

annual
report
2007

NIBC Holding

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report of the supervisory board

This Annual Report presents the developments and results of *NIBC HOLDING N.V.* (**NIBC Holding** or **NIBC**). The year 2007 has been a turbulent year for NIBC. During the first quarter NIBC Holding prepared for a listing on Euronext Amsterdam. However in light of the volatile market conditions, it was decided not to approach the capital markets for an IPO. Furthermore NIBC Bank suffered a mark-to-market loss on its US ABS investment book in 2007, a part of which relates to the sub prime-related portfolio. In August 2007 the shareholders of NIBC Holding entered into an agreement with *Kaupthing Bank hf.* (**Kaupthing**) to sell and purchase the entire share capital of NIBC Holding. However, due to the instability in the financial markets NIBC Holding and Kaupthing have determined not to proceed with the acquisition.

annual accounts and dividend proposal

The annual accounts were drawn up by the Managing Board and audited by PricewaterhouseCoopers Accountants N.V., who issued an unqualified opinion dated 21 February 2008. The Supervisory Board advises and proposes that the Shareholders adopt the 2007 annual accounts at the annual General Meeting of Shareholders on 20 March 2008. In 2007 NIBC Bank paid an extraordinary dividend of EUR 85 million to NIBC Holding in respect of a project to de-risk the US sub prime exposure (project Onca). This transaction involved *Onca 2007-1, Ltd.* (**Onca**), a company incorporated under the laws of the Cayman Islands where NIBC Holding subscribed for an amount of USD 248 million for preference shares in Onca. A subsidiary of NIBC Bank sold to Onca its entire portfolio of residential US ABS CDOs and US home equity loans. Subsequently NIBC Holding paid an extraordinary dividend in kind (in the form of preference shares in Onca) and in cash to its shareholders. Since 24 August 2007 NIBC Bank and NIBC Holding no longer have any exposure to the subprime related portfolio. In this respect, please refer to the financial results section. Subject to approval of the annual accounts and the profit appropriation, this extraordinary dividend will be the final proposed dividend in respect of the financial year 2007. Conditional upon the approval of shareholders referred to above, the Supervisory Board endorses the proposed dividend. The Supervisory Board also recommends that the annual General Meeting of

Shareholders discharge the Managing Board and Supervisory Board for their respective management and supervision during the financial year 2007.

composition of the supervisory board

NAME	Age	Position	Appointment	End of Term ¹
Mr. J.H.M. Lindenbergh	64	Chairman	2005	2008
Mr. J.C. Flowers	50	Vice-Chairman	2005	2009
Mr. D. Rümker	70	Member	2005	2007
Mr. N.W. Hoek	51	Member	2005	2008
Mr. A. de Jong	53	Member	2005	2007
Mr. W.M. van den Goorbergh	59	Member	2005	2009
Mr. R.S. Sinha	43	Member	2005	2009
Mr. C.H. van Dalen	55	Member	2005	2008
Mr. A.H.A. Veenhof	62	Member	2005	2007

1. The indicated dates are as per the Supervisory Board's retirement schedule and do not refer to expiration of the term of appointment.

Mr. C.H. van Dalen, Mr. W.M. van den Goorbergh and Mr. A.H.A. Veenhof have been appointed upon the recommendation of the Employees Council. Mr. Marron and Mr. Inciarte resigned as members of the Supervisory Board, respectively as of 2 May and 30 October 2007.

Mr. Kalff stepped down for an indefinite period of time as advisor to the Managing Board and Supervisory Board as of 13 April 2007 because of a potential conflict of interest.

composition of the managing board

During the financial year 2007 the Managing Board of NIBC Holding was composed of the following four members, who are also members of the Managing Board of NIBC Bank. At 30 January 2008, Messrs. Enthoven and Stegmann have offered the Supervisory Board to step down from their respective positions. The Supervisory Board has accepted their resignation. The successor of Mr. Stegmann, Mr. Sijbrand, took over the responsibility of Mr. Stegmann as per 22 February 2008. Mr. Enthoven will stay in function until his successor has been appointed.

NAME	Age	Position	Membership Since
Mr. M. Enthoven	56	Chairman and Chief Executive Officer	2005
Mr. J.B.J. Stegmann	47	Vice-Chairman and Chief Risk Officer	2005
Mr. C. van Dijkhuizen	52	Chief Financial Officer	2006
Mr. J.L. van Nieuwenhuizen	46	Member	2005

plenary meetings of the supervisory board

As mentioned in the introduction, 2007 was a turbulent year. Consequently, the Supervisory Board met on eleven occasions, instead of the usual six or seven. Meetings were held to discuss the corporate strategy and the result of the assessment by the Managing Board of the structure and operation of the internal risk management and control systems. The preparation for an IPO, the US ABS investment book and the Kaupthing Bank hf. transaction were also matters to be discussed in separate meetings. Other matters discussed were quarterly results, strategic issues, risk- and control-related topics, the financial reporting process and the impact of IFRS thereon, compliance with legislation and regulations, and corporate governance matters.

The annual accounts and the findings of the external auditor were discussed in the presence of the external auditor. The majority of the discussions and decisions of the Supervisory Board were prepared in the subcommittees referred to below, in which always at least two members of the Supervisory Board are present. Members of the Managing Board were consulted in all meetings of subcommittees of the Supervisory Board.

Members of the Supervisory Board attended two consultation meetings between the Managing Board and the Employees' Council, where the Kaupthing Bank hf. transaction was also discussed.

The Supervisory Board met once in the absence of members of the Managing Board to discuss the US ABS investment book and the annual accounts with the external auditor, its own functioning and that of its individual members, the desired profile, composition and competence of the Supervisory Board, and also the functioning of the Managing Board collectively and its individual members.

meetings of the committees of the supervisory board

The Supervisory Board is currently supported by four committees consisting of members of the Supervisory Board: the Risk Policy Committee, with a subcommittee for purposes of related party transactions, the Audit and Compliance Committee, the Remuneration and Nominating Committee, and the Strategic Committee.

Risk Policy Committee

Members Mr. W.M. van den Goorbergh (Chairman), Mr. J.C. Flowers, Mr. J.H.M. Lindenbergh and Mr D. Rümker.

Meetings *The Risk Policy Committee met five times in 2007.*

The Risk Policy Committee assists the Supervisory Board in monitoring the risk policy and profile in relation to NIBC's general lending and investment policy and individual transactions above a certain threshold. In addition, it advises the Supervisory Board on market, credits, investment and operational risks and on progress made with regard to Basel II. The main topics that were discussed in 2007 concern the US structured portfolios, liquidity and the risk profile of NIBC. Syndication reports, leveraged finance, country risk reports, impairment reports and portfolio overviews were also discussed by the Committee.

The Committee has also discussed NIBC's market risk and event risk reports, economic capital reports and liquidity risk reports on a regular basis. In 2007, several progress reports with regard to Basel II were discussed.

Related Party Transactions Subcommittee

Members Mr. W.M. van den Goorbergh (Chairman) and Mr. J.H.M. Lindenberg, both of whom meet the independence criteria outlined in the Dutch Corporate Governance Code.

Meetings *The Related Party Transactions Subcommittee met once in 2007.*

The Related Party Transactions Subcommittee assists the Supervisory Board in assessing material agreements of any kind with a person or group of persons who hold, directly or indirectly, 10% of our issued and outstanding share capital or of the voting rights at the Annual General Meeting of Shareholders, or any person affiliated with any such person(s). An agreement will in any event be considered material if the amount involved exceeds EUR 10 million. The Supervisory Board has delegated the authority to approve such a material transaction to the Related Party Transactions Subcommittee.

Audit and Compliance Committee

Members Mr. W.M. van den Goorbergh (Chairman), Mr. C.H. van Dalen, Mr. J.H.M. Lindenberg and Mr. R. Sinha.

Meetings *The Audit and Compliance Committee met seven times in 2007.*

The Audit and Compliance Committee assists the Supervisory Board in monitoring NIBC's systems of financial risk management and internal control and compliance with legislation and regulations, the integrity of its financial reporting process and the content of the annual financial statements and reports, and in advising on corporate governance and corporate social responsibility matters. The main topics that were discussed during 2007 were the 2007 budget and long term planning, the quarterly, semi-annual and annual financial reports and related press releases, the US ABS investment book and the impact of the accounting choices on the financial figures and related external communication, the impact of the market circumstances on NIBC and developments regarding the internal reporting process and related risk control environment.

The Audit and Compliance Committee discussed the reports of external auditor PricewaterhouseCoopers Accountants N.V., the engagement letter and fee letter of the external auditor and the audit plan of the external auditor. The Audit and Compliance Committee also discussed the audit plan including progress and main findings and conclusions of the Internal Audit department.

The Audit and Compliance Committee evaluated the external auditors and functioning of Internal Audit, Group Compliance and Corporate Secretariat, and the Corporate Governance policy.

The external and internal auditors were represented at all meetings of the Audit and Compliance Committee in 2007. The External auditor had, as described in the charter, one meeting without the members of the Managing Board.

Remuneration and Nominating Committee

Members Mr. J.C. Flowers (Chairman), Mr. J.H.M. Lindenbergh and Mr. J.R. Inciarte (until 30 October 2007).

Meetings *The Remuneration and Nominating Committee met five times in 2007.*

The Remuneration and Nominating Committee advises the Supervisory Board on the remuneration of the members of the Supervisory Board and the Managing Board, Senior Management and certain other senior employees, provides the Supervisory Board with proposals for appointments and re-appointments to the Supervisory Board, its Committees and the Managing Board, evaluates the performance of the other Supervisory Board Committees, assesses the performance of the members of the Managing Board and the Supervisory Board and monitors the remuneration policy, which entails discussions about the total available pool for variable compensation and defining the collective and individual performance targets which form the basis for the variable compensation for the individual members of the Managing Board. In 2007, the Committee discussed the 2007 remuneration policy for the Managing Board and Supervisory Board, the individual compensation arrangements for the members of the Managing Board, the overall available funding for variable compensation arrangements, the performance of the Managing Board and some special compensation arrangements for our Investment Management business. The Committee has made recommendations to the Supervisory Board on all these topics.

Strategic Committee

Members Mr. W.M. Van den Goorbergh (Chairman), Mr. C.H. Van Dalen, Mr. J.C. Flowers, Mr. J.H.M. Lindenbergh, Mr. D. Rümker and Mr. R. Sinha.

Meetings *The Strategic Committee did not meet in 2007.*

The Strategic Committee discusses the strategic options that present themselves to NIBC, like the Kaupthing transaction. During 2007, these items were considered to be so important that they have been discussed during Supervisory Board meetings. Therefore the Strategic Committee did not meet in 2007.

Remuneration report

This report outlines the remuneration arrangements for the members of the Managing Board and the Supervisory Board. It comprises three parts. The first part outlines the 2007 remuneration policy and practices, and provides details of the remuneration payable to the Managing Board with respect to the performance of 2007 (including performance-related remuneration which will be paid in 2008). The second part provides details of the remuneration arrangements for the Supervisory Board. The third part provides details of the 2008 (and onwards) remuneration policy for the Managing Board.

This report was prepared by the *Remuneration and Nominating Committee* (Committee or **RNC**) on behalf of the Supervisory Board. The RNC operates on the basis of a charter, which is publicly available on NIBC's website, and regularly reviews the remuneration and nomination policy and practices of NIBC. If and when appropriate, the Committee proposes changes to the charter, remuneration and nomination policy and practices to the Supervisory Board.

2007 remuneration policy and practices of the managing board

In 2007, the total remuneration levels of the Managing Board continued to be based on a market comparison with a labour market peer group, details of which can be found below. Remuneration principally consisted of base salary and variable compensation which was performance-related and consisted of both a cash bonus and a deferred compensation element. Approximately 23% of the total compensation of the Managing Board in 2007 (excluding pensions) was made up of variable compensation. The emphasis on the variable part of the remuneration package reflects the ambition to create a sustainable high performance culture and is, broadly, in line with the compensation policies at NIBC's labour market peer group.

In summary, the remuneration policy for the Managing Board for 2007 was based on the following seven principles:

- Total target remuneration levels should reflect market median remuneration levels of a labour market peer group consisting of relevant (European divisions of) financial institutions active in the Dutch, German and British financial markets. In the event of extraordinary performance of the Managing Board, total remuneration levels should be broadly in line with 75% (3rd Quartile) levels of the labour market peer group;
- Base salary levels of the Managing Board should be broadly in line with market median levels of the labour market peer group;
- Annual total remuneration levels of the Managing Board members are differentiated and reflective of their specific role, their relative experience and performance, the market levels of remuneration for that role, and the specific market circumstances under which the Managing Board operates;
- In the event of on-target performance, Messrs. Enthoven, Stegmann and Van Nieuwenhuizen may be awarded a discretionary cash bonus of up to 75% of their base salary and a discretionary deferred compensation grant with a value of up to 100% of their base salary.

In the case of extraordinary performance and at the discretion of the Supervisory Board a cash bonus may be awarded of up to 100% of their base salary. Mr. Van Dijkhuizen may be awarded a discretionary bonus of up to 30% of his base salary in the case of on-target performance as well as a discretionary deferred compensation grant of up to 40% of his base salary. He may be awarded a cash bonus of up to 40% of his base salary in the case of extraordinary performance and at the discretion of the Supervisory Board;

- Managing Board members will be employed for an indefinite period of time but are appointed as statutory director for a maximum term of four years;
- Upon termination of employment at the request of NIBC without cause, Managing Board members are entitled to severance pay equal to their base salary;
- Managing Board members are eligible for membership of an NIBC-sponsored pension plan which consists of a defined benefit (from 1 January 2007 for new participants capped at a pensionable salary of EUR 55,000) and a defined contribution (from 1 January 2007 capped at a pensionable salary of EUR 400,000) component.

Labour Market Peer Group

In order to be able to recruit the right calibre of executives for the Managing Board, and to secure long-term retention of current Managing Board members, NIBC has taken external reference data into account in determining compensation levels. For this purpose a labour market peer group was defined consisting of relevant (European divisions of) financial institutions active in the Dutch, German and British market, with which NIBC competes for talent and business. The companies were selected based on strategic considerations (e.g. comparable clients, geographical focus, service and strategy) and tactical considerations (e.g. comparable activities such as Corporate Finance, Financial Markets, and Asset / Investment Management for third parties). The labour market peer group consists of the (relevant divisions of the) following financial institutions:

- ABN AMRO;
- Barclays;
- Bear Stearns (London);
- BNP Paribas;
- Deutsche Bank;
- Fortis;
- ING Bank;
- Kempen & Co;
- Dresdner Bank;
- Rabobank;
- Royal Bank of Scotland.

Base Salary

In line with the new Remuneration Policy and in view of the fact that the base salaries of the members of the Managing Board had not been adjusted since 2002, the RNC has recommended, and on 8 February 2007 the Supervisory Board approved, increasing the base salary of Mr. Enthoven from EUR 650,000 to EUR 700,000, an increase of 7%, and the base salaries of Messrs. Stegmann and Van Nieuwenhuizen from EUR 350,000 to EUR 400,000, an increase of 14%. The base salary of Mr. Van Dijkhuizen remained unchanged at EUR 350,000.

Variable Compensation

Each year, the variable compensation pool is determined on the basis of a combination of NIBC's total compensation ratio (total personnel-related expenses as a percentage of total revenue) and the pay-out ratio (total variable compensation as a percentage of the operating result before tax and pay-out of variable compensation).

Variable compensation consists of a short-term cash element and a short-term deferred compensation element. In respect of the financial year 2007 the deferred compensation is delivered in the form of depositary receipts issued for shares in NIBC Holding which are subject to restrictions (Restricted Depositary Receipts) with 5-year vesting with 1/5 vesting each year on the 1st of January of each year.

Bonus

The short term bonus for all Managing Board members is awarded on the basis of a consistent balanced scorecard methodology, whereby corporate financial (50%), corporate non-financial (25%) and individual (25%) performance criteria are weighted. For 2007 the agreed corporate financial criteria were: net profit, efficiency ratio, comprehensive return on net asset value and non-interest income ratio. Corporate non-financial targets included the growth of our alternative investment management activities and our financial institutions client franchise and the expansion of our German and our commercial real estate finance businesses. Other corporate non-financial targets included the continued improvement of the quality and sustainability of our earnings and our operational excellence coupled with providing shareholders with a regular, growing dividend. Specific details of the financial criteria are not disclosed as these are considered to be commercially sensitive. Targets are revised annually to ensure that they remain stretching but realistic.

Given the specific role and responsibilities assigned to the CFO, the CFO's bonus is not dependent on the overall financial performance of the company. Instead it is largely determined on the basis of corporate non-financial criteria (50%) and individual performance criteria (50%) such as the quality and process (improvements) of the company's external and internal financial reporting and internal controls, the management and mitigation of operational risk and the preparation of NIBC Holding for an IPO.

