

CAPITAL ADEQUACY AND
RISK MANAGEMENT REPORT 2011
PILLAR 3

NIBC HOLDING

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Introduction

Goal and overview

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

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

- Pillar 1 defines the regulatory minimum capital requirements by providing rules and regulations for the measurement of credit risk, market risk and operational risk. These capital requirements need to be covered by regulatory own funds. NIBC received approval from the *Dutch central bank (DNB)* to use, as of 1 January 2008, the *Advanced Internal Ratings-Based (AIRB)* approach for calculating solvency requirements regarding credit risk for its most important exposure classes, namely corporate and retail, and the *Internal Model Approach (IMA)* regarding market risk in the Trading book. Furthermore, NIBC uses the internal ratings-based method for the securitisation exposure class and the simplified risk-weight approach for the equity exposure class. Solvency requirements for the remaining portfolios and for operational risk are calculated using the Standardised approach.
- 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 the end of 2011, DNB also analyses the *Internal Liquidity Adequacy Assessment Process (ILAAP)*.
- Pillar 3 focuses on disclosure requirements, covering all relevant pieces of information for a market participant to assess the risk profile and capital adequacy of the credit institution. The risk disclosures are connected to Pillar 1 of the Basel II framework, as information is provided regarding the underlying exposures, risk weighted assets and regulatory capital.

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

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

The scope of application in this report refers to NIBC Holding, henceforth referred to as NIBC. The main entity of NIBC Holding is NIBC Bank. Where necessary, a distinction between NIBC Holding and NIBC Bank is made explicitly. The starting point of the Basel II prudential scope of application is the consolidation scope of NIBC, according to the *International Financial Reporting Standards (IFRS)*. In line with the requirements of the CRD, a prudential filter is applied for non-financial subsidiaries. These entities are excluded from the consolidation scope and are, instead, treated as investments in associates. Appendix 1 provides further details regarding the consolidation scope.

The credit exposures in this report are not directly comparable to the numbers in NIBC's 2011 Annual Report. The numbers in the Annual Report refer to book values and classifications, in line with IFRS requirements. The numbers in this report refer to *exposure at default (EAD)*, which is a risk measure of the potential amount outstanding in the event of default. EAD is, therefore, a different measure than drawn and undrawn amounts, and the method employed for its calculation differs per exposure class and among credit institutions. A more detailed explanation on EAD can be found in the *Credit Risk* chapter.

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

Risk Management Strategy & Process

Highlights of 2011

2011 was characterised by two distinctly different halves. After signs of economic recovery before the summer, conditions deteriorated in the second half, particularly in the financial markets.

The main risks NIBC faces are driven by external developments. NIBC's strong risk management framework enables us to respond promptly and effectively to changing circumstances. Over the past three years, we de-risked our balance sheet, kept costs tightly controlled, improved the quality of our operating income and seen an overall reduction in impairments.

In line with the risk management practice of previous years, NIBC continued to have zero sovereign debt exposure to Greece, Italy, Ireland, Spain and Portugal. The vast majority of sovereign debt exposure in NIBC's portfolio consisted of cash placed at DNB and the Dutch State Treasury Agency.

Our credit portfolio is overweight in long-term, asset-based lending, positioning us well to cope with economic downturns and market turmoil. Amid turbulent market circumstances, NIBC has proactively managed the credit quality of its portfolio. The expected recovery rate was in the range of 80-90%, which is relatively high for the banking industry.

Key focal areas in 2011 were developments in commercial real estate, where vacant properties combined with lagging economic recovery may increase the risk of credit defaults, and the shipping sector, where we intensified contacts with our clients to manage credit risk. We expect that these markets will continue to require our close attention in 2012. The centre of gravity of our credit portfolio is in the Netherlands and Germany, but we also concentrate on international sectors such as oil & gas and shipping.

Managing liquidity risk has been and will continue to be a major priority. We moved quickly in recent years to increase our capital base while strengthening and diversifying our funding position. Implementation of Basel III and similar regulations of DNB will stimulate financial institutions to attract more capital and further increase liquidity.

New financial regulation is accumulating and accounting standards are in a state of flux. We continued to enhance our operational and regulatory risk frameworks to facilitate compliance with new requirements. NIBC is committed to these initiatives, which aim to make the financial sector safer and more customer-focused. We educate staff to ensure they are aware of all relevant regulations and capable of applying it in their day-to-day operations. We strongly believe we are well positioned to comply with all new regulatory requirements.

NIBC attaches great value to corporate social responsibility. Together with our clients, we work to mitigate the risk of failing to meet environmental, social and other sustainability criteria.

Our retail savings programme NIBC Direct provides access to liquidity and more stable funding in the Netherlands, Germany and – since late 2011 – Belgium. We are committed to delivering customer convenience through the internet, maintaining excellent security standards. As our retail savings program expands, we enjoy the trust of an increasing number of clients, making our reputation an even more important asset than before. We are keenly aware of the importance of maintaining our established reputation. We expect economic and financial market conditions to remain volatile in 2012. Together with our clients, we will continue to proactively manage risks and seize opportunities resulting from these economic and market developments.

Our risk teams performed strongly. We continued investing in further professionalising and diversifying our risk management teams. Petra van Hoeken was appointed as NIBC's new chief risk officer, starting in late December 2011.

Risk appetite and risk management strategy

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

NIBC has a clearly defined business model around Corporate Banking and Consumer Banking. Next to the retail customers of Consumer Banking, Corporate Banking focuses on mid-sized corporate clients in the Benelux and Germany, and is a meaningful player in a select number of asset classes. Indispensable to Corporate and Consumer Banking and the entire business of NIBC are the Treasury, Risk Management and Corporate Center departments. Because of its focus and the in-depth understanding of the business and its clients, NIBC has good understanding of the risks in this select number of markets. The risk strategy of NIBC is aligned with this business model, resulting in the following markets and portfolios, where the risks are concentrated:

- Credit risk in the Corporate Loan portfolio in 8 different sectors (Commercial Real Estate, Infrastructure & Renewables, Shipping & Intermodal, Industries & Manufacturing, Oil & Gas Services, Food, Agriculture & Retail, Technology, Media & Services and Leveraged Finance) and in the Residential Mortgage portfolio (consisting of Dutch and German residential mortgages). Furthermore, credit risk exists also in the Investment Management Loan portfolio. Investment Management 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 derivatives and cash management activities of NIBC;
- Investment risk in equity investments;
- Market risk in the Treasury portfolios, mainly consisting of interest rate risk in the Trading¹ and Mismatch portfolio, and credit spread risk in the Debt Investments portfolio. The latter consists of the Securitisations portfolio and the portfolio of debt investments in financial institutions and corporate entities. Note that in 2011, NIBC held zero debt investments in sovereign entities.

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

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

Risk management organisation and governance

Risk management at NIBC includes credit, market, operational, liquidity, regulatory, and investment risk. NIBC operates under the 'three lines of defence' risk management model. In this model, the first line is provided by the business units; the second by risk management and control functions, and the third line by Internal Audit. With its responsibilities as second line of defence, NIBC Risk Management monitors the risk appetite and supports the business by providing the right framework and tools to manage risk.

Under the supervision of the Managing Board and the Risk Policy Committee of the Supervisory Board, formal authority and ultimate decision-making in respect of risk management matters is the responsibility of five committees: the *Risk Management Committee (RMC)*, the *Asset & Liability Committee (ALCO)*, the *Transaction Committee (TC)*, the *Investment Committee (IC)* and the *Engagement and Compliance Committee (ECC)*. These committees ensure that assessment and acceptance of risks and exposures is made independently of the business originators within the operating segments.

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

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

The TC, NIBC's credit committee, makes decisions 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. The IC approves transactions with respect to equity, Investment Management loans and subordinated debt exposures, as well as impairments and revaluations for these assets. Two members of the Managing Board are members of the IC. Investment decisions of the Funds managed by Investment Management are made by the Investment Committees of the various Funds.

The *Engagement and Compliance Committee (ECC)* is responsible for the prevention of potential commercial conflicts of interest and compliance issues in evaluating potential assignment for clients.

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

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

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

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

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

The *Financial Markets Credit Risk* department (**FMCR**) is responsible for managing issuer and counterparty credit risk resulting from NIBC's Treasury activities and financial market product execution, such as over-the-counter derivatives with financial institutions and corporate entities. FMCR develops and implements policies and procedures regarding credit risk related to financial markets products, and advises on counterparty credit limits and issuer limits for financial institutions and corporate entities. Furthermore, FMCR is responsible for implementing and managing country risk limits across NIBC.

The *Risk Policy & Reporting* department (**RP&R**) monitors risk on portfolio level. RP&R develops policies and methods for measuring risk, notably the credit rating system used to evaluate probability of default and loss given default in NIBC's credit portfolio. RP&R is also responsible for the reporting of credit portfolio information to various users within and outside NIBC. RP&R is pivotal in NIBC's Basel II process and also performs parts of quantitative risk modelling.

The *Operational Risk Management* department (**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 and the bank-wide process of new activities with respect to the assessment of operational, risk management, compliance and reporting capabilities and into the RMC for final product approval.

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

Credit risk at NIBC exists in different shapes and forms. Almost every activity at NIBC is related to credit risk: credit risk is present in the Corporate Loan portfolio, the Investment Management Loan portfolio, the Residential Mortgage portfolio, the Debt Investments portfolio (in corporate entities, financial institutions and securitisations), cash management and derivatives. It is the largest source of risk to which NIBC is exposed, representing approximately 95% of total *Risk Weighted Assets (RWA)* and of the company's capital requirements. Specifically for the Debt Investments portfolio, NIBC defines the credit risk as issuer risk, which is the credit risk of losing the principal amount on products such as bonds.

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

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

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

Apart from the above 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 Pillar 3 numbers, which cannot be recognised on the balance sheet. This credit conversion factor is incorporated in the calculation of EAD.
- For derivative transactions, Pillar 3 numbers refer to the marked-to-market value and add-on, including the effect of netting and collateral. The add-on reflects a potential future change in the marked-to-market value during the remaining lifetime of the derivative contract.
- The treatment of some securitised exposures differs due to differences in de-recognition requirements in IFRS and WFT.

Credit risk exposures

This section presents NIBC's credit risk exposures based on the definitions and approaches that are used in the calculation of capital requirements. In 2007, NIBC received approval by the DNB to use, as of 1 January 2008, the AIRB approach for the calculation of its capital requirements for the corporate and retail exposure classes. Furthermore, NIBC uses the internal ratings-based method for the securitisation exposure class and the simplified risk-weight approach for the equity exposure class. The AIRB approach is the most sophisticated approach within the Basel II framework for the calculation of capital requirements and it is based on internal estimation of various risk parameters. The section *Calculation of Risk Weighted Assets* in this chapter provides more information on the ways that 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, as at 31 December 2011 and 2010.

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

IN EUR MILLIONS	2011				2010			
	Exposure	EAD	RWA	Capital requirement	Exposure	EAD	RWA	Capital requirement
AIRB APPROACH								
- of w hich corporate	10,313	10,166	6,017	481	9,625	9,434	6,340	507
- of w hich retail	3,940	3,940	536	43	5,066	5,066	789	63
- of w hich securitisations	1,532	1,532	1,250	100	1,461	1,461	1,055	84
- of w hich equities	461	461	1,704	137	540	540	2,000	160
SUBTOTAL	16,245	16,099	9,507	761	16,692	16,502	10,184	814
STANDARDISED APPROACH								
- of w hich sovereign	2,526	2,526	0	0	1,644	1,644	2	0
- of w hich institutions	1,809	1,638	572	46	2,453	2,309	703	56
- of w hich retail	399	398	155	12	507	507	222	18
- of w hich corporate	346	346	340	27	626	625	625	50
- of w hich equities	1	1	1	0	4	4	3	0
- of w hich other	53	53	53	4	62	62	62	5
SUBTOTAL	5,133	4,961	1,121	89	5,296	5,151	1,617	129
TOTAL CREDIT RISK	21,378	21,061	10,628	850	21,988	21,653	11,801	943

Small differences are possible in the table due to rounding

The RWA of NIBC decreased by 10% between 2010 and 2011 and this is due to a variety of factors.

