CAPITAL ADEQUACY AND RISK MANAGEMENT REPORT 2014

PILLAR 3

NIBC HOLDING N.V.

Table of contents

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 III framework, as stipulated in the *Capital Requirements Regulation and Directive* IV **(CRR/CRD IV)**. The CRR/CRD IV is legally enforced by Dutch law by the Financial Supervision Act **(Wft, Wet Financieel Toezicht)**.

The CRR/CRD IV 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 the *Advanced Internal Ratings-Based* **(AIRB)** approach for calculating solvency requirements regarding credit risk for its most important exposure classes, namely corporate, retail and institutions, 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 CRR/CRD IV framework, as information is provided regarding the underlying exposures, risk weighted assets and regulatory capital.

NIBC's Capital Adequacy and Risk Management Report is prepared to meet the requirements of Pillar 3, as well as the increased need for transparency in the financial market. The Capital Adequacy and Risk Management Report follows the structure below:
- Risk Management Strategy & Process
- Credit Risk
- Market Risk
- Operational Risk
- Liquidity Risk
- Securitisation Exposures
- Internal Capital Adequacy Assessment Process
- Capital Base Components
- Capital Adequacy
- Remuneration Policy

The scope of application in this report refers to NIBC Holding, henceforth referred to as NIBC. The main entity of NIBC Holding is NIBC Bank. Where necessary, a distinction between NIBC Holding and NIBC Bank is made explicit. The starting point of the CRR/CRD IV 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 CRR/CRD IV, 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 2014 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 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 2014

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

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

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

Understanding client interest and the suitability of our products for our clients is embedded in our Corporate and Consumer Banking product offering. As activities grew in both Consumer Banking and Corporate Banking we enjoy the trust of an increasing number of clients. We clearly focus on sectors, markets and services where clients can draw the most long-term benefit from our skills, expertise and experience. We focus strongly on Dutch and German family companies, which are the engine of their national economies.
We are keenly aware of our duty of care to these customers and of their need for smooth, efficient, effective and transparent service. 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.

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, the Dutch State Treasury Agency and the Bundesbank.

For 2015, our structured, disciplined and proactive approach to risk management supports us operating in an economic environment that remains fragile - although there are positive indictors of macroeconomic recovery in the coming years.

Risk governance and risk culture

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

Risk appetite

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

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

Performance is measured and steered across these six pillars by means of quantitative and qualitative risk appetite statements.

The risk appetite is rolled out throughout the organisation and incorporated in policies, procedures, limits and action plans. Key risk/performance indicators and early warning signals track, for example, client satisfaction, employee engagement, coverage of retail savings, sector concentration and operational risk indicators.

Determining risk appetite is closely linked to the budget setting and capital planning processes. NIBC's forward-looking risk profile, based on budgets and (stressed) scenario forecasts, is the basis of setting the risk appetite. A set of selected stress scenarios is designed to provide the business with the incentive to improve the asset quality and present management with a holistic overview of NIBC's risk profile and its sensitivities.
The current and projected risk profile is reported quarterly to the *Risk Management Committee* (**RMC**) and the *Risk Policy Committee* (**RPC**). On an annual basis, risk management reviews all hypothetical, historical and regulatory scenarios used, to determine if they are still relevant and comprehensive enough to capture all significant risks contained in NIBC's positions.

Risk strategy

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 sixteen diversified subsectors which are grouped into seven sectors (Commercial Real Estate, Infrastructure & Renewables, Shipping & Intermodal, Industries & Manufacturing, Oil & Gas Services, Food, Agriculture, Retail & Other, 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, lease receivables, 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, Mismatch and Banking books, and credit spread risk in the Debt Investments portfolio. The latter consists of the Securitisations portfolio and the portfolio of debt investments in institutions and corporate entities.

The business model described above is also reflected in the Economic Capital framework, which is further described in the section *Internal Capital Adequacy Assessment Process (***ICAAP***).* NIBC uses Economic Capital as a risk measure throughout the organisation. For each business activity, Economic Capital is allocated and reported monthly to the Asset & Liability Committee.

Risk management organisation

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

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 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 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 III 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)** is responsible for updating the overall compliance risk analysis for NIBC and all international offices on a yearly basis, translate and implement relevant external regulations into sound and clear internal policies and procedures, document and update compliance policies, inform and train staff members in order to broaden their compliance awareness, maintain proper Chinese walls and Restricted Lists and act as the co-ordinator for correspondence of the Dutch *Authority for Financial Markets* (**AFM**) and, via the Local Compliance Officers, for the relevant international supervisory bodies.

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 international payments also fall under credit risk.

Many activities at NIBC are related to credit risk: credit risk is present in the Corporate Loan portfolio, the Investment Loan portfolio, the Residential Mortgage portfolio, the Lease Receivables portfolio, the Debt Investments portfolio (in corporate entities, institutions and securitisations), cash management and derivatives. It is the largest source of risk to which NIBC is exposed, representing approximately 88% 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 exposures are defined in the in the CRR/CRD IV. 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 institutions, and cash and derivative transactions with institutions.
Corporate	Corporate Loan portfolio, including guarantees, derivatives and debt investments in corporate entities, and Investment Loan portfolio.
Retail	Dutch and German Residential Mortgage portfolios, securitised RMBS portfolio and German Lease Receivables.
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 figures 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 CRR/CRD IV.

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. NIBC received approval by the DNB to use the AIRB approach for calculating the capital requirements of the corporate, institutions 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 CRR/CRD IV for the calculation of capital requirements and it is based on our 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 2014 and 2013.

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

	2014				2013			
IN EUR MILLIONS	Exposure	EAD	RWA	Capital require-ment	Exposure	EAD	RWA	Capital require-ment
AIRB APPROACH								
- of which corporate	9,566	8,951	4,083	327	8,229	7,868	3,678	294
- of which retail	7,898	7,898	966	77	4,591	4,591	651	52
- of which institutions	1,305	1,077	458	37	-	-	-	-
- of which securitisations	811	811	640	51	1,401	1,401	926	74
- of which equities	377	377	1,395	112	379	379	1,401	112
SUBTOTAL	**19,957**	**19,114**	**7,542**	**603**	**14,601**	**14,240**	**6,656**	**532**
STANDARDISED APPROACH								
- of which retail	963	688	364	29	250	250	125	10
- of which sovereign	564	563	-	-	1,236	1,236	-	-
- of which institutions	411	398	75	6	1,825	1,586	498	40
- of which corporate	345	299	302	24	181	181	175	14
- of which equities	-	-	-	-	-	-	-	-
- of which other	47	47	46	4	45	45	45	4
SUBTOTAL	**2,329**	**1,995**	**788**	**63**	**3,538**	**3,298**	**843**	**67**
TOTAL CREDIT RISK	**22,285**	**21,109**	**8,330**	**666**	**18,138**	**17,538**	**7,499**	**600**

Small differences are possible in the table due to rounding

The total RWA of NIBC increased by 11% between 2014 and 2013 due to a variety of factors:

- The RWA for the *Corporate* exposure class increased by 14% compared to 2013, mainly due to actively originating new assets in the Corporate Loan portfolio. Consequently, the part of the portfolio treated under the Standardised Approach also increased;
- The total RWA's of the Retail portfolio increased by 72%, mainly because of inclusion of the underlying portfolio of *Residential Mortgage-Backed Securitities (***RMBS***).* National discretion for the criteria for significant risk transfer are overruled. As a consequence, all the retained notes for NIBC's RMBS securitisations do not qualify anymore as a securitisation. Instead the capital requirement is based upon the underlying exposures which are residential mortgages. However, the size of the German Residential Mortgages portfolio, which is treated under the Standardised Approach, decreased. The Lease Receivables portfolio of NIBC Deutschland AG is also treated under the Standardised Approach;
- The RWA consumption of the Securitisations exposure class decreased by 31%. This decrease is primairily the result of including the underlying portfolio of RMBS securitisations in the AIRB Retail exposure class;
- RWA for *Institutions* increased by 7%. The part treated under the AIRB approach increased significantly due to the implementation of the AIRB-framework for bank counterparties in July 2014.

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 2014. Table 4 shows an average breakdown of 2014 (based on beginning and end of the year).

Table 3 Breakdown of credit EAD types by exposure class, 31 December 2014

IN EUR MILLIONS Exposure Class	On-Balance	Off-Balance	Derivatives	Total
AIRB APPROACH				
- of which corporate	7,242	933	776	8,951
- of which retail	7,871	26	-	7,898
- of which institutions	796	-	281	1,077
- of which securitisations	811	-	-	811
- of which equities	358	19	-	377
SUBTOTAL	**17,079**	**978**	**1,057**	**19,114**
STANDARDISED APPROACH				
- of which retail	592	96	-	688
- of which sovereign	563	-	-	563
- of which institutions	306	-	92	398
- of which corporate	202	61	37	299
- of which equities	-	-	-	-
- of which other	47	-	-	47
SUBTOTAL	**1,709**	**157**	**129**	**1,995**
TOTAL	**18,788**	**1,135**	**1,185**	**21,109**

Small differences are possible in the table due to rounding

Table 4 Breakdown of credit EAD types by exposure class, average 2014

IN EUR MILLIONS Exposure Class	On-Balance	Off-Balance	Derivatives	Total
AIRB APPROACH				
- of which corporate	6,962	748	699	8,410
- of which retail	6,231	14	-	6,244
- of which securitisations	1,023	-	83	1,106
- of which institutions	398	-	140	539
- of which equities	349	29	-	378
SUBTOTAL	**14,963**	**791**	**923**	**16,677**
STANDARDISED APPROACH				
- of which institutions	753	1	238	992
- of which sovereign	899	-	-	899
- of which retail	421	48	-	469
- of which corporate	177	45	18	240
- of which equities	-	-	-	-
- of which other	46	-	-	46
SUBTOTAL	**2,297**	**94**	**256**	**2,646**
NIBC TOTAL	**17,260**	**884**	**1,179**	**19,323**

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 86% of the total EAD. This percentage increases to 94% 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.

Table 5 Breakdown of EAD per region, 31 December 2014

IN EUR MILLIONS Exposure Class	The Netherlands	United Kingdom	Germany	Rest of Europe	North America	Asia / Pacific	Other	Total
AIRB APPROACH								
- of which corporate	2,757	2,059	1,751	1,185	476	430	293	8,951
- of which retail	7,898	-	-	-	-	-	-	7,898
- of which institutions	418	506	11	89	48	5	-	1,077
- of which securitisations	546	66	89	109	-	1	-	811
- of which equities	303	12	-	27	35	-	-	377
SUBTOTAL	**11,923**	**2,643**	**1,851**	**1,409**	**559**	**436**	**293**	**19,114**
STANDARDISED APPROACH								
- of which retail	172	-	516	-	-	-	-	688
- of which sovereign	514	-	49	-	-	-	-	563
- of which institutions	76	117	42	121	42	-	-	398
- of which corporate	129	34	104	26	-	5	-	299
- of which equities	-	-	-	-	-	-	-	-
- of which other	-	-	47	-	-	-	-	47
SUBTOTAL	**891**	**151**	**758**	**147**	**42**	**5**	**-**	**1,995**
TOTAL	**12,813**	**2,794**	**2,609**	**1,557**	**601**	**442**	**293**	**21,109**
TOTAL (in %)	**61%**	**13%**	**12%**	**7%**	**3%**	**2%**	**1%**	**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 2014

IN EUR MILLIONS

Exposure Class	Retail Markets	Infrastructure & Renewables	Financial Services	Commercial Real Estate	Shipping	Oil & Gas	Manufacturing	Wholesale/Retail/ Leisure
AIRB APPROACH								
- of which corporate	-	2,476	629	1,480	1,327	1,038	616	437
- of which retail	7,898	-	-	-	-	-	-	-
- of which institutions	-	-	1,077	-	-	-	-	-
- of which securitisations	338	-	-	166	-	-	-	-
- of which equities	-	92	68	10	-	-	18	140
SUBTOTAL	**8,236**	**2,569**	**1,774**	**1,656**	**1,327**	**1,038**	**634**	**577**
STANDARDISED APPROACH								
- of which retail	327	-	-	-	-	-	-	-
- of which sovereign	-	-	-	-	-	-	-	-
- of which institutions	-	-	398	-	-	-	-	-
- of which corporate	-	-	66	44	-	43	-	23
- of which equities	-	-	-	-	-	-	-	-
- of which other	-	-	-	-	-	-	-	-
SUBTOTAL	**327**	**-**	**464**	**44**	**-**	**43**	**-**	**23**
TOTAL	**8,562**	**2,569**	**2,238**	**1,700**	**1,327**	**1,081**	**634**	**600**
TOTAL (in %)	**41%**	**12%**	**11%**	**8%**	**6%**	**5%**	**3%**	**3%**

