to rounding

Retail Markets

The sector with the highest EAD is Retail Markets (32% 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 remained stable in 2013. With respect to mortgages, the origination volume of NIBC since 2009 has been very limited and mainly focused on further advances for our existing customers. As sentiment on the Dutch housing market improved, 2013 saw the start of new origination with the introduction of the NIBC Direct mortgage. 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.

Financial Services

The next largest sector is Financial Services with a total EAD of EUR 2,427 million at 31 December 2013 (14% of total EAD), which contains all of NIBC's institutions exposure class, as well as corporate exposures. At 31 December 2013, the weighted average CCR of all corporate exposures in this sector was 5- (BB-) and the weighted average LGD rating was B-1 (12.5%). 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, 44% of the EAD in the financial services sector is located in the Netherlands, 29% in the United Kingdom, 8% in North America, 7% in Germany and the remainder in the rest of Europe.

Infrastructure & Renewables

The total EAD of the sector Infrastructure & Renewables amounted EUR 2,295 million at 31 December 2013. The EAD relates almost exclusively to corporate loan and derivative exposures (96%) with the remaining relating to equity exposures. In terms of geographical distribution, 61% of the portfolio's EAD is located in the United Kingdom, 16% in Germany, 15% in the Netherlands and 8% in the rest of Europe. The portfolio spans across various industry sub-sectors, of which education (25%), healthcare (22%), renewable energy (17%), roads & railways (14%), and water supply, waste and sewerage (9%) are the most important ones.

The market witnessed an increased appetite from institutional investors in the last year, to which the sector's increased focus on the capital markets led to the execution of a landmark transaction. This deal subsequently won the Thomson Reuters Project Finance International European Public Private Partnership deal of the year. There was a continued application of the team's expertise to execute advisory mandates.

The growth in the renewables segment also continued in 2013, driven by the attractiveness and availability of transactions. 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 381 million at 31 December 2013, an increase of 6% compared to the total EAD in 2012. Of this portfolio, 55% was located in Germany, 34% in the United Kingdom, 7% in the Netherlands and the remainder predominantly in other EU countries.

Due to the overall adverse economic sentiment in Europe, the credit quality of the portfolio deteriorated throughout 2013. In 2013, the weighted average CCR shifted two notched from 5 (BB) to 6+ (B+), while the weighted average LGD rating remained stable at B-1 (12.5%).

With respect to risks in the Infrastructure & Renewables portfolio, a significant distinction can be made between assets in construction (approximately 14% of the portfolio) and in operational phase (approximately 86% 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 of reputable banks. The existence of such security packages results in a better-than-average risk profile, despite the current increased risk profile of individual construction companies. Through-out the portfolio, only the established Western European construction companies are involved in the infrastructure projects.

Commercial Real Estate

The EAD size of the Commercial Real Estate sector amounted to EUR 1,869 million at 31 December 2013, which contains NIBC's commercial real estate corporate loans and securitisation notes of *commercial mortgage-backed securities (CMBS)*. During 2013, the portfolio size decreased strongly due to client prepayments and repayments as well as the sale of selective exposures.

With respect to the corporate EAD, the commercial real estate sector showed stable credit quality in 2013. At 31 December 2013, the weighted average CCR of the portfolio was 6- (B-) and the weighted average LGD rating was B-1 (12.5%).

In 2013, the emphasis was on active portfolio management with frequent screenings and semi-annual reviews of key clients. Credit default swap protection (EUR 98 million) remained in place and significant steps were taken in restructuring a number of exposures, which resulted in a better overall portfolio quality. More than 65% of the portfolio is appraised every year by external parties, with another 15% carried out on demand of the lender, both in line with the increased focus on external and timely valuations. Early engagement with clients is pursued for 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 (54%), Germany (41%) and the United Kingdom (2%). Residential commercial property financing accounts for 54% 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 (70%), where in general the market has remained strong. Other prominent segments relate to offices (11%), hotels (7%) and retail property financing (2%).

Government/Central Banks

The sector Government/Central Banks (EUR 1,150 million or 7% 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 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. The adverse economic conditions that the industry has been experiencing for the past years continued throughout 2013 but this seems to be bottoming out. The sector did not experience new defaults with the portfolio stabilising leaving room for new opportunities. Emphasis on asset quality, owner of the asset and access to cargo, all of which are required for healthy cash flow generation, continued. In 2013, NIBC also centralised its Shipping & Intermodal activities to its headquarters creating a knowledge centre and economies of scale to better serve its clients globally.

The portfolio size reduced in 2013, despite new transactions broadening the client base. The EAD of all shipping exposures was EUR 1,134 million at 31 December 2013. Tankers represented 38% of the Shipping portfolio, bulk carriers 26%, container vessels 11% and container boxes (intermodal) 8%. The remainder of the portfolio included, among other, financing of car carriers. Geographical distribution remained stable, with borrowers being mainly active in Europe (44%), Asia/Pacific (25%) and North America (20%).

At the 31 December 2013, 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 2013 and the EAD of the portfolio decreased to EUR 790 million despite a large number of new transactions. 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 (32%), drilling (29%) and production (18%) are the most prominent subsectors.

In terms of geographical focus, the sector is balanced across Europe (58%), Asia/Pacific (14%) and North America (11%) and the assets are located all over the world in key oil and gas areas.

In 2013, the overall risk profile remained solid with no defaults, impairments or arrears. The credit quality of the oil & gas portfolio remained stable at 31 December 2013, 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 2013.

Other sectors

The remaining sectors in NIBC's portfolio together account for 13% 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 sector Manufacturing mainly focuses on industrial production, consumer products and chemicals. The sector Services consists of non-financial service providers such as transport, storage, healthcare, education and logistics. 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 80% of the corporate EAD.

In 2013, NIBC continued strengthening 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. The average credit quality remained stable compared to 2012 and ranged in the 6+ to 6 (B+ to B) categories in terms of weighted average CCR, whereas the weighted average LGD was between 12.5% to 18% (B-1 to B-2 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 and commercial real estate) or project (e.g. infrastructure) financing. 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 80% 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 2013

IN EUR MILLIONS					
Exposure Class	≤ 1 year	> 1 year - ≤ 2 years	> 2 years - ≤ 5 years	> 5 years	Total
AIRB APPROACH					
- of w high corporate	983	707	3,257	2,922	7,868
- of w high retail	1	1	4,589	0	4,591
- of w high securitisations	169	475	505	252	1,401
- of w high equities	116	0	18	245	379
SUBTOTAL	1,269	1,183	8,369	3,418	14,240
STANDARDISED APPROACH					
- of w high institutions	864	114	407	201	1,586
- of w high sovereign	1,236	0	0	0	1,236
- of w high retail	250	0	0	0	250
- of w high corporate	122	12	32	15	181
- of w high equities	0	0	0	0	0
- of w high other	0	0	0	45	45
SUBTOTAL	2,472	125	439	261	3,298
TOTAL EAD	3,741	1,308	8,808	3,680	17,538

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%.