Consequently, in determining the bonuses for 2007, specific consideration was given to the performance delivered against the corporate financial, corporate non-financial and individual performance criteria. In light of the financial performance in 2007 neither Mr. Enthoven nor Mr. Stegmann desired or expected to receive any variable compensation for the year and the RNC chose to agree with that view. Although sharing responsibility for the achievement of corporate financial and non-financial targets, Mr. Van Nieuwenhuizen has managed to deliver satisfactory performance for the SBU Corporate Finance as well as achieve most of his individual performance targets. Mr. Van Dijkhuizen on the other hand does not share in the responsibility for the achievement of corporate financial targets but only in the corporate non-financial targets. He did exceed his individual performance targets. Taking all relevant aspects into consideration the RNC decided to not recommend a cash bonus for

Mr. Enthoven and Mr. Stegmann whilst recommending a cash bonus of 35% of his base salary for Mr. Van Nieuwenhuizen and 40% of his base salary for Mr. Van Dijkhuizen.

Deferred Compensation

For the Managing Board, the annual expected economic value of the deferred compensation is up to 100% of base salary granted in the form of Restricted Depositary Receipts. The CFO can earn up to 35% of his base salary. For the year 2007 and in line with the aforementioned, the RNC decided not to recommend a discretionary deferred compensation grant for Messrs. Enthoven and Stegmann whilst recommending for Mr. Van Nieuwenhuizen a deferred compensation grant with a value of 35% of his base salary and for Mr. Van Dijkhuizen a grant with a value of 40% of his base salary.

Total direct compensation

Compared to 2006, total direct compensation (base salary, annual cash bonus plus the value of the deferred compensation) for Mr. Enthoven has decreased by 61%, for Mr. Stegmann by 60% and for Mr. Van Nieuwenhuizen by 32%. Mr. Van Dijkhuizen's total direct compensation increased by 9%. The RNC refers to the tables in Note 55 of the annual accounts for details.

Pensions

Mr. Enthoven became a member of the NIBC Bank Pension Plan with effect from 1 January 2007 on the same conditions as those that apply to the other employees of the bank. This means that he is covered by a defined benefit arrangement up to a pensionable salary of EUR 55,000 and a defined contribution arrangement for any pensionable salary in excess of that up to the maximum pensionable salary of EUR 400,000. As is the case for all other employees, NIBC Bank contributes a flat rate of 20% of his pensionable salary plus the franchise towards his pension. This contribution of EUR 75,400 equates to approximately 11% of his base salary.

Mr. Stegmann is the only member of the Managing Board who is still a member of the special directors pension plan and the only active member of that Plan for that matter. A defined benefit pension arrangement is in place for Mr. Stegmann (annual accrual of 2%) up to a pensionable salary (annual base salary -/- franchise) of EUR 350,000. Furthermore, a defined contribution arrangement applies with respect to salary over and above this amount. However, a maximum pensionable salary of EUR 400,000 exists.

In 2007, Mr. Van Nieuwenhuizen and Mr. Van Dijkhuizen were entitled to a defined benefit pension arrangement up to a pensionable salary of EUR 78,510 (annually adjusted for general wage increases in line with the Collective Labour Agreement for Banks in the Netherlands) under NIBC Bank's employee pension plan, and an additional defined contribution arrangement with a maximum pensionable salary of EUR 400,000. All premiums are paid for by NIBC Bank at a flat rate of 20% of pensionable salary plus the franchise. The pensionable age for all Managing Board members is 65.

Loans

As a policy, NIBC does not provide loans to its executives. As per 31 December 2007, there are no loans outstanding.

Contracts of Employment

Except for Mr. Van Dijkhuizen, the contracts of employment of the other members of the Managing Board all pre-dated the introduction of the Dutch Corporate Governance Code, the Tabaksblat Code, and, as such, were not fully compliant with that Code. For instance, these contracts contain higher severance pay provisions than allowed and the term of appointment as statutory director was for an indefinite period of time. In order to comply with the key principles of the Tabaksblat Code, to ensure consistency between the employment contracts of the four Managing Board members and to incorporate any legal changes and changes to their compensation arrangements, the RNC recommended and the Supervisory Board adopted, the renewal of the employment contracts of all the Managing Board members and immediately incorporate the new, aforementioned terms. These amended contracts take effect from 1 January 2007 and include inter alia severance arrangements in line with the Tabaksblat Code for all Managing Board members.

Messrs. Enthoven, Stegmann and Van Nieuwenhuizen were re-appointed statutory director for NIBC Holding N.V., NIBC Bank N.V. and NIBC Investment Management N.V. on 20 March 2007 for a 4-year term, whereas Mr. Van Dijkhuizen was re-appointed for a 3-year term as he had, effectively, already served one year of his initial 4-year term.

Expense Allowance

All Managing Board members are entitled to an expense allowance which covers specifically identified minor expenses.

Other Emoluments

Like all employees, Managing Board members are entitled to a subsidy towards the cost of mortgage interest paid and they also receive a contribution towards the cost of medical insurance.

remuneration supervisory board

The remuneration for the Supervisory Board has not changed in 2007 and, at present, consists of remuneration for Chairman of the Supervisory Board of EUR 55,000, for the Vice-Chairman of EUR 45,000, and for the members of EUR 35,000, with expenses covered by a fixed expense allowance of EUR 5,000.

The Supervisory Board has four committees, with a different fee structure for its members. The annual fee for the Audit and Compliance Committee amounts to EUR 15,000, for the Risk Policy Committee, including the Related Party Transaction subcommittee, to EUR 11,500, for the Remuneration and Nominating Committee to EUR 10,000, and for the Strategic Committee to EUR 11,500.

In accordance with the Dutch Corporate Governance Code, NIBC does not award performance-related pay to the members of the Supervisory Board. As a policy, NIBC Bank does not provide stock options, shares or loans to members of the Supervisory Board. There are no loans outstanding.

2008 remuneration policy managing board (and onwards)

The RNC has recommended one adjustment to the 2007 Remuneration Policy for the Managing Board. This involves the variable compensation opportunities for the Chief Risk Officer, who was newly appointed on 22 February 2008. The remuneration policy for 2008 has been approved by the full Supervisory Board and shall be submitted for establishment to the General Meeting of Shareholders of 20 March 2008.

In summary, the remuneration policy for the Managing Board for 2008 onwards will be based on the following principles:

- Total target remuneration levels should reflect market median remuneration levels of a labour market peer group consisting of relevant (European divisions of) financial institutions active in the Dutch, German and British financial markets. In the event of extraordinary performance of the Managing Board, total remuneration levels should be broadly in line with 75% (3rd Quartile) levels of the labour market peer group;
- Base salary levels of the Managing Board should be broadly in line with market median levels of the labour market peer group;
- Annual total remuneration levels of the Managing Board members are differentiated and reflective of their specific role, their relative experience and performance, the market levels of remuneration for that role, and the specific market circumstances under which the Managing Board operates;
- The variable compensation opportunities for the Managing Board members are as follows:

ROLE	Cash bonus		Deferred compensation
	On-target performance	Extra-ordinary performance	On-target performance
Chairman and CEO	Up to 75%	Up to 100%	Up to 100%
Member, responsible for Corporate Finance	Up to 75%	Up to 100%	Up to 100%
Chief Risk Officer	Up to 60%	Up to 80%	Up to 100%
Chief Financial Officer	Up to 30%	Up to 40%	Up to 40%

All percentages are percentages of these respective base salaries and any award made is at the absolute discretion of the Supervisory Board;

- Managing Board members will be employed for an indefinite period of time but are appointed as statutory director for a maximum term of 4 years;
- Upon termination of employment at the request of NIBC without cause, Managing Board members are entitled to severance pay equal to their base salary;

- Managing Board members are eligible for membership of an NIBC Bank-sponsored pension plan which consists of a defined benefit (from 1 January 2007 for new participants capped at a pensionable salary of EUR 55,000) and a defined contribution (from 1 January 2007 capped at a pensionable salary of EUR 400,000) component.

Base Salary

In line with the new remuneration policy the RNC has recommended, and on 21 February 2008 the Supervisory Board approved, increasing the base salary of Mr. Van Dijkhuizen from EUR 350,000 to EUR 400,000, an increase of 14%. The base salaries of the other Managing Board members remain unchanged.

The Hague, 21 February 2008

Supervisory Board

Mr. J. H. M. Lindenbergh, *Chairman*

Mr. J. C. Flowers, *Vice-Chairman*

Mr. C.H. van Dalen

Mr. W.M. van den Goorbergh

Mr. N.W. Hoek

Mr. A. de Jong

Mr. D. Rümker

Mr. R.S. Sinha

Mr. A.H.A. Veenhof

Members of the Supervisory Board

as per 31 December 2007

Mr. J.H.M. Lindenbergh

Former Board Member of ING Groep N.V.

Background

Banking and finance

Chairman of the Supervisory Boards of N.V. Bank voor de Bouwnijverheid, Agendia B.V., Centraal Fonds Volkshuisvesting and Spyker Cars N.V.; member of the Supervisory Boards of DHV Holding B.V., Gamma Holding N.V., Koninklijke Numico N.V., Ortec International B.V., Reggeborgh Vastgoed Beleggingen B.V., the University of Amsterdam, Zeeman Groep B.V., and Doctors Pension Fund Services B.V.; member of the Boards of Stichting Univar, Stichting Preferente Aandelen Grolsch N.V., Stichting Bescherming TNT, Stichting Vopak, and Stichting Preferente Aandelen Wolters Kluwer.

Mr. J.C. Flowers

Former partner at Goldman, Sachs & Co.

Background

Banking and finance

Controls the general partner of each of J.C. Flowers I LP and J.C. Flowers II LP, Director of New NIB Ltd, which is the ultimate controlling entity of the Consortium and which is the sole Managing Director of Stichting Administratiekantoor NIBC Holding; controls and is the founder and a Managing Director of the investment advisory firm J.C. Flowers & Co., Director of Shinsei Bank Ltd, Enstar Group Ltd. and Fox-Pitt, Kelton LLC and Kessler Group; member of the Supervisory Board of HSH Nordbank AG.

Mr. C.H. van Dalen

Member of the Board of Management and Chief Financial Officer of TNT N.V.

Background

Finance and chemical industry

Member of the Supervisory Board of Macintosh Retail Group N.V.; treasurer of the NOC*NSF (Dutch Olympic Committee and Dutch Sports Federation), member of the Board of 'Nationaal Fonds 4 en 5 mei' and a member of the Boards of Advisors of Stichting AIESEC Nederland, Arthur D. Little Netherlands and NEVIR (Dutch association for Investor Relations).

Mr. W.M. van den Goorbergh

Former Vice-Chairman and CFO of the Executive Board of Rabobank Nederland and member and Chairman of the Dutch Bankers Association

Background

Banking and finance

Member of the Supervisory Boards of N.V. Bank Nederlandse Gemeenten, DELA Cooperation, OPG Groep N.V. and De Weltengroep Holding B.V.; member of the Managing Boards of Stichting Administratiekantoor SBT, Stichting Administratiekantoor Heijmans and Vereniging AEGON; Chairman of the Managing Boards of Stichting Administratiekantoor Koninklijke Wegener and Stichting Administratiekantoor ANWB.

Mr. N.W. Hoek *Chairman of the Executive Board of Delta Lloyd Groep*
Background Insurance, finance and petrochemical industry
 Member of the Supervisory Board of Stadsherstel Amsterdam N.V.; member of the Board of Verbond van Verzekeraars; deputy chairman of the Board of Kifid.

Mr. A. de Jong *Former Managing Director at Credit Suisse First Boston Ltd.*
Background responsible for Investment Banking activities in the Benelux
Banking and finance

Mr. D. Rümker *Former Executive Vice President of Westdeutsche Landesbank*
and former Chief Executive Officer and Chairman of the
Managing Board of Landesbank Schleswig-Holstein
Background Banking and finance
 Member of the Supervisory Boards of Damp Holding AG and Investitionsbank Berlin; Chairman of the Supervisory Board of Minimax & Co. GmbH.

Mr. R.S. Sinha *Managing Director at J.C. Flowers & Co., Chief Executive*
Officer and Director of J.C. Flowers & Co. UK Ltd.
Background Banking and finance
 Director of New NIB Ltd., which is the sole Managing Director of Stichting Administratiekantoor NIBC Holding; member of the Supervisory Boards of Servicegesellschaft Kreditmanagement GmbH, HSH Nordbank AG, Euromobiliare S.I.M. S.p.A. and Pensions Insurance Corporation Holdings; non-executive director of Pension Investment Holding Corporation and Fox-Pitt, Kelton LLC.

Mr. A.H.A. Veenhof *Chief Executive Officer of Koninklijke Wessanen N.V.*
Background Consumer products and technology
 Member of the board of InnovatieNetwerk Grensverleggend in Agro en Groen (InnovationNetwork Reinventing Agribusiness and Rural Areas); member of the Supervisory Boards of the University of Maastricht and Mautner Markhof Handels- und Beteiligungs AG.

report of the managing board

introduction

2007 was a challenging year for NIBC and the banking industry as a whole. The instability in the credit markets had a major impact on the pricing of risk and the number of transactions coming to market.

In August NIBC sold its entire US sub-prime related portfolio, removing any further losses from this area of the business. Furthermore, the US commercial real estate securities were transferred by NIBC Bank to NIBC Holding. In NIBC Bank, the results on both these portfolios are presented as discontinued operations. Also in August, Kaupthing Bank hf. and the consortium of shareholders of NIBC Holding entered into an agreement to purchase the entire share capital of NIBC Holding. In January 2008, due to the instability in the financial markets, NIBC and Kaupthing Bank hf. determined not to proceed with the announced acquisition of NIBC by Kaupthing, as the current market conditions brought the benefits of the acquisition under pressure and no longer formed a solid base on which to build a combined future.

The bank continued to execute transactions successfully while reducing its credit and market risk and diversifying its business mix to more liquid assets. Despite these challenging transitions, NIBC core business operations delivered a robust performance during the year.

Net profit attributable to parent shareholders declined to EUR (5) million.

The positive performance of our continuing operations further underscores NIBC's commitment to income diversification and successful execution. Additionally, NIBC maintained a strong Tier-I ratio of above 10% throughout the year. We also made significant headway in the key growth areas where we have implemented important business initiatives.

Highlights

- Since opening an office in Frankfurt in 2005, NIBC has seen its Germany office grow from strength to strength. With activities in the product areas of leveraged finance, infrastructure, residential and commercial real estate finance and private equity and mezzanine finance, our performance in the German market has exceeded expectations and will continue to be a strong area of focus going forward;
- In preparation for the anticipated initial public offering in 2007, NIBC implemented important organisational changes aimed at further enhancing the operational efficiency of our strategic business units. As a result, reporting lines were further shortened and internal processes were streamlined;

- NIBC received authorisation from the Dutch central bank in November 2007 to adopt the Advanced Measurement Approach in the implementation of the Basel II framework for capital requirements.

Outlook

Going forward as an independent merchant bank, NIBC believes its sound strategy and diversified business model will guide it through the continuing challenging market conditions.

We will prepare ourselves for continuing changing market conditions and a new pricing environment by managing our revenue streams accordingly and resetting our risk parameters. We will further extend our in-house credit risk-assessment skills and procedures into Financial Markets so that all these activities come from the centre of NIBC's skill set and are not overly reliant on third party ratings.