Small differences are possible in the table due to rounding

IN EUR MILLIONS

Exposure Class	Government / Central Banks	Services	Lease Receivables	Agriculture & Food	TMT	Other	TOTAL
AIRB APPROACH							
- of which corporate	-	465	-	257	156	69	8,951
- of which retail	-	-	-	-	-	-	7,898
- of which institutions	-	-	-	-	-	-	1,077
- of which securitisations	-	-	-	-	-	307	811
- of which equities	-	31	-	-	-	17	377
SUBTOTAL	**-**	**496**	**-**	**257**	**156**	**393**	**19,114**
STANDARDISED APPROACH							
- of which retail	-	-	361	-	-	-	688
- of which sovereign	563	-	-	-	-	-	563
- of which institutions	-	-	-	-	-	-	398
- of which corporate	-	-	-	10	-	114	299
- of which equities	-	-	-	-	-	-	-
- of which other	-	-	-	-	-	47	47
SUBTOTAL	**564**	**-**	**361**	**10**	**-**	**160**	**1,995**
TOTAL	**564**	**496**	**361**	**267**	**156**	**553**	**21,109**
TOTAL (in %)	**3%**	**2%**	**2%**	**1%**	**1%**	**3%**	**100%**

Small differences are possible in the table due to rounding

Retail Markets

The industry sector with the highest EAD is Retail Markets (41% of total EAD), which mainly consists of NIBC's Residential Mortgage portfolios in the Netherlands (EUR 5,370 million) and Germany (EUR 155 million) and the underlying portfolio (EUR 2,528 million) of RMBS transactions. The total EAD of the portfolio increased significantly by EUR 500 million due to the further improving sentiment on the Dutch housing market. The NIBC Direct mortgage programme grew to more than EUR 1 billion. For more information about these exposures we refer to the various *Retail* sections in this report for the Residential Mortgage portfolio and to the chapter on *Securitisations* for the RMBS.

Infrastructure & Renewables

The total EAD of the industry sector Infrastructure & Renewables amounted EUR 2,569 million at 31 December 2014. The EAD relates almost exclusively to corporate loan and derivative exposures (96%) with the remaining relating to equity exposures. In terms of geographical distribution, 64% of the portfolio's EAD is located in the United Kingdom, 17% in Germany, 11% 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 (13%), other infrastructure (13%) and water supply, waste and sewerage (7%) are the most important ones.

NIBC adapted to a volatile market climate where changes in government spending and fiscal regimes create or reduce the appetite for different types of deals (e.g. decreasing focus on Solar and Wind and increasing focus on Biomass and Offshore Wind). Further, NIBC experienced a continued demand of our expertise to execute advisory mandates.

The credit quality of the portfolio remained stable throughout 2014. In 2014, the weighted average CCR was 5 (BB) and the weighted average LGD rating remained 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.

Financial Services

The next largest industry sector is Financial Services with a total EAD of EUR 2,238 million at 31 December 2014 (11% of total EAD), which contains all of NIBC's institutions exposure class, as well as corporate and equity exposures. At 31 December 2014, the weighted average CCR of all corporate exposures in this sector was 5- (BB-) and the weighted average LGD rating was B-2 (18%). In terms of geographical distribution, 42% of the EAD in the financial services sector is located in the Netherlands, 26% Germany, 18% in the United Kingdom, 6% in the rest of Europe and the remainder in region Other.

Commercial Real Estate

The EAD size of the Commercial Real Estate sector amounted to EUR 1,700 million at 31 December 2014, which contains NIBC's commercial real estate corporate loans and securitisation notes of *Commercial Mortgage-Backed Securities* **(CMBS)** and several equity positions. During 2014, the portfolio size decreased due to a continued reduction of large exposures in the Corporate Loan portfolio.

The credit quality of the portfolio stabilized in 2014 and is expected to improve in the coming years. At 31 December 2014, the weighted average CCR of the portfolio was 6- (B-) and the weighted average LGD rating was B-1 (12.5%). In general, the sector was driven by a low interest rate environment, which resulted in increased deal flow driven by foreign investors. Nevertheless, NIBC focused on high credit quality origination and active portfolio management with the sale and restructuring of selective pre-crisis exposures, frequent screenings of key clients and semi-annual reviews.

Commercial Real Estate remains a well-diversified portfolio across various commercial real estate classes. The properties are located in the Netherlands (64%) and Germany (36%). Residential commercial property financing accounts for 56% 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 (55%), where in general the market has remained relatively strong. Other prominent segments relate to offices (19%) and hotels (8%).

Shipping

The industry 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.

Total origination in 2014 was high, with a good balance between new clients and refinancings. 2014 was marked by a significant oil price decline, which did not affect the shipping industry as a whole but had a different impact on the various shipping sub-sectors. Active portfolio management continued to be a high priority and resulted in the improvement of the credit quality. Emphasis on quality of the asset, the owner of the asset and access to cargo, all of which are required for healthy cash flow generation, continued. In 2014, we finalised the centralisation of our Shipping & Intermodal activities to our headquarters creating a knowledge centre and economies of scale to better serve our global client base.

The portfolio size increased in 2014 and many new transactions broadening the client base. The EAD of all shipping exposures was EUR 1,327 million at 31 December 2014. Tankers represented 34% of the Shipping portfolio, bulk carriers 34%, specialised vessels 16%, container vessels 8% and container boxes (intermodal) 5%. Geographically borrowers are mainly active in Europe (57%), North America (18%) and Asia/Pacific (16%).

In 2014, both the weighted average CCR of the portfolio improved from 6- (B-) to 6 (B) and the weighted average LGD rating from B-1 (12.5%) to A-2 (7.5%) due to high quality new origination.

Oil & Gas

As in 2013, Oil & Gas performed well in 2014 and the EAD of the portfolio increased to EUR 1,081 million due to a large amount of new transactions. The sector continued diversifying its client base and product scope and further established its presence in the reserve-based lending and offshore support segments. The sector only contains corporate exposures. In the second half of 2014, the declining oil price had a mostly negative impact on the oil and gas industry, with some subsectors (e.g. exploration & production, drilling, seismic) experiencing harder times than others. Nevertheless, the sector managed to grow further and to diversify its client base, while maintaining a stable credit quality through an increased focus on portfolio management. The total EAD in this portfolio is manily split over five subsectors of which drilling (34%), offshore support vessels (32%) and production (27%) are the most prominent subsectors. In terms of geographical focus, the sector is balanced across Europe (50%), Asia/Pacific (21%) and North America (18%) and the assets are located all over the world in key oil and gas areas.

Throughout 2014 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 2014, 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 2014.

Manufacturing

The exposure of the industry sector grew to EUR 634 million in 2014. In a market with abundant liquidity and cheaper alternatives to bank funding, the sector serves its clients in arranging different, complex and high value added solutions. Most of the clients are located in the Netherlands (53%) followed by Germany (31%) and the rest of Europe (16%). In general the dropping oil prices during the year were beneficial for the portfolio, resulting in lower costs of production. In all regions served by the sector business proved to be linked more closely to the global economy than to local dynamics. Overall macroeconomic improvements led to high level of repayments and prepayments, even though these were more than offset by higher origination. The credit quality of the portfolio improved as a result of active portfolio management and disciplined approach towards origination. Although the demand for industrial products tends to be cyclical, the sector focused on more stable industry sectors and subsectors, in which it has sufficient client expertise. The portfolio is well-balanced and split across various industry sectors: industrial products (54%), chemicals (21%), consumer products (15%) manufacturing of automotive, land and air vehicles (8%) and electronics (2%)..

Wholesale/Retail/Leisure

The portfolio grew in the course of 2014 to a total of EUR 600 million and contains corporate and equity exposures which can be subdivided in the sub sectors wholesale (45%), retail (43%) and leisure (12%). The clients of the portfolio are located in the Netherlands (51%), Germany (31%) the rest of Europe (12%) and the United Kingdom (6%). The credit quality improved as a result of the continuous emphasis on a diversified credit selection, avoiding more aggressive deals and focusing on mid-market companies and relationships with financial sponsors. At 31 December 2014, the weighted average CCR was 6+ (B+) and the weighted average LGD rating was B-2 (18%).

Government/Central Banks

The sector Government/Central Banks (EUR 564 million or 3% of total EAD) is made up exclusively of NIBC's sovereign exposures. All sovereign exposures are related to cash placed with DNB, the Dutch State Treasury Agency and the German Bundesbank. The sharp decrease in the total EAD in this sector is the result of redemptions and buy-backs of government guaranteed funding. In 2014, NIBC has zero sovereign debt exposure to Greece, Italy, Ireland, Spain and Portugal.

Other sectors

The remaining sectors in NIBC's portfolio together account for 9% of the total EAD. With the exception of a few exposures in the equities and securitisations exposure classes, the vast majority are corporate exposures. More specifically, the sector Services consists of non-financial service providers such as transport, storage, healthcare and education. 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 90% of the corporate EAD.

As in 2013, NIBC strengthened its sector focus in 2014 by further concentrating on industries, where it possesses strong expertise and knowledge and where it can best assist its clients to achieve their strategic ambitions. By the acquisition of Gallinat-Bank AG, NIBC obtained a Lease Receivables portfolio which amounted EUR 361 million at 31 December 2014. Strict criteria are in place to determine the eligibility of lease contracts for this programme and they entered into with German lessees to finance moveable objects such as trucks and trailers as well as small ticket leases for IT equipment, technology and smaller equipment. The contracts are to commercial clients in the German SME market and consist of hire purchase contracts, partially amortising lease contracts and fully amortising lease contracts. The servicing of this portfolio remains with the leasing company.

The overall credit quality improved compared to 2013 and ranged in the 5+ (BB) to 6+ (B+) categories in terms of weighted average CCR, whereas the weighted average LGD was between 12.5% to 25% (B-1 to B-3 categories).

Table 7 provides a breakdown of credit EAD per legal maturity. Almost 42% 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 2014

IN EUR MILLIONS Exposure Class	≤ 1 year	> 1 year - ≤ 2 years	> 2 years - ≤ 5 years	> 5 years	Total
AIRB APPROACH					
- of which corporate	903	628	3,694	3,726	8,951
- of which retail	1	1	25	7,871	7,898
- of which institutions	906	99	72	-	1,077
- of which securitisations	811	-	-	-	811
- of which equities	359	1	18	-	377
SUBTOTAL	**2,980**	**729**	**3,808**	**11,598**	**19,114**
STANDARDISED APPROACH					
- of which institutions	171	56	129	41	398
- of which sovereign	514	-	-	49	563
- of which retail	327	-	-	361	688
- of which corporate	162	11	64	63	299
- of which equities	-	-	-	-	-
- of which other	-	-	-	47	47
SUBTOTAL	**1,173**	**67**	**193**	**562**	**1,995**
TOTAL EAD	**4,153**	**796**	**4,001**	**12,159**	**21,109**

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, retail and institutions exposure classes has been implemented by NIBC after the approval by DNB. 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. E*conomic 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 CRR/CRD IV 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, corporate exposures fall within four 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.

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 by the internal LGD 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 percentage, 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 2014, 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 *Global Credit Data* (**GCD**), 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 necessary mean that all the counterparties carry an impairment amount. Reasons for not always taking an impairment amount for a defaulted counterparty may be e.g. over-collateralisation or NIBC's expectation of the company future cash-flow generation. The section on defaulted, non-performing, impaired and forborne exposures contains more information.

Since 2010, NIBC has been using an internally developed methodology for calculating RWAs for the defaulted counterparties. Whereas RWA and RC for the non-defaulted corporate exposures are calculated based on the CRR/CRD IV 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.