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. In 2013, both the back-test and the benchmark of NIBC's CCRs provided satisfactory results.

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.

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). 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 necessarily 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 II 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.

Due to the continuing deteriorated economic conditions, the weighted average PD for almost all rating grades was slightly higher compared to 2012. For the total corporate exposure class, the weighted average PD was 2.8%, also higher compared to 2012. 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) at 31 December 2013. The weighted-average LGD improved to 15.5% at 31 December 2013 from 16.2% at 31 December 2012. The relative stability in CCRs 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 2013

IN EUR MILLIONS						
Rating Scale	WA PD	WA LGD	On-balance	Off-balance	Derivatives	Total
1/2 (AAA/AA)	0.04%	8.82%	84	0	0	84
3 (A)	0.12%	9.27%	54	0	4	58
4 (BBB)	0.34%	13.31%	1,705	106	245	2,057
5 (BB)	1.05%	14.11%	1,737	208	65	2,010
6 (B)	3.30%	18.06%	2,158	231	190	2,580
7 (CCC)	12.81%	17.85%	338	18	86	442
8 (CC/C)	25.48%	18.43%	122	0	12	134
9/10 (D)	100.00%	n.a.	485	0	20	504
TOTAL	2.8%	15.5%	6,682	563	623	7,868

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 costs 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, an increase in losses occurred since 2009. 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. In 2013, the weighted average PD of the retail portfolio deteriorated, while the weighted average LGD improved. At 31 December 2012, the WA PD and LGD were 2.2% and 18.7% respectively.

Table 9 Breakdown of retail AIRB EAD by weighted average PD, weighted average LGD and EAD type, 31 December 2013

IN EUR MILLIONS					
PD bucket	WA PD	WA LGD	On-balance	Off-balance	Total
0.1% - 0.2%	0.11%	10.65%	1,540	0	1,540
0.3% - 0.4%	0.30%	15.07%	1,299	0	1,299
0.5% - 0.6%	0.51%	19.56%	965	1	966
0.7% - 0.9%	0.71%	28.05%	447	0	447
1% - 2%	1.11%	31.09%	80	0	80
2% - 5%	4.36%	15.92%	30	0	30
5% - 99%	19.55%	24.00%	142	0	142
100%	100.00%	23.84%	87	0	87
TOTAL	2.8%	16.5%	4,590	1	4,591

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 379 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 2013

IN EUR MILLIONS								1250% or deducted	Total
Risk weight	< 10%	10% - 20%	25% - 50%	60% - 100%	150% - 225%	250% - 850%			
Retained	120	129	37	62	0	103	111	562	
Purchased	530	178	40	20	7	17	47	839	
TOTAL	650	308	76	82	7	119	159	1,401	

Small differences are possible in the table due to rounding

Standardised Approach

For the calculation of RWA under the Standardised approach, 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. For defaulted retail exposures 100% and 150% risk weights are applicable.

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 2013

IN EUR MILLIONS								Total
Exposure Class	0%	20%	35%	50%	75%	100%	150%	
Institutions	72	864	0	650	0	0	0	1,586
Sovereign	1,236	0	0	0	0	0	0	1,236
Retail	0	0	184	0	52	0	14	250
Corporate	0	0	0	0	0	181	0	181
Equities	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	45	0	45
TOTAL	1,308	864	184	650	52	226	14	3,298

Table 12 Standardised RWA per risk weight, 31 December 2013

IN EUR MILLIONS								Total
Exposure Class	0%	20%	35%	50%	75%	100%	150%	
Institutions	0	173	0	325	0	0	0	498
Corporate	0	0	0	0	0	175	0	175
Retail	0	0	64	0	39	0	21	125
Equities	0	0	0	0	0	0	0	0
Sovereign	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	45	0	45
TOTAL	0	173	64	325	39	220	21	843

Table 13 provides a breakdown of our Debt Investments per exposure class. In the course of 2013, the size of our Debt Investment portfolio increased by 18% to EUR 711 million. The credit profile of this portfolio improved in 2013 through increased investments in covered bonds. Of the total portfolio 41% was covered bonds, the remaining 59% was unsecured debt.

Table 13 Breakdown of Debt Investments per exposure class, 31 December 2013

IN EUR MILLIONS			
Exposure Class	EAD	RWA	Capital requirement
Institutions	679	235	19
Corporate	32	32	3
TOTAL	711	267	21

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 (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 and rigs.

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.

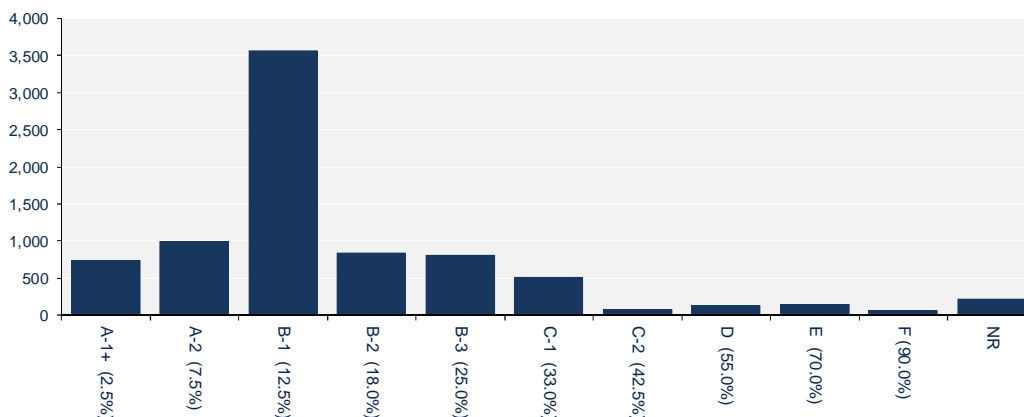
Graph 1 shows the distribution of corporate EAD per internal LGD rating. Note that the corporate exposures of the graph refer to non-defaulted exposures, given that the LGD is a measure of anticipated loss from the facilities of a non-defaulted counterparty. When a counterparty defaults, the impairment 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%. NIBC's weighted average LGD for the corporate exposure class at 31 December 2013 was 15.5%, improved in comparison to 2012 (16.2%).