As a medium-sized merchant bank, NIBC has a unique value proposition based on superior sector knowledge and customer intimacy in our focus on the mid-cap market. NIBC has the ability to bring the skills of a leading investment bank in a seamless way to the ambitious entrepreneurial clients for whom these are most relevant.

business model

NIBC is organised into six *Strategic Business Units (SBUs)*:

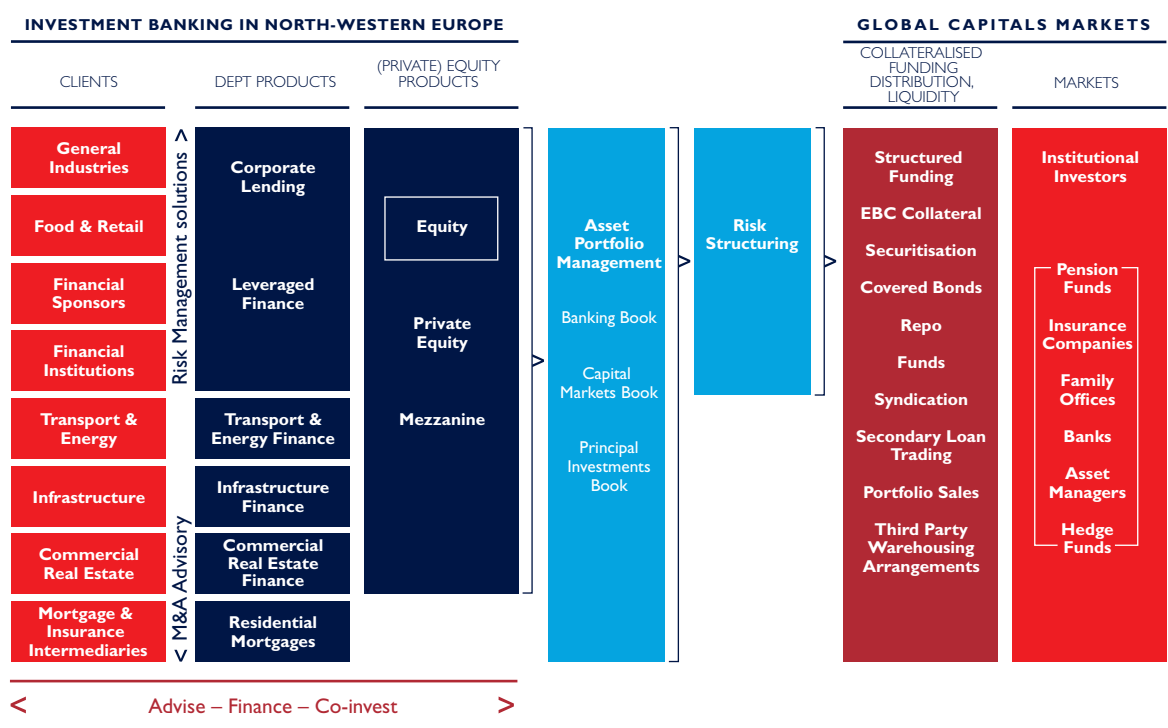
- Corporate Finance;
- Real Estate Markets;
- Financial Markets;
- Principal Investments;
- Investment Management;
- Corporate Center.

It is the responsibility of our dedicated client coverage teams to identify opportunities across the six SBUs while maintaining long-term relationships with issuer and investor clients.

NIBC's structure also enables client coverage teams to cooperate with product teams to provide tailored solutions and look beyond single products, assets or SBUs in order to focus on bank-wide opportunities. This enables NIBC to have a 'triple play' approach to doing business; advising, financing and co-investing with its clients.

The 'triple play' approach means servicing all our clients' needs through a one-stop shop solution. This usually begins with our specialist client coverage teams who provide clients with expert M&A and risk management advice in select market segments. At the next stage, NIBC provides a range of debt products to meet a client's specific needs. Lastly, we co-invest with our clients through our private equity products.

The NIBC model is built around four pillars:



> multi-product client franchises

We focus on providing lending, credit fixed-income and other financial products and services to mid-cap company clients in specific industry segments, and investment products to institutional investors in the global capital markets.

> product / market combinations

The range of products offered is based on NIBC's core skill of assessing and managing credit fixed-income risk and products, focusing on certain geographic markets and industry segments for each of the products. As such, NIBC offers innovative corporate finance, risk management and investment solutions based on a combination of strategic advice and capital structuring expertise.

> asset portfolio management

NIBC has built a core skill of assessing and managing credit fixed-income risk. Through its investment management franchise, NIBC offers its institutional investor clients the opportunity to benefit from this expertise. NIBC is expanding its investment management activities by developing investment funds for private equity / mezzanine, infrastructure and real estate investments.

> collateralised funding & distribution

NIBC has the ability to structure its assets using a variety of funding and / or distribution alternatives, including funds, syndication, securitisation and secondary loan trading.

risk overview

Risk management is an integral part of our commitment to providing consistent, high-quality returns to our investors and other stakeholders. It is focused on identifying, assessing, measuring and controlling risk and acting proactively to manage it. NIBC's Risk Management Committee is the decision-making authority with regards to risk parameters and management.

Our model seeks to bring the business and risk management together and to stimulate ongoing cooperation between the two.

sbu performance

Corporate Finance

Highlights 2007

- Operating income at EUR 186 million, a 4% increase;
- Profit after tax at EUR 85 million;
- Further strengthening of the client and product franchise.

Behind the 2007 numbers

Corporate Finance continued to perform strongly despite the more difficult market conditions in the second half of the year. Operating income grew 4% to EUR 186 million, fuelled by increases in net interest income of 17% to EUR 134 million and net fee and commission income of 19% to EUR 42 million. Operating expenses remained in line with expectations and there were almost no releases of impairments. Together, these factors led to an increase in profit after tax of EUR 85 million, higher than 10% higher than the previous year.

Strategy and focus

Corporate Finance has evolved from focusing on traditional lending activities towards offering a broader array of products and services. Additionally, NIBC has shifted its focus away from servicing the needs of smaller Dutch clients to providing solutions to a more select number of larger mid-cap clients throughout North-Western Europe. Although NIBC is smaller than many of its competitors, the bank focuses on offering top-quality services to clients that are large enough to have complex needs, but whose size means they are generally underserved by the larger investment banks.

Deal activity in the second half of the year was far more cautious given the challenging market conditions (repricing), but Corporate Finance continued to close a number of important transactions. The bank's role as sole mandate lead arranger and bookrunner for the financing

of Seajacks International Ltd. exemplifies NIBC's commitment and ability to execute in a challenging environment. More examples are:

- Financing of acquisition by AFAB (EUR 116 million senior facilities), a leading financial intermediary in the Netherlands;
- NIBC advised the controlling shareholder of Grolsch, Stichting NBC, in the evaluation of strategic options and the successful bid of SABMiller Plc on Grolsch brewery;
- NIBC acted as financial advisor to Banco Santander in the consortium bid for ABN AMRO;
- Raet, the HR and payroll market leader in the Netherlands, has successfully completed a refinancing in 2007. NIBC acted as sole mandated lead arranger & bookrunner of the senior secured credit & second lien facilities in this EUR 276 million transaction;
- SDU, a leading professional publishing and security identification group in the Netherlands and Germany, was acquired from the Dutch State in 2007 by ABN AMRO Capital (AAC Capital Partners) and Allianz. NIBC acted as financial advisor to ABN AMRO Capital in this EUR 415 million buy-out.

Outlook

As the core of NIBC's client operations, Corporate Finance will continue to serve as the gateway for new client opportunities in the future. Although near-term activities and liquidity conditions look set to remain challenging, especially in the credit markets, Corporate Finance will continue to serve its clients and selectively seek deal opportunities in line with market developments.

Real Estate Markets

Highlights 2007

- Operating income at EUR 45 million, a decline of 48%;
- Profit after tax at EUR 15 million;
- Notable residential securitisation successes despite challenging market, including the EUR 750 million SOUND II transaction in the difficult second half of 2007;
- Continuing success in commercial real estate operations, including two further CMBS transactions under the MESDAG programme in the difficult second half of 2007;
- A successful start-up in German residential mortgage business.

Behind the 2007 numbers

Operating income declined 48% to EUR 45 million in 2007, mainly due to the unprecedented turmoil in the credit markets and the widening of credit spreads, which led to mark-to-market losses compared to 2006, partly offset by a positive fair value result in structured funding. The year-on-year results were also affected by a one-off sale of a substantial portfolio in 2006 (gain of EUR 25 million in 2006). At the same time, operating expenses increased 15% in 2007, reflecting the expansion of commercial real estate activities at the end of last year and the growth in FTEs following the development of the bank's German residential mortgage operations. These factors resulted in profit after tax of EUR 15 million in 2007, a 69% decline compared to the previous year.

Strategy and focus

Despite the global market upheaval in the residential securitisation market, Real Estate Markets has achieved notable successes in its core markets of the Netherlands and Germany, where residential mortgages continue to exhibit various funding alternatives and sound fundamentals. An example of successful capital market distribution despite the difficult market circumstances is the closing in the third quarter of 2007 of the SOUND II transaction, a EUR 750 million RMBS backed by Dutch mortgages that benefit from a NHG guarantee (= a guarantee of the Dutch state).

The German market continued to offer strong growth opportunities, and the bank's German office served as a platform for further expansion into this stable market. The acquisitions of two performing German residential mortgage portfolios, totalling EUR 756 million, exemplifies NIBC's strategic focus on developing its German real estate activities.

In the commercial real estate market, NIBC continued to strengthen its position with the closing of two CMBS transactions in 2007. MESDAG Charlie is a EUR 494 million multiborrower CMBS and MESDAG Delta (closed in the third quarter of 2007) is a EUR 638 million Dutch CMBS for one client. NIBC has now arranged six CMBS transactions, four of them under the MESDAG programme. Also in 2007, NIBC expanded its product offering with the introduction of standardised small commercial mortgages for the intermediary channel.

Outlook

NIBC believes that sentiment in the credit markets overall and the securitisation sector in particular will remain cautious. However, the bank's track record of innovation and market expertise are important success factors and Real Estate Markets will continue to pursue selective residential and commercial real estate opportunities.

The Dutch and German residential mortgage markets, which continue to exhibit sound growth and demand, should offer selective financing opportunities going forward. For this reason, Real Estate Markets will increase its activities in the German market, where it is adopting a similar model to its Dutch operations.

Financial Markets

Highlights 2007

- Operating income from EUR 106 million in 2006 to EUR (302) million in 2007;
- Profit after tax at EUR (231) million;
- Active de-risking of investment portfolios and proprietary trading book linked to challenging market circumstances.

Behind the numbers

2007 was a challenging year for Financial Markets. Operating income decreased to EUR (302) million in 2007. The difficult market conditions and losses on the US ABS investment portfolio of EUR 350 million led to a decline in net trading income, which was partially offset by a positive fair value result on structured funding. This led to profit after taxes of EUR (231) million.

NIBC has decreased its debt securities portfolio from EUR 7.2 billion (end of 2006) to EUR 3.4 billion (end of 2007). This decrease includes the reduction of debt securities following the irrevocable sale of the complete US subprime residential mortgage portfolio.

Strategy and focus

Financial Markets focuses on distributing and market making in the bank's securitised debt products on behalf of NIBC's clients. These securitised debt products include *Commercial Mortgage Backed Securities (CMBS)*, *Residential Mortgage Backed Securities (RMBS)* and *Collateralised Debt Obligations (CDOs)*. Financial Markets issues and lead-manages these transactions and provides secondary market trading activities. The business unit also provides interest-rate derivatives and other hedging instruments to NIBC's clients and maintains a trading book in these derivatives to facilitate clients' deal flow.

Financial Markets is also responsible for NIBC's corporate treasury activities including the funding and liquidity management of the bank. This includes the provision of capital for securitisation warehouse lines managed by NIBC, as well as money market trading and market making in NIBC's debt. The business unit also manages the bank's collateral and investment portfolios, including structured investments and financial and sovereign investments.

The difficult market conditions directly affected Financial Markets in two ways: firstly, through wider pricing and therefore less primary deal flow; and secondly, a decline in the bank's mark-to-market investment portfolio due to NIBC's fair value accounting policies.

In accordance with its active risk management strategy, NIBC is continuously reviewing its exposure in Financial Markets. Going forward, Financial Markets aims to further decrease its proprietary trading activities and focus primarily on client-driven transactions. It will also focus on facilitating NIBC Investment Management's expanding credit fixed-income asset management activities by providing warehousing facilities.

Financial Markets' structured finance business, which provides financial engineering solutions to clients, remains an important area of growth. NIBC will continue to work closely with regulators across international tax jurisdictions to ensure it responds to the latest developments while meeting the needs of its clients.

Outlook

Going forward, NIBC expects the markets for derivatives and securitised debt products to remain challenging and investor sentiment to be cautious. Financial Markets will continue to actively de-risk its proprietary trading book and investment portfolios in line with its strategic goals.

Principal Investments

Highlights 2007

- Operating income at EUR 130 million, an increase of 77%;
- Profit after tax at EUR 114 million.

Behind the numbers

Operating income rose 77% to EUR 130 million in 2007 compared with the previous year. This was mainly due to fair value gains on associates, which were partially offset by declines in net fee and commission incomes. Profit after tax increased from EUR 54 million in 2006 to EUR 114 million in 2007.

Strategy and focus

Principal Investments will continue to be an area of growth for NIBC. The unit will grow its portfolio by making investments in funds managed by the SBU Investment Management and funds managed by third parties. The NIBC fund transactions are mainly a spin-off from client franchise activities. Principal investment focuses on participation in private equity, mezzanine, real estate and infrastructure funds.

Investment Management**Highlights 2007**

- Operating income from EUR 25 million in 2006 to EUR 71 million in 2007;
- Profit after tax at EUR 25 million;
- Assets under management EUR 8.4 billion;
- Landmark transactions include the successful EUR 330 million fundraising for the NIBC European Infrastructure Fund I, NIBC's first third party equity fund, and the purchase of the real estate portfolio of Oranje-Nassau Groep together with a consortium of investors related to White Estate investments.

Behind the numbers

Operating income increased to EUR 71 million, mainly as a result of higher net fee and commission income, which resulted from new fund initiatives. At the same time, operating expenses increased to EUR 44 million primarily due to these new initiatives. Together these factors led to an increase in profit after tax of EUR 23 million.

Strategy and focus

Investment Management was created four years ago to separate the asset management activities from the bank's other activities. NIBC is expanding its investment management activities by developing investment funds for private equity / mezzanine, infrastructure and real estate investments.

Subsequent to NIBC Merchant Banking Fund IA, NIBC has established NIBC Merchant Banking Fund IB to serve as its primary vehicle for direct private equity and mezzanine investments.

These funds have developed a strong track record in providing growth capital to companies in Western Europe and seek investment opportunities in companies with stable, predictable cash flows and leading market positions. The main objectives of these funds are to realise an attractive risk-adjusted return, maintain a meaningful minority / majority position with the ability to influence operations, and have a contractual or controllable exit within four to seven years from its initial investment.

The success of ongoing fundraising for the NIBC European Infrastructure Fund I, NIBC's first third party equity fund, underscores Investment Management's track record and make its knowledge in this area available to its institutional investor clients.

Additionally, the purchase of the real estate portfolio of Oranje-Nassau Groep together with a consortium of investors related to White Estate Investments highlights the growing cooperation between NIBC and third party investors as the bank grows its real estate investments in Europe. By building platforms under the umbrella of our NIBC European Real Estate Fund, investments in other real estate segments are also covered.

NIBC Credit Management is responsible for managing a portfolio of credit fixed-income investments in a variety of asset classes, such as global corporate credits and selected European securitised debt products.

Investment Management also manages NIBC's minority interests in general partners of a number of third party managed private equity funds. In doing so, NIBC gains a foothold in new market segments where it expects a high level of activity in the coming years, building a knowledge base, network and expertise in these areas.

Outlook

Investment Management sees strong prospects for growth especially in the alternative asset management market, where it will continue to leverage its core competencies in private equity, mezzanine, real estate, infrastructure and credit fixed-income to develop its asset management activities. Going forward, the business unit will continue to pursue opportunities alongside third party investors and institutional investor clients and is earmarked as a key strategic growth area for the bank.

Corporate Center

Highlights 2007

- Operating income at EUR 16 million, a decrease of 67%;
- Profit after tax at EUR (10) million.

Behind the numbers

Operating income decreased to EUR 16 million, a 67% fall compared to 2006. Corporate Center's operating income is the result of interest income on interest rate mismatch positions and interest expenses on subordinated funding / hybrid Tier-I capital. The decline compared to 2006 is explained by the inclusion that year of income on unallocated capital, which in 2007 is accounted for within Financial Markets, and the inclusion of expenses of subordinated and Tier-I funding, which in 2006 were accounted for within Financial Markets.

Operating expenses were stable despite a higher average number of FTEs and depreciation of certain projects compensated by lower other operating expenses. The tax line was positively affected by the release of a tax provision. All operating expenses are allocated to the other SBUs except for general staff functions and certain one-off non-attributable expenses.

Corporate Center was responsible for preparation work in anticipation of the initial offering planned in 2007 in the areas of financial reporting, risk management and other policies. The success of this internal review led to the further enhancement of NIBC's financial and operational systems and the complete alignment of its reporting and IT processes.

international offices

In addition to its headquarters in The Hague, NIBC has employees based in offices in London, Brussels, Frankfurt, Singapore and New York. At the end of 2007 NIBC had 131 employees based in its offices worldwide. These international offices are key links in our business chain. They draw on the expertise available throughout the organisation and apply it to the local markets of which they have first-hand knowledge.

NIBC London

NIBC has maintained a presence in London, Europe's financial capital, since 1995, where it has developed a track record in infrastructure-related financing and equity investment, leveraged loan financing for corporate buy-outs, and credit management for a series of leveraged loan CLO programmes. Related activities include loan syndications, secondary loan trading, and securitisation and fund development. The London office of NIBC employs 53 people. The London office serves as an important profit centre for NIBC. It also acts as a strategic base from which NIBC serves clients around the world.