The RWA for the corporate exposure class decreased by 9%, mainly due to the smaller part of the portfolio that was treated under the Standardised Approach. Furthermore, the average LGD rating of the Corporate Loan portfolio improved in 2011 compared to 2010, resulting in lower RWA consumption.

The RWA consumption of the securitisation exposure class increased by 18%. This increase is mainly the result of the higher risk weights of resecuritisation exposure. What also contributed to a higher RWA consumption are the retained positions in NIBC's newly issued securitisation and repurchases of its own securitisations originated in the past.

The decrease of 15% in the RWA of the equity exposure class is due to the decrease in the size of the Equity Investments portfolio, predominantly as a result of the spin off of a part of the portfolio. In 2011, Avedon Capital Partners, which incorporated the activities of NIBC Capital Partners, spun off NIBC.

RWA for institutions decreased by 19%. The decrease of the institutions exposure class is related to the decrease in the size of NIBC's Debt Investments portfolio, due to regular repayments and active sale of assets.

Finally, the RWA for the sovereign exposure in 2011 completely reduced to zero, from EUR 2 million in 2010.

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, as at 31 December 2011. Table 4 shows a similar breakdown during 2011, on average.

Table 3 Breakdown of credit EAD types by exposure class, 31 December 2011

IN EUR MILLIONS				
Exposure Class	On-Balance	Off-Balance	Derivatives	Total
AIRB APPROACH				
- of w hich corporate	7,969	1,292	906	10,166
- of w hich retail	3,939	1	0	3,940
- of w hich securitisations	1,457	0	76	1,532
- of w hich equities	394	67	0	461
SUBTOTAL	13,758	1,360	982	16,099
STANDARDISED APPROACH				
- of w hich sovereign	2,526	0	0	2,526
- of w hich institutions	1,190	2	445	1,638
- of w hich retail	398	0	0	398
- of w hich corporate	279	51	16	346
- of w hich equities	1	0	0	1
- of w hich other	53	0	0	53
SUBTOTAL	4,447	53	461	4,961
TOTAL	18,204	1,413	1,443	21,061

Small differences are possible in the table due to rounding

Table 4 Breakdown of credit EAD types by exposure class, average 2011

IN EUR MILLIONS				
Exposure Class	On-Balance	Off-Balance	Derivatives	Total
AIRB APPROACH				
- of which corporate	7,685	1,433	683	9,800
- of which retail	4,502	1	0	4,503
- of which securitisations	1,422	1	73	1,497
- of which equities	431	69	0	501
SUBTOTAL	14,040	1,504	756	16,301
STANDARDISED APPROACH				
- of which sovereign	2,085	0	0	2,085
- of which institutions	1,456	60	457	1,973
- of which corporate	298	65	122	485
- of which retail	453	0	0	453
- of which equities	3	0	0	3
- of which other	58	0	0	58
SUBTOTAL	4,352	125	580	5,057
NIBC TOTAL	18,393	1,629	1,336	21,357

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 for focus in North Western Europe, with the Netherlands, the United Kingdom and Germany accounting for 80% of the total EAD. This percentage increases to almost 90% when the rest of Europe is included. With respect to corporate exposures, the Asia/Pacific region mainly contains NIBC's exposures to the sectors shipping and oil & gas. Exposures to the oil & gas sector are also located in North America, as well as in the region 'Other', mainly in Brazil and Qatar.

Table 5 Breakdown of EAD per region, 31 December 2011

IN EUR MILLIONS								
Exposure Class	The Netherlands	United Kingdom	Germany	Rest of Europe	Asia / Pacific	North America	Other	Total
AIRB APPROACH								
- of which corporate	3,316	2,076	1,854	1,139	898	467	417	10,166
- of which retail	3,940	0	0	0	0	0	0	3,940
- of which securitisations	949	150	26	277	2	128	0	1,532
- of which equities	375	17	0	43	0	25	0	461
SUBTOTAL	8,579	2,244	1,880	1,459	900	620	417	16,099
STANDARDISED APPROACH								
- of which sovereign	2,516	0	0	5	0	0	5	2,526
- of which institutions	299	728	52	313	57	188	0	1,638
- of which retail	0	0	399	0	0	0	0	398
- of which corporate	237	33	0	17	33	26	0	346
- of which equities	0	0	0	0	0	0	1	1
- of which other	53	0	0	0	0	0	0	53
SUBTOTAL	3,105	761	451	335	90	214	5	4,962
TOTAL	11,684	3,005	2,331	1,795	990	834	422	21,061
TOTAL (in %)	55%	14%	11%	9%	5%	4%	2%	100%

Small differences are possible in the table due to rounding

Table 6 shows the breakdown of EAD between industry sectors.

Table 6 Breakdown of EAD per industry sector, 31 December 2011

IN EUR MILLIONS							
Exposure Class	Retail Markets	Financial Services	Infrastructure & Renewables	Government & Central Banks	Commercial Real Estate	Shipping	Oil & Gas
AIRB APPROACH							
- of w hich corporate	0	1,130	2,473	0	2,045	1,743	918
- of w hich retail	3,940	0	0	0	0	0	0
- of w hich securitisations	949	0	0	0	313	0	0
- of w hich equities	0	41	82	0	35	13	0
SUBTOTAL	4,889	1,171	2,555	0	2,531	1,756	918
STANDARDISED APPROACH							
- of w hich sovereign	0	10	0	2,516	0	0	0
- of w hich institutions	0	1,633	0	5	0	0	0
- of w hich retail	398	0	0	0	0	0	0
- of w hich corporate	0	135	10	0	17	17	0
- of w hich equities	0	1	0	0	0	0	0
- of w hich other	0	0	0	0	0	0	0
SUBTOTAL	398	1,778	10	2,522	17	17	0
TOTAL	5,287	2,949	2,565	2,522	2,409	1,773	918
TOTAL (in %)	25%	14%	12%	12%	11%	8%	4%

Small differences are possible in the table due to rounding

IN EUR MILLIONS							Total
Exposure Class	Wholesale, Retail & Leisure	Services	Manufacturing	TMT	Agriculture & Food	Other	
AIRB APPROACH							
- of w hich corporate	538	529	451	179	121	39	10,166
- of w hich retail	0	0	0	0	0	0	3,940
- of w hich securitisations	0	0	0	0	0	270	1,532
- of w hich equities	58	36	18	21	5	151	461
SUBTOTAL	596	566	469	200	126	460	16,099
STANDARDISED APPROACH							
- of w hich sovereign	0	0	0	0	0	0	2,526
- of w hich institutions	0	0	0	0	0	0	1,638
- of w hich retail	0	0	0	0	0	0	398
- of w hich corporate	6	0	26	6	27	103	346
- of w hich equities	0	0	0	0	0	0	1
- of w hich other	0	0	0	0	0	53	53
SUBTOTAL	6	0	26	6	27	156	4,962
TOTAL	602	566	495	206	153	616	21,061
TOTAL (in %)	3%	3%	2%	1%	1%	3%	100%

Small differences are possible in the table due to rounding

Retail Markets

The sector with the highest EAD is Retail Markets (25% of total EAD), which contains NIBC's Residential Mortgage portfolios in the Netherlands and Germany, and securitisation notes of *residential mortgage-backed securities (RMBS)*. With respect to mortgages, the origination volume of NIBC since 2009 has been very limited and mainly focused on further advances for our customers. Due to prepayments, the mortgage portfolio is decreasing at an expected rate in line with our forecast. The amount of RMBS increased during 2011, as a result of the retained notes and repurchases of NIBC's own securitisations. On the contrary, the RMBS exposures in which NIBC acted as an investor decreased. For more information about these exposures, refer to

the various *Retail* sections in this report for the Residential Mortgage portfolio and to the chapter on *Securitisations* for the RMBS.

Financial Services

The next largest sector is Financial Services (14% of total EAD), which contains all of NIBC's institutions exposure class, as well as certain corporate exposures. More than a third of the corporate EAD in this sector relates to a loan to an investment-grade financial institution, collateralised by a pool of prime Dutch residential mortgages. At 31 December 2011, the weighted average CCR of all corporate exposures in this sector was 5 (BB) and the weighted average LGD rating was A-2 (7.5%). Information about the credit quality and the risk weights of the institutions' exposures is given in the section *Standardised Approach*. In terms of geographical distribution, 42% of the EAD in the financial services sector is located in the Netherlands, 28% in the United Kingdom, 9% in Germany and 11% in the rest of Europe.

Infrastructure & Renewables

The exposures in Infrastructure & Renewables amounted to a total EAD of EUR 2,565 million at 31 December 2011 and they relate almost exclusively to corporate loan exposures. In terms of geographical distribution, 65% of the portfolio's EAD is located in the United Kingdom, 13% in the Netherlands, 12% in Germany and the remainder in the rest of Europe. The portfolio spans various industry sub-sectors, of which education (26%), healthcare (21%), roads & railways (14%) and renewable energy (11%) are the most important.

The credit quality of the portfolio remained stable throughout 2011. At 31 December 2011, the weighted average CCR of the portfolio was 5 (BB) and the weighted average LGD rating stood at B-2 (18%).

The market for infrastructure and renewables in 2011 remained relatively stable from a risk point of view, but it has become confronted with reduced availability of long-term bank financing. At the same time, however, there is increasing appetite from institutional investors to enter into this attractive and low-risk market.

With respect to risks in the portfolio, a significant distinction can be made between assets in construction (approximately 28% of the portfolio) and in operational phase (approximately 72% of the portfolio). The risk profile of the construction phase is strongly related to the risk profile of the construction company involved. At the same time, the construction phase is characterised by substantial security packages, including performance bonds and letters of credit. The existence of such security packages results in a better-than-average risk profile, despite the current increased risk profile of individual construction companies. Throughout the portfolio, only the established Western European construction companies are involved in the infrastructure projects. For the main part of the portfolio that is in operational phase, about 90% of the projects carry only availability risk (i.e. the risk that the project will not be completed and available in time) and no market risks. As the availability risk is passed through to the operating and maintenance contractor, the remaining risk is that of the off-taker. For true *Private Finance Initiative (PFI)* transactions, 100% of the off-takers are government-related entities.

Given the attractiveness and availability of transactions, the renewables sub-sector grew faster in 2011 than the Infrastructure sub-sector. NIBC closed in 2011 its first transactions in the solar segment. Due to, among other, the fixed feed-in-tariff, NIBC has a special focus on German renewables transactions. NIBC's German Renewables portfolio has not been affected by a reduction of feed-in-tariffs because the tariffs are locked in at the start of the projects. The EAD of the renewables sub-sector amounted to EUR 321 million at 31 December 2011, an increase by almost 50% compared to one year ago. Of this portfolio, 41% was located in Germany, 32% in the United Kingdom, 20% in the Netherlands, and the remainder predominantly in other EU countries.

Government/Central Banks

The sector Government/Central Banks (12% of total EAD) is made up exclusively of NIBC's sovereign exposures. The vast majority of these exposures are related to cash placed with DNB and the Dutch State Treasury Agency. NIBC has zero sovereign debt exposure to Greece, Italy, Ireland, Spain and Portugal.

Commercial Real Estate

The EAD size of the Commercial Real Estate sector amounted to EUR 2,409 million at 31 December 2011, which contains NIBC's commercial real estate corporate loans and securitisation notes of *commercial mortgage-backed securities (CMBS)*.

With respect to the corporate EAD, the commercial real estate sector showed stable credit quality in 2011, with unchanged impairment levels and no write-offs. At 31 December 2011, the weighted average CCR of the portfolio was 6 (B) and the weighted average LGD rating B-1 (12.5%).

The corporate Commercial Real Estate portfolio is well diversified across various commercial real estate classes. Financing of residential properties accounts for 51% of the portfolio, which significantly reduces the concentration risk in the underlying collateral pool. Other segments include offices (9%), financing of development companies (9%) and hotels (8%). The properties are almost exclusively located in the Netherlands (55%) and Germany (42%).

While activities in the residential markets in the Netherlands seem to have come to a standstill, the residential markets in Germany (where the majority of NIBC's residential properties are located), and especially in Berlin, are in general still strong. All other asset classes both in Germany and in the Netherlands show little or no activity, with the exception of offices and retail properties that have long lease tenors and are situated in top locations.