Graph I Breakdown of corporate EAD (EUR 8,050 million) per LGD rating, 31 December 2013



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;
- 30% of the Dutch Own Book portfolio (and 24% of the Dutch Securitised portfolio) are covered by the NHG programme; and
- Approximately 38% 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 20% 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 2013, 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 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 504 million (31 December 2012: EUR 583 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 definition¹), 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.

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 2013. The column labelled *Defaulted EAD Corporate* shows the total EAD of counterparties carrying a internal default rating 9 or 10 (EUR 504 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 60 million). *Impaired EAD Corporate* shows the EAD of those facilities carrying an impairment amount (EUR 429 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.

¹ 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.

As in previous years, the impact of the economic crisis on the corporate exposure class was also felt in 2013. However, compared to 2012, the total impairment amount of the corporate exposure class decreased by EUR 34 million. A limited number of 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, TMT and financial services).

Table 14 Breakdown of defaulted, non-performing and impaired exposure in corporate exposure class per region, 31 December 2013

IN EUR MILLIONS					
Region	Total EAD Corporate	Defaulted EAD Corporate	Non-performing EAD Corporate	Impaired EAD Corporate	Impairment
The Netherlands	2,562	66	10	48	27
United Kingdom	1,701	33	0	8	0
Germany	1,671	310	18	283	40
Rest of Europe	1,109	37	20	36	24
Asia / Pacific	410	60	12	54	13
North America	318	0	0	0	0
Other	279	0	0	0	0
IBNR					5
TOTAL	8,050	504	60	429	109
IN % TOTAL EAD		6.3%	0.8%	5.3%	

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 2013

IN EUR MILLIONS					
Industry sector	Total EAD Corporate	Defaulted EAD Corporate	Non-performing EAD Corporate	Impaired EAD Corporate	Impairment
Infrastructure & Renewables	2,212	23	7	17	4
Commercial Real Estate	1,576	321	16	292	48
Shipping	1,134	76	32	70	31
Oil & Gas	790	0	0	0	0
Financial Services	762	9	0	9	1
Manufacturing	485	0	0	0	0
Services	393	51	4	27	13
Wholesale/Retail/Leisure	337	14	0	12	6
Agriculture & Food	168	0	0	0	0
TMT	106	9	0	2	2
Other	87	0	0	0	0
IBNR					5
TOTAL	8,050	504	60	429	109
IN % TOTAL EAD		6.3%	0.8%	5.3%	

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 60 million having an amount in arrear for above 90 days is collateralised by commercial real estate and (chemical) tankers.

Table 16 EAD with an amount in arrear, corporate exposure class, 31 December 2013

IN EUR MILLIONS	Corporate EAD	Amount in arrear
1 - 5 days	74	5
6 - 30 days	0	0
31 - 60 days	0	0
61 - 90 days	0	0
SUBTOTAL LESS THAN 90 DAYS	74	5
Over 90 days	60	53
No payment arrear	7,915	0
TOTAL	8,050	58

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. Newly originated mortgage loans are classified as amortised cost and subsequently an impairment procedure is in place. The last years showed an increase in losses, due to current market circumstances. 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, client retention 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 2013. The table also shows those EADs with technical past-due amounts. These amounts contain those borrowers with an amount in arrear below EUR 250. At 31 December 2013, the total amount in arrear was EUR 7.7 million (0.2% of the portfolio EAD).

Table 17 EAD with an amount in arrear, retail exposure class, 31 December 2013

IN EUR MILLIONS	Retail EAD	Amount in arrear
Technical past-due amounts	15	0.3
1 - 30 days	107	0.7
31 - 60 days	39	0.5
61 - 90 days	24	0.4
SUBTOTAL LESS THAN 90 DAYS	184	1.9
Over 90 days	92	5.8
No payment arrear	4,570	0.0
TOTAL	4,841	7.7

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* 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 68 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 2013

IN EUR MILLIONS			
Region	Total EAD Equity	Impaired EAD Equity	Impairment
The Netherlands	319	0	8
North America	29	21	38
Rest of Europe	20	10	2
United Kingdom	10	0	0
Germany	0	0	20
Asia / Pacific	0	0	0
TOTAL	379	31	68

Small differences are possible in the table due to rounding

Table 19 Breakdown of impairments on equity exposure class per industry sector, 31 December 2013

IN EUR MILLIONS			
Industry Sector	Total EAD Equity	Impaired EAD Equity	Impairment
Wholesale/Retail/Leisure	141	0	0
Infrastructure & Renewables	83	0	0
Financial Services	80	21	58
Services	30	0	0
Commercial Real Estate	15	0	0
Manufacturing	11	0	0
Shipping	0	0	1
Agriculture & Food	0	0	0
TMT	0	0	0
Other	18	10	10
TOTAL	379	31	68

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* presents the remaining EAD after the impairment has been taken.

Table 20 Breakdown of impairments on securitisation exposure class per collateral type, 31 December 2013

IN EUR MILLIONS			
	Total EAD Securitisation	Impaired EAD Securitisation	Impairment
ABS	3	0	0
CDO/CLO	122	8	25
CMBS	255	4	15
RMBS	512	0	1
TOTAL WESTERN EUROPEAN SECURITISATIONS	892	12	41
NL - RMBS AAA Liquidity Portfolio	374	0	0
EU - ABS AAA Liquidity Portfolio	134	0	0
TOTAL SECURITISATION EXPOSURE	1,401	12	41

Small differences are possible in the table due to rounding

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 financial crisis on the corporate exposure class in 2013 was less pronounced when compared to the period 2008-2012; however, 2013 began in the same challenging way as 2012 ended. The first half year of 2013 was difficult mainly due to the persisting economic and political uncertainty.

The impact of the crisis differed between the various corporate segments. In 2013, new impairments were taken on shipping and commercial real estate exposures, while other parts of the corporate exposures carried either no impairments (e.g. oil & gas) or very small amounts (e.g. infrastructure, TMT and financial services). Write-offs of previously impaired exposures were taken for certain exposures in the wholesale/retail/leisure, commercial real estate and services 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 2013, the amount of 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 good 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 2013 and 2012 for NIBC's corporate and retail exposure classes. Due to the persisting difficult markets, 2013 ended with higher realised losses for NIBC (43 basis points) compared to 2012 (22 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

2013		2012	
EL	RL	EL	RL
36	43	35	22

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. 25% of the outstanding derivative notional amount is cleared centrally.