In 2014 the weighted average PD of the total corporate exposure class improved to 2.3%. 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 2014. The weighted-average LGD improved slighty to 15.4% at

31 December 2014 from 15.5% at 31 December 2013. The improved CCRs and the stable LGDs under difficult economic circumstances reveal NIBC's focus on active portfolio management and selective high quality new origination.

Table 8 Breakdown of corporate AIRB EAD by weighted average PD, weighted average LGD and EAD type, 31 December 2014

IN EUR MILLIONS						
Rating Scale	**WA PD**	**WA LGD**	**On-balance**	**Off-balance**	**Derivatives**	**Total**
1/2 (AAA/AA)	0.04%	10.40%	74	-	-	74
3 (A)	0.11%	5.85%	71	28	6	104
4 (BBB)	0.34%	13.04%	1,616	190	406	2,212
5 (BB)	1.01%	14.21%	1,881	368	47	2,295
6 (B)	3.22%	18.54%	2,851	345	230	3,427
7 (CCC)	12.01%	11.91%	188	3	60	251
8 (CC/C)	26.74%	7.50%	74	-	-	74
9/10 (D)	100.00%	n.a.	487	-	28	515
TOTAL	**2.3%**	**15.4%**	**7,242**	**933**	**776**	**8,951**

Retail

The AIRB approach applies to NIBC's Dutch Residential Mortgage portfolio. The calculation of PD, LGD and EAD is performed by a internally developed CRR/CRD IV AIRB model, which has been in use since 2006. The PD estimates are dependent on a variety of factors, of which the key factors are debt-to-income and loan-to-value ratios. Minor factors 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, losses increased since 2009. However, actual credit losses in the Dutch and German portfolios have been low in the past years. The quality of NIBC's securitised mortgage portfolio is good compared to other Dutch RMBS issuers, as evidenced by limited arrears and realised losses.

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 NIBC's Dutch Residential Mortgage portfolio and the underlying portfolio of RMBS securitisations. At 31 December 2014, the WA PD and LGD were 2.1% and 15.7% respectively.

Table 9 Breakdown of retail AIRB EAD by weighted average PD, weighted average LGD and EAD type, 31 December 2014

IN EUR MILLIONS PD bucket	WA PD	WA LGD	On-balance	Off-balance	Total
<=0.1%	0.06%	8.56%	1,261	1	1,262
0.1% - 0.2%	0.15%	12.04%	1,440	3	1,442
0.2% - 0.3%	0.25%	15.32%	1,051	4	1,055
0.3% - 0.4%	0.35%	14.28%	1,028	4	1,032
0.4% - 0.5%	0.45%	13.74%	1,098	8	1,106
0.5% - 1%	0.66%	25.02%	1,654	7	1,661
1% - 2%	1.16%	30.04%	103	-	103
2% - 5%	3.35%	20.30%	12	-	12
5% - 99%	26.47%	20.64%	119	-	119
100%	100.00%	23.57%	105	-	105
TOTAL	**2.1%**	**15.7%**	**7,871**	**26**	**7,898**

Institutions

NIBC also uses a AIRB CCR and LGD model for rating bank counterparties. This model has been approved by the DNB and implemented in July 2014. The AIRB framework for bank counterparties consists of an externally developed credit rating model that estimates the probability of default of the borrower and an internally developed model that estimates the loss in the event of default. The bank rating scales are in line with the rating scales used for corporate exposures. All counterparties are reviewed at least once a year. The non-bank Institutions are treated under the standardized approach.

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 377 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 2014

IN EUR MILLIONS Risk weight	< 10%	10% - 20%	25% - 50%	250% - 425%	500% - 650%	1250% or deducted	Total
Retained	-	-	3	80	-	125	209
Purchased	400	110	35	7	9	42	602
TOTAL	**400**	**110**	**39**	**87**	**9**	**167**	**811**

Small differences are possible in the table due to rounding

Standardised Approach

For the calculation of RWA under the Standardised approach, drawn exposure is multiplied by a risk weight, depending on the exposure type and the external rating. The undrawn exposures are multiplied by both a risk weight and a credit conversion factor. The risk weights are prescribed in the CRR/CRD IV:

- 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-), 50% (long-term exposures with a rating between BBB- and A+) or 0% for centrally-cleared exposures;
- 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 and the Lease Receivables 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.

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Overview of Standardised portfolios

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

Table 11 Standardised EAD per risk weight, 31 December 2014

IN EUR MILLIONS Exposure Class	0%	20%	35%	50%	75%	100%	150%	Total
Retail	-	-	304	-	373	8	2	688
Sovereign	563	1	-	-	-	-	-	563
Institutions	81	289	-	28	-	-	-	398
Corporate	-	-	-	-	-	299	-	299
Equities	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	47	-	47
TOTAL	**643**	**290**	**304**	**28**	**373**	**354**	**2**	**1,995**

Small differences are possible in the table due to rounding

Table 12 Standardised RWA per risk weight, 31 December 2014

IN EUR MILLIONS Exposure Class	0%	20%	35%	50%	75%	100%	150%	Total
Retail	-	-	107	-	246	8	4	364
Corporate	-	-	-	-	-	302	-	302
Institutions	3	58	-	14	-	-	-	75
Equities	-	-	-	-	-	-	-	-
Sovereign	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	46	-	46
TOTAL	**3**	**58**	**107**	**14**	**246**	**356**	**4**	**788**

Small differences are possible in the table due to rounding

Credit risk mitigation

Institutions

The exposures to 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 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.

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.

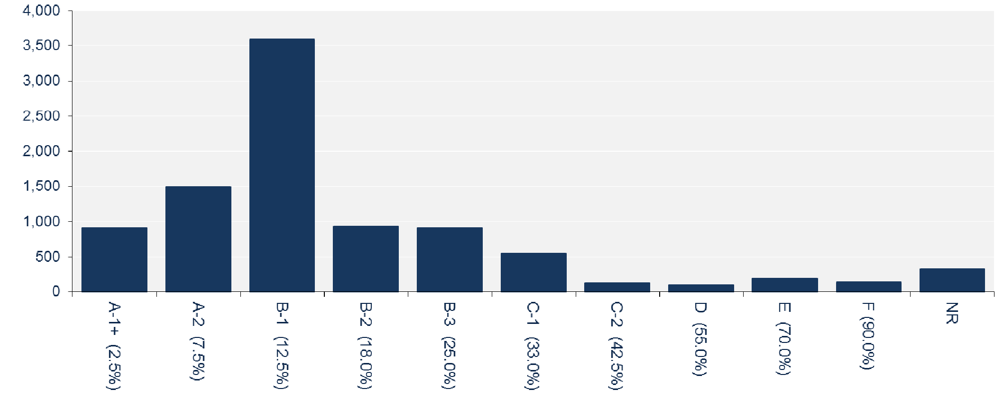
NIBC initially values collateral based on fair market value when structuring a transaction, and evaluates the collateral and its value (semi-) annually during the lifetime of the exposure. NIBC typically seeks confirmation from independent third-party experts that its interests are legally enforceable. 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. The letters on the horizontal axis of the table 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 weighted average LGD for the corporate exposure class at 31 December 2014 was 15.4% and improved slightly in comparison to 2013 (15.5%).

Graph I Breakdown of corporate EAD (EUR 9,250 million) per LGD rating, 31 December 2014



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;
- 38% of the Dutch Own Book portfolio (and 25% of the Dutch Securitised portfolio) are covered by the NHG programme; and
- Approximately 32% of the Dutch portfolio has been securitised (based on a credit risk view).

For the portfolio not covered by the NHG programme, the underlying property is the primary collateral for any mortgage loan granted, though savings and investment deposits may also serve as additional collateral. A measurement for potential losses, taking into account indexation of house prices and seasoning, is achieved by calculating the *loan-to-indexed-market-value* **(LtIMV)**. The indexation is made by using the index of the Dutch Land Registry Office (Kadaster), which is based on market observables. For the total portfolio 19% 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.

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.

Defaulted, non-performing, impaired and forborne exposure

Sovereign and Institutions

In 2014, NIBC did not take any impairments on these exposure classes.

Corporate

Portfolio managers within the commercial teams and risk managers at the 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 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), excluding EUR 13 million EAD on Standardised Approach, represent a total EAD of EUR 515 million (31 December 2013: EUR 504 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 CRR/CRD IV definition[1]), 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 13 and 14 show a breakdown of the defaulted, non-performing, impaired and forborne exposure of the corporate exposure class per region and industry sector at 31 December 2014.

The column labelled *Defaulted EAD Corporate* shows the total EAD of counterparties carrying a internal default rating 9 or 10 (EUR 528 million).

Non-performing EAD Corporate shows the EAD of clients considered to be non-performing. A client is non-performing if that client is in default, or if a performing forborne facility under probation is extended additional forbearance measures or becomes more than 30 days past due (EUR 528 million).

Impaired EAD Corporate shows the EAD of those facilities carrying an impairment amount (EUR 459 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.

Forborne EAD Corporate shows the total EAD of counterparties facing financial difficulties and to whom a concession is granted by NIBC (EUR 1,129 million). Our business model, with a focus on sub-investment grade clients and well secured facilities, can lead to situations that temporary financial concessions are needed which would result in a higher total forborne exposure. Our forborne exposure has a large overlap with our defaulted exposure. This shows that even during difficult periods we stay committed to our clients.

The impact of the economic crisis on the corporate exposure class was still felt in 2014. In 2014, the total impairment amount of the corporate exposure class increased by EUR 64 million. New impairment amounts were mainly taken in our pre-crisis commercial real estate portfolio.

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1 According to the CRR/CRD IV 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.

Table 13 Breakdown of defaulted, non-performing, impaired and forborne exposure in corporate exposure class per region, 31 December 2014

IN EUR MILLIONS

Region	Total EAD Corporate	Defaulted EAD Corporate	Non-performing EAD Corporate	Impaired EAD Corporate	Forborne EAD Corporate	Impairment
The Netherlands	2,887	135	135	103	338	41
United Kingdom	2,093	18	18	4	24	1
Germany	1,856	308	308	284	650	83
Rest of Europe	1,211	39	39	39	66	30
North America	476	28	28	28	51	14
Asia / Pacific	436	-	-	-	-	-
Other	293	-	-	-	-	-
IBNR	-	-	-	-	-	4
TOTAL	**9,250**	**528**	**528**	**459**	**1,129**	**173**
IN % TOTAL EAD		**5.7%**	**5.7%**	**5.0%**	**12.2%**	

Small differences are possible in the table due to rounding

IBNR stands for *incurred but not reported.*

Table 14 Breakdown of defaulted, non-performing, impaired and forborne exposure in corporate exposure class per industry sector, 31 December 2014

IN EUR MILLIONS

Industry sector	Total EAD Corporate	Defaulted EAD Corporate	Non-performing EAD Corporate	Impaired EAD Corporate	Forborne EAD Corporate	Impairment
Infrastructure & Renewables	2,476	67	67	61	111	10
Commercial Real Estate	1,524	326	326	298	798	102
Shipping	1,327	53	53	53	95	39
Oil & Gas	1,081	-	-	-	-	-
Financial Services	695	9	9	9	-	1
Manufacturing	616	14	14	14	41	5
Services	466	22	23	14	59	6
Wholesale/Retail/Leisure	460	11	11	11	19	6
Agriculture & Food	267	-	-	-	-	-
Other	183	14	14	-	-	-
TMT	156	13	13	-	7	-
IBNR	-	-	-	-	-	4
TOTAL	**9,250**	**528**	**528**	**459**	**1,129**	**173**
IN % TOTAL EAD		**5.7%**	**5.7%**	**5.0%**	**12.2%**	

Small differences are possible in the table due to rounding

Table 15 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 69 million having an amount in arrear for above 90 days is collateralised by commercial real estate and (chemical) tankers. 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 15 EAD with an amount in arrear, corporate exposure class, 31 December 2014

IN EUR MILLIONS	Corporate EAD	Amount in arrear
1 - 5 days	53	3
6 - 30 days	24	5
31 - 60 days	-	-
61 - 90 days	-	-
SUBTOTAL LESS THAN 90 DAYS	**77**	**8**
Over 90 days	77	69
No payment arrear	9,097	-
TOTAL	**9,250**	**77**

Small differences are possible in the table due to rounding

Retail

As part of 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 for part of NIBC's retail exposure class. Newly originated mortgage loans since 2013 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 the Dutch Residential Mortgage portfolio. Table 16 shows an overview of the retail EAD with an amount in arrear at 31 December 2014. 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 2014, the total amount in arrear was EUR 7.8 million (0.1% of the portfolio EAD).