With respect to the securitisations exposures within the commercial real estate sector, the EAD of EUR 313 million includes the retained notes of the Mesdag Delta securitisation. NIBC has retained notes for an amount of EUR 144 million, which entail the net credit risk exposure. More information on the CMBS can be found in the *Securitisations* section.

Shipping

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

The economic crisis clearly affected the shipping markets in 2011 as well. For the third year in a row, ship owners were faced with a weak market in which their revenues were under pressure. Newly-built vessels, ordered in the period 2008-2010 appeared in the market in 2011 and further aggravated the imbalance between supply and demand. All main shipping segments were affected, including the bulk, tanker and container liner markets. Pressure on the industry was especially pronounced in the second half of 2011.

Given the deteriorating shipping market, NIBC recorded its first losses in this portfolio since 2004. Impairments were taken on a limited number of clients, in anticipation of a continued weak shipping market.

New business opportunities were selectively pursued, according to strict lending parameters with respect to the quality of the owners, the charterers/term employment and the value of the assets.

Growth in the portfolio in 2011 was fairly limited; the EAD of all shipping exposures reached the size of EUR 1,773 million at 31 December 2011. Tankers represented 33% of the Shipping portfolio, bulk carriers 29%, container boxes (intermodal) 11% and container vessels 10%. The remainder of the portfolio (17%) included, among other, financing of car carriers and oil and gas support assets, such as accommodation barges. Geographical distribution remained stable, with borrowers being mainly active in Asia/Pacific (42%), Europe (33%) and North America (15%).

In order to prevent a weakening of the credit quality of the non-defaulted portfolio, active portfolio management remains a priority on an on-going basis, and our dialogue with clients has further intensified. During 2011, the WA CCR and the WA LGD rating remained stable. At the 31 December 2011, the WA CCR of the portfolio was 6 (B) and the WA LGD rating B-1 (12.5%).

Oil & Gas

The EAD in the Oil & Gas sector exhibited strong growth in 2011, reaching the size of EUR 918 million, increased by almost 10% in comparison to 2010. This sector only contains corporate exposures. Their EAD is split over five main industry sectors of which drilling (33%), oil and gas extraction (28%) and support activities (25%) are the most important ones. In terms of geographical focus, the majority of clients are located in North Western Europe (37%), North America (20%) and Asia/Pacific (18%), whereas the assets are located all around the world in key oil and gas areas.

The overall risk profile remained stable over 2011 and the portfolio did not experience adverse situations, despite the turbulent financial markets during 2011. The credit quality of the oil & gas portfolio remained stable, on average, during 2011. At 31 December 2011, the WA CCR was 5- (BB-) and the LGD rating was B-2 (18%). Construction risks subsided largely due to deliveries and prepayments. The portfolio further diversified due to a growing client and asset base. A key risk factor is refinancing risk. About 35% of the portfolio consists of corporate financings which have balloon structures in place. The majority of corporate financings are well secured, including the new transactions closed in 2011. Unsecured corporate exposure decreased in 2011 and was further mitigated by solid counterparty ratings, comfortable order books, negative pledges and market position.

At 31 December 2011, the portfolio did not carry any impairment amounts.

Other sectors

The remaining sectors in NIBC's portfolio together account for 13% of the total EAD. With the exception of a few exposures in the equities and securitisations exposure classes, they all contain corporate exposures. More specifically, the Services sector consists of non-financial service providers such as transport, storage, healthcare, education and logistics. Manufacturing mainly focuses on industrial products, consumer products and chemicals. The average credit quality remained stable compared to 2010 and ranged in the 5-/6 (BB-/B) categories in terms of CCR, whereas the LGD was between 12-25% (B-1 to B-3 categories). The exposures in these sectors also contain certain leveraged finance transactions, which bring the weighted average LGDs slightly below the average of the total corporate EAD. This is due to the fact that leveraged finance deals have security packages which are relatively less strong than asset (e.g. shipping, commercial real estate) or project (e.g. infrastructure) financing.

The majority of the counterparties in these sectors are medium-sized to large-sized companies in the Benelux, Germany and the United Kingdom, which account for more than 80% of the corporate EAD. In the first half of 2011, market activity continued the strong growth that had been exhibited already since 2010. This trend, however, was reversed in the second half of the year, which experienced larger than expected repayments, as well as certain prospect deals being postponed to 2012. The majority of new activity took place in Germany, whose size more than doubled.

The main portfolio risks are concentration risk and the current economic conditions. A mitigating factor for concentration risk is that the large exposures are mainly related to reputable corporate clients. Furthermore, Corporate Lending deals are highly collateralised, in line with the more sector-driven segments. On the whole, single-name concentration remained stable compared to 2010.

Specifically for leveraged deals, these focuses on mid-market transactions and the number of new deals increased in 2011 in NIBC's core geographies. Nevertheless, the increase was offset by higher than expected early repayments, which resulted in a small decrease in the amount of leveraged finance deals in the total portfolio. The upward rating migration observed across the portfolio in late-2010 and during the first half of 2011 began to reverse in the second half 2011. The earlier decline in average leverage across the portfolio was offset by pressure from deteriorating trading performance of more recent transactions, restructured deals and early repayment of transactions closed at the 2005-2007 market peak. During the second half of 2011, NIBC responded to the deteriorating economic circumstances by increasing the selectiveness with which deals were closed. Closed transactions were all conservatively structured in terms of leverage, interest coverage, collateral and covenants and supported by substantial equity contributions.

Table 7 provides a breakdown of credit EAD per legal maturity. Almost 37% of all of NIBC's credit risk exposures will mature after the next 5 years.

Table 7 Breakdown of credit risk EAD per maturity, 31 December 2011

IN EUR MILLIONS					
Exposure Class	≤ 1 year	> 1 year - ≤ 2 years	> 2 years - ≤ 5 years	> 5 years	Total
AIRB APPROACH					
- of w hich corporate	1,290	1,126	4,715	3,035	10,166
- of w hich retail	3	4	18	3,915	3,940
- of w hich securitisations	414	183	471	464	1,532
- of w hich equities	461	0	0	0	461
SUBTOTAL	2,168	1,313	5,204	7,414	16,099
STANDARDISED APPROACH					
- of w hich sovereign	2,526	0	0	0	2,526
- of w hich institutions	1,027	226	212	173	1,638
- of w hich retail	398	0	0	0	398
- of w hich corporate	176	31	73	66	346
- of w hich equities	0	0	1	0	1
- of w hich other	0	0	0	53	53
SUBTOTAL	4,126	257	286	292	4,962
TOTAL EAD	6,294	1,570	5,490	7,706	21,061

Small differences are possible in the table due to rounding

Calculation of Risk Weighted Assets

AIRB approach

Ratings and rating process in the AIRB approach

The AIRB approach for the corporate and retail exposure classes has been adopted by NIBC and approved by DNB since 1 January 2008. The ratings framework consists of the calculation of 3 main parameters:

Probability of Default (PD), *Loss Given Default (LGD)* and *Exposure at Default (EAD)*.

The PD, LGD and EAD that are calculated through NIBC's internal models are used for the calculation of *expected loss (EL)* and Pillar-1 regulatory capital (**RC**). Internal ratings enable an objective comparison of the credit risk of different types of assets, making them an essential tool for the commercial and risk management departments to determine whether a transaction fits NIBC's strategy and portfolio, as well as to determine the appropriate pricing. *Economic Capital (EC)*, *risk-adjusted return on capital (RAROC)* and stress testing are additional 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, refer to the *ICAAP* chapter.

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

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

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

Corporate

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

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

In terms of counterparty credit rating, the credit quality is concentrated in the 5 and 6 categories in NIBC's internal rating scale (BB and B categories respectively in external rating agencies' scales). The fact that NIBC's corporate exposures are concentrated in sub-investment grade ratings is counterbalanced by the fact that almost all exposures have some form of collateralisation. Exposures can be collateralised by mortgages on real estate and vessels, by (lease) receivables, pledges on machinery and equipment, or by third-party guarantees and other

similar agreements. As a result, NIBC's LGDs are concentrated in those LGD categories that correspond to recoveries in the range of 80% and 90%, which are relatively high for the banking industry.

Counterparty credit ratings and probability of default

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

NIBC's uses a through-the-cycle CCR rating scale, which consists of 10 grades (1-10). Most of these grades are further divided in notches, by the addition of a plus or minus sign to show the relative standing within the rating grade. NIBC uses a total of 22 notches, each of which is mapped to the rating scale of the main international rating agencies. Each notch carries a PD, which quantifies the likelihood that the counterparty will go into default in the next one year. The CCRs 9 and 10 are assigned to counterparties that have already defaulted and therefore carry a PD of 100%. Furthermore, CCRs are assigned a rating outlook. This assesses the potential direction of the CCR over the medium term. In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions.

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

The performance of the CCR methodology is back-tested annually in order to ensure that consistency is kept throughout the portfolio and to measure the discriminatory power and the ranking ability of the CCRs. Furthermore, NIBC regularly benchmarks its CCRs with external parties.

Loss given default

Whereas CCRs are assigned on a counterparty level, LGD ratings are facility-specific. The LGD ratings reflect the loss that can be expected on a facility in a downturn scenario, if a counterparty defaults. NIBC's internal LGD scale consists of 7 grades (A-F) and 10 notches, each of which represents a different degree of recovery prospects and loss expectations.

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

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

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

Exposure at default and credit conversion factor

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

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

Overview of AIRB corporate exposures

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

The fact that these exposures are in default does not necessarily mean that all the counterparties carry an impairment amount. Reasons for not always taking an impairment amount for a defaulted counterparty may be e.g. over-collateralisation or NIBC's expectation of future cash-flow generation. The section on impaired exposures contains more information on defaulted and impaired counterparties.

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

Despite the deteriorated economic conditions, 2011 showed a relatively stable quality in CCRs. The weighted average PD for almost all rating grades was slightly lower compared to 2010. For the total corporate exposure class, the weighted average PD amounted to 2.40%, also lower compared to 2010. The average weighted CCR in the corporate exposure class (excluding defaulted assets) was 6+ on NIBC's rating scale (B+ in the rating scales of rating agencies), both at 31 December 2011 and at 31 December 2010. The weighted-average LGD improved from 19.7% at 31 December 2010 to 16.9% at 31 December 2011. The relative stability in CCRs, the slightly better PDs and the improved LGDs under difficult economic circumstances reveal NIBC's focus on active portfolio management and very selective origination criteria.

Table 8 Breakdown of corporate AIRB EAD by weighted average PD, weighted average LGD and EAD type, 31 December 2011

IN EUR MILLIONS						Total
Rating Scale	WA PD	WA LGD	On-balance	Off-balance	Derivatives	
1/2 (AAA/AA)	0.03%	3.66%	42	9	0	51
3 (A)	0.08%	17.25%	95	0	0	95
4 (BBB)	0.29%	13.84%	1,620	344	250	2,214
5 (BB)	1.14%	14.66%	2,291	501	321	3,113
6 (B)	3.36%	20.74%	2,540	403	205	3,148
7 (CCC)	12.26%	20.58%	465	33	35	533
8 (CC/C)	30.00%	16.79%	24	0	0	25
9/10 (D)	100.00%	n.a.	892	1	94	987
TOTAL	2.40%	16.9%	7,969	1,292	906	10,166

Retail

The AIRB approach applies to NIBC's Dutch Residential Mortgage portfolio. The calculation of PD, LGD and EAD is performed by a Basel II AIRB model developed internally, which has been in use since 2006. The PD estimates are dependent on a variety of factors, of which the key factors are debt-to-income and loan-to-value ratios. Minor factors that play a role in the PD estimates are several other mortgage loan characteristics, borrower characteristics and payment performance information. The PD scale is based on a continuous scale ranging from 0 - 100%.

The LGD estimates are based on a downturn scenario comparable to the downturn in the Dutch mortgage market in the 1980s. In this case, the indexed collateral value is stressed in order to simulate the proceeds of a (forced) sale of the collateral. The stress is dependent on the location of the collateral and its absolute value. Together with assumptions about cost and time to foreclosure, an LGD is derived. The LGD estimate also takes into account whether a mortgage loan has a *Dutch government guarantee (NHG guarantee)*, for which the LGD estimate is lower in comparison to a mortgage loan without the NHG guarantee. The LGD estimate is also based on a continuous scale.