In line with market practice, IFRS *credit value adjustments (CVA)* and *debt value adjustments (DVA)* are incorporated into the derivative valuations to reflect the risk of default of the counterparty as well as the own default risk of NIBC. The adjustments are applied to all OTC derivative contracts, except for those that benefit from a strong collateral agreement where cash collateral is regularly exchanged, mitigating the credit risk.

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 2013.

Table 22 Breakdown of EAD, RWA and capital requirement for derivatives, 31 December 2013

IN EUR MILLIONS	EAD	RWA	Capital requirement
AIRB APPROACH			
- of which corporate	623	344	28
- of which securitisations	166	68	5
STANDARDISED APPROACH			
- of which corporate	0	0	0
- of which institutions	383	157	13
TOTAL DERIVATIVES	1,173	570	46

Small differences are possible in the table due to rounding

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	2013
Gross exposure	2,800
Netting benefits	(1,722)
Reduction from collateral	(239)
Net current exposure	839

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 98 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	108
Securitisations	4	0
TOTAL	64	108

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	98
Multiple name	10	10
TOTAL	64	108

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 book. For fixed-income products, market risk also includes credit spread risk, which is the risk due to movements of underlying credit curves. The predominant market risk drivers for NIBC are interest rate risk and credit spread risk. The capital requirement for market risk stems from the Trading book, which is based on internal models, and the overall FX position of the bank, for which the standardised method is used.

The Trading book of NIBC contains customer-driven derivatives transactions and limited proprietary trading in interest-rate risk products. Interest rate risk outside the Trading book 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 risk appetite for trading activities. 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.

The RWA and capital requirement for Market risk for both 31 December 2013 and 31 December 2012 are provided in table 26. The RWA throughout 2013 fluctuated between EUR 191 million and EUR 267 million. The decrease of the RWA in the Trading book compared to 2012 is in line with the limited trading activities in the Trading book in 2013.

Table 26 Breakdown of RWA and capital requirement for market risk

IN EUR MILLIONS	31 December 2013		31 December 2012	
	RWA	Capital requirement	RWA	Capital requirement
- of w hich trading portfolio VaR	151	12	304	24
- of w hich FX Standardised approach	39	3	20	2
TOTAL MARKET RISK	190	15	324	26

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 book. 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 forthwith reported to the CRO and acted upon immediately.

The risk appetite for interest rate risk is set, among others, by the *value-at-risk (VaR)* limits. For the Trading book, the VaR limit (99% confidence level, one-day holding period) was kept constant at EUR 2.25 million during 2013. For the Mismatch books, the VaR limit was held constant at EUR 11.5 million during 2013.

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. Finally, in 2013 cross currency spreads were taken into account in the valuation framework of interest rate derivatives;
- 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 book, 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 book a regulatory requirement, but this book only contains liquid plain vanilla interest rate products. For these products, reliable daily market data are available. Outside the Trading book, 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 book

Since 2008 NIBC uses the *Internal Models Approach (IMA)* for market risk in the Trading book. Annex VII, part B of the European directive 2006/48/EC sets the requirements for systems and controls regarding exposures in the Trading book. NIBC complies in all material aspects with these requirements. Under CRD III, which became effective at 31 December 2011, the capital requirement for market risk in the Trading book 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 book over the years 2012 and 2013.

Throughout 2013, the Trading book 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. This book is also used for facilitating derivative transactions with corporate clients.

Graph 2 Development of VaR in the Trading book during 2012 and 2013



Table 27 Key risk statistics, Trading book 2013

IN EUR THOUSANDS	Interest rate		
	BPV	VaR	SVaR
Max*	(92)	693	873
Average	(30)	330	412
Min*	1	124	1,619
YEAR-END 2013	14	173	713

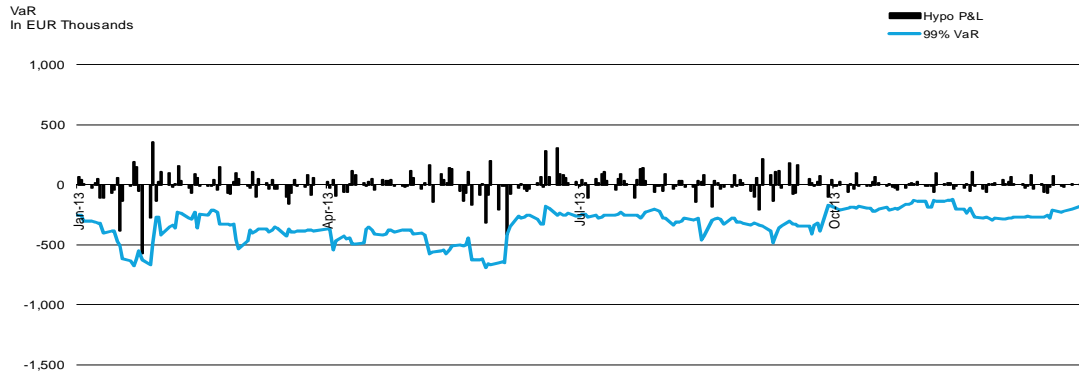
* Min: value closest to zero, Max: value farthest from zero

Back testing

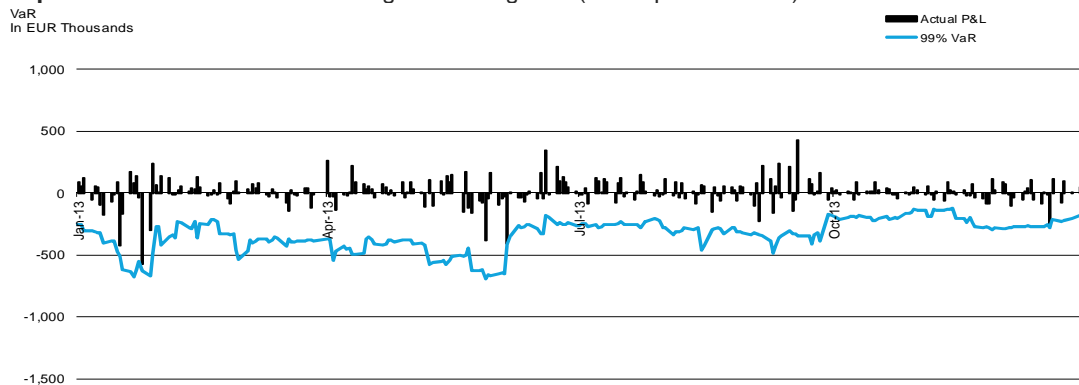
Back testing for the Trading book is conducted in accordance with the guidelines of the Basel Committee on Banking Supervision, as implemented in the Netherlands by the “Regeling solvabiliteitseisen voor het marktrisico”². For the Trading book, the one-day 99% VaR is back tested with both the hypothetical *profit and loss (P&L)* and the actual profit and loss. The hypothetical profit and loss is calculated based upon the end-of-day trading position and the changes in market rates from the trading day to the next business day using full revaluation. Graph 3 shows the hypothetical profit and loss and 99% VaR and Graph 4 the actual profit and loss and 99% VaR. In 2013, there was only a single outlier in the actual profit and loss and none in the hypothetical profit and loss, which gives comfort that the model does not underestimate the risk.