Table 16 EAD with an amount in arrear, retail exposure class, 31 December 2014

IN EUR MILLIONS	Retail EAD	Amount in arrear
Technical past-due amounts	20	0.1
1 - 30 days	98	0.6
31 - 60 days	31	0.3
61 - 90 days	24	0.4
SUBTOTAL LESS THAN 90 DAYS	**173**	**1.4**
Over 90 days	84	6.4
No payment arrear	8,328	-
TOTAL	**8,586**	**7.8**

NIBC has developed a forbearance policy for mortgage clients experiencing financial difficulties and who consequently are unable to meet the original terms and conditions of the contract. The forbearance policy is defined, formalized and implemented in the standard working routines and processes and is similar to the policy applied for the corporate loan portfolio. However, NIBC applies a conservative approach when determining forborne clients in the Residential Mortgages portfolio and assumes a concession is granted for all clients with a payment arrear older than 90 days.

Since May 2013, NIBC provides forbearance programmes to mortgagers who are experiencing financial difficulties. The Client Retention team of Special Servicing department has the responsibility of assessing the nature and the expected duration of a client's financial distress, and will determine the necessity of providing forbearance measures to that client and the applicable conditions. The team considers forbearance solutions for each client who does not fully meet the financial obligations to NIBC. Forbearance solutions are also submitted to the Arrears Management Committee for further approval by management. At 31 December 2014, EUR 150 million (1.9% of the total portfolio) is forborne of which EUR 37 million is performing and EUR 113 million non-performing.

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 17 and 18 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 73 million in Tables 17 and 18 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 17 Breakdown of impairments on equity exposure class per region, 31 December 2014

IN EUR MILLIONS

Region	Total EAD Equity	Impaired EAD Equity	Impairment
The Netherlands	303	-	8
North America	35	25	43
Rest of Europe	27	9	2
United Kingdom	12	-	-
Germany	-	-	20
Asia / Pacific	-	-	-
TOTAL	**377**	**34**	**73**

Small differences are possible in the table due to rounding

Table 18 Breakdown of impairments on equity exposure class per industry sector, 31 December 2014

IN EUR MILLIONS Industry Sector	Total EAD Equity	Impaired EAD Equity	Impairment
Wholesale/Retail/Leisure	140	-	-
Infrastructure & Renewables	92	-	-
Financial Services	69	25	63
Services	31	-	-
Manufacturing	18	-	8
Other	17	9	2
Commercial Real Estate	10	-	-
Shipping	-	-	-
Agriculture & Food	-	-	-
TMT	-	-	-
TOTAL	**377**	**34**	**73**

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 19 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 19 Breakdown of impairments on securitisation exposure class per collateral type, 31 December 2014

IN EUR MILLIONS	Total EAD Securitisation	Impaired EAD Securitisation	Impairment
ABS	1	1	1
CDO/CLO	100	6	27
CMBS	205	4	17
RMBS	97	-	-
TOTAL WESTERN EUROPEAN SECURITISATIONS	**404**	**10**	**45**
NL - RMBS AAA Liquidity Portfolio	**300**	**-**	**-**
EU - ABS AAA Liquidity Portfolio	**107**	**-**	**-**
TOTAL SECURITISATION EXPOSURE	**811**	**10**	**45**

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.

In 2014, new impairments were mainly taken on our pre-crisis commercial real estate portfolio, while other parts of the corporate exposures carried either no impairments (e.g. oil & gas) or very small amounts (e.g. manufacturing, wholesale/retail/leisure, services and financial services). Write-offs of previously impaired exposures were taken for certain exposures in the industry sectors infrastructure, TMT and services.

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. In 2014, the amount of losses arising from these defaults increased compared to 2013. 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 20 shows the realised and expected losses in basis points in 2014 and 2013 for NIBC's corporate and retail exposure classes. Due to the increased impairments on our pre-crisis commercial real estate portfolio, 2014 ended with higher realised losses for NIBC (59 basis points) compared to 2013 (43 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 20 Expected Loss (EL) versus Realised Loss (RL) in basis points of EAD for corporate and retail exposure classes

2014		2013	
EL	RL	EL	RL
25	59	36	43

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 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 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 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 21 shows the breakdown of EAD, RWA and capital requirement for derivatives at 31 December 2014.

Table 21 Breakdown of EAD, RWA and capital requirement for derivatives, 31 December 2014

IN EUR MILLIONS	EAD	RWA	Capital requirement
AIRB APPROACH			
- of which corporate	776	449	36
- of which securitisations	281	187	15
STANDARDISED APPROACH			
- of which corporate	37	37	3
- of which institutions	92	8	-
TOTAL DERIVATIVES	**1,185**	**681**	**54**

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. Under the AIRB approach, the PD is derived from the CCR of the counterparty and the LGD is set equal to the facility weighted-average LGD. Since 2014, NIBC is also using internal ratings to assess the creditworthiness of an institution (next to corporate exposures which have been internally rated since 2008).

Table 22 Gross and net fair value exposure from derivative contracts

IN EUR MILLIONS	2014
Gross exposure	2,824
Netting benefits	(1,718)
Reduction from collateral	(241)
Net current exposure	865

NIBC has a limited number of CDS transactions to protect its exposure in the portfolio. Tables 23 and 24 show the breakdown of all CDS contracts:

Table 23 Breakdown of CDS contracts by exposure class (nominal amounts)

IN EUR MILLIONS		
CDS contract exposure class	**Sold protection**	**Bought protection**
Sovereign	-	-
Institutions	5	-
Corporate	10	24
Securitisations	4	-
TOTAL	**19**	**24**

Table 24 Breakdown of CDS contracts by name type (nominal amounts)

IN EUR MILLIONS		
CDS contract name type	**Sold protection**	**Bought protection**
Single name	9	14
Multiple name	10	10
TOTAL	**19**	**24**

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 2014 and 31 December 2013 are provided in table 25. The RWA throughout 2014 fluctuated between EUR 180 million and EUR 372 million.

Table 25 Breakdown of RWA and capital requirement for market risk

	31 December 2014		31 December 2013	
IN EUR MILLIONS	RWA	Capital requirement	RWA	Capital requirement
- of which trading portfolio VaR	345	28	151	12
- of which FX Standardised approach	26	2	39	3
TOTAL MARKET RISK	**371**	**30**	**190**	**15**

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. Limit breaches within the Trading book are forthwith reported to the CRO and the supervisory authorities (DNB).

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 2014 and equals the 2013 limit. For the Mismatch books, the VaR limit was reduced from EUR 11.5 million to EUR 6 million in 2014.

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, credit VaR and also total VaR which incorporates both interest rate risk and credit spread risk. 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 credit 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 Model Approach* (**IMA**) for general interest rate risk, which is the only risk driver in the Trading book of NIBC. Articles 362 to 369 of the CRR/CRD IV set all regulatory requirements for the Trading book. NIBC complies in all material aspects with these requirements. 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 with extreme stress in the markets. 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 for the years 2013 and 2014.

Throughout 2014, 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 2013 and 2014

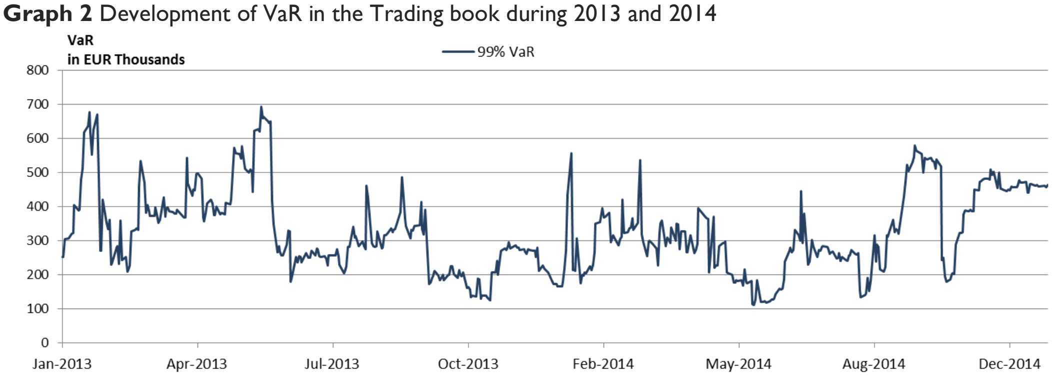


Table 26 Key risk statistics, Trading book 2014

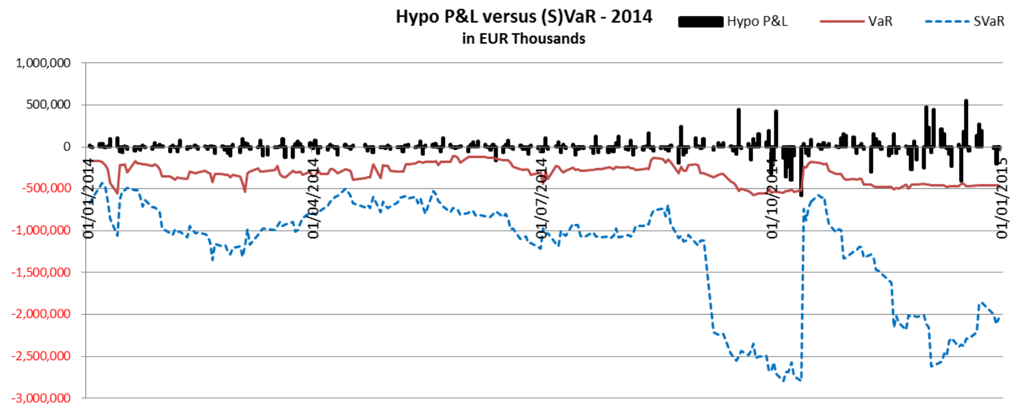
	Interest rate		
IN EUR THOUSANDS	BPV	VaR	SVaR
Max*	(75)	578	2,796
Average	(10)	316	1,222
Min*	-	111	429
YEAR-END 2014	**49**	**462**	**2,046**

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

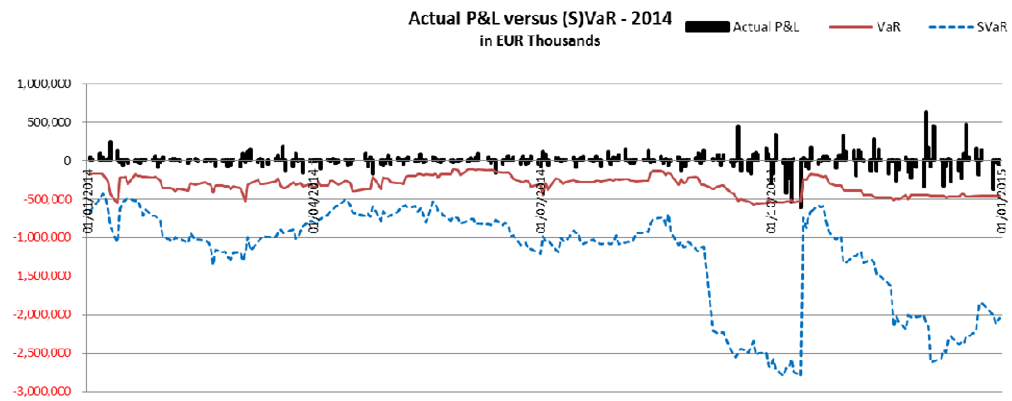
Back testing

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 European Regulation and Directive CRR/CRD IV. 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 2014, there were only 2 outliers in the actual profit and loss and 3 in the hypothetical profit and loss, which gives comfort that the model does not underestimate the risk.

Graph 3 Back test results of the Trading book during 2014 (Hypothetical profit and loss versus (S)VaR)



Graph 4 Back test results of the Trading book during 2014 (Actual profit and loss versus (S)VaR)



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. In 2014, new EUR, USD and GBP mismatch positions were opened.