The EAD is set equal to the net exposure (outstanding balance minus built-up savings value) for all mortgage loans, except for non-amortising (in this case, interest-only loans). For the non-amortising loans, 3 months of accrued interest is added to the EAD.

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

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

Overview of AIRB retail exposures

Table 9 provides an overview of retail AIRB EAD types, broken down by PD buckets. The table also provides the average PD and LGD, weighted against EAD. Note that the numbers in this table refer to the Dutch Residential Mortgage portfolio of NIBC. The weighted average PD and LGD of the retail portfolio remained almost constant between 2010 and 2011. At 31 December 2010, the WA PD and LGD were 1.48% and 18% respectively.

Table 9 Breakdown of retail AIRB EAD by weighted average PD, weighted average LGD and EAD type, 31 December 2011

IN EUR MILLIONS					
PD bucket	WA PD	WA LGD	On-balance	Off-balance	Total
0.1% - 0.2%	0.14%	9.75%	1,232	0	1,233
0.3% - 0.4%	0.31%	16.55%	1,467	1	1,468
0.5% - 0.6%	0.50%	25.24%	876	0	876
0.7% - 0.9%	0.71%	30.03%	196	0	196
1% - 2%	1.15%	36.79%	29	0	29
2% - 5%	4.30%	16.21%	52	0	52
5% - 99%	19.84%	25.76%	54	0	54
100%	100.00%	23.77%	33	0	33
TOTAL	1.46%	17.36%	3,939	1	3,940

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 462 million, of which EUR 461 million attracts a 370% risk weight.

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 is applicable in the case where the capital requirement under the KIRB approach is lower than the capital requirement under the IRB approach for the securitisation exposure class. More detailed risk information about NIBC's securitisation exposures can be found in the *Securitisations* section.

Table 10 Risk weights of securitisation EAD, 31 December 2011

IN EUR MILLIONS								1250% or deducted	Total
Risk weight	< 10%	10% - 20%	25% - 50%	60% - 100%	150% - 225%	250% - 850%			
Retained	379	99	114	63	0	37	100	793	
Purchased	222	141	109	51	20	70	127	740	
TOTAL	601	240	223	114	20	107	227	1,532	

Small differences are possible in the table due to rounding

Standardised Approach

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

- All of NIBC's sovereign exposures are exposures with a zero risk weight. The vast majority of these exposures are related to cash placed with DNB and the Dutch State Treasury Agency. NIBC has zero sovereign debt exposure to Greece, Italy, Ireland, Spain and Portugal.
- The risk weight for institutions is mostly either 20% (all short-term investment-grade exposures and long-term exposures with a rating equal to or higher than AA-) or 50% (long-term exposures with a rating between BBB- and A+). All exposures with a 10% risk weight are related to covered bonds. As a result of the negative economic environment in the financial services industry, a rating migration was observed in 2011 for financial institutions from the triple-A and double-A rating categories towards the single-A category.
- The corporate exposure class carries a risk weight of 100%. It mainly contains non-rateable exposures and derivatives to corporate counterparties.
- The retail exposure consists of the German Residential Mortgage portfolio. Part of the exposure, which is fully secured by residential property, receives a 35% risk weight and the other part receives a 75% risk weight.

[Overview of Standardised portfolios](#)

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

Table 11 Standardised EAD per risk weight, 31 December 2011

IN EUR MILLIONS								
Exposure Class	0%	10%	20%	35%	50%	75%	100%	Total
Sovereign	2,526	0	0	0	0	0	0	2,526
Institutions	5	44	758	0	831	0	0	1,638
Retail	0	0	0	361	0	37	0	398
Corporate	0	0	0	0	0	0	346	346
Equities	0	0	0	0	0	0	1	1
Other	0	0	0	0	0	53	0	53
TOTAL	2,531	44	758	361	831	90	347	4,962

Table 12 Standardised RWA per risk weight, 31 December 2011

IN EUR MILLIONS								
Exposure Class	0%	10%	20%	35%	50%	75%	100%	Total
Institutions	0	4	152	0	416	0	0	572
Corporate	0	0	0	0	0	0	340	340
Retail	0	0	0	126	0	28	0	155
Equities	0	0	0	0	0	1	1	2
Sovereign	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	53	0	53
TOTAL	0	4	152	126	416	83	340	1,121

Credit risk mitigation

Institutions

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

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 Management loan exposures. Investment Management loans may contain equity characteristics such as attached warrants or conversion features; examples of this exposure include mezzanine loans, convertible loans and shareholder loans, which are typically unsecured instruments.

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

In general, NIBC requests collateral to protect its interests. NIBC ascribes value to the collateral it accepts provided that the collateral is sufficiently liquid, that documentation is effective and that enforcing NIBC's legal rights to the collateral will be successful. The type and quantity of the collateral depends on the type of transaction, the counterparty and the risks involved. The most significant types of collateral securing the corporate exposure class are tangible assets, such as real estate, vessels, rigs, *floating, production, storage & offloading (FPSO)* units and equipment.

NIBC initially values collateral based on fair market value when structuring a transaction, and evaluates the collateral and its value (semi-) annually during the lifetime of the exposure. NIBC typically seeks confirmation from independent third-party experts that its interests are legally enforceable. Exposures in the shipping and oil & gas sectors are secured by assets such as ships and drilling vessels. The commercial real estate portfolio is primarily collateralised by mortgages on financed properties. Collateral value is estimated using third-party appraisers, whenever possible, or valuation techniques based on common market practice. Other corporate exposures are, to a large extent, collateralised by assets such as inventory, debtors, and third-party credit protection (e.g. guarantees). The value of these types of collateral can be more difficult to determine, therefore such collateral is attributed a nil value.

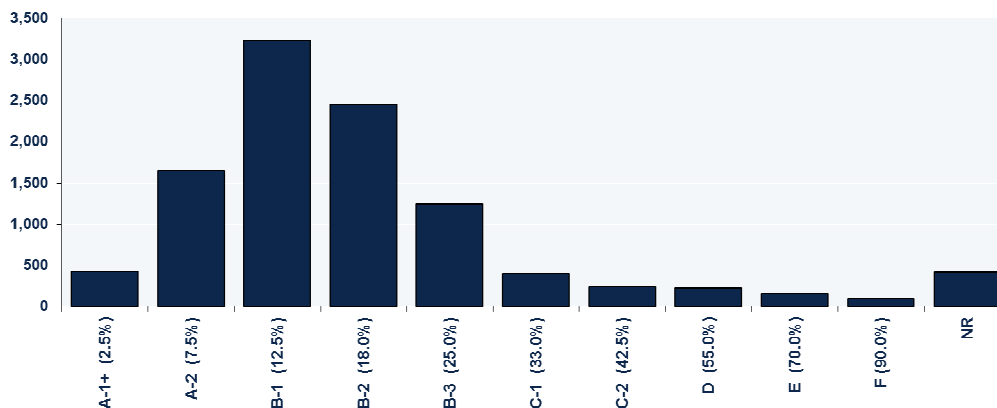
Graph 1 shows the distribution of corporate EAD per internal LGD rating. Note that the corporate exposures of the graph refer to non-defaulted exposures, given that the LGD is a measure of anticipated loss from the facilities of a non-defaulted counterparty. When a counterparty defaults, the impairment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

LGD ratings are facility-specific. As described in previous sections, an LGD rating reflects the loss that can be expected in a downward scenario on a facility, if a counterparty defaults. NIBC's internal LGD scale consists of 7 grades (A-F) and 10 notches, each of which represents a different degree of recovery prospects and loss expectations. In graph 1 the letters on the horizontal axis refer to NIBC's LGD grades and notches, whereas the numbers inside the parentheses refer to the loss percentage assigned to each LGD rating. **NR** stands for *not rateable*. NR is assigned to entities to which NIBC's corporate rating tools were not applicable at the time of rating. Exposures in the NR category fall under the Standardised approach.

The LGD methodology is based on a combination of qualitative and quantitative rating indicators that include, among others, the assessment of the realisable collateral value, guarantees, the seniority of the exposure, the applicable jurisdiction, and the quality of the counterparty's assets. Once the various LGD drivers have been assessed, the final LGD rating is based upon expert judgement. The assessment of the available collateral is the basis for NIBC's LGD analysis. In determining the realisable collateral value, which is based upon recent appraisals, NIBC applies a number of haircuts on the collateral's fair market value. These haircuts are mainly driven by the type of collateral, how liquid it is, the business cycle of the industry, the costs for forced collateral sales and other work-out costs.

NIBC's LGDs are concentrated in those LGD categories that correspond to recoveries in the range of 80% and 90%, which are relatively high for the banking industry. NIBC's weighted average LGD for the corporate exposure class at 31 December 2011 was 16.9%, improved in comparison to 2010 (19.7%).

Graph I Breakdown of corporate EAD (in EUR millions) per LGD rating, 31 December 2011



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;
- 17% of the Dutch Own Book portfolio (and 38% of the Dutch Securitised portfolio) are covered by the NHG programme; and
- Approximately 53% of the Dutch portfolio has been securitised.

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 part of the portfolio not covered by the NHG programme, 10% has an LtiMV above 100%. For the remainder of the portfolio, the indexed collateral value is sufficient to cover the entire loan balance outstanding.

The relatively low loss levels, together with the relatively high seasoning of the portfolio gives comfort about the credit risk in the Residential Mortgage portfolio. This is especially true in an environment where unemployment levels stay low at current levels.

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 balance during the lifetime of the loan.

Overview of impaired and past-due exposures

Sovereign and Institutions

In 2011 NIBC did not take any impairments on these exposure classes.

Corporate

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

NIBC considers a range of factors that have a bearing on the future cash flows that it expects to receive from the defaulted exposure, including the business prospects of the borrower and its industry sector, the realisable value of collateral held, the level of subordination relative to other lenders and creditors, and the likely cost and duration of any recovery process. Judgements are made in the process, including, among other, the determination of expected future cash flows and their timing, the market value of collateral, and market discount rates. Furthermore, NIBC's judgements change with time as new information becomes available, or as recovery strategies evolve, resulting in frequent revisions to individual impairments, on a case-by-case basis.

NIBC calculates an impairment amount by taking certain factors into account, particularly the available collateral securing the loan and, if present, the corporate derivative exposure. The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future losses that have not been incurred). If collateral is present, then the present value of the future cash flows includes the foreclosure value of collateral.

Table 8 in the section *Calculation of Risk Weighted Assets* presented a breakdown of the corporate exposure class in NIBC's internal rating scale. Counterparties with a default rating (9/10) represent a total EAD of EUR 987 million, but this does not necessarily mean that all these counterparties carry an impairment amount. Reasons for not always taking an impairment amount for a defaulted counterparty may be e.g. over-collateralisation or NIBC's expectation of future cash-flow generation.

When a default occurs (in line with the Basel II definition²), 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 impairment amounts (EUR 130 million) of the corporate exposure class per region and industry sector as at 31 December 2011. The column labelled *Impaired EAD Corporate* shows the EAD of those facilities carrying an impairment amount (EUR 353 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.

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

As in previous years, the impact of the credit crisis on the corporate exposures was also felt in 2011. However, the impairment level remained at an acceptable level. Compared to 2010, the total amount of impairments taken in the corporate exposure class decreased by EUR 23 million. Most new impairments were taken on shipping exposures, but other parts of the corporate exposures carry either no impairments (e.g. oil & gas and agriculture & food) or very small amounts (e.g. infrastructure and wholesale/retail/leisure). Impairments for commercial real estate exposures increased only slightly in 2011, from EUR 35 million in 2010 to EUR 38 million in 2011. **IBNR** stands for *incurred but not reported*.