NIBC Brussels

Belgium is part of NIBC's home market. It is NIBC Brussels' ambition to be a sparring partner to its clients in their strategic financial decisions. It supports its clients with value-added financing structures, funding solutions, and advisory services. Several clients have retained NIBC Brussels to act as advisor in structuring and arranging the appropriate financing structure and in acquisitions or divestments. The Brussels office employs 11 people and is a major Belgian player in leveraged finance, real estate, corporate lending and M&A advisory. It aims to develop strong partnerships with the owners and senior management of larger Belgian companies, international financial sponsors and institutional investors.

NIBC Frankfurt

NIBC opened an office in Frankfurt in 2005, thus gaining a foothold in Europe's largest economy. The establishment of a presence in Germany reflects NIBC's ambition to become a leading merchant bank in North-Western Europe. NIBC's German operations are focused on debt, equity, and advisory solutions for leveraged finance, real estate and infrastructure / Public Private Partnerships – all sectors in which NIBC excels.

At the end of 2007, the Frankfurt office employed 31 people. NIBC's strategy is to follow current Benelux and UK clients into the German market and at the same time to build a local German client base.

NIBC Singapore

The geographical coverage of NIBC Singapore extends from Japan in the north to Australia and New Zealand in the south. The NIBC Singapore office was set up in 1996 as a base from which to build a position in aviation, shipping and logistics, energy, and offshore oil and gas finance markets. The Singapore office employed 17 people at the end of 2007. Since 2003, NIBC Singapore has progressively expanded to offer a wide range of investments and investment management services such as the distribution of private equity fund products.

NIBC New York

NIBC Credit Management Inc. has maintained a presence in the US since 2002. The firm started in Greenwich, Connecticut and moved to New York in 2006. It began managing the US corporate *Collateralised Debt Obligations (CDO)* portfolio for NIBC and has over time added US mortgage-backed and asset-backed securities to its structured credit asset management activities with a focus on the US residential and commercial mortgage sectors. The team is a combination of local experts in these structured credit sectors and experienced staff from NIBC The Hague, and currently consists of 19 employees focusing on portfolio management, surveillance, CDO management, and general support. NIBC Credit Management Inc. efficiently utilises the available expertise and resources within the NIBC Group for back office, risk management, and legal, fiscal and ICT support. In addition to managing the US structured credit portfolio for an affiliate of NIBC Bank, the company has expanded its asset management activities to third parties by structuring and managing CDOs of asset-backed securities.

The Hague, 21 February 2008

Managing Board

Mr. Michael Enthoven, *Chairman*

Mr. Jurgen Stegmann, *Vice-Chairman, Chief Risk Officer*

Mr. Kees van Dijkhuizen, *Chief Financial Officer*

Mr. Jan van Nieuwenhuizen, *member*

financial results

highlights 2007

- Net profit attributable to parent shareholders decreases from a profit of EUR 288 million in 2006 to a loss of EUR 5 million in 2007;
- Operating income decreases by 72% to EUR 146 million;
- The Tier-I ratio of NIBC Bank remains at a strong level of 11.7% (2006: 12.3%).

The performance of NIBC in 2007 is strongly affected by the results on the US ABS investment book, which to a large extent was de-risked during 2007. NIBC decreased its debt securities portfolio from EUR 7.2 billion (end of 2006) to EUR 3.4 billion (end of 2007). This decrease includes the de-risking of the US ABS investment book, which amounted to EUR 2.2 billion at the beginning of 2007 and EUR 0.7 billion at the end of 2007. In 2007, the result on the US ABS investment book was a loss of EUR 256 million, after tax. The de-risking was executed by means of two actions:

- The sale of US securities of EUR 0.7 billion during the first half year of 2007;
- The sale of a portfolio of EUR 0.4 billion of all US sub prime residential mortgage ABS securities on 24 August 2007.

The remaining decrease of EUR 0.4 billion reflects the before tax loss on the US ABS investment book and the devaluation of the US dollar in 2007.

net profit

Excluding the loss on the US ABS investment book mentioned above and for 2006 excluding the profit on the sale of Harcourt, net profit attributable to parent shareholders came to EUR 251 million, which is 1% below the comparable figure of 2006. This means that the business excluding the US ABS investment book displayed a solid performance in 2007.

operating income

In 2007, net interest income remained stable at EUR 247 million (2006: 251 million). Loans and receivables displayed increased interest revenues due to the higher average loan portfolio during 2007, compensated by a decrease of interest revenues on debt securities. The portfolio of debt securities decreased in 2007 from EUR 7.2 billion to EUR 3.4 billion. Interest revenues in 2007 on residential mortgages were at the same level as in 2006, reflecting a stable portfolio and stable margins.

Net fee and commission income increased in 2007 from EUR 61 million to EUR 63 million. The increase was a result of higher advisory and arrangement fees from corporate finance activities partially compensated by lower distribution fees, explained by the low securitization volume in 2007 and higher fee expenses.

Dividend income increased in 2007 from EUR 35 million to EUR 84 million. The dividend income from the principal investments business more than quadrupled in 2007 to EUR 38 million driven by high dividends on four equity investments. The dividend income from structured investments more than doubled in 2007 to EUR 45 million. The increase in dividend income in 2007 reflects both an increase in the underlying portfolio of such structured investments as well as an increase in interest rates.

Net trading income decreased substantially in 2007, from a EUR 92 million profit in 2006 to a loss of EUR 372 million. The 2007 figure is strongly affected by the loss mentioned above on the US ABS investment portfolio, which amounts to EUR 350 million before tax in net trading income. Furthermore, the substantial credit spread widening arising from the instability in the financial markets in 2007 also affected the results of some of NIBC's other activities. This credit spread widening led to mark-to-market losses of EUR 110 million on the residential mortgage portfolio, of EUR 19 million on investment and credit trading portfolios, including related credit spread hedges in the financial markets business, of EUR 18 million on the commercial real estate warehouse, partially compensated by a mark-to-market gain of EUR 106 million on the structured funding portfolio fair valued through profit or loss. The remaining results in net trading income include a profit of EUR 7 million on interest rate derivative trading and EUR 10 million on repurchased funding.

Gains less losses from equity investments and associates increased in 2007 from EUR 45 million to EUR 108 million. This substantial increase is driven by EUR 78 million of fair value gains on associates held by NIBC's venture capitalist business Principal Investments accounted for as fair value through profit or loss. Furthermore, in both 2006 and 2007 gains were realized on a number of exits.

The share in the profit of associates and joint ventures decreased in 2007 from EUR 16 million to EUR 11 million. The decrease is explained by the result on the closing of a structured finance transaction in 2006. In 2007, a gain of EUR 10 million was realized on the sale of an investment management company.

Other operating income decreased in 2007 from EUR 16 million to EUR 5 million. The decrease is explained by the result of the sale of an equity stake in 2006 that was acquired in a restructuring process from a corporate client. If restructuring and work-out activities lead to a full or partial recovery of an impaired loan that has previously been written-off, the resulting gain is classified as 'other operating income'.

operating expenses

Operating expenses increased in 2007 by 6% from EUR 209 million to EUR 221 million.

Personnel expenses increased in 2007 by 8% from EUR 130 million to EUR 141 million. The increase is nearly fully a result of higher salaries, mainly due to a higher average number of FTEs, which increased by 11% to 722 in 2007. Furthermore pension and other post retirement charges increased in 2007 by EUR 8 million, due to a one-off release in 2006 of a health care provision, which was compensated by lower flexible rewards by EUR 9 million in 2007.

Other operating expenses decreased in 2007 from EUR 68 million to EUR 63 million, due to cost control in specific areas of our business.

Depreciation in 2007 increased from EUR 11 million to EUR 17 million, which is fully explained by a one-off accelerated depreciation of certain projects in 2007.

impairments of financial assets

In 2007, a net impairment loss was recorded of EUR 2 million, compared to a net reversal of impairment losses of EUR 14 million in 2006. This low impairment-level in both years displays the soundness of our corporate loan portfolio.

tax

Tax expense decreased in 2007 from a tax expense of EUR 69 million in 2006 to a tax gain of EUR 75 million. This development is mainly explained by the decrease in the profit before tax, the increase of income from the equity investment business not subject to tax, the release of a prior year provision and by the decrease of the Dutch corporate tax rate from 29.6% to 25.5%.

assets

NIBC's total assets at year-end 2007 amounted to EUR 32.4 billion (2006: EUR 32.6 billion).

Cash and balances with central banks and due from other banks (NIBC's short term liquid assets) increased by 100% to more than EUR 4.0 billion at year-end 2007, representing a strong liquidity position.

Loans and receivables (whether measured at amortised cost, available for sale or fair value through profit or loss) increased in 2007 by 7% to EUR 8.4 billion. The residential mortgage portfolios (both own book and securitized) increased slightly in 2007 by 2% to EUR 11.6 billion.

Debt securities decreased by EUR 3.8 billion, from EUR 7.2 billion to EUR 3.4 billion, mainly due to de-risking activities in 2007. The US ABS investment book decreased by EUR 1.5 billion to EUR 0.7 billion as explained above. Furthermore the EU corporate credits portfolio was downsized by EUR 0.6 billion, from EUR 0.8 billion to EUR 0.2 billion and the EU structured credits portfolio by EUR 0.6 billion, from EUR 1.9 billion to EUR 1.3 billion. The remaining decrease of EUR 1.1 billion is mainly explained by a decrease in the highly rated financial and sovereign bond portfolio.

equity

Total shareholders' equity decreased from EUR 2,099 million at the end of 2006 to EUR 1,690 million at the end of 2007. The decrease of EUR 409 million mainly stems from a net decrease of EUR 157 million in the revaluation and hedging reserves and dividend payments in 2007 of EUR 275 million. The net decrease in the revaluation and hedging reserves mainly results from the effect of increased credit spreads on the valuation of assets designated as available for sale and of increased interest rates on the fair value of the hedging reserve. The dividend payments in 2007 reflect the payment of a normal dividend over 2006 of EUR 61 million in March 2007 and an extraordinary dividend of EUR 213 million in August 2007.

The Tier-I ratio of NIBC Bank N.V. remained in 2007 at the strong level of 11.7% (2006: 12.3%). This is well above the minimum Tier-I requirement of 4% and illustrates the strength of the Bank's capital structure. The BIS-ratio increased in 2007 from 13.3% to 13.4%.

corporate governance and compliance

At the heart of NIBC is a dynamic and transparent corporate governance structure. NIBC operates a two-tier board system consisting of a Managing Board and a Supervisory Board to ensure that proper checks and balances exist within the company.

The Managing Board is responsible for the day-to-day management of the business and its long-term strategy. The Supervisory Board is responsible for supervising management performance and advising the Managing Board. NIBC's governance model is based on close and constructive collaboration between the Supervisory Board and supporting committees, the Managing Board and its committees, and NIBC's shareholders.

This collaboration is exemplified in NIBC's governance framework of charters, with clear guidelines for the assignment of duties and responsibilities, financial reporting, risk management, compliance, corporate governance, corporate social responsibility and remuneration policies. For more information about our framework of charters please visit www.nibc.com.

The Supervisory Board is supported by four committees consisting of members of the Supervisory Board: the Risk Policy Committee, with a subcommittee for purposes of related party transactions, the Audit and Compliance Committee, the Remuneration and Nominating Committee, and the Strategic Committee. For more information about the meetings of the committees of the Supervisory Board please refer to the Report of the Supervisory Board on page 4 of this Report.

The Managing Board delegates operational decisions to a number of Functional Committees. All Functional Committees meet on a regular basis and are characterised by their expertise and swift decision-making capabilities as at least two members of the Managing Board are present at each meeting. The committees are divided into the following main areas of focus:

- **Governance**

The Governance committees ensure that the company maintains the highest standards of corporate governance practices, and are responsible for monitoring all areas of management performance. The most important committee is the Management Committee, which is responsible for the daily management of the company. Other governance committees include the Corporate Social Responsibility Committee and the Disclosure Committee.

- **Risk**

The Risk Committees are responsible for decision-making in risk management matters. They ensure that the assessment and acceptance of credit, market, investment, liquidity and operational risk exposure is made independently of the business originators. The Asset & Liability Committee, Transaction Committee, Investment Committee, Operating Risk Committee and Credit Markets Committee are the main Risk Committees.

- **Clients**

The Engagement Committee is responsible for the prevention of potential commercial conflicts of interest and compliance issues in evaluating potential assignments for our clients.

best practice

NIBC supports and applies the principles of the *Dutch Corporate Governance Code* (the **Code**) and will continue to apply the Code. NIBC partly complies with the following best practices and principles as per 31 December 2007:

- Best practice provision II.2.1 through II.2.3, which relate to depositary receipts and options granted to members of the Managing Board. In deviation from best practice provisions II.2.1 and II.2.2, the existing option plan described in note 55 provided for the grant of options of which neither the grant nor the exercise was conditional upon realising certain performance criteria. In deviation from best practice provision II.2.3, depositary receipts have been awarded which may be disposed of by the members of the Managing Board within five years from the grant thereof. The 2006, 2007 and 2008 restricted depositary receipts have a vesting period of five years.
- Best practice provision III.2.1 which provides that the members of a Supervisory Board should be independent, except for one member. NIBC currently has a Supervisory Board consisting of nine members, of which two (Mr. J.C. Flowers and Mr. R.S. Sinha) do not meet the independence criteria contained in the Code. Although three other members of the Supervisory Board have relationships with investors in the Consortium (Mr. N.W. Hoek, Mr. A. de Jong and Mr. D. Rümker), these three members, as well as the Chairman of the Supervisory Board (Mr. J.H.M. Lindenbergh) and three members nominated by the Employees Council (Mr. W.M. van den Goorbergh, Mr. C.H. van Dalen and Mr. A.H. Veenhof) meet the independence criteria mentioned in the Code. The Supervisory Board rules adopted by the Supervisory Board provide that certain important decisions of the Supervisory Board require a simple majority including the supportive vote of at least one of the members of the Supervisory Board who has not been nominated by the General Meeting (i.e. Mr. W.M. van den Goorbergh, Mr. C.H. van Dalen and Mr. A.H. Veenhof). If such a resolution does not have the supportive vote of such a member of the Supervisory Board, a new Supervisory Board meeting will be convened on not less than a 90 days notice, in which second meeting the Supervisory Board meeting will resolve on the relevant matter by a simple majority. In this connection, the authority to approve a material transaction with an affiliated party has on 12 December 2006 been delegated to a subcommittee of the Risk Policy Committee of the Supervisory Board consisting of Messrs. Van den Goorbergh and Lindenbergh.

- Principle III.5 and related best practice provisions III.5.10 through III.5.13, which provides that a Supervisory Board of more than four members should establish a separate Audit Committee, a Remuneration Committee and a Selection and Nominating Committee. NIBC has combined the Remuneration Committee and the selection and Nominating Committee in a combined Remuneration & Nominating Committee, which performs the tasks attributed by the Code to the Remuneration Committee, as well as the selection and Nominating Committee.
- Best practice provisions IV.4.1 through IV.4.3, which relate to the annual publication by NIBC on its website of information relating to NIBC's voting policies as shareholder of listed companies, and the execution thereof. It is not NIBC's policy to acquire shares in listed companies. Such acquisitions may occur occasionally as a side effect of transactions. NIBC would not want to emphasize its limited ownership of shares in listed companies and has therefore not formulated a voting policy in respect of such shares.
- NIBC applies best practice provision II.2.10, which provides that the remuneration report of a Supervisory Board should contain an overview of the remuneration policy including a description of performance criteria, insofar as the description of the performance criteria does not reflect commercially sensitive information.
- NIBC considers itself to be in compliance with best practice provision III.7.2, which provides that any investment by a supervisory board member in shares of the company on whose supervisory board he serves is a long term investment, as it believes that ordinary shares in its capital held, directly or indirectly, by Supervisory Board members are held by such members only by way of long term investment.

compliance

Several new initiatives were put into place by Compliance in the year to ensure that personnel are aware of and take steps to comply with relevant laws and regulations. Among the most important were the following:

- **New Compliance Framework**

As a result of ongoing compliance activities, NIBC has amended its compliance framework and introduced new compliance manuals containing new and revised procedures for global and local compliance.

The NIBC Global Compliance Manual sets out the overall compliance principles, for both employees and for NIBC that are applicable throughout the company regardless of location. The manual gives an overview of all compliance rules, procedures and registers and underlines NIBC's global vision on compliance issues. The Local Compliance Manuals contain all the specific compliance rules that apply within a certain jurisdiction where NIBC operates. The Local Compliance Manuals incorporate local laws and regulations. All foreign offices of NIBC now have their own Local Compliance Manual.