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 and was reviewed in 2014 so that the characteristics of the on-demand savings were better incorporated. The on-demand savings have considerable interest rate risk (from an economic perspective). NIBC gradually started hedging this exposure and continued to do so in 2014. The interest rate risk of on-demand savings per 31 December 2014 was minus EUR 8 thousand: minus EUR 72 thousand in the short term buckets (up to 23 months) and plus EUR 64 thousand in the long term buckets (2Y up to 7Y). 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 28.

Table 27 Interest rate sensitivity, 31 December 2014

IN EUR THOUSANDS	BPV			
	Trading	Mismatch	Banking	Total
EUR	(1)	(130)	219	88
USD	49	(43)	11	17
GBP	1	(118)	1	(116)
Other	-	-	-	-
TOTAL	**49**	**(291)**	**231**	(11)

Table 28 Effect of an interest rate shock on economic value, 31 December 2014

IN EUR THOUSANDS		
Interest rate shock	**-100bp**	**+100bp**
EUR	(10,294)	7,877
USD	(1,586)	1,784
GBP	12,057	(11,327)
Other	112	(112)
TOTAL	**289**	**(1,778)**

Credit spread risk

Within Treasury, credit spread risk is concentrated in the Debt Investments book, which contains investments in Institutions, corporate entities and securitisations. Total credit spread sensitivity within Treasury changed from -0.423 million EUR/bp at 31 December 2013 to -0.407 million EUR/bp at 31 December 2014. For Consumer Banking total credit spread sensitivity changed from -2.263 million EUR/bp at 31 December 2013 to 2.061 million EUR/bp at 31 December 2014.

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 2014, the capital requirement for FX risk was EUR 2 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.

The management of operational risk is based on a ‘no surprises’ operating environment and on a transparent and consistent way of managing operational risk across all our business lines, banking activities and countries. As part of this, every NIBC business unit and international office has an operational risk management ‘champion’. These employees assess their departments for potential operational risks, monitor the control mechanisms in place to mitigate these, coordinate ways of resolving loss-making events, and spread the word on operational risks within their departments. Since the scheme was launched in 2012, the operational risk ‘champs’ have evolved into a valuable network that shares its knowledge across the bank.

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

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

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

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

As the last few years have seen many failures in the banking sector both internationally as well as in the Netherlands, NIBC continued enhancing its forward-looking, proactive attitude and its structured approach to managing operational risk across all three lines of defence. The frequency of conducting RCSAs and declaring itself In Control remains 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.

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

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 CRR/CRD IV 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 29 shows the amount of RWA and the capital requirement for operational risk as at year-end 2014 and 2013.

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 2013 included the years 2010, 2011 and 2012; at year-end 2014, it was based on the years 2011 to 2013.

In 2014, the capital requirements for operational risk were lower than those compared to 2013 due to the fact that the income of the year added to the calculation (2013) was lower than the income of the year that was removed (2010).

Table 29 Breakdown of RWA and capital requirement for operational risk

	2014		2013	
IN EUR MILLIONS	RWA	Capital requirement	RWA	Capital requirement
Standardised approach	482	39	572	46
TOTAL OPERATIONAL RISK	**482**	**39**	**572**	**46**

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 2014 were the further expansion of the online retail savings programme NIBC Direct from EUR 8.4 billion to EUR 9.0 billion, as well as another pass-through covered bond issue of EUR 500 million, unsecured debt via private placement and the participation in the TLTRO for EUR 241 million. In addition, NIBC fully redeemed the government guaranteed debt and further diversified the funding mix by the introduction of ESF deposits (with a closing balance of ca. EUR 1.0 billion EOY 2014).

Stress scenarios

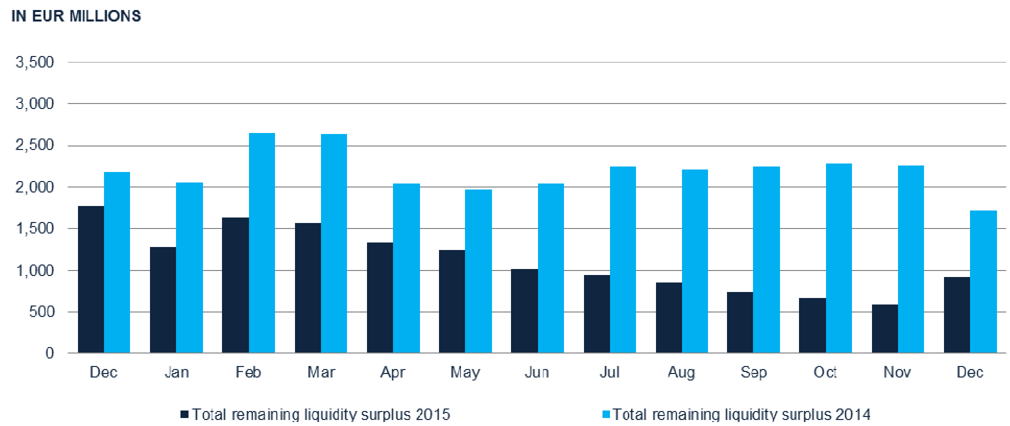
Based on projections prepared by the business units and reviewed by *Asset & Liability Management* **(ALM)**, and the current asset and liability maturity profiles, several liquidity stress tests are prepared and presented once every two weeks to the ALCO, in order to allow continuous monitoring of the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

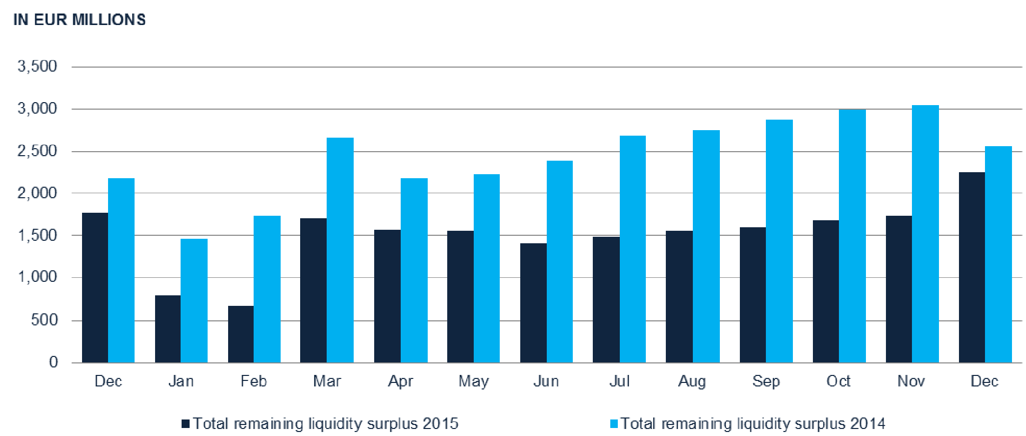
The outcomes of the liquidity stress tests are all at a comfortable positive level and remain positive for a prolonged period, under the assumption that normal measures are carried out.

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. The outcomes over 2015 are, although lower than 2014, still at comfortably high levels. The liquidity buffers of the bank have normalised to the desired levels as a result of mainly the redemption of government guaranteed bonds and mortgage / corporate loan production. These outflows were only partly counterbalanced by new funding initiatives, such that the liquidity buffers are now more in line with the appetite.

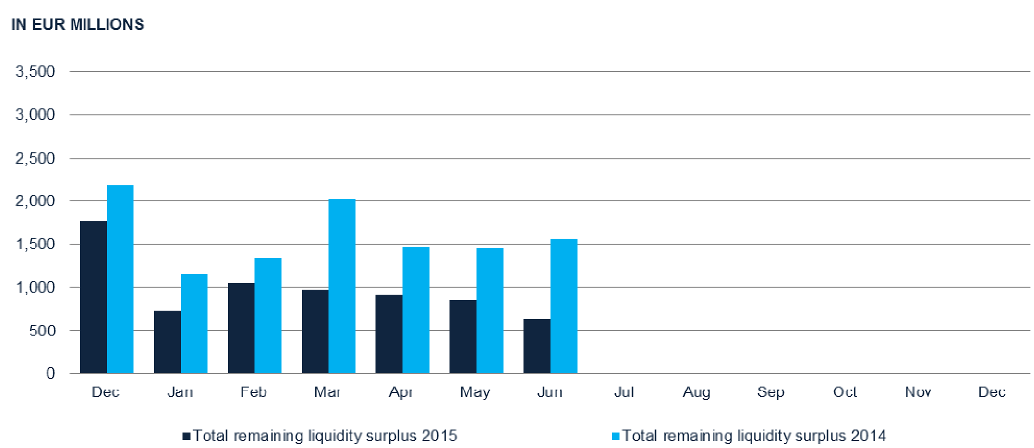
Graph 5 Market Stress Scenario, short-term analysis, 31 December 2014 and 31 December 2013



Graph 6 Institution Specific Stress Scenario, short-term analysis, 31 December 2014 and 31 December 2013



Graph 7 Combined Stress Scenario, short-term analysis, 31 December 2014 and 31 December 2013

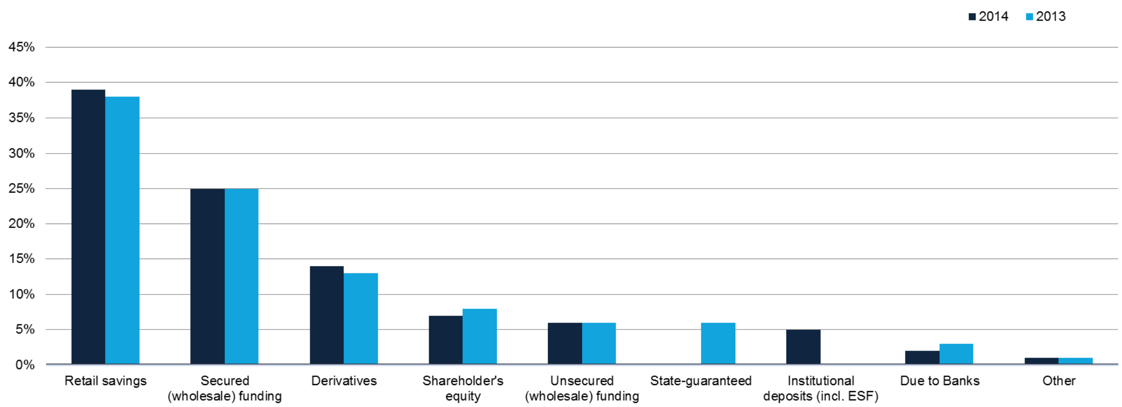


In addition to the 12-month liquidity stress analysis described above, NIBC also conducts liquidity analyses over longer periods once every two weeks according to a base scenario. These analyses assume a growth in our loan portfolio in combination with new funding initiatives. The outcome of, for example, a three or five year liquidity analysis shows again a positive buffer throughout the period.

Funding

NIBC Holding further diversified its funding base by the initiatives mentioned earlier. An overview of the total liabilities portfolio at 31 December 2014 and 31 December 2013 is shown in graph 8. The liabilities overview is based on total balance sheet amounts.

Graph 8 Breakdown of total liabilities, 31 December 2014 (EUR 22,958 million) and 31 December 2013 (EUR 22,299 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 30 gives an overview of the cumulative nominal amounts at 31 December 2014 of which NIBC was originator:

Table 30 Cumulative nominal amounts of NIBC's securitisations

IN EUR MILLIONS	Total
UNDERLYING ASSET	
Residential mortgages	2,414
Commercial mortgages	1,682
CLO	2,112
TOTAL	**6,208**

At 31 December 2014, 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 2014

In 2014, NIBC called the CMBS Mesdag Berlin securitisation.

Names of the External Credit Assessment Institutions used for securitisations

NIBC uses Fitch, Moody's and Standard & Poor's to rate its securitisations.

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 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 31 provides an overview of NIBC's exposures in securitisations at 31 December 2014.

Table 31 EAD of Securitisations portfolio at NIBC, 31 December 2014

IN EUR MILLIONS	Investor	Originator	Total
ABS	1	-	1
CDO/CLO	65	35	100
CMBS	32	173	205
RMBS	97	-	97
TOTAL WESTERN EUROPEAN SECURITISATIONS	**195**	**208**	**404**
NL - RMBS AAA Liquidity portfolio	300	-	300
EU - ABS AAA Liquidity portfolio	107	-	107
TOTAL SECURITISATION EXPOSURE	**602**	**208**	**811**

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 CRR/CRD IV 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 2014.