Table 13 Breakdown of impairments on corporate exposure class per region, 31 December 2011

IN EUR MILLIONS			
Region	Total EAD	Impaired EAD	Impairment
	Corporate	Corporate	
The Netherlands	3,552	215	64
United Kingdom	2,109	74	30
Germany	1,854	17	7
Rest of Europe	1,156	33	13
Asia / Pacific	930	0	0
North America	493	14	13
Other	417	0	0
IBNR			4
TOTAL	10,512	353	130

Table 14 Breakdown of impairments on corporate exposure class per industry sector, 31 December 2011

IN EUR MILLIONS			
Industry sector	Total EAD	Impaired EAD	Impairment
	Corporate	Corporate	
Commercial Real Estate	2,062	165	38
Infrastructure	2,483	7	4
Shipping	1,760	37	22
Financial Services	1,265	34	9
Oil & Gas	918	0	0
Wholesale/Retail/Leisure	544	9	7
Manufacturing	477	10	6
Services	529	66	32
Agriculture & Food	148	0	0
TMT	184	26	9
Other	142	0	0
IBNR			4
TOTAL	10,512	353	130

Amounts in arrear are reported to the TC every two months. 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 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 498 million that appears as

having an amount in arrear for above 90 days is collateralised by granular multi-family residential real estate. In the course of 2012, this exposure was restructured and is no longer in default.

Table 15 EAD with an amount in arrear, corporate exposure class, 31 December 2011

IN EUR MILLIONS	Corporate EAD	Amount in arrear
1 - 5 days	45	2.2
6 - 30 days	36	10.7
31 - 60 days	17	0.7
61 - 90 days	96	1.5
SUBTOTAL LESS THAN 90 DAYS	193	15.1
Over 90 days	498	108.9
No payment arrear	9,821	0.0
TOTAL	10,512	124.1

Retail

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

NIBC has an in-house arrears management department, actively managing arrears, foreclosures and residual debts of its Dutch Residential Mortgage portfolio. Table 16 shows an overview of the retail EAD with an amount in arrear at 31 December 2011. The table also shows those EADs with technical past-due amounts. These amounts contain those borrowers with an amount in arrear below EUR 250.00. At 31 December 2011, the amount in arrear was only EUR 3.7 million (0.1% of the total portfolio EAD).

Table 16 EAD with an amount in arrear, retail exposure class, 31 December 2011

IN EUR MILLIONS	Retail EAD	Amount in arrear
Technical past-due amounts	15	0.0
1 - 30 days	67	0.4
31 - 60 days	24	0.3
61 - 90 days	11	0.2
SUBTOTAL LESS THAN 90 DAYS	116	0.9
Over 90 days	36	2.8
No payment arrear	4,186	0.0
TOTAL	4,338	3.7

Equities

NIBC determines an impairment on the equity investments available for sale held in NIBC's Equity Investments portfolio if there has been a significant or prolonged decline in the fair value below the original cost (including previous impairment losses). NIBC uses expert judgement in determining what is 'significant' or 'prolonged' by evaluating, among other factors, whether the decline is outside the normal range of volatility in the asset's price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the company of which the securities NIBC holds, a decline in industry or sector performance, adverse changes in technology, operational problems or insufficient cash flows.

Tables 17 and 18 present an overview of impairments on equity exposures per region and industry sector respectively. The columns labelled *Impaired EAD Equity after impairment* present the remaining EAD after the impairment has been taken. This remainder EAD can, therefore, be smaller than the impairment amount. The impairment amount of EUR 79 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 2011

IN EUR MILLIONS			
Region	Total EAD Equity after impairment	Impaired EAD Equity after impairment	Impairment
The Netherlands	374	0	18
North America	26	17	41
United Kingdom	17	6	0
Germany	0	0	20
Rest of Europe	43	0	0
Asia / Pacific	0	0	0
Other	1	0	0
TOTAL	460	23	79

Small differences are possible in the table due to rounding

Table 18 Breakdown of impairments on equity exposure class per industry sector, 31 December 2011

IN EUR MILLIONS			
Industry Sector	Total EAD Equity after impairment	Impaired EAD Equity after impairment	Impairment
Infrastructure	82	0	0
Wholesale/Retail/Leisure	58	0	0
Financial Services	42	17	60
Services	36	0	10
Commercial Real Estate	35	0	0
TMT	21	0	0
Manufacturing	18	0	0
Shipping	13	0	1
Agriculture & Food	5	5	0
Other	151	0	8
TOTAL	460	23	79

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, as IFRS does not allow such an accounting treatment for these products. 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 equity exposures, the impairment amount is equal to the difference between the carrying value prior to the impairment and the current market value. For the other tranches, the impairment amount is equal to the difference between the carrying value and the expected cash flows, discounted by the original effective yield, if positive.

Table 19 shows a breakdown of impairments on securitisations per collateral type. The column labelled *Impaired EAD Securitisation after impairment* presents the remaining EAD after the impairment has been taken. The total impairment amount for NIBC Holding on the Securitisations portfolio as at 31 December 2011 was EUR 106 million; for NIBC Bank it was EUR 39 million.

Table 19 Breakdown of impairments on securitisation exposure class per collateral type, 31 December 2011

IN EUR MILLIONS	Total EAD Securitisation after impairment	Impaired EAD Securitisation after impairment	Impairment
ABS	7	0	0
CDO/CLO	162	11	29
CMBS	312	1	10
RMBS	748	0	1
TOTAL WESTERN EUROPEAN SECURITISATIONS	1,230	12	39
NL - RMBS AAA	175	0	0
TOTAL SECURITISED TREASURY LIQUIDITY INVESTMENTS	175	0	0
TOTAL SECURITISATION EXPOSURE NIBC BANK	1,405	12	39
US CDO ¹	41	0	0
US CMBS	1	0	0
US CRE-CDO	60	9	67
US RMBS	26	0	0
TOTAL US SECURITISATIONS NIBC HOLDING	127	9	67
TOTAL SECURITISATIONS NIBC HOLDING	1,532	21	106

¹ Concerns EU CDO exposure with predominantly US collateral.

Expected loss versus realised losses

NIBC regularly reviews the methodology and assumptions used for estimating both the amount and timing of future cash flows, to reduce any differences between loss estimates (*Expected Loss*, **EL**) and actual loss (*Realised Loss*, **RL**) experience. The EL is a statistical measure that is based on the calculated PD, LGD and

EAD, and it represents the average loss that NIBC expects to incur. The RL is the actual loss that NIBC has experienced at the end of a given year.

The impact of the credit crisis on the corporate exposure class was less pronounced in 2011 compared to the period 2008-2010; however, 2011 still remained a volatile year. While market circumstances seemed more optimistic in the beginning of the year compared with 2010, the market sentiment changed after the summer of 2011, mainly due to the persistence of the Euro zone debt crisis.

The impact of the crisis differed between the various corporate segments. In 2011, most new impairments were taken on the shipping sector, the first ones since 2004. In other parts of the corporate exposure class, impairments remained either stable (e.g. commercial real estate, infrastructure & renewables) or nil (e.g. oil & gas, food & agriculture). Write-offs of previously impaired exposures were taken for certain exposures in the sectors of financial services, wholesale, retail & leisure and manufacturing. A small write-off also took place in the shipping segment.

With respect to retail exposures, an increase in defaults and losses was observed in both 2010 and 2011 due to difficulties within the residential mortgage market. Although the number of defaults remained quite stable, the losses arising from these defaults (LGD parameter) increased. Actual credit losses in the Dutch and German Residential Mortgage portfolios have, nevertheless, been low in the past years. The performance of NIBC's securitised mortgage portfolio is stronger compared to other Dutch RMBS issuers as evidenced by arrears levels and realised loss levels.

The relatively low loss levels together with the relatively high seasoning of the portfolio gives us comfort about the credit risk in our mortgage portfolio. This is especially true in an environment where unemployment levels stay low at current levels.

Table 20 shows the realised and expected losses in basis points in 2011 and 2010 for NIBC's corporate and retail exposure classes. Despite the difficult markets, 2011 ended with lower losses for NIBC (41 basis points) compared to 2010 (58 basis points). For the corporate exposure class, realised losses refer to the impairment movements 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

2011		2010	
EL	RL	EL	RL
39	41	46	58

Counterparty Credit Risk

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

NIBC is exposed to counterparty credit risk from derivative transactions both with corporate clients as well as with financial institutions. For both types of counterparties, counterparty credit risk is measured similarly, being the sum of the positive replacement value and 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 collateral 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. In line with market practice, *IFRS credit value adjustments (CVA)* are incorporated into the derivative valuations to reflect the risk of default of the counterparty. The CVA is calculated at the counterparty level as the sum of the present value of the expected loss (PD x LGD x expected exposure profile) estimated over the lifetime of all outstanding OTC derivative contracts.

Table 21 shows the breakdown of EAD, RWA and capital requirement for derivatives at 31 December 2011.

Table 21 Breakdown of EAD, RWA and capital requirement for derivatives, 31 December 2011

IN EUR MILLIONS	EAD	RWA	Capital requirement
AIRB APPROACH			
- of which corporate	906	538	43
- of which securitisations	76	52	4
STANDARDISED APPROACH			
- of which corporate	16	16	1
- of which institutions	445	200	16
TOTAL DERIVATIVES	1,443	807	65

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

Table 22 Gross and net fair value exposure from derivative contracts

IN EUR MILLIONS	2011
Gross exposure	3,880
Netting benefits	(2,744)
Reduction from collateral	(171)
Net current exposure	965

NIBC uses credit derivatives both to protect its Debt Investments portfolio as well as to create credit exposures, although the latter is significantly reduced as part of the de-risking policy that NIBC started implementing in 2007. Tables 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	0	0
Institutions	50	0
Corporate	10	25
Securitisations	28	3
TOTAL	88	28

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

IN EUR MILLIONS		
CDS contract name type	Sold protection	Bought protection
Single name	77	0
Multiple name	11	28
TOTAL	88	28

Market Risk

NIBC defines market risk as the current and prospective threat to its earnings and capital as a result of movements in market prices. Market risk, therefore, includes price risk, interest rate risk and FX risk, both within and outside the Trading portfolio. For fixed-income products, market risk also includes credit spread risk, which is the risk due to movements of underlying credit curves. The predominant market risk drivers for NIBC are interest rate risk and credit spread risk. The capital requirement for market risk stems from the Trading portfolio, which is based on internal models, and the overall FX position of the bank, for which the standardised method is used.

The Trading portfolio of NIBC is the result of customer-driven transactions and limited trading for its own account in interest-rate risk products. Interest rate risk outside the Trading portfolio of NIBC is restricted to centrally managed mismatch positions. For all other banking activities only residual positions are allowed, given that the basic principle of NIBC is to hedge the interest rate risk from assets, liabilities and off-balance sheet instruments. The capital requirement for the trading activities is small, in line with the limited trading activity. FX risk arises primarily from principal investments, customer-driven loans and funding or mismatch positions in foreign currencies. The general guiding principle for market risk management is to hedge FX risk completely, although small residual positions, e.g. from profits in foreign currencies, are allowed.

Market risk RWA and capital requirement for 31 December 2011 and 2010 are given in table 25. The RWA throughout 2011 remained fairly stable and ranged between EUR 250 million and EUR 300 million.

Table 25 Breakdown of RWA and capital requirement for market risk

IN EUR MILLIONS	31 December 2011		31 December 2010	
	RWA	Capital requirement	RWA	Capital requirement
- of which trading portfolio VaR	234	19	213	17
- of which FX Standardised approach	10	1	31	3
TOTAL MARKET RISK	244	20	244	20

Governance

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

The risk appetite for interest rate risk is set, among others, by the *value-at-risk (VaR)* limits. For the Trading portfolio the VaR limit (99% confidence level, one-day holding period) was lowered from EUR 3 million to

EUR 2.25 million during 2011. For the Mismatch, portfolios the VaR limit was lowered from EUR 15 million to EUR 11.5 million during 2011.