² As of 1 January 2014, this regulation has been replaced by the combined European Regulation and Directive CRR/CRD IV.

Graph 3 Back test results of the Trading book during 2013 (Hypothetical profit and loss)



Graph 4 Back test results of the Trading book during 2013 (Actual profit and loss)



Market risk outside the Trading book

Interest rate risk in the Mismatch book

NIBC concentrates its long-term interest rate risk position of NIBC in the Mismatch book. Currently this book exclusively contains swap positions with which a view on future interest rate developments is taken. After closing EUR and USD mismatch positions in 2012, NIBC re-opened a new mismatch position in GBP in 2013.

Interest rate risk in the Banking book

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

- Debt Investments book;
- Residential Mortgage book; and
- Corporate Treasury book, which mainly contains the funding and the loans of the bank.

NIBC uses an economic value approach to model the interest rate risk in the Banking book. Cash flows are discounted by applying a swap curve with 3 month repricing frequency plus the appropriate credit spread curve. Only for transactions, which are part of a CSA agreement, cash flows are discounted on the overnight curve. Corporate loans are modelled based upon the contractual repricing date with simple prepayment assumptions. For mortgages, a dedicated prepayment model has been developed, where the prepayment depends upon the remaining interest period and a few other loans characteristics. This is regularly calibrated using the realised historical prepayments. In 2008, NIBC diversified its funding base by introducing retail

savings, first in the Netherlands and Germany and subsequently in Belgium. NIBC offers two products, term deposits and on-demand savings. Term deposits are modelled as fixed rate bonds without prepayment. For the on-demand savings a dedicated model has been developed. This model estimates the future savings rate and uses certain assumptions on the expected maturity of these savings. This model is operational since the beginning of 2013. As expected the on-demand savings have considerable interest rate risk (from an economic perspective), which became clear after the introduction of this dedicated model. NIBC gradually started hedging this exposure and will continue to do so in 2014. As a consequence the interest rate risk in the Banking book is currently higher than under normal circumstances. Going forward the interest rate risk in the Banking book will be restricted to residual interest rate risk, which is very limited in relation to its equity base.

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.

Table 28 Interest rate sensitivity, 31 December 2013

IN EUR THOUSANDS	BPV			Total
	Trading	Mismatch	Banking	
EUR	21	(3)	171	189
USD	(2)	(10)	9	(3)
GBP	(5)	(102)	(19)	(126)
Other	0	0	1	1
TOTAL	14	(115)	162	61

Table 29 Effect of an interest rate shock on economic value, 31 December 2013

IN EUR THOUSANDS		
Interest rate shock	-100bp	+100bp
EUR	(18,655)	19,030
USD	317	(313)
GBP	13,168	(12,256)
Other	(138)	133
TOTAL	(5,308)	6,594

Credit spread risk

Within Treasury, credit spread risk is concentrated in the Debt Investments book, which contains investments in financial institutions, corporate entities and securitisations. NIBC's total credit spread sensitivity changed from -0.380 million EUR/bp at 31 December 2012 to -0.423 million EUR/bp at 31 December 2013. This change reflects the balance between an increase in liquid high quality bonds (like Dutch RMBS) and a decrease in the legacy European Structured Credits 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 2013, the capital requirement for FX risk was EUR 3 million.

Operational Risk

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

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 operational risk management. 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.

NIBC's operational risk management promotes a 'no surprises' operating environment and provides a transparent and consistent way of managing operational risk across all our business lines, banking activities and countries.

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

The central ORM function monitors and manages operational risk on group level, develops policies, processes and controls and provides methodology and tools. The tools give an integrated view of the risk and control self-assessment, control identification, action planning, and event and loss registration. These tools support the constant process of evaluating and reducing operational risk, and planning mitigation measures. The department also co-ordinates the development of forward-looking scenario analysis (hypothetical external or internal scenarios with which it is ensured that a plan exists in case these events occur). Examples of such scenarios include business continuity plans for buildings, key technology systems and key processes of the bank, stress in the Dutch banking sector, large-scale staff unavailability due to e.g. a pandemic, and other hypothetical events for which a forward-looking action plan is necessary.

ORM is the owner of the new product approval process. In the course of 2013, three new products were launched by NIBC. One was a landmark transaction of Corporate Banking, namely the launch of a Managed Account with Belgian insurer P&V. The second one was the launch of NIBC Direct-branded mortgages by Consumer Banking. The third one was a product developed by Treasury, which is not offered to clients and is intended as a fall-back mechanism in case of stress on the financial markets. ORM actively assists the business in ensuring that the operational impact of the new products on the bank is accurately assessed, that the new products safeguard client interest and client suitability, and that NIBC can offer its new products without disruptions or other operational failures.

As last year saw more failures in the banking sector both internationally as well as in the Netherlands (e.g. fraud cases, Libor manipulation), NIBC further enhanced its forward-looking, proactive attitude and its structured approach to managing operational risk across all three lines of defence. NIBC increased the frequency of conducting RCSAs and declaring itself In Control to twice a year. In a rapidly changing environment, this

ensures a forward-looking approach to the development of risks and allows the assessment and identification of the areas that require attention in time.

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 Basel II regulated 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 2013 and 2012.

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 2012 included the years 2009, 2010 and 2011 and the operational risk at year-end 2013 was based on the years 2010 to 2012.

In 2013, the capital requirements for operational risk were lower than those compared to 2012 for two main reasons:

- The income of the year added to the calculation (2012) was slightly lower than the income of year that was removed (2009); and
- A reclassification of loans from the Basel category *corporate finance* to the category *commercial banking*, which attracts a lower multiplication factor (18% vs. 15%). The new category better reflects the type of loans that NIBC is granting to its corporate clients (e.g. project finance, real estate, asset finance, etc.) compared to the old category *corporate finance*, which involves investment-banking type of activities.