Table 32 Rating distribution of Securitisations portfolio (investor), 31 December 2014

IN EUR MILLIONS	AAA	AA	A	BBB	BB	Below BB	Total
ABS	-	-	-	-	-	1	1
CDO/CLO	-	21	19	7	9	9	65
CMBS	-	6	7	-	-	18	32
RMBS	6	9	58	12	-	12	97
TOTAL WESTERN EUROPEAN SECURITISATIONS (INVESTOR)	**6**	**36**	**84**	**19**	**9**	**40**	**195**
NL - RMBS AAA Liquidity portfolio	300	-	-	-	-	-	300
EU - ABS AAA Liquidity portfolio	107	-	-	-	-	-	**107**
TOTAL SECURITISATION EXPOSURE (INVESTOR)	**413**	**36**	**84**	**19**	**9**	**40**	**602**

Small differences are possible in the table due to rounding

Table 33 Rating distribution of retained positions in the Securitisations portfolio (originator), 31 December 2014

IN EUR MILLIONS	AAA	AA	A	BBB	BB	Below BB	Total
ABS	-	-	-	-	-	-	-
CDO/CLO	-	-	-	-	8	27	35
CMBS	-	2	-	-	72	99	173
RMBS	-	-	-	-	-	-	-
TOTAL SECURITISATION EXPOSURE (ORIGINATOR)	**-**	**2**	**-**	**-**	**80**	**126**	**208**

Small differences are possible in the table due to rounding

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 CRR/CRD IV 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 the various 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 CRR/CRD IV 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 a market risk approach is used and for the Residential Mortgage portfolio both a credit and 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 portfolios 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 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 the fact that profits in one portfolio may offset losses in a different 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 34 shows the EC per risk type for NIBC Holding and the changes compared to 2013.

Table 34 EC usage per risk type

IN EUR MILLIONS	31 December 2014	31 December 2013	Difference
Market Risk	282	474	-41%
Credit Risk	569	392	45%
Equity Risk	183	171	7%
Operational Risk	41	49	-16%
Bankwide EC Charges	224	225	0%
Total Undiversified	**1,299**	**1,311**	**-1%**
Diversification effects between risk types	(336)	(310)	8%
TOTAL DIVERSIFIED ECONOMIC CAPITAL	**963**	**1,001**	**-4%**

Notable Changes

- Market Risk decreased and Credit Risk increased mainly due to the split of the EC of Fair Value mortgages into a pure Market Risk EC and a Credit Risk EC component, the latter being calculated using an AIRB approach;
- Equity risk increased due to new origination and uplifts in NIBC's equity portfolio;
- EC for operational risk is consistent with the RC methodology for operational risk and scaling is applied to obtain the value at a 99.95% confidence level; and

- Bank-wide charges for business risk, reputational risk, model risk and property risk decreased relative to the end of 2013 because of the property value adjustment in 2014.

Stress scenarios

NIBC performs internal Stress Testing as part of the overall Pillar 2 framework for CRR/CRD IV. On a quarterly basis, stressed scenario outcomes estimated by NIBC's Event Risk Framework are presented to the RMC and RPC, providing senior management and the Supervisory Board members with information that can be taken into account for strategic decision making. Moreover, outcomes are directly linked to NIBC's Risk Appetite Framework, based on which management steers the bank's aggregated risks. The Event Risk Framework accounts for the impact of various historical (e.g. Asia Crisis, Internet Bubble) and hypothetical (e.g. stagflation, renewed credit crisis) stress scenarios on the profit and loss and capital adequacy of NIBC.

Capital Base Components

The capital base, also referred to as regulatory capital, is calculated in accordance with the CRR/CRD IV. 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 three main categories, being Common Equity Tier-1 capital, Tier-1 capital and Tier-2 capital. The two main components in the regulatory own funds are core equity and subordinated debt. Result of the year is included in the Common Equity Tier-1 capital. 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* (**RWA**).

Common Equity Tier-I capital

Common Equity Tier-1 capital

Common Equity Tier-1 capital consists of common share capital including share premium accounts, retained earnings, accumulated other comprehensive income, adjusted by deduction of repurchased own shares and other eligible items.

Deduction from Common Equity Tier-I capital

Cash flow hedge reserve

The amount of the cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet is derecognised in the calculation of Common Equity Tier-1. This means that positive amounts are deducted.

Intangible assets (goodwill)

The deducted intangible assets contain goodwill. In 2014 the total amount of goodwill is impaired.

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.

Deferred tax assets

Deferred tax assets are deducted from the Common Equity Tier-1 capital as far as they rely on future profitability.

Securitisation exposures

NIBC has purchased subordinated bonds issued by various securitisation entities. According to the Basel II legislation the subordinated bonds were deducted from regulatory own funds 50% Tier-1- and 50% Tier-2 capital. According to CRR/CRD IV the subordinated bonds are deducted fully from the Common Equity Tier-1 capital.

AIRB provision excess of expected loss (EL)

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 CRR/CRD IV the shortfall amount shall be deducted fully from the Common Equity Tier-1 capital. Due transitioning in the period 2014-2017 they are gradually shifting from 50% deduction from Additional Tier-1 capital and 50% from Tier-2 capital towards full deduction from Common Equity Tier-1.

Tier-I capital

Tier-1 capital is composed of Common Equity Tier-1 capital and additional Tier-1 capital instruments after deduction of eligible items.

Additional Tier-1 capital

Additional Tier-1 capital instruments are deeply subordinated debt instruments, senior only to Shareholders' Equity. These instruments must meet strict rules predefined by the CRR/CRD IV.

Deduction from Tier-I capital

AIRB provision excess of expected loss (EL)

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 CRR/CRD IV the shortfall amount shall be deducted fully from the Common Equity Tier-1 capital. Due transitioning in the period 2014-2017 they are gradually shifting from 50% deduction from Additional Tier-1 capital and 50% from Tier-2 capital towards full deduction from Common Equity Tier-1.

Transitional Recognition in Consolidated own funds

The recognition in consolidated own funds refers to the treatment of capital issued of subsidiaries to third parties. Capital instruments issued by consolidated subsidiaries and held by third parties may no longer be fully recognised towards capital at group level under the CRR but only to the extent used by the subsidiary to cover the minimum capital requirements, including capital buffers. The partial de-recognition of capital issued to third parties by subsidiaries applies to all fully consolidated subsidiaries, including wholly-owned and partly owned. The partial de-recognition will affect the Additional Tier-1 and Tier-2 provided to third parties by all subsidiaries.

Tier-2 capital

The Tier-2 capital is composed of subordinated debt instruments after deduction of eligible items. Tier-2 capital includes two types of subordinated debt instruments; perpetual and dated instruments. Tier-2 capital may not exceed total Tier-1 capital, and long-term subordinated debt 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 Tier-2 capital instruments 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

Under Basel II the revaluation reserve contains unrealised gains from equity holdings classified as available for sale and revaluation of property. Under CRR/CRD IV revaluation reserve is part of *Other Comprehensive Income* (**OCI**).

Deductions from Tier-2 capital

Securitisation exposures

NIBC has purchased subordinated bonds issued by various securitisation entities. According to the Basel II legislation the subordinated bonds were deducted from regulatory own funds 50% Tier-1- and 50% Tier-2 capital. According to CRR/CRD IV the subordinated bonds are deducted fully from the Common Equity Tier-1 capital.

AIRB provision excess of expected loss (EL)

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 CRR/CRD IV the shortfall amount shall be deducted fully from the Common Equity Tier-1 capital. Due transitioning in the period 2014-2017 they are gradually shifting from 50% deduction from Additional Tier-1 capital and 50% from Tier-2 capital towards full deduction from Common Equity Tier-1.

Transitional Recognition in Consolidated own funds

The recognition in consolidated own funds refers to the treatment of capital issued of subsidiaries to third parties. Capital instruments issued by consolidated subsidiaries and held by third parties may no longer be fully recognised towards capital at group level under the CRR but only to the extent used by the subsidiary to cover the minimum capital requirements, including capital buffers. The partial de-recognition of capital issued to third parties by subsidiaries applies to all fully consolidated subsidiaries, including wholly-owned and partly owned. The partial de-recognition will affect the Additional Tier-1 and Tier-2 provided to third parties by all subsidiaries.

A summary of items included in the regulatory capital is as follows:

Table 35 Reconciliation of shareholders' equity to regulatory capital of NIBC Holding N.V., 2014 and 2013

IN EUR MILLIONS	2014	2013
TOTAL SHAREHOLDERS' EQUITY PER ACCOUNTING BALANCE SHEET	**1,683**	**1,765**
Called-up share capital	1,408	1,408
Other reserves & OCI	603	572
Retained earnings	(231)	(193)
Net result attributable to parent shareholders	(97)	18
Interim and final dividend paid	-	(40)
Regulatory adjustments to accounting basis & Prudential Filters	**(301)**	**(381)**
Cash flow hedge reserve and other reserves	(79)	(46)
Intangible assets (goodwill)	-	(121)
Funding revaluation	(128)	(149)
Deferred tax assets	(11)	-
Securitisation exposures	(68)	(37)
AIRB provision excess of expected loss (EL)	(15)	(28)
COMMON EQUITY TIER 1 CAPITAL	**1,382**	**1,384**
Additional Tier 1 Capital	**153**	**266**
AIRB provision excess of expected loss (EL)	(31)	-
Directly issued capital instruments subject to phase out from Additional Tier 1	195	266
Transitional recognition in consolidated own funds	(11)	-
TIER 1 CAPITAL	**1,535**	**1,650**
Additional Tier 2 Capital	**140**	**77**
Subordinated Loans	178	127
Revaluation reserve	-	15
Securitisation exposures	-	(37)
AIRB provision excess of expected loss (EL)	(31)	(28)
Transitional recognition in consolidated own funds	(7)	-
TOTAL REGULATORY CAPITAL	**1,675**	**1,727**

Changes in Common Equity Tier-1 and Tier-1 capital

The Common Equity Tier-1 capital decreased by EUR 2 million. Total Tier-1 capital decreased by EUR 115 million due to transition impact of AIRB provision excess of expected loss (EL) and the phase out of Directly issued capital instruments.

Changes in Tier-2 capital

The Tier-2 capital increased by EUR 63 million. The main reason is the phase in of Directly issued capital instruments. from Tier-1 Capital. Deduction of Securitisation exposures is recognised as Common Equity Tier-1 Capital under CRR / CRD IV.

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 Common Equity Tier-1 ratio and the Tier-1 ratio. These ratios, which were implemented by the *Bank for International Settlements* (**BIS**), are intended to promote comparability between institutions. They are based on the CRR/CRD IV legislation.

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, NIBC complied amply with the capital requirements imposed by the CRR/CRD IV, which require a minimum Common Equity Tier-1 ratio of 7% and a minimum Total Capital ratio of 10.5%, both including capital conservation buffers.

Capital ratios of NIBC Holding

The Common Equity Tier-1 ratio is defined as Common Equity Tier-1 capital divided by the total RWA.

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

The Total Capital 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 13.7% at end-2014. This is a healthy position that also implies that NIBC Holding can fulfil the CRR/CRD IV requirements when fully implemented as of December 31, 2018.

Tables 36 show the capital ratios of NIBC Holding.

Table 36 NIBC Holding N.V. capital ratios, CRR/CRD IV

in %	2014	2014	2013
	Fully Loaded	Transition	
CAPITAL RATIOS			
Common Equity Tier-1 ratio	13.7	14.6	16.8
Tier-1 ratio	13.7	16.2	20.0
Total Capital / BIS ratio	16.6	17.7	20.9

Table 37 Breakdown of EAD, capital requirements and RWA of NIBC Holding N.V.