Measurement methods

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

- Interest and credit BPV measure the sensitivity of the market value for a change of one basis point in each time bucket of the interest rate and credit spread, respectively. In 2010, NIBC updated its interest rate risk methodology by introducing multiple forward curves for each re-pricing frequency (overnight, 1 month, 3 months and 6 months) and differentiating between forward curves and discount curves. In 2011 the interest rate risk framework was further brought in line with market practice by differentiating in the discount curve for collateralised and non-collateralised transactions.
- The interest VaR, credit spread VaR and total VaR measure the threshold value, which daily marked-to-market losses with a confidence level of 99% will not exceed, based upon four years of historical data for weekly changes in interest rates (including the effect of basis risk), credit spreads and both simultaneously. For the Trading portfolio, additional VaR scenarios based upon daily historical market data and a 10-day holding period are used, both for limit-setting as well as for the calculation of the capital requirement. Not only is the use of daily market data for the Trading portfolio a regulatory requirement, but this portfolio only contains liquid plain vanilla interest rate products. For these products, reliable daily market data are available. Outside the Trading portfolio, however, less liquid positions are kept, for which reliable daily market data, especially for credit spreads, are not available;
- As future market price developments may differ from those that are contained by the four-year history, the risk analysis is complemented by a wide set of scenarios, including scenarios intended as stress testing and vulnerability identification, both based on historical events and on possible future events.

Stress testing

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

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

Regulatory capital for market risk in the Trading portfolio

In 2008 NIBC received supervisory approval by DNB to use the Internal Models Approach (**IMA**) for market risk in the Trading portfolio. Annex VII, part B of the European directive 2006/48/EC sets the requirements for systems and controls regarding exposures in the Trading portfolio. NIBC complies in all material aspects with these requirements. As shown in table 25, the total capital requirement for market risk at the end of 2011 equalled EUR 20 million. At the end of 2011, NIBC received approval for the Stressed VaR model. Under CRD 3, which became effective at 31 December 2011, the capital requirement for market risk in the Trading

portfolio for banks using internal models is based on the combination of the VaR and Stressed VaR. The Stressed VaR uses the same methodology as the normal VaR, but based upon a different historical period. Currently, 2008 is used as historical period to determine the Stressed VaR.

VaR

By nature, trading positions fluctuate during the year. This is illustrated in graph 2, which shows the development of the VaR for the Trading portfolio over the years 2010 and 2011.

Throughout 2011, the portfolio consisted solely of interest rate-driven exposures. Activities comprise short-term (up to two years) interest position-taking, money-market and bond futures trading and swap spread position taking. The interest rate risk between positions in swaps and bond futures is also taken into account in the VaR. The portfolio is also used for facilitating derivative transactions with corporate clients.

Graph 2 Development of VaR in the Trading portfolio during 2010 and 2011



Table 26 Key risk statistics, Trading portfolio 2011

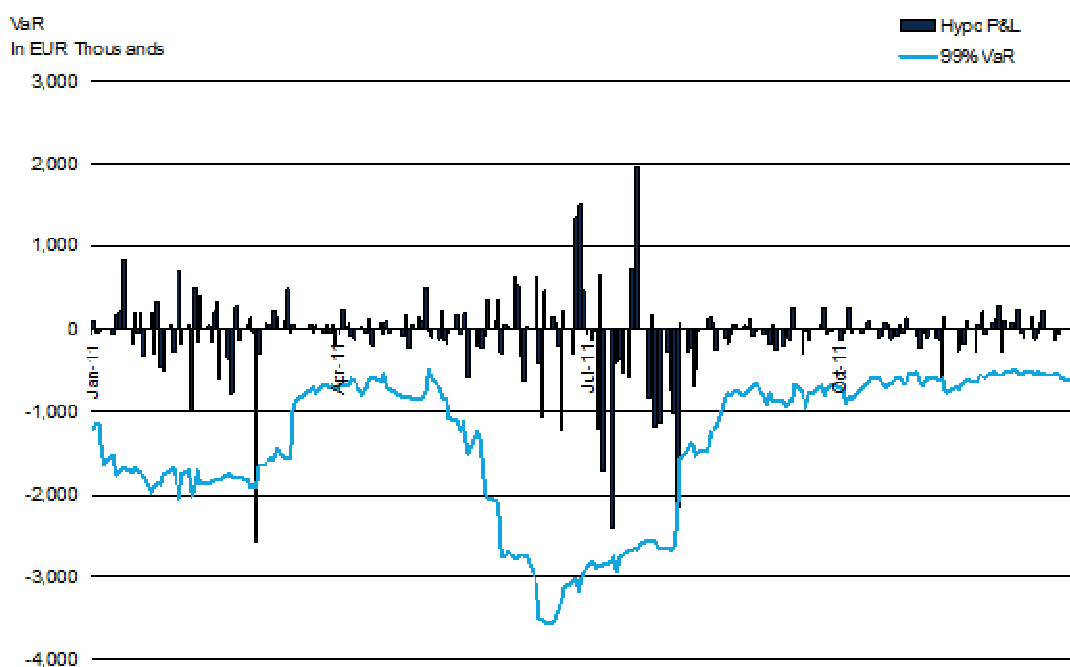
IN EUR THOUSANDS	Interest rate	
	BPV	VaR
Max*	202	3,321
Average	(2)	1,358
Min*	0	451
YEAR-END 2011	(41)	628

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

Back testing

Back testing for the Trading portfolios is conducted in accordance with the guidelines of the Basel Committee on Banking Supervision. For the Trading book, the one-day 99% VaR is back tested with the hypothetical *profit or loss (P&L)*. The hypothetical P&L is calculated based upon the end-of-day trading position and the change in market rates from the trading day to the next business day using full revaluation. Graph 3 shows the hypothetical P&L and 99% VaR figures for 2011. There was only one outlier in 2011, which gives comfort that the model captures the market risk adequately.

Graph 3 Back test results of the Trading portfolio during 2011



Market risk outside the Trading portfolio

Interest rate risk in the Mismatch portfolios

Strategic interest rate risk position is concentrated in the Mismatch portfolios. In the second half of 2011, NIBC decided to unwind the USD and EUR mismatch positions, as long-term rates declined considerably. These portfolios exclusively contain swap positions, with which a view on future interest rate developments is taken.

Interest rate risk in the Banking book

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

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

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

NIBC uses an economic value approach to model interest rate risk in the Banking book. Corporate loans and deposits are modelled based upon the contractual re-pricing date, without prepayment. For mortgages, a dedicated prepayment model is used, where prepayment depends upon the remaining interest period and which is calibrated regularly using realised historical prepayments. On-demand retail savings are modelled as zero coupon bonds with approximately equal notional amounts and a maturity ranging from one to nine months. Cash flows are discounted by applying a swap curve plus the appropriate credit spread curve. Only for transactions, which are part of a CSA agreement, are cash flows discounted on the overnight curve.

Table 27 shows the interest rate sensitivity from an economic perspective for EUR, USD and GBP. For the other currencies, the interest rate risk is minimal. The impact of a larger interest rate movement (parallel shock of plus or minus 100 basis points) is shown in table 28. As shown, the interest rate risk both inside and outside the Trading Books is limited, in particular since the bank decided to close the mismatch positions.

Table 27 Interest rate sensitivity, 31 December 2011

IN EUR THOUSANDS	BPV			Total
	Trading	Mismatch	Banking	
EUR	(36)	(6)	60	18
USD	4	(27)	(28)	(51)
GBP	(9)	0	9	0
Other	0	0	6	6
TOTAL	(41)	(33)	47	(27)

Table 28 Effect of an interest rate shock on economic value, 31 December 2011

IN EUR THOUSANDS		
Interest rate shock	-100bp	+100bp
EUR	(910)	2,731
USD	5,414	(4,741)
GBP	(68)	36
Other	(601)	598
TOTAL	3,835	(1,376)

Credit spread risk

Within Treasury, credit spread risk is mainly concentrated in the Debt Investments portfolio, which contains investments in financial institutions and corporate entities and securitised products. NIBC's total credit spread sensitivity declined from -0.541 million EUR/bp at 31 December 2010 to -0.443 EUR/bp at 31 December 2011. This decline is mostly related to a reduction in the Securitisations portfolio.

Foreign exchange risk

As stated previously, it is the policy of NIBC to hedge its currency risk as much as possible. NIBC uses the Standardised approach for the calculation of regulatory capital for currency risk. At year-end 2011, the capital requirement for FX risk was EUR 1 million.

Operational Risk

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

The objective of ORM is laid down in the operational risk policy and the means and responsibilities for managing operational risk are laid down in the operational risk framework. The framework sets out the roles and responsibilities for management supervision, as well as the tools and methods used within the bank for identifying, measuring, reporting, monitoring, and controlling operational risk. 'Sound Practices for the Management and Supervision of Operational Risk', published by the Basel Committee on Banking Supervision, has been used in the development of the operational risk framework to ensure robust and effective management and supervision. The framework is based on the principle that NIBC's Managing Board and Supervisory Board and senior management are actively involved in risk management, and that the bank's risk management framework is independent, conceptually sound and implemented with integrity.

Operational risk is managed both at group and division level. The Managing Board provides consistency and oversight of significant operational issues, and oversees the adoption of best practice across the bank. At the division level and below, managers are responsible for adherence to the operational risk policy and operational risk management framework, which includes oversight of all operational risks specific to the business and reporting of operational risk events and losses.

The ORM department monitors and manages operational risk at group level, develops policy and provides methodology and tools. The tools utilised by managers give an integrated view of the risk self-assessment, control identification, action planning, and event and loss registration and support the constant process of evaluating and reducing operational risk, and planning mitigation measures. The dynamics of NIBC's risk profile are managed by the ORM department through the New Product Approval Process that ensures that NIBC has the operational capability to provide a new product or service and ensures the client suitability of its offerings.

NIBC has sought to build operational risk management into all its business processes. Operational risk is managed on a daily basis and self-assessments are performed semi-annually. The year-end self-assessments form the basis for NIBC's 'In Control Report' section of the Annual Report. 'In control' reporting seeks to ensure that the operational risk management policy framework is integrated into the daily activities of all employees and that it forms an integral part of the internal control system.

The capital requirement under the Standardised Approach is the sum of the requirement per individual business line. Within each business line, gross income is the indicator that serves as a proxy for the scale of business operations and as such, the likely scale of operational risk exposure within each of these business lines.

The capital requirement for each business line is calculated by multiplying the average gross income of the past three years by a factor assigned to that business line. This factor serves as a proxy for the industry-wide

relationship between the operational risk loss experience for a given business line and the aggregate level of gross income for that business line.

The calculation is used to determine the regulatory capital requirement for operational risk and is performed annually by NIBC's Finance department. Table 29 shows the amount of RWA and the capital requirement for operational risk as at year-end 2011 and 2010.

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 2010 included the years 2007, 2008 and 2009 and the operational risk at year-end 2011 was based on the years 2008 to 2010. As the operating income in 2007 was lower by EUR 209 million compared to the income in 2010, the RWA and capital requirements for operational risk increased at year-end 2011.

Table 29 Breakdown of RWA and capital requirement for operational risk

IN EUR MILLIONS	2011		2010	
	RWA	Capital requirement	RWA	Capital requirement
Standardised approach	507	41	313	25
TOTAL OPERATIONAL RISK	507	41	313	25

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 2011 were the further expansion of the online retail savings programme NIBC Direct (including the introduction in Belgium at the end of 2011) from EUR 4.2 billion to EUR 6.1 billion, as well as renewed RMBS and covered bond issuances. These initiatives ensured that NIBC was well prepared for the repayment of maturing government-guaranteed debt in December 2011 and February 2012. In addition, NIBC was able to maintain its liquidity buffers of highly liquid assets and collateralised funding capacity throughout 2011.

Stress scenario

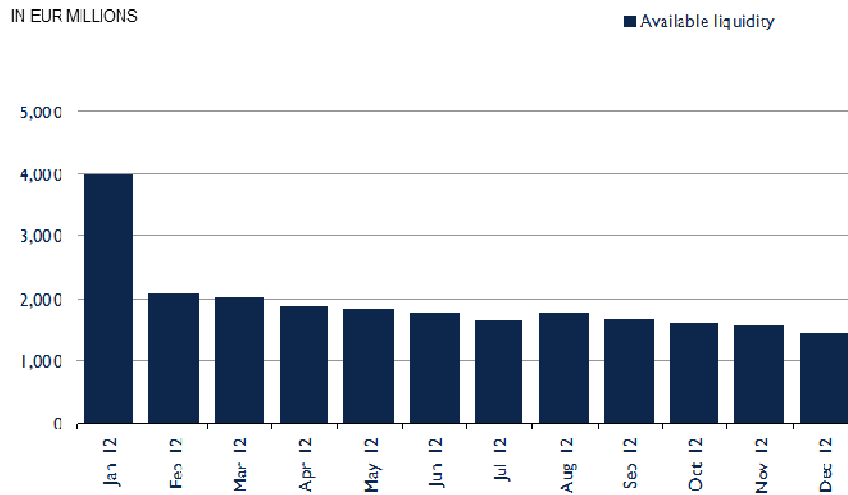
This liquidity stress test is based on a market-wide liquidity crisis, resulting into no access to wholesale funding. Based on projections prepared by the business units and reviewed by risk management, and the current asset and liability maturity profiles, a liquidity stress test is prepared and presented once every two weeks to the ALCO, in order to create continuous monitoring of the liquidity position. The outcome of this 12-month liquidity stress test was positive at 31 December 2010 and at 31 December 2011, implying positive liquidity buffers for a 12-month period following these dates.