- **Markets in Financial Instruments Directive**

NIBC successfully introduced the *Markets in Financial Instruments Directive (MiFID)*, which came into force in November 2007. The new regulatory regime seeks to harmonise investment services across the 30 states of the European Economic Area.

- A Project Delivery Group was charged with steering the efforts and coordinating the various committees. External consultants reviewed due diligence procedures and supervised the classification of customers into the categories of clients Eligible Counterparties, Professional and Retail. These categories are related to varying levels of protection that allow the tailoring of services offered according to broad list of criteria such as financial knowledge, experience, risk tolerance and investment purpose and strategy.
- **Compliance monitoring**
Next to the general (ongoing) compliance monitoring activities Group Compliance paid specific attention to the compliance related elements of the Financial Services Act (Wet financiële dienstverlening) which have been incorporated in the Financial Supervision Act (Wet op het Financieel Toezicht) as from January 1, 2007.

in control report

introduction

The Managing Board is responsible for compliance with relevant legislation and regulation. The Managing Board is also responsible for risk management and control systems that aim to ensure reliable financial reporting and that aim to reduce the risk of non-realisation of NIBC's (operational and financial) objectives. In addition, the Managing Board is responsible for the financing of NIBC Holding N.V., as well as its group entities, including *NIBC Bank N.V.* (collectively referred to as **NIBC**).

Financial risk management is the core business of financial institutions. NIBC considers risk management an integral part of providing consistent, high-quality returns to its shareholders. NIBC's risk management framework is focused on identifying, assessing, measuring and controlling risk and on managing risk pro-actively. To this end, the Managing Board has established a sound governance structure around the risk management framework. Within this governance structure, decision-making authority rests with NIBC's *Risk Management Committee (RMC)*. The RMC operates under the supervision of the Managing Board and the Risk Policy Committee, a sub-committee of the Supervisory Board. The RMC has delegated decision-making authority for particular areas of risk management to certain sub-committees, which deal with specific elements of the enterprise risk spectrum.

Ultimately, it is the Managing Board, under the supervision of the Supervisory Board, that is responsible for NIBC's risk management and control systems.

The Managing Board together with the RMC determines NIBC's overall risk appetite and risk profile at a strategic level, evaluates the risk management elements of new business and products, as well as any reputation risks, and approves major changes to risk policies. The RMC and its sub-committees further ensure that assessment and acceptance of credit, market, investment, fiduciary, compliance, liquidity and operational risk exposure is made independently of the business originators within the *Strategic Business Units (SBU)*.

In its role as the party responsible for risk management, the Managing Board is supported by the SBU heads. The SBU heads submit annually separate In Control Reports, which are based upon a semi-annual Control Risk Self Assessment of the activities within their SBUs. Through membership of the different risk management committees, members of the Managing Board have the ability to effectively and efficiently adapt NIBC's risk management policy and risk management framework, so that it remains responsive to the changes in the financial marketplace.

Risk is inherent to almost every business decision and business activity. To that end, NIBC's risk management and control systems can never give an absolute guarantee that all risks are adequately managed or that the company's objectives will be realised.

risk management policy

In order for the Managing Board to execute its responsibilities, NIBC has developed a risk management policy framework tailored to NIBC's risk exposures and focused on the control of the identified risks related to the execution of the different business activities of NIBC. The way NIBC manages risk in these areas is set out below. For a more detailed description of how NIBC manages risk, reference is made to the Risk Management section. The risk management policy framework is designed to ensure compliance with NIBC's risk management policy and forms an integral part of the internal control system.

NIBC's risk management policy framework is aligned with IFRS and is intended to meet Basel II requirements. The policy framework used to manage risks underpins NIBC's internal decision making in this respect and allows the organisation to weigh risk against return using the concepts of *Risk Adjusted Return on Capital (RAROC)* and *Economic Value Added (EVA)*. Further, the risk policy framework allows NIBC to evaluate decisions regarding the allocation of NIBC's economic capital while at the same time supporting and maintaining NIBC's credit ratings and seeking to accurately calculate impairments.

NIBC's credit risk management department is responsible for the credit risk management of the exposures present in Corporate Finance and Real Estate Markets SBU's loan portfolios, as well as for NIBC Credit Management (Investment Management) leveraged loan portfolios, and for investment risk management of the Principal Investments SBU in equity investments. All credit and investment risk decisions are taken either in the Transaction Committee or the Investment Committee.

NIBC's market risks are mainly concentrated in its Financial Markets, Real Estate Markets and Corporate Center SBUs. In order to manage market risks, NIBC has put in place an extensive set of risk limits and uses an advanced risk management system, 'Algorithmics', to calculate, monitor and project the relevant key risk figures. The Algorithmics system is used to analyse and track risks in virtually all transactions within NIBC on a daily basis, except for credit spread risk on its mortgage portfolios, which is calculated separately.

Maintaining a prudent funding profile is one of NIBC's most important liquidity risk management tasks. NIBC analyses its funding profile by mapping all assets and liabilities in 'time buckets' corresponding to their maturities. NIBC applies various liquidity stress tests scenarios on a regular basis and carries out weekly short-term liquidity forecasts. The short-term liquidity forecasts are analysed and presented weekly to NIBC's Asset and Liability Committee to create continuous monitoring of the liquidity position.

The credit and qualitative market assessment of NIBC's assets in a credit spread environment is the responsibility of the Capital Markets Committee. This committee controls the risk at the junction between market and credit risk.

The responsibility for monitoring and managing operational risk lies with NIBC's Operational Risk Manager and the Chief Operating Officers of the SBUs who are responsible for the implementation of the NIBC-wide operational risk framework (including amongst others the operational risk associated with new products and business, reputation risk, and business continuity). In addition, this framework outlines NIBC's ambition to qualify for the Basel II Advanced Measurement Approach. Operational risk within NIBC is managed both at a Group level and a SBU level. The Operating Risk Committee provides consistency and oversight of significant operational issues and oversees the adoption of best practice between the different SBUs.

Finally, in its day to day banking and investment activities, NIBC is exposed to both fiduciary and compliance risk. Both of these risks are addressed in the various committees mentioned above as part of the bank's risk policy framework; however, fiduciary risk is specifically addressed in the Investment Committee and the Capital Markets Committee, while compliance risk is specifically covered by the Engagement Committee.

NIBC's corporate governance model is based on constructive and transparent cooperation between our shareholders, our Supervisory Board with its four subcommittees (Risk Policy Committee with a sub-committee for the purposes of related party transactions, Audit and Compliance Committee, Remuneration and Nomination Committee and Strategic Committee) and our Managing Board. This cooperation is set out in a governance framework of charters, including a whistleblower policy. This policy allows employees to report anonymously. Reported irregularities are promptly investigated and treated confidentially. In line with the Tabaksblat Committee's recommendations, the framework and charters have been published on NIBC's website.

risk responses

NIBC analyses strategic, financial, compliance and operational risks and evaluates the possible responses to achieve the risk level aligned with NIBC's risk profile and risk appetite. In evaluating response options, management considers the effect on both risk likelihood and impact. Alternative responses are analysed for their mitigation effect and impact. This review forms part of the semi-annual Control Risk Self Assessment process carried out by operational risk management. Risk management and control systems are not static and need to be reviewed and evaluated regularly.

Accordingly, the Managing Board has executed a number of activities and initiatives to provide for the review and evaluation of the Bank's risk management and control systems profile. On a regular basis the overall risk and control environment of NIBC is systematically reviewed in the various risk committees. Through self-assessment and semi-annual review, risks in all

the Business Units and foreign offices are identified. In this process an assessment of risk management and control systems is made and measures of improvement actions defined. On an annual basis Business Units and foreign offices evaluate their risk and control framework together with the results of internal and external audits and produce individual In Control Reports.

specific events / attention points of the managing board and related actions / improvements in 2007

In 2007, the following events required the specific attention of the Managing Board. These events and attention points have led to increased operational risk.

- During 2007, instability in the US credit fixed-income markets led to non-recurring losses in the US Asset Backed Securities investment book. For transparency reasons, the exposure in the investment book is designated as fair value through profit and loss, whether realised or unrealized. NIBC Bank has decreased its debt securities portfolio. This decrease reflects the elimination of risk on the US ABS investment book, which was reduced to nil by the end of 2007. The reduction of debt securities reflects the irrevocable sale of the complete US sub prime residential mortgage portfolio and the transfer of the entire US commercial real estate securities to a restructuring entity in NIBC Holding. In addition, a number of risk management actions were initiated to further strengthen and improve portfolio monitoring and reporting. However, further losses are expected in the US commercial real estate portfolio and continued volatility in the credit markets in general may further impact the profit and loss of NIBC given the remaining exposure to credit markets and the applicable accounting treatment;
- During the second half of the year, NIBC was faced with the market-wide credit liquidity crisis and the additional impact on NIBC's own funding related to a changed rating status. In response to this instable markets environment, NIBC further strengthened its liquidity risk management and made it a key area of focus. The *Assets and Liability Committee (ALCO)* refocused its activities on liquidity management to create a continuous monitoring of the liquidity position. The monitoring of credit and market risks was delegated to a newly created *Capital Markets Committee (CMC)*. In addition, new products and funding opportunities were assessed and implemented providing for a twelve month positive liquidity position. Furthermore, it is contemplated that by means of internal securitisation of certain assets, creating ECB eligible assets and corporate deposits the bank can create additional liquidity availability;
- In 2007, Information Technology systems performance and stability remained a high focus area. Actions resulting in improvements of systems performance and availability were continued in 2007 such as the completion of an infrastructure improvements program together with significant improvements made in the course of the year in the bank-wide change management procedures. While performance improvement has been observed in 2007, systems performance and stability disruptions occurred nevertheless during the year. Actions were therefore initiated in 2007 to continue the improvements in these areas. A co-sourcing project was started in Q4 2007 to satisfy the need for Information

Technology knowledge and personnel capacity. This project together with the completion of the infrastructure implementation plan as noted above will enable NIBC to attain better system availability, and improve system and network performance. The Identity and Access Management project was initiated in 2007 to improve logical access management processes and will be continued in 2008;

- In 2007, data quality improvement remained a bank-wide priority in order to support the commercial and risk management processes by a more integrated and uniform management of data. This resulted in a revised definition of a Target Architecture for NIBC based on experiences and the results of data quality and systems integration projects at SBU's level;
- In 2007, a bank-wide financial reporting project was started as planned, in order to allocate internal funding and align risk management reporting to general ledger and book structure, to deliver improved segment reporting and to accelerate the monthly financial closing process. This project will be continued in 2008.

planned improvements and targets for 2008

Information Technology and Access Management

■ Information Security

In 2008, Information Security will continue as a high priority for NIBC. The Identity and Access Management project will be continued and finalised in 2008 starting with the most important implementation in January 2008 of an automated synchronisation between Human Resources systems recording staff changes and the user directory controlling access to all NIBC systems and applications. The second stage of this project is focused on further strengthening the role-based access within business applications. Furthermore, the findings of the policy gap- and risk analyses will be addressed. Together with a strengthening of the information security function itself, this will result in a robust information security environment.

■ Co-sourcing

In 2008, the results of co-sourcing project for IT management activities such as infrastructure management and helpdesk function will be implemented. This project will improve the available technical knowledge and mitigate the personnel capacity risk and the risk of key IT personnel leaving NIBC. This is also expected to lead to improved systems performance.

■ Financial reporting

The full operational embedding of an enterprise-wide aligned framework for data management will be continued during 2008. The Target Architecture project will be further advanced as well as projects at SBU level to complement Group Finance activities. This will result in an accelerated financial closing process.

conclusion

Within the current internal risk management and control system, certain high risk events were identified by management in the course of 2007, and where required, corrective measures were taken. However, structural changes necessary to realise improved data quality to match NIBC's target architecture are ongoing in 2008.

The risk management and control systems provide reasonable assurance that the Annual Accounts do not contain any material inaccuracies. However, there is always the possibility that additional steps are required to further improve the internal controls in the future.

As noted above, risk management and control systems can never give an absolute guarantee that all risks are adequately managed or that NIBC's objectives will be realised.

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risk management

The risk management disclosures on pages 42 to 129 constitute an integral part of the financial statements on pages 132 to 241.

The year 2007 has been an extraordinarily challenging year for risk management. Sophisticated risk management systems, approval of DNB to use internal models for Basel II market and credit risk, improvements in model validation and strong governance structure, could not fully protect the bank from major losses in the structured credits portfolios in the US. Although the Bank did calculate Value at Risk using a long term history of market data, continuously low volatility in the last couple of years led to relatively low *Value at Risk (VAR)* figures. VAR figures should be and are always accompanied by stress tests to understand the P&L impact of positions in case markets move outside the zone determined by confidence intervals. The regular stress tests performed at NIBC did show the risk and potential large losses that could arise from these portfolios in historical and theoretical stress scenarios. The combination of unprecedented spread widening, now part of the framework of stress tests, with sudden and extreme illiquidity in the market, even for AAA bonds that in previous events were seen as safe heaven assets, has surprised the bank.

During 2007, instability in the US credit fixed-income markets led to non-recurring losses in the US Asset Backed Securities investment book. For transparency reasons, the exposure in the investment book is designated at fair value through profit and loss, whether realized or unrealized. During the first half of the year 2007, exposure to the US residential and corporate markets was sold, eliminating profit and loss exposure attributable to these portfolios. In addition, an appropriate set of risk management actions was initiated to further strengthen and improve portfolio monitoring and reporting. The set of risk management actions include improved credit risk assessments of markets and assets that are in a market risk environment (in addition to the rating assessment of rating agencies), as well the establishment of a Capital Markets Committee that focuses on the intersection of market risk and credit risk of capital markets' assets. Continued volatility in the credit markets may nevertheless impact the profit and loss of the bank given other exposure to credit markets and the applicable accounting treatment.

Risk is inherent in almost every business decision and business activity. To that end, NIBC's risk management and control systems can never provide an absolute guarantee that all risks are adequately managed or that the company's objectives will be realized.

overview (unaudited)

We consider professional risk management to be a core skill for a financial institution. All staff is responsible for 'intelligent' risk management and we consider the pro-active involvement of risk management officers in our commercial activities to be absolutely vital. We seek to balance risk and return in order to maintain a moderate and calculated risk profile. Our risk profile is shaped by, among other factors:

- **Our focus on a mid-cap corporate client base.** Our focus on mid-cap clients in specific industry segments means we are often required to assess risks and creditworthiness using our own internal assumptions and methodologies, without the benefit of third party credit ratings from rating agencies, as would generally be available for larger clients;
- **Diversified income streams and funding sources.** The reliability of our income and funding cash flows is enhanced by their breadth and variety of sources;
- **The high quality profile of our marketable assets and a well collateralised loan portfolio.** We generally seek to hold a well collateralised loan portfolio and other assets with high ratings as a means of reducing default risk;
- **An acceptable level of exposure to any single client and actively managed exposures to industry segments and geographies.** Diversification of our loan exposures is intended to provide a measure of protection against risk concentration by client and industry segment;
- **Solid Tier-I and total capital ratios.** We have maintained a Tier-I capital ratio over 10%, which is in excess of that required, over the past seven years, as well as solid total capital ratios. This provides us with a significant margin of safety in case of an unanticipated level of defaults or losses;
- **Our refusal to compete on risk.** We are focused on client needs and will compete on the basis of price and client service, among other factors, but we will not adjust our risk appetite to win new business;
- **Liquidity and Funding Management and Costs.** We believe that a conservative approach to our funding and liquidity is a key element of our risk management framework;
- **Our commitment to keeping our pension obligations fully funded.** We believe full funding of our pension obligations, as required by the regulations of the Dutch Central Bank, will allow us to avoid over-commitment of our capital as well as reduce regulatory intervention and boost employee retention.

risk management philosophy

Risk management is focused on identifying, assessing, measuring and controlling risk and acting proactively to manage it. To this end, we have implemented a framework of sophisticated and integrated risk management systems intended to quantify our risks and meet Basel II requirements, to measure and manage financial risk on a bank-wide basis, and to generate risk profiles and stress scenarios. This framework underpins our internal decision-making, allowing us to weigh risk against return using the concepts of *Risk Adjusted Return On Capital (RAROC)* and *Economic Value Added (EVA)* to evaluate decisions regarding the allocation of our economic capital. RAROC measures the return on an investment as a percentage of the economic capital that has to be allocated as a capital buffer to cover the business risk of that investment. EVA provides an absolute return figure (after the costs of

the capital allocated) on a given investment. The *Capital Markets Committee* (the **CMC**) and the *Transaction Committee* (the **TC**) base their decisions on measurement of the RAROC against a given hurdle rate, according to the size and timing of the potential return, to arrive at our estimate of the resulting EVA. These tools assist us in selecting transactions that generate a satisfactory RAROC and EVA, given the relevant level of risk. For additional information on how we calculate and allocate economic capital, see 'Economic Capital' below. We systematically manage the following risk categories most relevant to our business:

We systematically manage the following risk categories most relevant to our business:

- **Credit Risk:** The current or future threat to our earnings and capital base as a result of a counterparty's failure to comply with a financial or other contractual obligation, including restrictions on or impediments to the counterparty's transfer of payments from abroad, which we refer to as country risk;
- **Market Risk:** The current or future threat to our earnings and capital base as a result of a change in the value of an asset due to a movement in credit spreads, interest rates, foreign exchange rates or equity prices, among others;
- **Investment Risk:** The current or future threat to our earnings and capital base of a decrease in the value of our investments;
- **Liquidity Risk:** The current or future threat to our earnings and capital base as a result of the possibility that we will not be able to meet our short-term payment obligations at any given point in time without unacceptable costs or losses;
- **Operational Risk:** The current or future threat to our earnings and capital base as a result of inadequate performance in the day-to-day processing of transactions with clients or other parties (including the settlement of these transactions), inadequate procedures and measures for timely detection of control failures, quantitative or qualitative shortcomings in human resources and deficient decision-making as a result of inadequate management information. Operational risk also relates to any damage we may suffer to our reputation as a result of these shortcomings, which could impact the perceived value of our business. Our human resources group manages risks associated with our employees and is responsible for managing employee transitions.