IN EUR MILLIONS	2014 EAD	2014 RWA	2014 Capital requirement	2013 EAD	2013 RWA	2013 Capital requirement
CREDIT RISK	**21,109**	**8,330**	**666**	**17,538**	**7,499**	**600**
AIRB APPROACH						
- of w hich corporate	8,951	4,083	327	7,868	3,678	294
- of w hich institutions	1,077	458	37	-	-	-
- of w hich retail	7,898	966	77	4,591	651	52
- of w hich securitisations	377	1,395	112	1,401	926	74
- of w hich equities	811	640	51	379	1,401	112
STANDARDISED APPROACH						
- of w hich institutions	398	75	6	1,586	498	40
- of w hich sovereign	563	0	0	1,236	-	-
- of w hich retail	688	364	29	250	125	10
- of w hich corporate	299	302	24	181	175	14
- of w hich equities	-	-	-	-	-	-
- of w hich other	47	46	4	45	45	4
MARKET RISK		**371**	**30**		**190**	**15**
- of w hich trading book VaR		345	28		151	12
- of w hich FX Standardised approach		26	2		39	3
OPERATIONAL RISK		**482**	**39**		**572**	**46**
Standardised approach		482	39		572	46
CREDIT VALUE ADJUSTMENT		**266**	**21**		**-**	**-**
Standardised approach		266	21		-	-
TOTAL	**21,109**	**9,449**	**756**	**17,538**	**8,261**	**661**

Remuneration Policy

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

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

The *Remuneration and Nominating Committee* (**RNC**) and the Supervisory Board believe that the remuneration policy is compliant with the latest laws, 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 2014 Annual Report contains a detailed overview of NIBC's remuneration policy.

Appendix I
Scope of Application

The basis of NIBC's financial consolidation scope is described in the accounting policies section of NIBC Holding financial statement 2014. The 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.

The regulatory consolidation scope differs from the financial consolidation scope. The regulatory consolidation does not include Special Purpose Entities where significant risk has been transferred to investors. Subsisiaries angaged in non-financial activities are excluded from the regulatory consolidation. Exposures to the Special Purpose Entities and non-financial subsidiaries are risk weighted as securitisation exposures and investments in associates (equity method).

Tables 38-40 present the entities that form part of the capital base of NIBC Holding N.V.

Table 38 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 Investment Management N.V.	100%	The Netherlands	Purchase method
NIBC Investments N.V.	100%	The Netherlands	Purchase method

Table 39 Principal undertakings of NIBC Bank N.V. included in the capital base

Subsidiaries of NIBC Bank N.V.	Voting power	Domicile	Consolidation method
NIBC Bank Deutschland AG	100%	Germany	Purchase method
NIBC Services Ltd.	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 40 Prudential filter: subsidiaries treated as associates (equity method) included in the capital base

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

Appendix 2
Own Funds

The recognition in consolidated own funds refers to the treatment of capital issued of subsidiaries to third parties. Capital instruments issued by consolidated subsidiaries and held by third parties may no longer be fully recognised towards capital at group level under the CRR/CRD IV but only to the extent used by the subsidiary to cover the minimum capital requirements including capital buffers. The partial de-recognition of capital issued to third parties by subsidiaries applies to all fully consolidated subsidiaries, including wholly-owned and partly owned. The partial de-recognition will affect the Additional Tier-1 and Tier-2 provided to third parties by all subsidiaries.

The tables in this appendix contain information on:

- Reconciliation from IFRS to regulatory balance sheet;
- Own funds disclosure reflecting the capital position of NIBC;
- Transitional disclosure covering the phasing in of the regulatory adjustments; and
- Capital instruments main features.

Table 41 Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation.

IN EUR MILLIONS	Accounting Balance sheet	Deconsolidation other entities	Regulatory balance sheet
Assets			
FINANCIAL ASSETS AT AMORTISED COST			
Cash and balances with central banks	474	-	474
Due from other banks	2,287	(1)	2,286
Loans and receivables			
Loans	6,994	(1)	6,993
Debt investments	359	-	359
Residential mortgages own book	1,078	-	1,078
FINANCIAL ASSETS AT AVAILABLE-FOR-SALE			
Equity investments	53	-	53
Debt investments	945	-	945
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)			
Loans	374	-	374
Residential mortgages own book	3,342	-	3,342
Securitised residential mortgages	3,638	-	3,638
Debt investments	37	-	37
Equity investments (including investments in associates)	276	-	276
Derivative financial assets	2,851	-	2,851
OTHER			
Investments in associates (equity method)	6	27	33
Intangible assets	43	(43)	(0)
Property, plant and equipment	42	(0)	42
Current tax	2	-	2
Other assets	109	(47)	62
Deferred tax	48	(0)	48
TOTAL ASSETS	**22,958**	**(65)**	**22,893**

IN EUR MILLIONS	Accounting Balance sheet	Deconsolidation other entities	Regulatory balance sheet
Liabilities			
FINANCIAL LIABILITIES AT AMORTISED COST			
Due to other banks	1,159	(23)	1,136
Deposits from customers	10,156	-	10,156
Own debt securities in issue	2,064	-	2,064
Debt securities in issue related to securitised mortgages	3,348	-	3,348
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)			
Own debt securities in issue	35	-	35
Debt securities in issue structured	823	-	823
Derivative financial liabilities	3,217	-	3,217
OTHER FINANCIAL LIABILITIES			
Other liabilities	149	(42)	107
Current tax	-	-	-
Employee benefits	4	-	4
SUBORDINATED LIABILITIES			
Amortised cost	67	-	67
Fair value through profit or loss	253	-	253
TOTAL LIABILITIES	**21,275**	**(65)**	**21,210**
SHAREHOLDERS' EQUITY			
Share capital	1,408	-	1,408
Other reserves	603	-	603
Retained earnings	(231)	-	(231)
Net result attributable to parent shareholders	(97)	-	(97)
Interim and final dividend paid	-	-	-
TOTAL PARENT SHAREHOLDERS' EQUITY	**1,683**	**-**	**1,683**
Non-controlling interests	-	-	-
TOTAL SHAREHOLDERS' EQUITY	**1,683**	**-**	**1,683**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**22,958**	**(65)**	**22,893**

In table 42 information on NIBC own funds are shown in accordance with the specific format that was provided in the Implementation Technical Standards of the *European Banking Authority* (**EBA**) and which is according to CRR/CRD IV.

Table 42 Disclosure NIBC own Funds, 31 December 2014

IN EUR MILLIONS	2014
Common Equity Tier 1 (CET1) Capital: instruments and reserves	
Capital instruments and the related share premium accounts	1,935
of which: instrument type 1	1,935
of which: instrument type 2	-
of which: instrument type 3	-
Retained earnings	(230)
Accumulated other comprehensive income	75
Funds for general banking risk	-
Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from CET1	-
Public sector capital injections grandfathered until 1 January 2018	-
Minority interests	-
Independently reviewed interim profits net of any foreseeable charge or dividend	(97)
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	**1,683**

IN EUR MILLIONS	2014
CET1 Capital: regulatory adjustments	
Additional value adjustments (-)	-
Intangible assets (net of related tax liability) (-)	-
Empty set in the EU	-
deferred tax assets that rely on future profitability excluding those arising from temporary differences	(11)
Fair value reserves related to gains or losses on cash flow hedges	(79)
Negative amounts resulting from the calculation of expected loss amounts	(15)
Any increase in equity that results from securitised assets (-)	-
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(128)
Defined-benefit pension fund assets (negative amount)	-
Direct and indirect holding by an institution of own CET1 instruments (-)	-
Holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	-
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Empty set in the EU	-
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-
of which: qualifying holdings outside the financial sector (-)	-
of which: securitisation positions (-)	(68)
of which: free deliveries (-)	-
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related eligible tax liabilities)	-
Amount exceeding the 15% threshold	-
Of which: direct and indirect holding by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-
Empty set in the EU	-
of which: deferred tax assets arising from temporary differences	-
Losses for the current financial year (-)	-
Foreseeable tax charges relating to CET1 items (-)	-
Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment	-
Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	-
Of which: …. Filter for unrealised losses	-
Of which: …. Filter for unrealised loss on exposures to central governments classified in the "available for sale" category in the EU endorsed IAS 39.	-
Of which: …. Filter for unrealised gains	-
Of which: …. Filter for unrealised gains on exposures to central governments classified in the "available for sale" category in the EU endorsed IAS 39.	-
Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre CRR	-
Of Which: …	-
Qualifying AT1 deductions that exceed the AT1 capital of the institution (-)	-
Total regulatory adjustments to CET1	**(301)**
CET1 capital	**1,382**

IN EUR MILLIONS	2014
Additional Tier 1 (AT1) capital: instruments	
Capital instruments and the related share premium accounts	-
of which: classified as equity	-
of which: classified as liabilities	-
Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from AT1	-
Public sector capital injections grandfathered until 1 January 2018	-
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	196
of which: instruments issued by subsidiaries subject to phase out	196
AT 1 capital before regulatory adjustments	**196**
AT 1 Capital: regulatory adjustments	
Direct and indirect holding by an institution of own AT1 instruments (-)	-
Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	-
Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treament and transitional treatments subject to phase out as prescribed in Reg. (EU) No 575/2013	(12)
Residual amounts deducted from AT1 capital with regard to deduction from CET1 capital during the transitional period pursuant to art. 472 of Reg. (EU) No 575/2013	(31)
Of which: intangibles	-
Of which: shortfall of provisions to expected losses	(31)
Residual amounts deducted from AT1 capital with regard to deduction from T2 capital during the transitional period pursuant to art. 475 of Reg. (EU) No 575/2013	-
Of which items to be detailed line by line, e.g. reciprocal cross holding in T2 instruments, direct holding of non-significant investments in the capital of other financial sector entities, etc.	-
Amount to be deducted from or added to AT1 capital with regard to additional filters and deductions required pre CRR	-
Of which: … possible filter for unrealised losses	-
Of which: … possible filter for unrealised gains	-
Of which: …	-
Qualifying T2 deductions that exceed the T2 capital of the institution (-)	-
Total regulatory adjustments to AT1 capital	**(43)**
Additional Tier 1 Capital	**153**
Tier 1 Capital (T1=CET1+AT1)	**1,535**

IN EUR MILLIONS	2014
Tier 2 (T2) capital: instruments and provisions	
Capital instruments and the related share premium accounts	-
Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from T2	-
Public sector capital injections grandfathered until 1 January 2018	-
Qualifying own funds instruments included in consolidated T2 capital issued by subsidiaries and held by third parties (excluding row 5 and 34)	178
of which: instruments issued by subsidiaries subject to phase out	4
Credit risk adjustments	-
T2 capital before regulatory adjustments	**178**
T2 capital: regulatory adjustments	
Direct and indirect holding by an institution of own T2 instruments and subordinated loans (-)	-
Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	-
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entitities (amount above 10% threshold and net of eligible short positions)(-)	-
Of which new holdings not subject to transitional arrangements	-
Of which holdings existing before 1 January 2013 and subject to transitional arrangements	-
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entitities (amount above 10% threshold and net of eligible short positions)(-)	-
Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treament and transitional treatments subject to phase out as prescribed in Reg. (EU) No 575/2013	(7)
Residual amounts deducted from T2 capital with regard to deduction from CET1 capital during the transitional period pursuant to art. 472 of Reg. (EU) No 575/2013	(31)
Of which: shortfall of provisions to expected losses	(31)
Residual amounts deducted from T2 capital with regard to deduction from AT1 capital during the transitional period pursuant to art. 475 of Reg. (EU) No 575/2013	-
Of which items to be detailed line by line, e.g. reciprocal cross holding in T2 instruments, direct holding of non-significant investments in the capital of other financial sector entities, etc.	-
Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre CRR	-
Of which: … possible filter for unrealised losses	-
Of which: … possible filter for unrealised gains	-
Of which: …	-
Total regulatory adjustments to T2 capital	**(38)**
Tier 2 Capital	**140**
Total Capital (TC = T1 + T2)	**1,675**

IN EUR MILLIONS	2014
RWA in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Reg. (EU) No 575/2013	-
Of which: … items not deducted from CET1	-
Of which: … items not deducted from AT1 items	-
Of which: … items not deducted from T2 items	-
Total risk weighted assets	**9,449**
Capital Ratio's and buffers	
CET1 (as a % of total risk exposure amount)	14.6%
T1 (as a % of total risk exposure amount)	16.2%
TC (as a % of total risk exposure amount)	17.7%
Institution specific buffer requirement	-
of which: capital conservation buffer requirement	-
of which: countercyclical buffer requirement	-
of which: systemic buffer requirement	-
of which: G-SII or O-SII buffer	-
CET1 available to meet buffers (as a % of risk exposure amount)	4.1%
[non relevant EU regulation]	-
[non relevant EU regulation]	-
[non relevant EU regulation]	-
Amounts below the thresholds for deduction	
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
Empty set in the EU	-
deferred tax assets arising from temporary differnces (amount below 10% threshold, net of related tax liability where the conditoins in Article 38 (3) are met)	-
Applicable caps on the inclusion of provisions in Tier 2	
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach	-
Cap on inclusion of credit risk adjustments in T2 under standardised approach	-
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach	-
Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-
Capital Instruments subject to phase-out arrangements (1 Jan 2014 - a Jan 2022)	
Current cap on CET1 instruments subject to phase out arrangements	-
Amount excluded from CET1 due to cap	-
Current cap on AT1 instruments subject to phase out arrangements	184
Amount excluded from AT1 due to cap	11
Current cap on T2 instruments subject to phase out arrangements	3
Amount excluded from T2 due to cap	-