In addition to the 12-month liquidity stress analysis described below, NIBC also conducts liquidity analyses over longer periods once every two weeks. These analyses assume more or less stable portfolios in combination with new funding initiatives as the ones mentioned. The outcome of, for example, a three or five year liquidity analysis shows again a positive buffer throughout the period.

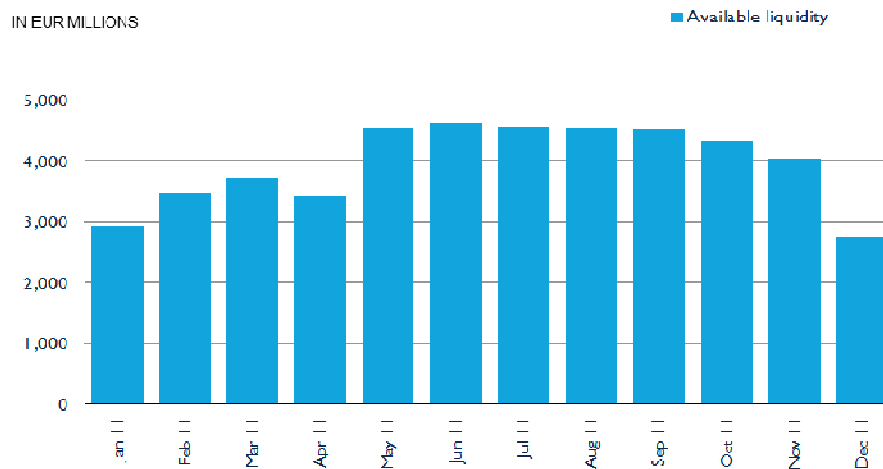
Graphs 4 and 5 show the strong liquidity buffer in the stress scenario at year-end 2011 and year-end 2010 and focuses on the next 12 months. The available liquidity, as presented in the graphs, consists of:

- A projected pool of cash plus liquidity buffers of highly liquid assets and collateralised funding capacity, potential CSA collateral cash outflows, at each month end;
- A reduction to the available pool created by maturing liabilities and other projected outflows (e.g. from new business); and
- An increase in the available pool created by maturing assets.

Graph 4 Stress scenario, short-term analysis, 31 December 2011



Graph 5 Stress scenario, short-term analysis, 31 December 2010



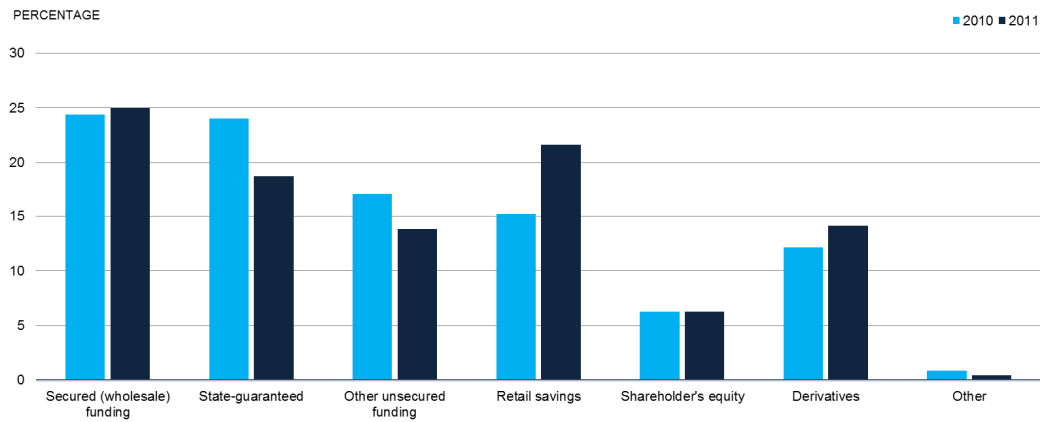
Both forecasts of the 12-month liquidity stress test at 31 December 2010 and at 31 December 2011 show that the outcome of the stress test after 12 months is positive in both years.

At the beginning of 2012, a large buffer of cash, highly liquid assets and collateralised funding capacity is available to cover the expiring state-guaranteed funding in February 2012. Due to funding initiatives undertaken in 2011, the realised liquidity buffer at the end of 2011 was higher than originally forecast at the end of 2010. After the repayment of state-guaranteed funding in February 2012, the liquidity buffer of NIBC in this liquidity stress declines to a still comfortably high level. Note that this liquidity stress test does not assume new funding initiatives. In 2012 initiatives as, for example, an increase in retail savings and certain forms of (un)secured funding, will contribute to the liquidity position of NIBC.

Funding

NIBC further diversified its funding base by the initiatives mentioned earlier. An overview of the Funding portfolio at 31 December 2011 and 31 December 2010 is shown in graphs 6 and 7. In contrast to previous years, the funding overview is based upon total balance sheet amounts.

Graph 6 Breakdown of total Funding portfolio, 31 December 2011 (EUR 28,257 million) and 31 December 2010 (EUR 27,690 million)



Securitisation Exposures

Overview and strategy

NIBC as originator

NIBC has been active in the securitisation and structuring market for over 10 years. The types of collateral for these securitisations include residential mortgages, commercial mortgages, leveraged loans and securitisations. NIBC's *Dutch Residential Mortgage Backed Securities (RMBS)* programme was established in 1997. NIBC's residential mortgage programme was later extended with the Sound and Essence issues. In 2003, NIBC started its North Westerly *Collateralised Loan Obligations (CLO)* programme. In 2004, NIBC became the collateral manager of its first US *Collateralised Debt Obligations (CDO)* transaction. In 2006, NIBC launched its introductory *Commercial Mortgage-Backed Securities (CMBS)* transaction under its MESDAG programme. In addition, NIBC has acted as arranger and lead manager on a number of third-party transactions. Table 30 gives an overview of the cumulative nominal amounts at 31 December 2011 of which NIBC was originator:

Table 30 Cumulative nominal amounts of NIBC's securitisations

IN EUR MILLIONS	Total
UNDERLYING ASSET	
Residential mortgages	4,217
Commercial mortgages	2,215
CLO	2,985
TOTAL	9,417

As at 31 December 2011, there were no synthetic originated securitisations in NIBC's Securitisations portfolio.

Objectives

NIBC's objectives in relation to securitisation activities are:

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

Roles and involvement

NIBC has fulfilled the following roles in the securitisation process:

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

Securitisation activity in 2011

In 2011, NIBC approached the securitisation market with two new issues. Dutch 2011-XVI was issued under the RMBS programme Dutch MBS, and ESENC2011-IV was issued under the Essence programme.

Names of the External Credit Assessment Institutions used for securitisations

NIBC uses Fitch, Moody's and Standard & Poor's to rate its securitisations. Most of the RMBS securitisations are rated by Fitch and Moody's. For the other type of securitisations, Standard & Poor's is also one of the rating agencies.

Accounting policy

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

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

NIBC does not consolidate SPEs that it does not control.

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

NIBC as investor

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

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

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

Securitisation exposures at NIBC Bank

Under this heading, several overviews regarding the securitisation exposures (retained and purchased) of NIBC Bank are presented, detailing underlying collateral type, credit quality and vintage. The numbers in this section are different from those in the risk notes of the Annual Report, because the IFRS rules for consolidating securitisation exposures differ from Pillar 3 classifications under the securitisation framework, especially for derivative exposures. Table 31 provides an overview of NIBC Bank's exposures in securitisations at 31 December 2011.

Table 31 EAD of Securitisations portfolio at NIBC Bank, 31 December 2011

IN EUR MILLIONS	Investor	Originator	Total
ABS	7	0	7
CDO/CLO	129	33	162
CMBS	126	186	312
RMBS	188	560	748
TOTAL WESTERN EUROPEAN SECURITISATIONS	450	779	1,229
NL - RMBS AAA	175	0	175
TOTAL SECURITISED TREASURY LIQUIDITY INVESTMENTS	175	0	175
TOTAL SECURITISATION EXPOSURE NIBC BANK	625	779	1,404

Credit quality of Securitisations portfolio

The credit quality is based on an internal composite, following Basel II guidelines, including external ratings from Standard & Poor's, Moody's and Fitch. The non-rated portion of the portfolio relates to first-loss positions in both NIBC's own securitisations as well as third-party securitisations, which have been marked down to between 1% and 10% of their nominal value at 31 December 2011.

Table 32 Rating distribution of Securitisations portfolio (investor), 31 December 2011

IN EUR MILLIONS	AAA	AA	A	BBB	BB	Below BB	Total
ABS	0	1	4	0	0	3	7
CDO/CLO	2	17	49	29	9	23	129
CMBS	25	24	23	14	28	12	126
RMBS	18	47	38	30	7	50	188
TOTAL WESTERN EUROPEAN SECURITISATIONS	45	88	113	73	44	88	450
NL - RMBS AAA	175	0	0	0	0	0	175
TOTAL SECURITISED TREASURY LIQUIDITY INVESTMENTS	175	0	0	0	0	0	175
TOTAL SECURITISATION EXPOSURE NIBC BANK (INVESTOR)	219	88	113	73	44	88	625

Table 33 Rating distribution of retained positions in the Securitisations portfolio (originator), 31 December 2011

IN EUR MILLIONS	Derivatives	AAA	AA	A	BBB	BB	Below BB	Total
ABS	0	0	0	0	0	0	0	0
CDO/CLO	1	0	7	11	0	2	12	33
CMBS	21	3	7	79	2	0	73	186
RMBS	53	262	131	40	22	34	17	560
TOTAL SECURITISATION EXPOSURE (ORIGINATOR)	76	266	146	130	24	36	102	779

Securitisation exposures at NIBC Holding

In 2007, the US Securitisations portfolio was sold from NIBC Bank to NIBC Holding. This section gives the characteristics of this portfolio. Tables 34 presents the rating distribution of the US Securitisations portfolio in NIBC Holding at 31 December 2011.

Table 34 Rating distribution of US Securitisations portfolio (investor), 31 December 2011

IN EUR MILLIONS	AAA	AA	A	BBB	BB	Below BB	Total
US CDO	3	6	4	6	15	7	41
US CMBS	0	0	0	0	0	1	1
US CRE-CDO	0	2	1	19	8	30	60
US RMBS	1	8	3	3	4	7	26
TOTAL US SECURITISATIONS NIBC HOLDING	4	16	8	28	27	45	128

Internal Capital Adequacy Assessment Process

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

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

Economic capital

Economic Capital (EC) is the amount of capital that NIBC allocates as a buffer against potential losses from business activities, based upon its internal assessment of risks. It differs from Basel II regulatory capital, as NIBC sometimes assesses the specific risk characteristics of its business activities in a different way than the general regulatory method. Relating the risk-based EC of each business to its profit results in *Risk-Adjusted Return On Capital* or RAROC, a risk-weighted measure of return. EC and RAROC are key tools used in support of the capital allocation process according to which shareholders' equity is allocated as efficiently as possible based on expectations of both risk and return. The usage of EC is reported once every two weeks to 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 allocation 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.

EC methodology

NIBC uses the business model of each activity as the basis for determining the EC approach. If the business model of an activity is trading, distribution, or investment for a limited period of time, a market risk approach is used based upon historical simulation, increased with add-ons for, among other, specific risk and prepayment risk. A business model equal to 'buy-to-hold' or investment to maturity means that a credit risk approach is applied based upon estimations of PD and LGD. 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; the latter refers to NIBC's fixed assets. NIBC uses a bank-wide EC framework and fully attributes these charges to business portfolios.