The following table shows our portfolios and their risk characteristics as at 31 December 2007. In the table the risk management approach of each asset class is presented (market risk, credit risk or investment risk). Credit spread risk and interest rate risk refer to the major risk factors of these assets, as will be explained in the market risk section as from page 91.

The risk presented reflects the main risk addressed to this asset, the asset might be covered within other risk areas as well.

Portfolios and their risk characteristics as at 31 December 2007

SBU	Assets	Nominal value (EUR millions) or Basis point value ¹ (interest and client trading books)	Ref. to reconciliation table as follows	Main Risk Category	Average Rating
CORPORATE FINANCE	Corporate loans	7,995 ²	1	Credit Risk	BB / BB- ³
REAL ESTATE MARKETS	Residential mortgages	4,596 ⁴	2	Market risk – credit spread risk	AA-
	Commercial Real Estate and Infrastructure eligible for sale / securitisation portfolios ³	1,661	3	Market risk – credit spread risk	A+ / A
	RMBS / CMBS notes ⁵	213 ⁵	4	Market risk – credit spread risk	BB / BB-
FINANCIAL MARKETS	FIXED-INCOME				
	Money market and trading	4,000 BPV		Market risk – interest rate risk	AA ⁷
	Fair value interest trading ⁶	0 BPV		Market risk – interest rate risk	
	Financial Markets mismatch	0		Market risk – interest rate risk	
	Interest rate & derivatives	(40,000) BPV		Market risk – interest rate risk	AA ⁷
	INVESTMENT AND CREDIT TRADING PORTFOLIOS				
	Credit trading	(33,182) BPV		Market risk – credit spread risk	
	Financials & Sovereigns	933		Market risk – credit spread risk	
	Structured Investments	1,494		Market risk – credit spread risk	
	Credit Fixed-Income Funds	107		Market risk – credit spread risk	
	Corporate credits	101		Market risk – credit spread risk	
	Securitised debt products EU ⁸	1,378		Market risk – credit spread risk	
	Securitised debt products US	914		Market risk – credit spread risk	
	Leveraged loans warehoused for securitisation	0		Market risk – credit spread risk	
	First loss positions ⁹ (market value)	36		Market risk – credit spread risk	
	TOTAL (NOMINAL EXPOSURE)	5,005	5		A- / BBB+
PRINCIPAL INVESTMENTS	Mezzanine loans (fair market value)	125	6	Credit risk	B
	Equity (fair market value)	289	7	Investment risk	Equity
	TOTAL	414			
CORPORATE CENTER	ALCO strategic mismatch	411		Market risk – interest rate risk	AA ⁷

1. *Basis Point Value (BPV)* is the change in the present value of an asset due to a one basis point increase in either credit spreads or interest rates, as explained further in 'Market Risk Management – Overview'. This means, for instance, that an asset with a BPV of 10 moves EUR 10 in response to a one basis point shift. The figures between brackets have a negative impact on the mark to market of the position.

2. Drawn and undrawn exposure amount.

3. Ratings are internal counterparty ratings, which do not take into account level of collateralisation.

4. Excludes Provide Orange (a synthetic RMBS) includes the pipeline of residential mortgages and includes internal securitisations. Internal securitisations are transactions executed for liquidity purposes. In an internal securitisation, the notes from the securitisation are not sold to external investors but are retained on the Bank's balance sheet. Therefore there is no transfer of risk to a third party, and all risk is retained by the Bank. The pipeline of residential mortgages includes outstanding mortgage offers to clients.

5. Equity tranche notes and mezzanine interests we retain from our RMBS / CMBS programmes.

6. Trading book for trading interest rate derivatives (e.g. swaps, FRAs).

7. Ratings from external rating agencies for counterparties of our Financial Markets SBU.

8. Held in Financial Markets.

9. Include retained first loss positions in our Securitized Debt and Leveraged Loans securitisations, and some small positions in equity tranches of third party securitisations. The fair value of these positions was EUR 36 million at 31 December 2007.

The following table shows our portfolios and their risk characteristics as at 31 December 2006.

The risk presented reflects the main risk addressed to this asset, the asset might be covered within other risk areas as well.

Portfolios and their risk characteristics as at 31 December 2006

SBU	Assets / trading books	Nominal value in EUR millions or Basis point value ¹ (interest and client trading books)	Ref. to reconciliation table as follows	Main Risk Category	Average Rating
CORPORATE FINANCE	Corporate loans	9,104 ²	1	Credit Risk	BB- / B+ ³
REAL ESTATE MARKETS	Residential mortgages	3,840 ⁴	2	Market risk – credit spread risk	AA-
	Commercial Real Estate and Infrastructure eligible for sale / securitisation portfolios ³	945	3	Market risk – credit spread risk	A
	RMBS / CMBS notes ⁵	112 ⁵	4	Market risk – credit spread risk	B+
FINANCIAL MARKETS	FIXED-INCOME				
	Money market and trading	(18,000) BPV		Market risk – credit spread risk	AA ⁷
	Fair value interest trading ⁶	(28,000) BPV		Market risk – interest rate risk	AA ⁷
	Financial Markets mismatch	250			
	Interest rate & derivatives	(74,000) BPV		Market risk – interest rate risk	AA ⁷
	INVESTMENT AND CREDIT TRADING PORTFOLIOS				
	Credit trading	(113,000) BPV		Market risk – interest rate risk	
	Financials & Sovereigns	2,056		Market risk – credit spread risk	
	Structured Investments	1,422		Market risk – credit spread risk	
	Credit Fixed-Income Funds	223		Market risk – credit spread risk	
	Corporate credits	809			
	Securitised debt products EU ⁸	1,931			
	Securitised debt products US ⁸	2,216		Market risk – credit spread risk	
	Leveraged loans warehoused for securitisation	174		Market risk – credit spread risk	
	First loss positions ⁹ (market value)	76	5	Market risk – credit spread risk	
	TOTAL (NOMINAL EXPOSURE)	8,907		Market risk – credit spread risk	BBB+
PRINCIPAL INVESTMENTS	Mezzanine loans (fair market value)	192	6	Credit risk	BB- / B+
	Equity (fair market value)	171	7	Investment risk	Equity
	TOTAL	363			
CORPORATE CENTER	ALCO strategic mismatch	600		Market risk – interest rate risk	AA ⁷

1. *Basis Point Value (BPV)* is the change in the present value of an asset due to a one basis point increase in either credit spreads or interest rates, as explained further in 'Market Risk Management – Overview'. This means, for instance, that an asset with a BPV of 10 moves EUR 10 in response to a one basis point shift. The figures between brackets have a negative impact on the mark to market of the position.
2. Drawn and undrawn exposure amount.
3. Ratings are internal counterparty ratings, which do not take into account level of collateralisation.
4. Excludes Provide Orange (a synthetic RMBS) includes the pipeline of residential mortgages and includes internal securitisations. Internal securitisations are transactions executed for liquidity purposes. In an internal securitisation, the notes from the securitisation are not sold to external investors but are retained on the Bank's balance sheet. Therefore there is no transfer of risk to a third party, and all risk is retained by the Bank. The pipeline of residential mortgages includes outstanding mortgage offers to clients.
5. Equity tranche notes and mezzanine interests we retain from our RMBS / CMBS programmes.
6. Trading book for trading interest rate derivatives (e.g. swaps, FRAs).
7. Ratings from external rating agencies for counterparties of our Financial Markets SBU.
8. Held in Financial Markets.
9. Includes retained first loss positions in our Securitised Debt and Leveraged Loans securitisations, and some small positions in equity tranches of third party securitisations. The fair value of these positions was EUR 49 million at 31 December 2006.

The following table shows an overview of the reconciliations between the amounts of the different assets in the risk characteristics tables and the balance sheet as at 31 December 2007 and 2006.

In general, in the risk characteristics table, risk exposure figures are at nominal value and figures in the balance sheet are at fair value. NIBC carries risk over the nominal value of assets and therefore the balance sheet figures differ from risk management figures. The table should be read in conjunction with the following comments:

Reconciliation of the risk exposure table to the balance sheet

		2007	2006
I. LOANS AND RECEIVABLES (AC, AFS, FVtPL)	BALANCE SHEET	8,434	7,849
1.1 Commercial real estate / infrastructure eligible for sale / securitisation portfolios		(1,661)	(945)
1.2 Mezzanine loans		(125)	(192)
1.3 Undrawn facilities		2,148	2,750
1.4 Fair value		80	(107)
1.5 Provisions		67	83
1.6 Fees		22	25
1.7 Call & Notice		(232)	(297)
1.8 Suspense accounts		(3)	(123)
1.9 Corporate Finance equity positions in corporate loans table	reclass from note 7	2	14
1.10 Financing NIBC NV		-	-
1.11 Mesdag Delta		(638)	-
Other		(100)	47
TOTAL CORPORATE LOANS	RISK EXPOSURE TABLE	7,995	9,104
2. RESIDENTIAL MORTGAGES OWN BOOK	BALANCE SHEET	5,285	4,438
2.1 Fair value		110	105
2.2 Pipeline		120	212
2.3 Provide Orange		(964)	(989)
Other		45	74
TOTAL RESIDENTIAL MORTGAGES	RISK EXPOSURE TABLE	4,596	3,840

Reconciliation of the risk exposure table to the balance sheet (continued)

		2007	2006
3. LOANS AND RECEIVABLES (FVtPL)	BALANCE SHEET	1,374	952
3.1 SLT Portfolio ¹		(133)	-
3.2 CLO Backbook		(113)	-
3.3 Undrawn facilities CMBS / Infrastructure ² (FVtPL)		97	-
3.4 Fair value		17	(7)
3.5 Infrastructure eligible for sale / securitisation portfolio AfS (drawn + undrawn)		93	-
3.6 CMBS eligible for sale / securitisation portfolio AfS (drawn + undrawn)		325	-
Other		1	-
TOTAL COMMERCIAL REAL ESTATE / INFRASTRUCTURE ELIGIBLE FOR SALE / SECURITISATION PORTFOLIOS	RISK EXPOSURE TABLE	1,661	945
4. DEBT SECURITIES	RECLASS FROM NOTE 5	4	3
4.1 Eliminated RMBS / CMBS notes		165	68
4.2 Due from other banks		44	40
TOTAL RMBS / CMBS / INFRASTRUCTURE NOTES	RISK EXPOSURE TABLE	213	112
5. DEBT SECURITIES AfS	BALANCE SHEET	311	
DEBT SECURITIES FVtPL	BALANCE SHEET	3,055	7,202
STRUCTURED INVESTMENTS	BALANCE SHEET	1,212	914
5.1 Retained Infrastructure equity note in Debt securities	reclass to note 4	(4)	(3)
5.2 Fair value		223	183
5.3 Off-balance		317	1,127
5.4 Leveraged loans in loans and receivables			125
5.5 Credit trading assets		(215)	(513)
Other		106	(128)
TOTAL FINANCIAL MARKETS	RISK EXPOSURE TABLE	5,005	8,907
6. LOANS AND ADVANCES TO CUSTOMERS	RECLASS FROM NOTE I	125	192
6.1 Mezzanine loans	risk exposure table	125	192
7. EQUITY INVESTMENTS (AFS)	BALANCE SHEET	291	185
7.1 Corporate Finance equity	reclass to note I	(2)	(14)
EQUITY PRINCIPAL INVESTMENTS (PI)	RISK EXPOSURE TABLE	289	171
CREDIT TRADING ASSETS FINANCIAL MARKETS (ON- AND OFF-BALANCE SHEET)		215	630
TOTAL		20,099	24,093

1. Secondary Loan Trading.

2. Commercial Real Estate / Infrastructure loans.



Loans and receivables

The balance sheet amount consists of loans and receivables at *Amortised Cost (AC)*, *Available for Sale (AFS)* and at *Fair Value through Profit and Loss (FVtPL)*.

- **1.1: Commercial real estate / infrastructure eligible for sale / securitisation portfolios:** this amount is included in the balance sheet item Loans and receivables and presented separately in the risk exposure table under note 3 below;
- **1.2: Mezzanine loans:** this amount is included in the balance sheet item Loans and receivables and presented separately in the risk exposure table under note 6 below;
- **1.3: Undrawn facilities:** undrawn exposure amount is part of total corporate loan risk exposure, but it is an off-balance sheet amount and therefore corrected for risk management purposes;
- **1.4: Fair value:** fair value adjustment is the difference between the nominal exposure used for risk management purposes and the fair value of the corporate loans as presented on the balance sheet;
- **1.5: Credit loss provisions:** the impairment losses on loans and receivables are added for risk management purposes in order to correct the balance sheet from fair value to nominal exposure;
- **1.6: Fees:** capitalized fees included in loans and receivables are added for risk management purposes in order to correct the balance sheet amount to nominal exposure;
- **1.7: Call & Notice:** cash collateral held by NIBC with non-bank counterparties which is classified as loans and receivables on the balance sheet. This amount is used for mitigating derivative exposure and is not part of risk exposure;
- **1.8: Suspense accounts:** accounts to settle in- and outgoing payments and relates to timing differences;
- **1.9: Corporate Finance equity positions:** Corporate Finance equity positions are included in the balance sheet item Equity Investments and therefore reclassified from note 7;
- **1.10: Financing NIBC NV:** this is an intercompany loan from the parent of NIBC and is therefore not part of the risk exposure;
- **1.11: Mesdag Delta:** the credit risk for this consolidated securitisation is sold, and is therefore not part of the risk exposure.



Residential mortgages own book

- **2.1: Fair value:** fair value adjustment is the difference between the nominal exposure used for risk management purposes and the fair value of the the residential mortgages own book as presented on the balance sheet.
- **2.2: Pipeline:** includes outstanding mortgage offers (undrawn commitments) to clients and is already part of the risk exposure. The option value of the pipeline is presented separately under liabilities on the balance sheet.
- **2.3: Provide Orange:** this is a synthetic securitisation on the balance sheet that is still part of 'Residential mortgages own book'. However, credit (spread) risk has been sold by an underlying credit default swap, and therefore this transaction is not part of risk exposure in risk table.

> 3

Loans and receivables (FVtPL)

Loans and receivables on the balance sheet include several loan portfolios and for risk management purposes the loan portfolio eligible for sale / securitisation are disclosed separately and derived as follows from the balance sheet amount.

- **3.1: SLT portfolio:** Secondary loan trading book is part of loans and receivables (FVtPL), but is not part of the loan portfolio eligible for sale / securitisation;
- **3.2: CLO Backbook:** Leveraged loans backlog is part of loans and receivables (FVtPL), but is not part of the loan portfolio eligible for sale / securitisation;
- **3.3: Undrawn facilities CMBS / Infrastructure:** undrawn exposure amount is part of Commercial real estate / Infrastructure risk exposure, and it is an off-balance sheet amount and therefore corrected for risk management purposes;
- **3.4: Fair value:** fair value adjustment is the difference between the nominal exposure used for risk management purposes and the fair value of the corporate loans eligible for sale / securitisation as presented on the balance sheet;
- **3.5: Infrastructure eligible for sale / securitisation portfolio (drawn + undrawn):** this portfolio is part of loans and receivables (AfS), and since part of this loan portfolio the amount is added to loans eligible for sale / securitisation;
- **3.6: CMBS eligible for sale / securitisation portfolio (drawn + undrawn):** this portfolio is part of loans and receivables (AfS), and since part of this loan portfolio the amount is added to loans eligible for sale / securitisation.