Table 43 NIBC Capital instruments' main features

Capital instruments' main features	Tier 1 instruments	Tier 1 instruments	Tier 1 Instrument	Tier 2 instrument
Issuer	NIBC Bank N.V.	NIBC Bank N.V.	NIBC Bank N.V.	NIBC Bank N.V.
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0215294512	XS0249580357	XS0269908074	NIB 6.95 09APR27
Governing law(s) of the instrument	The securities are governed by, and construed in accordance with the English law save for the subordination clause which is governed by, and construed in accordance with, the laws of the Netherlands	The securities are governed by, and construed in accordance with the English law save for the subordination clause which is governed by, and construed in accordance with, the laws of the Netherlands	The securities are governed by, and construed in accordance with the English law save for the subordination clause which is governed by, and construed in accordance with, the laws of the Netherlands	The loan is governed by the laws of the Netherlands
Regulatory treatment				
Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1	Tier 2
Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
Eligible at solo/ (sub-)consolidated/ solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
Instrument type (types to be specified by each jurisdiction)	Additional Tier 1 (grandfathered) as published in Regulation (EU) No 575/2013 article 484.3; Tier 2 as published in Regulation (EU) No 575/2013 article 63	Additional Tier 1 (grandfathered) as published in Regulation (EU) No 575/2013 article 484.3; Tier 2 as published in Regulation (EU) No 575/2013 article 63	Additional Tier 1 (grandfathered) as published in Regulation (EU) No 575/2013 article 484.3; Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 60 mln as AT1 and EUR 15 mln as Tier 2	EUR 40 mln as AT1 and EUR 10 mln as Tier 2	EUR 96 mln as AT1 and EUR 24 mln as Tier 2	EUR 11 mln
Nominal amount of instrument	EUR 75 mln	EUR 50 mln	USD 146 mln	EUR 11 mln
Issue price	100%	100%	100%	100%
Redemption price	Redemption at par	Redemption at par	Redemotion at par	Redemption at par
Accounting classification	Liability - fair value	Liability - fair value	Liability - fair value	Liability - amortised cost
Original date of issuance	24/03/2005	30/03/2006	18/10/2016	09/04/1997
Perpeptual or dated	Perpetual	Perpetual	Perpetual	Dated
Original maturity date	No maturity	No maturity	No maturity	09/04/2027
Issuer call subject to prior supervisory approval	Yes	Yes	Yes	No
Optional call date, contingent call dates, and redemption amount	First call date 24/03/2015; tax call, reg call; all calls at par	First cal date 30/03/2011; tax call, reg call; all calls at par	First call date 18/10/2011; tax call, reg call; all calls at par	N/A
Subsequent call dates, if applicable	annual call on 24/03	annual call on 30/03	annual call on 18/10	N/A
Coupons / dividends				
Fixed or floating dividend/coupon	Fixed to floating	Fixed to floating	Fixed	Fixed
Coupon rate and any related index	7.5% p.a. till March 2007; 10 year USD swap rate + 0.1% afterwards	8% p.a. till March 2011; 10 year EUR swap rate + 0.1% afterwards	7.625%	6.95% p.a.
Existence of a dividend stopper	No	No	No	Yes
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary - Existence of the mandatory payment event	Partially discretionary - Existence of the mandatory payment event	Partially discretionary - Existence of the mandatory payment event	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary	Mandatory
Existence of step up or other incentive to redeem	No	No	No	No
Noncumulative or cumulative	ACSM	ACSM	ACSM	N/A
Convertible or non-convertible	Convertible	Convertible	Convertible	Nonconvertible
If convertible, conversion trigger (s)	Total capital ratio below 8%	Total capital ratio below 8%	Total capital ratio below 8%	N/A
If convertible, fully or partially	Always Fully	Always Fully	Always Fully	N/A
If convertible, conversion rate	1 to 1	1 to 1	1 to 1	N/A
If convertible, mandatory or optional conversion	Mandatory	Mandatory	Mandatory	N/A
If convertible, specifiy instrument type convertible into	Preference shares	Preference shares	Preference shares	N/A
If convertible, specifiy issuer of instrument it converts into	NIBC Bank N.V.	NIBC Bank N.V.	NIBC Bank N.V.	N/A
Write-down features	N/A	N/A	N/A	No
If write-down, write-down trigger (s)	N/A	N/A	N/A	N/A
If write-down, full or partial	N/A	N/A	N/A	N/A
If write-down, permanent or temporary	N/A	N/A	N/A	N/A
If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A
Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all claims subordinated only to the claims of unsubordinated creditors	Subordinated to all claims subordinated only to the claims of unsubordinated creditors	Subordinated to all claims subordinated only to the claims of unsubordinated creditors	Subordianted only to claims of unsubordinated creditors
Non-compliant transitioned features	Yes	Yes	Yes	No
If yes, specifiy non-compliant features	Mandatory payment event, Conversion to preference shares	Mandatory payment event, Conversion to preference shares	Mandatory payment event, Conversion to preference shares	N/A

Capital instruments' main features	Tier 2 Instrument	Tier 2 Instrument	Tier 2 Instrument	Tier 2 Instrument
Issuer	NIBC Bank N.V.	NIBC Bank N.V.	NIBC Bank N.V.	NIBC Bank N.V.
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0161702914	NIB VAR 01JUL99	XS0210781828	XS0245704449
Governing law (s) of the instrument	The securities are governed by, and construed in accordance with the English law save for the subordination clause which is governed by, and construed in accordance with, the laws of the Netherlands	The loan is governed by the laws of the Netherlands	The securities are governed by, and construed in accordance with the English law save for the subordination clause which is governed by, and construed in accordance with, the laws of the Netherlands	The securities are governed by, and construed in accordance with the English law save for the subordination clause which is governed by, and construed in accordance with, the laws of the Netherlands
Regulatory treatment				
Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
Post-transitional CRR rules	Tier 2	Tier 2	Eligible	Ineligible
Eligible at solo/ (sub-)consolidated/ solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 (grandfathered Tier 2 according to Regulation (EU) No 575/2013 article 490) compliant with (EU) No 575/2013 article 63 on a rolling 10 yeas basis	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 (grandfathered) as published in Regulation (EU) No 575/2013 article 490.6
Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 20 mln	EUR 39 mln	EUR 55 mln	EUR 3 mln
Nominal amount of instrument	EUR 20 mln	USD 47 mln	EUR 55 mln	CZK 450 mln
Issue price	100%	100%	100%	100%
Redemption price	Redemption at par	Redemption at par	Redemption at par	Redemption at par
Accounting classification	Liability - fair value	Liability - amortised cost	Liability - fair value	Liability - fair value
Original date of issuance	10/02/2003	30/06/1999	21/02/2005	07/03/2006
Perpeptual or dated	Dated	Perpetual	Dated	Dated
Original maturity date	10/02/2043	No maturity	21/02/2040	07/03/2016
Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
Optional call date, contingent call dates, and redemption amount	First call date 10/02/2013; tax call, reg call; all calls at par	First call date 01/07/2009; tax call, reg call; all calls at par	First call date 21/02/2035	First call date 07/03/2011; reg call, tax call, all calls at par
Subsequent call dates, if applicable	call every 5 years starting in Feb 2013	call every 10 years starting in July 2009	one time call	quarterly call
Coupons / dividends				
Fixed or floating dividend/coupon	Fixed	Floating to Floating	Fixed to Floating	Floating to Floating
Coupon rate and any related index	0% (6.35% yield)	6m USD Libor + 0.55% till 1 july 2009; 6m USD Libor + 1.55% afterwards	7% p.a till Feb 2007; afterwards min(8.5; max(10 year EUR swap rate-2 year EUR swap rate)*4, 2.85)	3mPribor +0.39% till 2011; 3m Pribor + 0.89% afterwards;
Existence of a dividend stopper	No	Yes	Yes	Yes
Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	Mandatory	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	No	Yes	No	No
Noncumulative or cumulative	N/A	N/A	N/A	N/A
Convertible or non-convertible	Nonconvertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger (s)	N/A	N/A	N/A	N/A
If convertible, fully or partially	N/A	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A
If convertible, specifiy instrument type convertible into	N/A	N/A	N/A	N/A
If convertible, specifiy issuer of instrument it converts into	N/A	N/A	N/A	N/A
Write-down features	No	No	No	No
If write-down, write-down trigger (s)	N/A	N/A	N/A	N/A
If write-down, full or partial	N/A	N/A	N/A	N/A
If write-down, permanent or temporary	N/A	N/A	N/A	N/A
If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A
Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Subordianted only to claims of unsubordinated creditors	Subordinated to all claims subordinated to the claims of unsubordinated creditors	Subordinated to all claims subordinated to the claims of unsubordinated creditors	Subordinated to all claims subordinated to the claims of unsubordinated creditors
Non-compliant transitioned features	No	No	No	Yes
If yes, specifiy non-compliant features	N/A	step-up	N/A	step-up

As part of NIBC's funding and credit risk mitigation activities, the cash flows of selected financial assets are transferred or pledged to third parties. Furthermore, NIBC pledges assets as collateral for derivative transactions. Substantially all financial assets included in these transactions are residential mortgages, other loan portfolios, debt investments and cash collateral. The extent of NIBC's continuing involvement in these financial assets varies by transaction.

With respect to assets utilised as collateral, the total portfolio eligible for use to collateralise funding amounted to EUR 5.1 billion (2013: EUR 5.0 billion), including assets already utilised as collateral.

Table 44 Encumbered assets NIBC Holding N.V, 31 December 2014

IN EUR MILLIONS	2014	2013
Carrying amount of encumbered assets		
Debt investments / Residential mortgages own book	1,595	2,255
Securitised loans and mortgages	4,833	4,413
Cash collateral (due from other banks)	1,620	1,231
	8,048	**7,899**
Matching liabilities, contigent liabilities or securities lent		
Due to other banks / Own debt securities in issue	1,621	1,482
Debt securities in issue related to securitised loans and mortgages	3,934	4,061
Derivative financial liabilities	1,620	1,231
TOTAL	**7,175**	**6,774**

Appendix 3
List of Abbreviations

AIRB	Advanced Internal Ratings' Based (approach)
AFM	Authority for Financial Markets
ALCO	Asset & Liability Committee
ALM	Asset & Liablility 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
CRR/CRD IV	Capital Requirements Regulation and Directive IV
CRM	Credit Risk Management (department)
CRO	Chief Risk Officer
CSA	Credit Support Annex
CSR	Corporate Social Responsibiliy
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 Committee
EL	Expected Loss
FMCR	Financial Markets Credit Risk (department)
FX	Foreign Exchange
GCD	Global Credit Data
IBNR	Incurred but not reported
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 Mangement (department)
NHG Guarantee	Dutch government guarantee
NPAP	New Product Approval Process
OCI	Other Comprehensive Income
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
RLCC	Risk Management, Legal, Compliance and Corporate Social Responsibility
RMBS	Residential Mortgage-Backed Securities
RMC	Risk Management Committee
RNC	Remuneration and Nominating Committee
RPC	Risk Policy Committee
RP&R	Risk Policy and Reporting (department)
RWA	Risk Weighted Assets
SA	Standardized Approach
SPE	Special Purpose Entity
SREP	Supervisory Review and Evaluation Process
SvaR	Stressed VaR
TC	Transaction Committee
TLTRO	Targeted Long Term Refinancing Operation
VaR	Value-at-Risk
WbFO	Wet beloning Financiële ondernemingen
Wft	Wet op het Financieel Toezicht

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