Table 30 Breakdown of RWA and capital requirement for operational risk

IN EUR MILLIONS	2013		2012	
	RWA	Capital requirement	RWA	Capital requirement
Standardised approach	572	46	771	62
TOTAL OPERATIONAL RISK	572	46	771	62

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 the prudent and conservative 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 2013 were the further expansion of the online retail savings programme NIBC Direct from EUR 7.7 billion to EUR 8.4 billion, as well as renewed issuance of covered bonds, RMBS, unsecured debt and GBP-denominated secured funding. In addition, NIBC was able to maintain its liquidity buffers of highly liquid assets and collateralised funding capacity throughout 2013.

Stress scenarios

Based on projections prepared by the business units and reviewed by Asset & Liability Management, and the current asset and liability maturity profiles, several liquidity stress tests are prepared and presented once every two weeks to the ALCO, in order to allow continuous monitoring of the liquidity position:

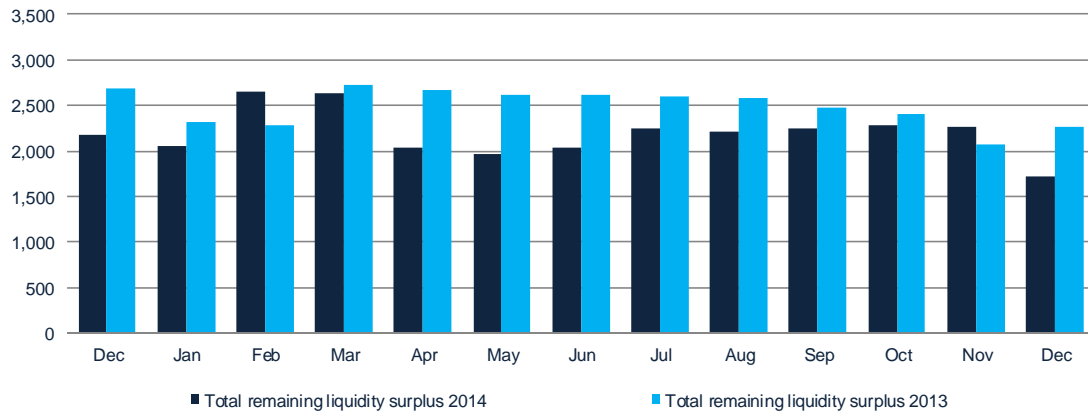
- A 12-month market-wide liquidity crisis, resulting in no access to wholesale funding and worsening market variables (rating migration, additional haircuts on market value of collateral, CSA cash outflow, slowing prepayments, etc.);
- A 12-month institution-specific stress test, resulting a significant 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.

The outcomes of the liquidity stress tests are all at a satisfactory positive level and remain positive for a prolonged period, under the assumption that normal measures are carried out.

Graphs 5 to 7 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, the liquidity portfolio and other ECB capacity 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.

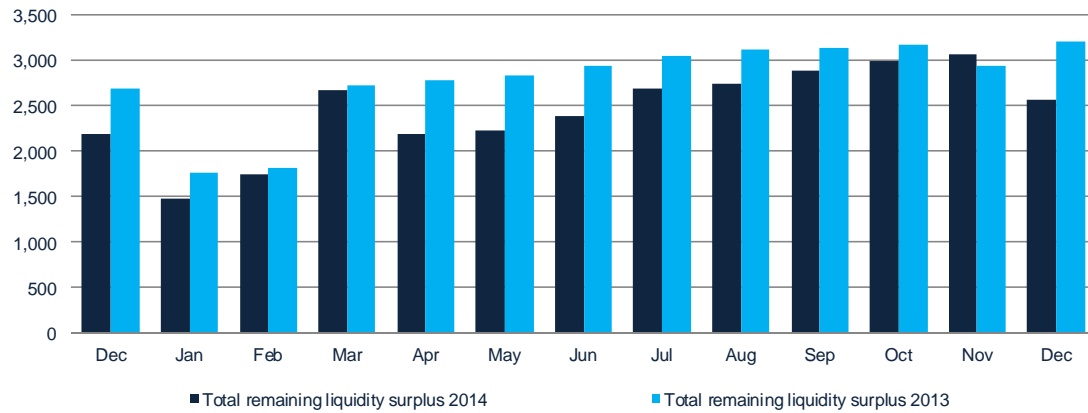
Graph 5 Market Stress Scenario, short-term analysis, 31 December 2013 and 31 December 2012

IN EUR MILLIONS



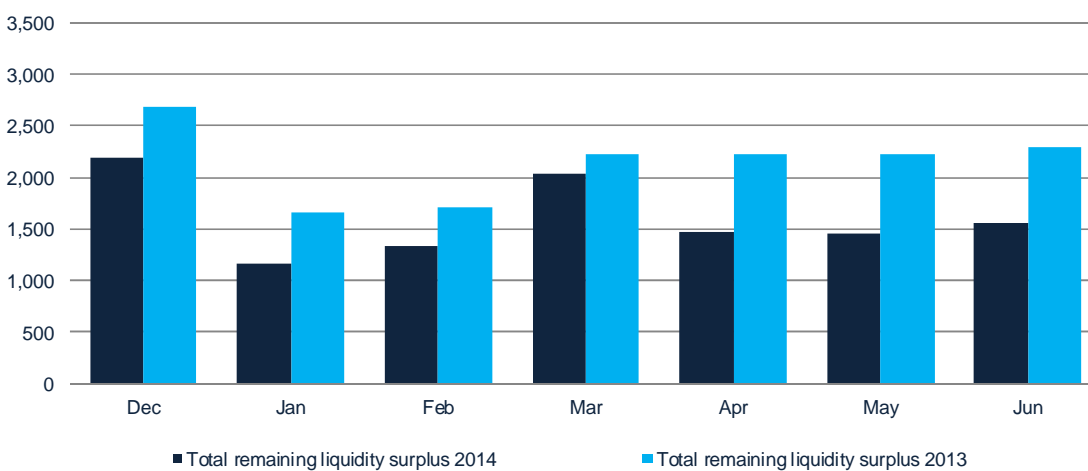
Graph 6 Institution Specific Stress Scenario, short-term analysis, 31 December 2013 and 31 December 2012

IN EUR MILLIONS



Graph 7 Combined Stress Scenario, short-term analysis, 31 December 2013 and 31 December 2012