> 4

Debt securities

The amount of EUR 4 million reflects a retained equity note of an infrastructure securitisation, included in the balance sheet item Debt Securities and is therefore reclassified from note 5 below.

- **4.1: Eliminated RMBS / CMBS notes:** due to the consolidation of securitisations on the balance sheet, these retained positions are netted with the notes on the liability side of the balance sheet. In risk terms, these positions are part of the risk exposures of the assets;
- **4.2: Due from other banks:** reserve accounts that are part of retained risk of securitisations, therefore part of RMBS / CMBS / Infrastructure exposure in table, but reflected in balance sheet item Due from other banks.

> 5

Debt securities / structured investments

- **5.1: Retained Infrastructure equity note in Debt Securities:** this amount of EUR 4 million reflects a retained equity note of an infrastructure securitisation, which is part of Debt Securities, but not part of Financial Market assets (part of RMBS / CMBS / Infrastructure notes in the risk exposure table);
- **5.2: Fair value:** fair value adjustment is the difference between the nominal exposure used for risk management purposes and the fair value of the debt securities / structured investments as presented on the balance sheet;
- **5.3: Off-Balance:** risk exposure is defined as nominal value for risk management purposes, while on the balance sheet only the difference between the nominal value and the fair value is reported under 'Derivatives Financial Assets';

- **5.4: Leveraged Loans:** leveraged loans are part of SBU Financial Markets and included under loans and receivables on the balance sheet in 2006;
- **5.5: Credit trading assets:** for risk management purposes, the on- and off-balance positions of Credit trading are shown in terms of interest rate BPV or credit spread BPV and not as nominal risk exposure, as can be verified in the risk exposure table.

> 6

Loans and receivables

- **6.1: Mezzanine loans:** mezzanine loans are part of loans and receivables on the balance sheet, and presented separately for risk management purposes. The amount is reclassified from note 1 on the previous page.

> 7

Equity Investments

The balance sheet amount consists of Equity investments *Available for Sale (AFS)* and at *Fair Value through Profit and Loss (FVtPL)*.

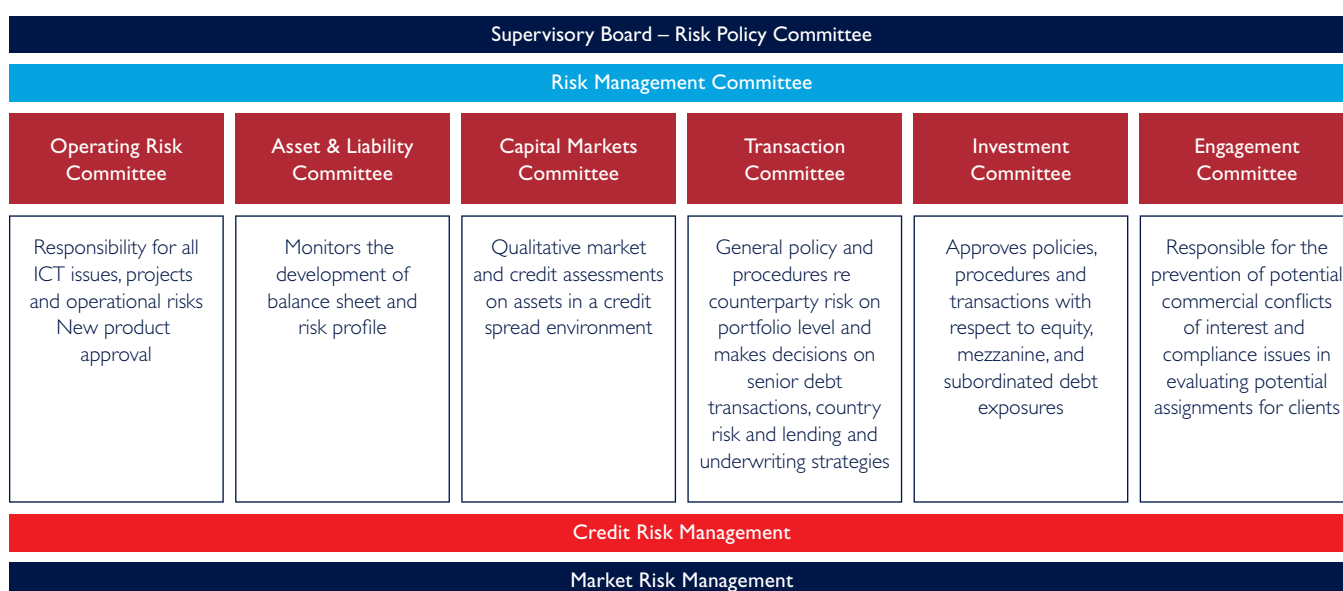
- **7.1: Corporate Finance equity:** corporate finance equity is part of equity investments on the balance sheet, and is reclassified to note 1, corporate loans on the previous page.

The ALCO strategic mismatch of nominal value of USD 600 million (in 2007) is an interest rate swap position. Therefore, these off-balance instruments are not shown at nominal value on the balance sheet (only the fair value is on the balance sheet). For risk purposes, the nominal value of the swap position is shown in the risk exposure table.

risk governance structure

Under the supervision of our Managing Board and the Risk Policy Committee of our Supervisory Board, formal authority and ultimate decision-making in respect of risk management matters is the responsibility of our *Risk Management Committee (RMC)* and its sub-committees, ensuring that assessment and acceptance of credit, market, investment, liquidity and operational risk exposure is made independently of the business originators within the SBUs.

Our Risk Management Committees and departments, which comprise our risk governance structure, are set out in the following chart:



The RMC determines our overall risk appetite and risk profile at a strategic level, evaluates the risk management elements of new activities and products as well as any reputational risks and approves major changes to risk policies. The RMC has delegated decision-making authority for particular areas to the sub-committees described below. All four members of our Managing Board are members of the RMC, which also includes representatives from the Transaction Committee and the ALCO. As necessitated by the topics to be discussed, specialists in certain areas are also invited to the meetings of the RMC. The RMC meets on an ad hoc basis.

The responsibilities of our risk management sub-committees are explained below:

- The *Operating Risk Committee (ORC)* is responsible for determining and overseeing the implementation of measures to bring and maintain operational risk within acceptable limits, and reducing the frequency and impact of operational risk events in a cost effective manner. The ORC monitors the design, presence and operation of the bank's internal risk management and control systems. To this end the ORC reviews and approves the operational risk framework of the bank, project budgets and prioritization, new products, outsourcing, internal audit measures of improvement and business continuity. The ORC further monitors the effectiveness of the measures taken to limit the bank's exposure to

operational risk through the semi-annual control risk self assessment and the annual in control report completed by every (S)BU. The Operational Risk Manager reports functionally to the ORC. All the members of our Managing Board are members of the ORC. The ORC meets on a bi-weekly basis;

- The *Asset and Liability Committee (ALCO)* monitors the development of our balance sheet and risk profile. The ALCO monitors market risks, credit risks at an aggregate level, our capital structure and our liquidity position both at an aggregate balance sheet level and at a portfolio level. The ALCO also approves large transactions such as securitisations, sets overall limits on risk exposures and manages our strategic interest rate position. The ALCO receives reports on all breaches of risk limits on a quarterly basis. Three members of our Managing Board are members of the ALCO. The ALCO meets on a weekly basis;
- The *Transaction Committee (TC)*, the Bank's Credit Committee, sets and guides our general policy and procedures regarding counterparty risk on a portfolio level and makes decisions on senior debt transactions, impairments, country risk and lending and underwriting strategies, as well as evaluating opportunities for potential subsequent distribution of the asset. The TC sets limits and monitors exposure and impairments. Three members of our Managing Board are members of the TC. Meetings of the TC take place twice a week;
- The *Investment Committee (IC)* is responsible for investment risk. The IC approves policies, procedures and transactions with respect to equity, mezzanine and subordinated debt exposures as well as impairments and revaluations. Three members of our Managing Board are members of the IC. The IC meets on a weekly basis;
- The *Engagement Committee (EC)* is responsible for the prevention of potential commercial conflicts of interest and compliance issues in evaluating potential assignments for our clients. Three members of our Managing Board are members of the EC. The EC meets on a weekly basis;
- The *Capital Markets Committee (CMC)* focuses on assets in a credit spread environment by means of qualitative market and credit assessments. The committee operates on the intersection of market risk and credit risk. Two members of our Managing Board are members of the CMC. The CMC meets on a weekly basis.

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

In order to promote a consistent approach to risk management across all our commercial activities, our centralised risk management functions are based in two risk management departments, the *Credit Risk Management department (CRM)* and the *Risk Management department (RM)*, covering all our SBUs. These departments support the various risk management committees dedicated to monitoring the different risk categories we face (see the following chart). The primary responsibility of CRM and RM is to identify, measure, evaluate and report on all credit, market, investment, liquidity and operational risks to which we are exposed, including country risk. Our CRM and RM departments carry out daily risk control and monitoring activities, and also prepare and implement review and control policies for all risk portfolios. CRM and RM support our risk management committees by carrying out the following risk management responsibilities:

- CRM is responsible for the credit risk management of the Corporate Finance and Real Estate Markets SBUs, as well as for our leveraged loan portfolios, and for investment risk management of the Principal Investments SBU. CRM develops and implements policies and procedures regarding credit risk and investment risk, advises on credit and investment proposals and reviews potential impairments. For additional information on the duties and responsibilities of CRM see page 59 'Credit Risk Management – Overview'. CRM also contributes to Basel II activities.
- RM is responsible for managing risks for our Real Estate Markets, Financial Markets and Corporate Center SBUs. Key risks in these SBUs are market risk (interest rate and credit spread risk) and, within Financial Markets, credit risk from *Over The Counter (OTC)* derivatives, which despite being classified as a non-market risk is monitored by RM as part of its comprehensive management of all Financial Markets' risks. On a bank-wide level, RM is responsible for liquidity and operational risk. RM maintains the systems we use to measure market and counterparty risk, and supports our asset and liability management policies as established by the ALCO. RM also contributes to our operational risk management and Basel II activities.

The following table presents the primary responsibilities of CRM and RM by SBU:

Credit Risk Management			Risk Management		
Credit Risk Management	Investment Risk		Market Risk		
Corporate Finance	Principal Investments		Real Estate Markets	Financial Markets	Corporate Center
Senior lending	Mezzanine lending	Equity (listed / non listed)	Residential real estate finance, Commercial real estate finance, Infrastructure loans: assets eligible for sale / securitisation	Investment portfolios and funding Trading portfolios Portfolios eligible for sale / securitisation Counterparty risk FM as well	Interest rate mismatch positions
Market Risk Management					
Operational Risk and Liquidity Risk (Bank-wide)					

CRM and RM generate a number of risk reports relevant to their areas of responsibility.

These reports are delivered to the appropriate risk management sub-committees as part of our overall risk control framework.

overview of the asset base

The following charts present our total asset portfolios, nominal value EUR 20.1 billion as at 31 December 2007 and EUR 24.1 billion as at 31 December 2006, held across all our SBUs, by portfolio, rating, geography and currency. For purposes of our risk management systems, we analyse our total asset base, as presented in the charts below, by:

- Considering both drawn and undrawn amounts;
 - Considering nominal value rather than fair market value of our assets;
 - Excluding securitised residential mortgages with the exception of retained no credit risk.
- Total assets depicted in the following charts do not include certain items from our consolidated balance sheet, including securitised residential mortgages and non-cash assets which have minimal risk exposure. It also does not reflect our interest rate mismatch position.

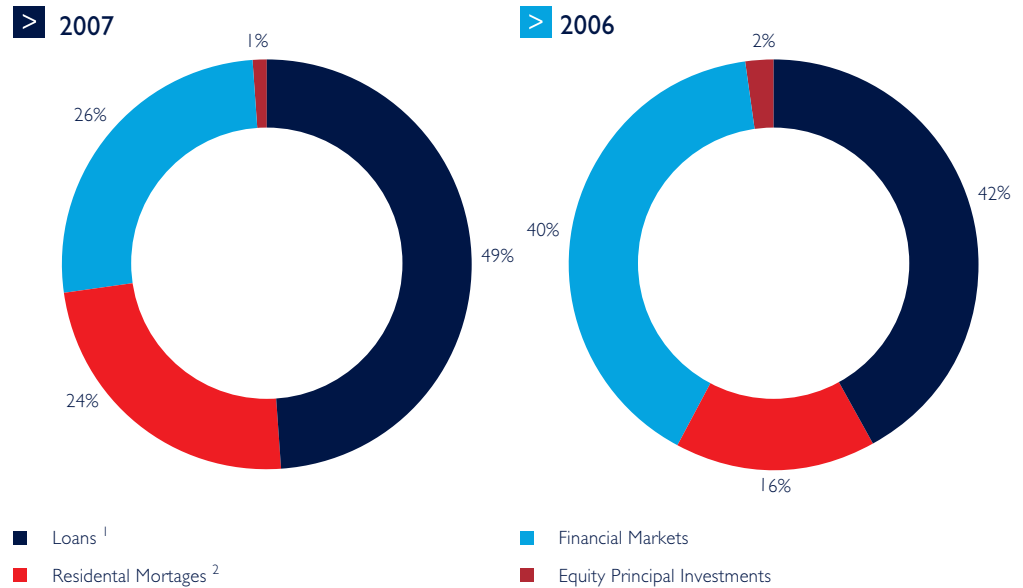
In 2007 the risk exposure assets as presented in this section, declined as a result of lower debt securities of our Financial Markets SBU.

The performance of NIBC in 2007 is strongly affected by the results on the US ABS investment book, which to a large extent was de-risked during 2007. NIBC decreased its debt securities portfolio from EUR 7.2 billion (end of 2006) to EUR 3.4 billion (end of 2007). This decrease includes the de-risking of the US ABS investment book which amounted to EUR 2.2 billion at the beginning of 2007 and EUR 0.7 billion at the end of 2007. In 2007 this result was a EUR 256 million loss net of tax. The de-risking was executed by means of two actions:

- The sale of US securities of EUR 0.7 billion during the first half year of 2007;
- The sale of a portfolio of EUR 0.4 billion of all US sub prime residential mortgage ABS securities.

The remaining decrease of EUR 0.4 billion reflects the before tax loss on the US ABS investment book and the devaluation of the US dollar in the first half year of 2007.

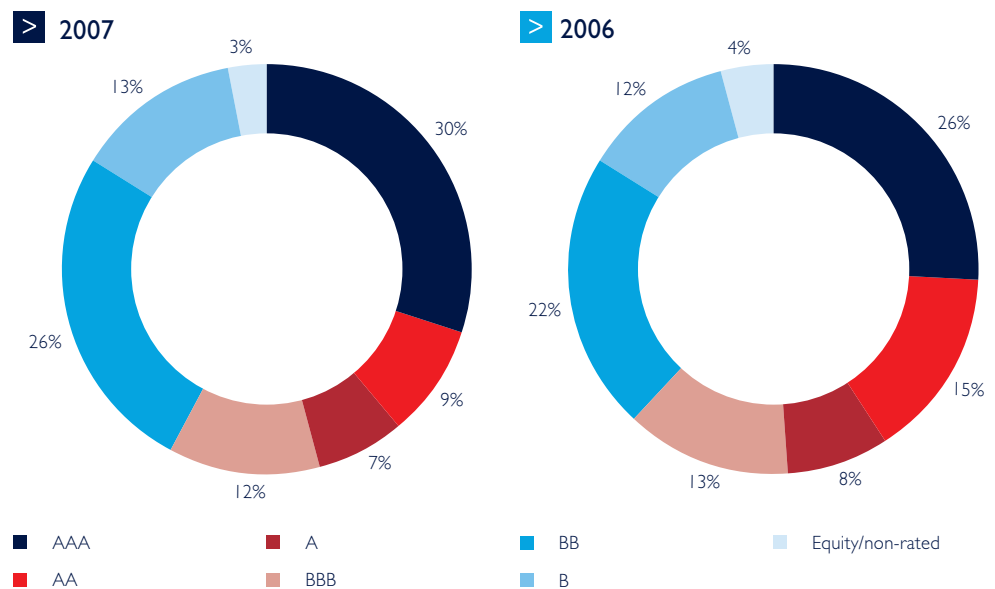
Assets by Portfolio ¹



1. Loans include Corporate Loans, Commercial Real Estate / Infrastructure eligible for sale / securitisation portfolios and Mezzanine Loans.
 2. Residential Mortgages include Residential Mortgages and RMBS / CMBS / Infrastructure notes.

Based on total nominal risk management exposure of EUR 20.1 billion as at 31 December 2007 and EUR 24.1 billion as at 31 December 2006.