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

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

EC usage

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

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

Diversification

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

NIBC has been calculating diversification effects between all the different risk types since January 2010. In September 2011, NIBC implemented a new framework to allocate these diversification benefits to business portfolios.

Table 35 shows the EC per risk type and the changes compared to 2010.

Table 35 EC usage per risk type

IN EUR MILLIONS	31 December 2011	31 December 2010	Difference
Market Risk	634	580	9%
Credit Risk	597	695	-14%
Investment Risk	182	157	16%
Operational Risk	43	60	-28%
Other Risk/Bankwide EC Charges	225	279	-19%
Total Undiversified	1,681	1,771	-5%
Diversification effects between risk types	(404)	(486)	-17%
TOTAL DIVERSIFIED ECONOMIC CAPITAL	1,277	1,285	-1%

Notable Changes

- NIBC closed its interest positions over the course of 2011. These positions diversified well with NIBC's other market risk assets; closing them led to an increase in EC for market risk.
- Divestments in the Securitisations portfolio reduced market risk EC, partially mitigating the effect of closing the interest positions.
- Credit risk decreased mainly due to a smaller Corporate Loan portfolio compared to 31 December 2010. Additionally, the improved average CCR and average LGD of the portfolio resulted in lower RWA consumption and, therefore, a lower EC usage.
- Investment risk (representing the Equity Investments portfolio) increased due to value increases of the portfolio, as well as additional undrawn commitments.
- EC for operational risk is consistent with the RC methodology for operational risk; the change above is not material in absolute terms. For 2010, the EC for operational risk was calculated on a stand alone basis, without including diversification effects. At the end of 2011, the operational risk EC is attributed to the individual portfolios including the diversification effects. This explains why EC for operational risk decreased in 2011, whereas the RC for operational risk as shown in table 29 increased.
- Bank-wide charges for business risk, reputational risk and model risk are identical to end of 2010.

Stress scenarios

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

Capital Base Components

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

The available regulatory own funds at NIBC are classified under two main categories, being Tier-1 capital and Tier-2 capital. The two main components in the regulatory own funds are core equity and subordinated debt. Profit of the year is included in the Tier-1 capital after deductions for proposed dividend. The key terms and conditions of each of these categories are summarised below.

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

Tier-1 capital

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

Eligible capital

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

Eligible reserve

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

Innovative Tier-1 hybrid capital

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

Non-innovative Tier-1 hybrid capital

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

Deduction from Tier-1 capital

Intangible assets

The deducted intangible assets contain goodwill.

Securitisation exposures

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

AIRB provision excess of expected loss

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

Tier-2 capital

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

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

Revaluation reserve

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

Deductions from Tier-2 capital

Securitisation exposures

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

AIRB provision excess of expected loss

An adjustment is made for the difference between EL and provision for the related exposures in the regulatory own funds. The negative difference (when EL amount is larger than the provision amount) is included in the regulatory own funds as shortfall. According to the rules in the CRD and Dutch legislation, the shortfall amount shall be deducted from the regulatory own funds. The deduction of 50% is from Tier-1 capital and the remaining 50% from Tier-2 capital. A summary of items included in the regulatory capital is as follows:

Table 36 Regulatory Capital components NIBC Holding N.V., 31 December 2011

IN EUR MILLIONS	2011	2010
TIER-1		
Called-up share capital	1,408	1,408
Share premium	535	535
Deduction of own shares (treasury shares)	(3)	(3)
Eligible reserves	(305)	(338)
Net profit	34	33
non-controlling interestss	1	19
Deduction of goodwill	(121)	(121)
Deduction of certain securitisation exposures not included in risk-weighted assets	(70)	(73)
Deduction excess of expected losses over impairment allowances	(25)	(31)
CORE TIER-1 CAPITAL¹	1,454	1,429
Innovative hybrid Tier-1 capital	47	75
Non-innovative hybrid Tier-1 capital	233	227
TOTAL TIER-1 CAPITAL	1,734	1,731
TIER-2		
Reserves arising from revaluation of property and unrealised gains on available for sale equities	22	31
Qualifying subordinated liabilities		
Undated loan capital	36	35
Dated loan capital	158	185
Deduction of certain securitisation exposures not included in risk-weighted assets	(70)	(73)
Deduction excess of expected losses over impairment allowances	(25)	(31)
TOTAL TIER-2 CAPITAL	121	147
	1,855	1,878

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

Changes in Core Tier-1 and Tier-1 capital

The core Tier-1 capital has increased by EUR 25 million. The main contribution is the net profit of the year (including proposed dividend) of EUR 34 million. Tier-1 capital has increased by EUR 3 million. The main difference between the increase of Core Tier-1 of 25 million compared to the increase of the total Tier-1 of 3 million is the buyback of innovative hybrid Tier-1 capital.

Changes in Tier-2 capital

The Tier-2 capital has decreased by EUR 26 million. The main reason is the buy-back of dated loan capital.

Capital Adequacy

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

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

NIBC monitors the developments in its ratios on a monthly basis, including comparison between the expected ratios and the actual ratios. These ratios indicate capital adequacy to mitigate on-balance credit risks, including off-balance sheet commitments, market risks, operational risks and other risk positions expressed as risk-weighted items in order to reflect their relative risk. During the year ended at 31 December 2011, NIBC complied amply with the capital requirements imposed by the Dutch Central Bank, which require a minimum Tier-1 ratio of 4% and a minimum BIS ratio of 8%.

Capital ratios of NIBC Holding

The Tier-1 ratio is defined as Tier-1 capital divided by *Risk Weighted Assets (RWA)*.

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

NIBC Holding's Tier-1 capital ratio stood at 15.2% at end-2011. This is a healthy position that also implies that NIBC Holding can fulfil the tightened Basel III requirements that will be introduced in the coming years.

Tables 37 show the capital ratios of NIBC Holding.

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

in %	2011	2010
CAPITAL RATIOS		
Core Tier-1 ratio	12.8	12.4
Tier-1 ratio	15.2	14.0
BIS ratio	16.3	15.2

Capital ratios of NIBC Bank

The same definitions for capital ratios apply as given above.

NIBC Bank's Tier-1 capital ratio stood at 16.2% at end-2011. This is a healthy position that also implies that NIBC Bank can fulfil the tightened Basel III requirements that will be introduced in the coming years.

Tables 38 show the capital ratios of NIBC Bank.

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

in %	2011	2010
CAPITAL RATIOS		
Core Tier-1 ratio	13.8	12.9
Tier-1 ratio	16.2	14.5
BIS ratio	17.5	15.8

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

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

IN EUR MILLIONS	2011			2010		
	EAD	RWA	Capital requirement	EAD	RWA	Capital requirement
CREDIT RISK	21,061	10,628	850	21,653	11,801	943
AIRB APPROACH						
- of w hich corporates	10,166	6,017	481	9,434	6,340	507
- of w hich retail	3,940	536	43	5,066	789	63
- of w hich securitisations	1,532	1,250	100	1,461	1,055	84
- of w hich equities	461	1,704	137	540	2,000	160
STANDARDISED APPROACH						
- of w hich sovereigns	2,526	0	0	1,644	2	0
- of w hich institutions	1,638	572	46	2,309	703	56
- of w hich retail	398	155	12	507	222	18
- of w hich corporates	346	340	27	626	625	50
- of w hich equities	1	1	0	4	3	0
- of w hich other	53	53	4	62	62	5
MARKET RISK		244	20		244	20
- of w hich trading book VaR		234	19		213	17
- of w hich FX Standardised approach		10	1		31	3
OPERATIONAL RISK		507	41		313	25
Standardised approach		507	41		313	25
TOTAL	21,061	11,379	911	21,653	12,358	988

Remuneration Policy

The Supervisory Board reviewed NIBC's remuneration policy in 2011 and early 2012 and amended it. The review took into account all relevant regulations and guidelines: the Dutch Corporate Governance Code, the Dutch Banking Code, the Dutch Central Bank Principles on Controlled Remuneration Policies and the Committee of European Banking Supervisors Guidelines on Remuneration Policies and Practices.

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

The 2011 Annual Report contains a detailed overview of NIBC's remuneration policy.

Appendix I

Scope of Application

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

Subsidiaries are all entities (including Special-Purpose Entities (SPE)) over which the group has the power, directly or indirectly, to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

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

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

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

Table 1 Group principal undertakings included in the capital base

Subsidiaries of NIBC Holding N.V.	Voting power	Domicile	Consolidation method
NIBC Bank N.V.	100%	The Netherlands	Purchase method
NIBC Venture Capital N.V.	100%	The Netherlands	Purchase method
NIBC Credit Management Inc.	100%	The United States	Purchase method
NIBC Investment Management N.V.	100%	The Netherlands	Purchase method
NIBC Investments N.V.	100%	The Netherlands	Purchase method

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

Subsidiaries of NIBC Bank N.V.	Voting power	Domicile	Consolidation method
NIBC Bank Ltd	100%	Singapore	Purchase method
BV NIBC Mortgage Backed Assets	100%	The Netherlands	Purchase method
Parnib Holding N.V.	100%	The Netherlands	Purchase method
Counting House B.V.	100%	The Netherlands	Purchase method
NIBC Principal Investments B.V.	100%	The Netherlands	Purchase method

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

Associates of NIBC Bank N.V.	Voting power	Domicile	Consolidation method
PE Express I B.V., Breskens	37.5%	The Netherlands	Equity method
PE Express II B.V., Breskens	37.5%	The Netherlands	Equity method
PE Express III B.V., Breskens	35%	The Netherlands	Equity method
PE Express IV B.V., Breskens	35%	The Netherlands	Equity method

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

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

Appendix 2

List of Abbreviations

ACC	Audit and Compliance Committee
ABS	Asset-Backed Securities
AIRB	Advanced Internal Ratings' Based (approach)
ALCO	Asset & Liability Committee
ALM/MR	Asset & Liability Management and Market Risk department
BIS	Bank for International Settlements
BPV	Basis-point Value
CCF	Credit Conversion Factor
CCR	Counterparty Credit Rating
CDO	Collateralised Debt Obligations
CDS	Credit Default Swap
CFO	Chief Financial Officer
CLO	Collateralised Loan Obligations
CMBS	Collateralised Mortgage-Backed Securities
CRD	Capital Requirements Directive
CRDR	Conditional Restricted Depository Receipts
CRM	Credit Risk Management department
CRO	Chief Risk Officer
CSA	Credit Support Annex
CVA	Credit Value Adjustments
DA	Distressed Assets department
DNB	Dutch Central Bank
EAD	Exposure at Default
EBA	European Banking Authority
EC	Economic Capital
ECB	European Central Bank
ECC	Engagement and Compliance Committee
EL	Expected Loss
FAR	Food & Agriculture and Retail
FMCR	Financial Markets Credit Risk department
FX	Foreign Exchange
FPSO	Floating, Production, Storage and Offloading
IC	Investment Committee
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IMA	Internal Model Approach
IRS	Interest Rate Swaps
ISDA	International Swaps and Derivatives Association

LGD	Loss Given Default
LTI	Long Term Incentive compensation
LTiMV	Loan-to-Indexed Market Value
NHG Guarantee	Dutch government guarantee
ORM	Operational Risk Management department
OTC	Over-the-Counter derivatives
P&L	Profit & Loss account
PD	Probability of Default
PSU	Phantom Share Units
PECDC	Pan-European Credit Data Consortium
RAROC	Risk-Adjusted Return on Capital
RC	Pillar-1 Regulatory Capital
RL	Realised Loss
RMBS	Residential Mortgage-Backed Securities
RMC	Risk Management Committee
RNC	Remuneration and Nominating Committee
RP&R	Risk Policy and Reporting department
RWA	Risk Weighted Assets
SPE	Special Purpose Entity
SREP	Supervisory Review and Evaluation Process
STI	Short Term Incentive compensation
TC	Transaction Committee
TMS	Technology & Media and Services
VaR	Value-at-Risk
WFT	Wet op het Financieel Toezicht

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