IN EUR MILLIONS

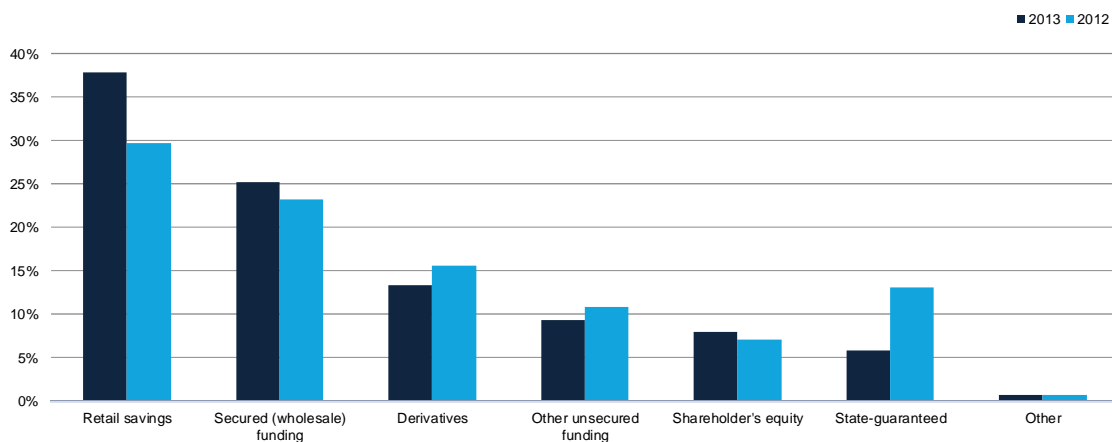


In addition to the 12-month liquidity stress analysis described above, NIBC also conducts liquidity analyses over longer periods once every two weeks. These analyses assume more or less stable portfolios in combination with new funding initiatives as the ones mentioned. The outcome of, for example, a 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 2013 and 31 December 2012 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 8 Breakdown of Total Liabilities, 31 December 2013 (EUR 22,297 million) and 31 December 2012 (EUR 25,915 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 and leveraged loans. 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 2013 of which NIBC was originator:

Table 31 Cumulative nominal amounts of NIBC's securitisations

IN EUR MILLIONS	Total
UNDERLYING ASSET	
Residential mortgages	2,634
Commercial mortgages	2,046
CLO	2,237
TOTAL	6,917

At 31 December 2013, 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;
- 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 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 2013

In 2013, NIBC approached the securitisation market with two new transactions. Dutch MBS 2013-XVIII was issued under the RMBS programme Dutch MBS, and North Westerly IV was issued under the North Westerly CLO programme. Furthermore, two RMBS programmes (Sound 1 and SWAFE 1) 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, NIBC reduced its legacy US structured credits portfolio in the past years and divested the last part of this portfolio in 2013. The Western European portfolio also reduced significantly in size.

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 or AAA-rated ABS transactions, 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 the Financial Markets Credit Risk department.

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 2013.

Table 32 EAD of Securitisations portfolio at NIBC Holding, 31 December 2013

IN EUR MILLIONS	Investor	Originator	Total
ABS	3	0	3
CDO/CLO	78	44	122
CMBS	65	190	255
RMBS	122	390	512
TOTAL WESTERN EUROPEAN SECURITISATIONS	268	624	892
NL - RMBS AAA Liquidity portfolio	374	0	374
EU - ABS AAA Liquidity portfolio	134	0	134
TOTAL SECURITISATION EXPOSURE	777	624	1,401

Small differences are possible in the table due to rounding

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 2013.

Table 33 Rating distribution of Securitisations portfolio (investor), 31 December 2013

IN EUR MILLIONS	AAA	AA	A	BBB	BB	Below BB	Total
ABS	0	1	0	0	0	2	3
CDO/CLO	3	13	36	7	7	11	78
CMBS	10	14	7	5	8	22	65
RMBS	11	19	53	25	1	13	122
TOTAL WESTERN EUROPEAN SECURITISATIONS (INVESTOR)	24	47	97	38	17	47	268
NL - RMBS AAA Liquidity portfolio	375	0	0	0	0	0	375
EU - ABS AAA Liquidity portfolio	134	0	0	0	0	0	134
TOTAL SECURITISATION EXPOSURE (INVESTOR)	533	47	97	38	17	47	777

Small differences are possible in the table due to rounding

Table 34 Rating distribution of retained positions in the Securitisations portfolio (originator), 31 December 2013

IN EUR MILLIONS	AAA	AA	A	BBB	BB	Below BB	Total
ABS	0	0	0	0	0	0	0
CDO/CLO	0	7	6	5	4	22	44
CMBS	31	4	7	2	73	72	190
RMBS	107	39	169	32	25	17	390
TOTAL SECURITISATION EXPOSURE (ORIGINATOR)	139	50	182	39	103	111	624

Small differences are possible in the table due to rounding

In 2013, the stake in the New Amsterdam Fund of EUR 70 million has been divested. The remainder of the Securitisations portfolio consists of Western European securitisations.

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 available capital 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 capital, which is also done on a monthly basis with 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 (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. To a business model based on 'buy-to-hold' or invest to maturity 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 EC approach specific to the business model 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 (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 represents the largest part of NIBC's Economic Capital;
- For the Debt Investments and Trading portfolios and for the Residential Mortgage portfolio, a market risk approach is used to determine EC usage. Historical data is used to simulate scenarios based on 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 frameworks are in the approach of 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 2012.

Table 35 EC usage per risk type

IN EUR MILLIONS	31 December 2013	31 December 2012	Difference
Market Risk	474	515	-8%
Credit Risk	392	512	-23%
Equity Risk	171	198	-14%
Operational Risk	49	66	-25%
Bankwide EC Charges	225	225	0%
Total Undiversified	1,311	1,515	-13%
Diversification effects between risk types	(310)	(359)	-14%
TOTAL DIVERSIFIED ECONOMIC CAPITAL	1,001	1,156	-13%

Notable Changes

- Credit risk decreased mainly due to a reduction of the total Corporate Loan Portfolio and a decline in sovereign risk;
- Equity risk decreased because of a reduction in the size of NIBC's EC equity portfolio due to the divestment of our legacy US structured credits portfolio. This portfolio was treated as Equity risk in our EC framework;

- 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 2012.

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 profit and loss, 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-1 capital

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

Eligible capital

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

Eligible reserve

Eligible reserve consists primarily of retained earnings, minority interest and net profit from current year 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-1 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-1 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-1 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., 2013 and 2012

IN EUR MILLIONS	2013	2012
TIER-1		
Called-up share capital	1,408	1,408
Share premium	530	532
Deduction of own shares (treasury shares)	(1)	(1)
Eligible reserves	(218)	(209)
Deduction of goodwill	(121)	(121)
Regulatory adjustments	(214)	(251)
CORE TIER-1 CAPITAL¹	1,384	1,358
Innovative hybrid Tier-1 capital	44	46
Non-innovative hybrid Tier-1 capital	222	230
TOTAL TIER-1 CAPITAL	1,650	1,634
TIER-2		
Reserves arising from revaluation of property and unrealised gains on available for sale equities	15	12
Qualifying subordinated liabilities		
Undated loan capital	34	36
Dated loan capital	93	103
Regulatory adjustments	(65)	(56)
TOTAL TIER-2 CAPITAL	77	95
	1,727	1,729

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 increased by EUR 26 million. The main cause of the capital increase is the lower regulatory adjustments. Main reason in the movement of regulatory adjustments is the structured funding revaluation. Total Tier-1 capital increased by EUR 16 million.

Changes in Tier-2 capital

The Tier-2 capital decreased by EUR 2 million. The main reasons are the changes in dated loan capital and the 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 2013, 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 20.0% at end-2013. 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 %	2013	2012
CAPITAL RATIOS		
Core Tier-1 ratio	16.8	14.1
Tier-1 ratio	20.0	16.9
BIS ratio	20.9	17.9

Capital ratios of NIBC Bank

The same definitions for capital ratios apply as given above.

NIBC Bank's Tier-1 capital ratio was 21.3% at end-2013. 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 %	2013	2012
CAPITAL RATIOS		
Core Tier-1 ratio	18.1	15.3
Tier-1 ratio	21.3	18.1
BIS ratio	22.3	19.1

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.

IN EUR MILLIONS	2013			2012		
	EAD	RWA	Capital requirement	EAD	RWA	Capital requirement
CREDIT RISK	17,538	7,499	600	19,265	8,545	684
AIRB APPROACH						
- of w hich corporate	7,868	3,678	294	9,234	4,561	365
- of w hich retail	4,591	651	52	4,526	760	61
- of w hich securitisations	1,401	926	74	1,428	1,025	82
- of w hich equities	379	1,401	112	354	1,310	105
STANDARDISED APPROACH						
- of w hich institutions	1,586	498	40	1,444	486	39
- of w hich sovereign	1,236	0	0	1,676	0	0
- of w hich retail	250	125	10	327	127	10
- of w hich corporate	181	175	14	230	229	18
- of w hich equities	0	0	0	0	0	0
- of w hich other	45	45	4	47	47	4
MARKET RISK		190	15		324	26
- of w hich trading book VaR		151	12		304	24
- of w hich FX Standardised approach		39	3		20	2
OPERATIONAL RISK		572	46		771	62
Standardised approach		572	46		771	62
TOTAL	17,538	8,261	661	19,265	9,641	772

Remuneration Policy

The Supervisory Board reviewed and amended NIBC's Remuneration Policy in 2013. 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)*.

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 short-term 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. After the thorough review of Managing Board remuneration in 2013, the Supervisory Board decided that no further amendment for 2014 is needed

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 2013 Annual Report contains a detailed overview of NIBC's remuneration policy.

Tax Policy

NIBC has a policy to meet its tax compliance requirements in all applicable jurisdictions in a timely, accurate and comprehensive manner. At 31 December 2013, NIBC was active in The Netherlands (average number fte 493), Germany (average number of fte 62), the United Kingdom (average number of fte 31) and Belgium (average number of fte 14). The office in Singapore closed in November 2013 (average number of fte 13). In 2013, the total operating income per jurisdiction was as follows:

Table 40 Operating income NIBC Holding per jurisdiction

IN EUR MILLIONS	Operating country					Total
	United Kingdom	Belgium	Germany	Singapore	The Netherlands	
TOTAL OPERATING INCOME	13	4	21	4	198	240

NIBC has established and implemented a governance structure that includes an administrative organization, procedures and internal controls (Tax Control Framework), to meet these tax compliance requirements. This Tax Control Framework is reviewed periodically in order to keep it up-to-date and in line with all relevant developments in rules and regulations, changes within the organization and the public opinion. One of the principles of the policy is that NIBC does not engage in transactions without economic substance or which are exclusively aimed at safekeeping or realizing tax benefits for itself or for clients. Furthermore, the positions taken in tax matters need to be supported by internal analysis and/or external opinions. To the extent possible for relevant positions advance tax rulings are obtained from the Tax Authorities.

NIBC upholds a proactive and transparent communication with the Tax Authorities in all jurisdictions NIBC is active in. Pro-actively sharing the Tax Control Framework with the Tax Authorities is an example of that.

Appendix I

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 loss. These assets are initially recognised at fair value, and subsequent changes in fair value are recognised in the income statement in the period of the change in fair value.

Tables 1-3 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 Services Ltd ³	100%	Singapore	Purchase method
Parnib Holding N.V.	100%	The Netherlands	Purchase method
Counting House B.V.	100%	The Netherlands	Purchase method
B.V. NIBC Mortgage Backed Assets	100%	The Netherlands	Purchase method
NIBC Principal Investments B.V.	100%	The Netherlands	Purchase method
NIBC Financing 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

³ Singapore office closed on 26 November 2013

Appendix 2

List of Abbreviations

AIRB	Advanced Internal Ratings' Based (approach)
ALCO	Asset & Liability Committee
ALM	Asset & Liability Management (department)
BIS	Bank for International Settlements
BPV	Basis-point Value
CC	Compliance & CSR
CCF	Credit Conversion Factor
CCR	Counterparty Credit Rating
CDO	Collateralised Debt Obligations
CDS	Credit Default Swap
CEBS	Committee of European Banking Supervisors
CLO	Collateralised Loan Obligations
CMBS	Collateralised Mortgage-Backed Securities
CRD	Capital Requirements Directive
CRM	Credit Risk Management (department)
CRO	Chief Risk Officer
CSA	Credit Support Annex
CSR	Corporate Social Responsibility
CVA	Credit Value Adjustments
DNB	Dutch Central Bank
DVA	Debt Value Adjustments
EAD	Exposure at Default
EBA	European Banking Authority
EC	Economic Capital
ECB	European Central Bank
ECC	Engagement and Compliance Committee
EL	Expected Loss
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
LtIMV	Loan-to-Indexed Market Value
MRM	Market Risk Management (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
PECDC	Pan-European Credit Data Consortium
RAROC	Risk-Adjusted Return on Capital
RA/MV	Risk Analytics and Model Validation (department)
RC	Pillar-1 Regulatory Capital
RCSA	Operational Risk and Control Self-assessments
RDA	Restructuring & Distressed Assets Management (department)
RL	Realised Loss
RMBS	Residential Mortgage-Backed Securities
RMC	Risk Management 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
SvaR	Stressed VaR
TC	Transaction Committee
VaR	Value-at-Risk
Wft	Wet op het Financieel Toezicht

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