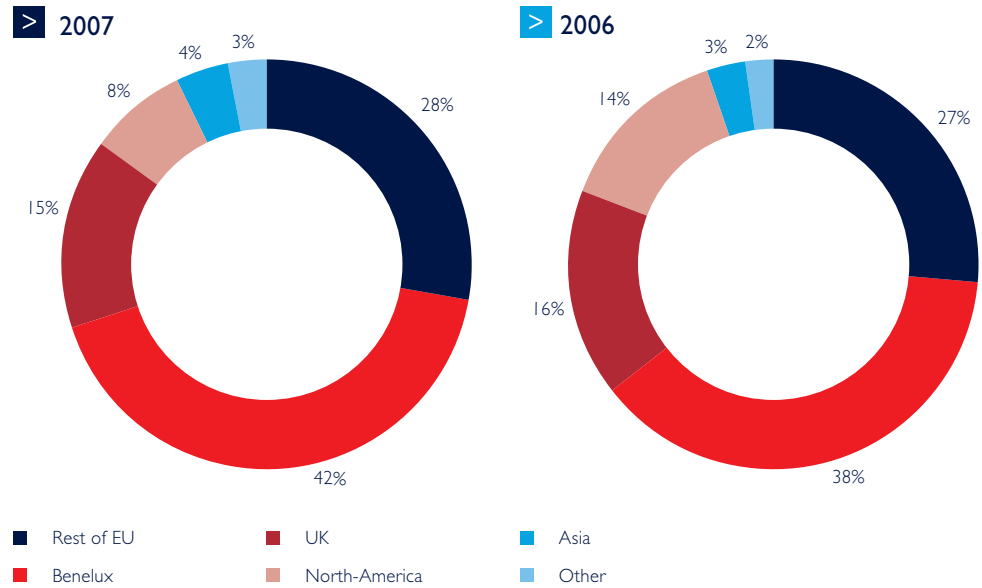
Assets by Rating ¹



1. As at 31 December 2007 and 31 December 2006, based upon external ratings except for corporate loans and mortgages which are according to our internally-developed credit-rating methodology, as described below under 'Lending portfolio – credit ratings (page 60) and 'Credit Risk management – Real Estate Markets (page 77)'. '.

Based on total nominal risk management exposure of EUR 20.1 billion as at 31 December 2007 and EUR 24.1 billion as at 31 December 2006.

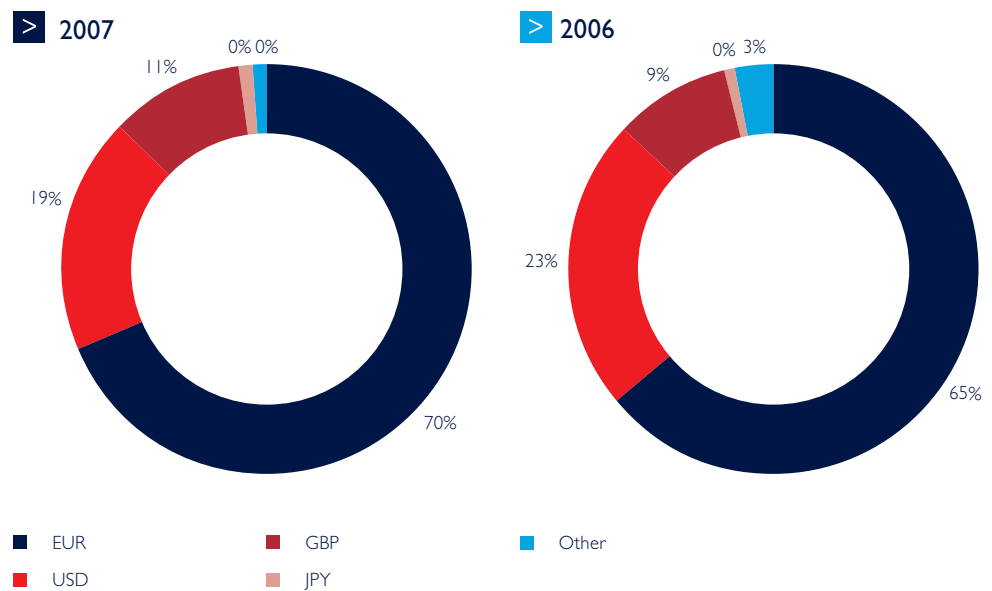
Assets by Geography ¹



1. As at 31 December 2007 and 31 December 2006. Calculated according to the region in which the borrowers' cash flows are generated. In certain cases, where the borrower's cash flows cannot be allocated to a specific geography, we allocate to the region of the domicile of the borrower.

Based on total nominal risk management exposure of EUR 20.1 billion as at 31 December 2007 and EUR 24.1 billion as at 31 December 2006.

Assets by Currency



Based on total nominal risk management exposure of EUR 20.1 billion as at 31 December 2007 and EUR 24.1 billion as at 31 December 2006.

The following table shows how the assets on the balance sheet can be reconciled to the total nominal risk management exposure as at 31 December 2007 and 2006.

The following additional items explain the underlying differences:

- **Cash:** this is the amount on the account at the Dutch Central Bank and is therefore not part of the Bank's risk exposure;
- **Due from other banks:** deposits etc. with banks that are not part of the risk exposure assets but that are part of counterparty risk exposure which is described on page 85;
- **Securitised Residential Mortgages:** as the credit (spread) risk has been transferred to the noteholders by means of securitisations, these assets are not part of the Bank's risk exposure, however these are part of the balance sheet;
- **Derivatives financial assets held for trading / hedging:** the fair value of derivative positions is largely neutralised by the derivative positions on the liability side of the balance sheet. The net effect is covered under counterparty risk; see section 'Credit risk management' – financial markets on page 85 for credit risk disclosures and section 'Market risk management' as from page 88 for market risk disclosures on derivatives;
- **Non financial assets:** these assets as described in notes 28 to 34 to the Consolidated Financial Statements are not considered in the financial risk analyses;
- **Risk Management adjustments as explained as from page 47:** this is the sum of all adjustments disclosed in the table in on pages 47-51 which shows the detailed reconciliation from balance sheet to nominal risk exposure figures.

Overview of the Asset Base

<i>IN EUR MILLIONS</i>	2007	2006
BALANCE SHEET	32,409	32,636
DIFFERENCES BETWEEN BALANCE SHEET AND RISK EXPOSURE		
Cash and balances with central banks (balance sheet)	(874)	(239)
Due from other banks (balance sheet)	(3,150)	(1,765)
Securitised Residential Mortgages (balance sheet)	(6,356)	(6,988)
Derivatives financial assets held for trading (balance sheet)	(2,633)	(1,940)
Derivatives financial assets held for hedging (balance sheet)	(85)	(300)
Non financial assets (balance sheet)	(723)	(814)
Risk Management adjustments as explained on page 49 ¹	1,377	3,370
Other	134	133
RISK EXPOSURE	20,099	24,093

1. Risk Management adjustments include:

- Loans and receivables: undrawn exposure EUR 2,148, fair value EUR 80, provisions EUR 67 fees EUR 22, call and notice EUR (232), 'suspense' accounts EUR (3), Mesdag Delta EUR (638), other EUR (100);
- Commercial real estate / infrastructure eligible for sale / securitisation portfolios: fair value 17;
- Residential mortgages own book: Provide orange EUR (964), pipeline EUR 120, fair value EUR 110, other EUR 45;
- Debt securities: fair value EUR 223, elimination RMBS / CMBS notes EUR 165, off-balance items Financial Markets EUR 317.

credit risk management

Overview

CRM is responsible for the credit risk management of the Corporate Finance and Real Estate Markets SBUs (with respect to commercial properties), as well as for Financial Markets leveraged loan portfolios (2006), and for the investment risk management of the Principal Investments SBU. CRM also develops and implements policies and procedures regarding credit and investment risk, reporting to the TC, the IC, our Managing Board and the Risk Policy Committee of our Supervisory Board. CRM is responsible for creating awareness with respect to general or specific credit and investment risks based on market circumstances and developments. For the SBUs and loan portfolios it monitors, CRM assesses counterparty risk and validates counterparty credit and facility ratings based on our internally-developed rating system as discussed below under 'Lending portfolio – credit ratings', under which we carry out a review of each counterparty at least once a year. CRM also assesses and advises on credit and investment proposals and reviews and potential impairments. CRM conducts continuous monitoring through monthly reports on payment arrears, tracking backlogs of credit reviews, and reviewing quarterly reports on impairments of the portfolios managed by Principal Investments and Corporate Finance, including Distressed Assets. On a quarterly basis, CRM prepares and presents portfolio reports to the TC on exposures per credit rating, industry segment, country, region and currency.

Credit Risk Management Principles

Our main credit risk management principles are:

- We authorise credit risk exposure independent of the business originators in the SBUs;
- Before committing to any transaction, we require authorisation by the relevant committee or at least two authorised individuals (the 'four-eyes principle');
- We perform systematic risk analysis with the aim of identifying, measuring and evaluating all risks;
- When appropriate, we consult with subject matter experts who are independent of the functions responsible for commercial and / or financial performance to undertake risk analysis and supervision;
- We only undertake transactions within generic market and product limits and individual counterparty limits.

Credit Risk Management – Lending

The following section presents an analysis of the risk characteristics as at 31 December 2007 and 2006 of our corporate loan portfolio, which comprises the assets originated by our general corporate financing activities and held by our Corporate Finance SBU and Real Estate Markets SBU (with respect to commercial properties) as well as the mezzanine financing portfolio held by our Principal Investments SBU and Financial Market's leveraged loan portfolios (2006). Tables in this 'Risk Management' section which reflect multiple currencies are expressed in euros converted using the euro exchange rate as of 31 December 2007 and 2006. Amounts in this 'Credit Risk Management – Lending' section reflect total exposure amounts (drawn and undrawn), without taking impairment amounts, collateral or other risk mitigation measures into account.

The credit risk for corporate loans includes the loan portfolios eligible for sale / securitisation portfolios. The total corporate loan portfolio can be specified as follows:

IN EUR MILLIONS		2007	2006
Corporate Loans	risk exposure table (pages 45-46)	7,995	9,104
Commercial real estate / infrastructure eligible for sale / securitisation portfolios	includes in loans and receivables, not in table	1,661	945
Mezzanine loans	includes in loans and receivables, not in table	125	192
TOTAL CORPORATE LOAN EXPOSURE	TABLES / GRAPHS PAGES 59-76	9,781	10,241

Management of credit exposures

We base credit decisions regarding our corporate loan portfolio on:

- *One Obligor Exposure (OOE)*, combining all committed and potential future exposure related to a counterparty;
- Counterparty credit rating, which reflects the *Probability of Default (PD)* of the counterparty.

The TC and the IC approve the vast majority of individual credit proposals, and CRM approves the proposals which are generally smaller in scale. All approvals of individual credit proposals are granted only after CRM makes a credit risk assessment and weighs it against aggregate limits we set per country, per industry segment and per individual counterparty. In principle the maximum final exposure we will accept to any single counterparty is approximately 5% of our Tier-I Capital. As an internal guideline, the maximum final take and hold exposure we will accept to any industry sub-sector is, in principle, 25% of our Tier-I Capital.

As at 31 December 2007, the total exposure amount (drawn and undrawn) of our twenty largest loans (excluding temporary positions) accounted for 13% of our total corporate loan portfolio exposure (both drawn and undrawn) and 57% and of our total BIS Capital (defined as our Tier-I and Tier-II capital), respectively 13% and 68% as at 31 December 2006.

The data generated by our internally-developed rating system is used as a key input for extensive credit portfolio analysis, taking into account data covering our entire portfolio, industry segment concentration and diversification effects and RAROC and EVA, as discussed above.

Corporate lending portfolio – credit ratings

We qualified for the ‘Advanced Internal Rating Based’ approach under Basel II when reporting the credit risk element of our regulatory capital. This requires that we maintain and validate a sophisticated internal credit rating methodology for each type of credit product we offer.

We have applied our internally-developed credit rating methodology since 2000. This methodology consists of two elements: a counterparty credit rating which reflects the probability of default of the borrower, and an anticipated loss element that expresses the potential loss in event of default. Our internally-developed rating system assesses credit risk solely based upon probability of default, without taking into account the mitigating effects of available collateral.

During 2007, we improved a loss given default model , as further specified on page 123 'Basel II Compliance'.

Regularly, we map counterparty credit ratings that we derive from our internal credit rating methodology to the Standard & Poor's rating methodology in order to gauge the consistency and reliability of our internal methodology.

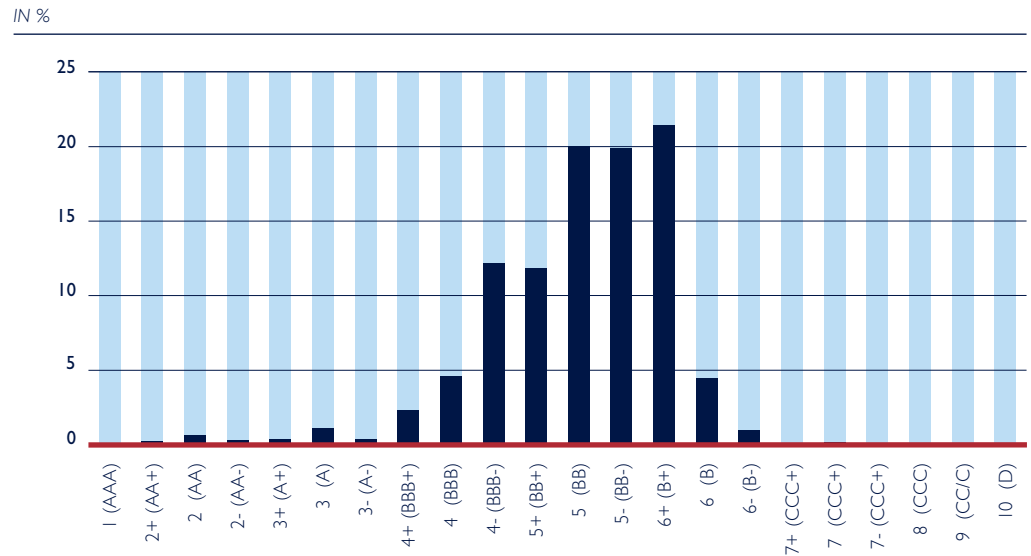
Statistical validation of our internal credit rating model requires confirmation against historical data from a significantly large pool of defaulted customers. Although we currently rely largely upon our own historical data to perform statistical validation, we initiated the Pan-European Credit Data Consortium in order to facilitate greater availability of data across the industry. This data pooling initiative currently has 30 members, including some of the largest banks in Europe. Over time, we believe the information collected through the data pooling initiative will support our ability to carry out sophisticated credit risk analysis and more efficiently allocate economic and regulatory capital.

The credit quality of our corporate loan portfolio can be assessed by reference to the internal rating system adopted by NIBC.

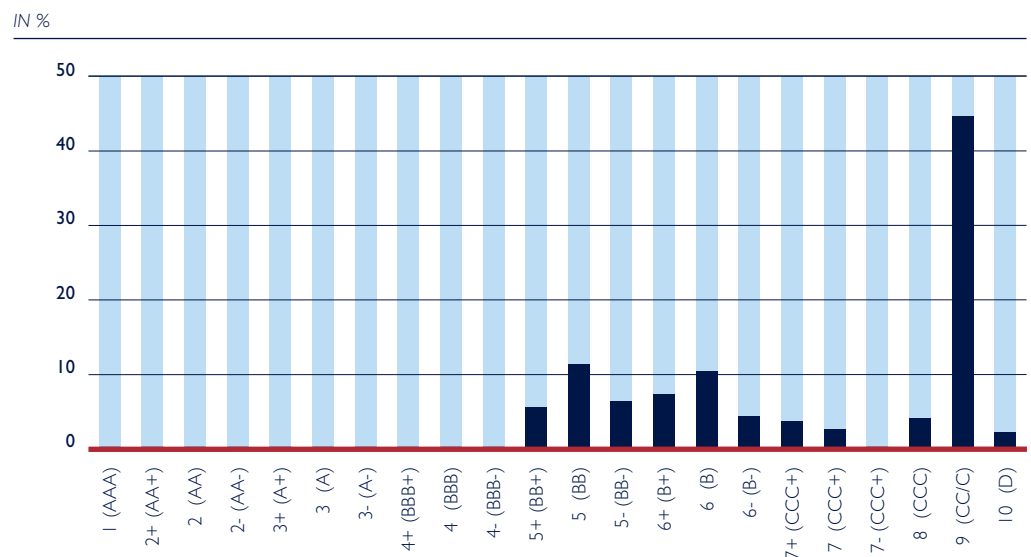
Our exposure to different credit rating levels as at 31 December 2007 and 2006, as categorised according to our internally-generated credit ratings, is set out in the following chart.

Our internally-generated credit ratings are numbered from 1 to 10, which are mapped with the corresponding credit ratings of Standard & Poors and are labelled from AAA to D.

% of Total excluding impaired¹ corporate loan exposure 2007

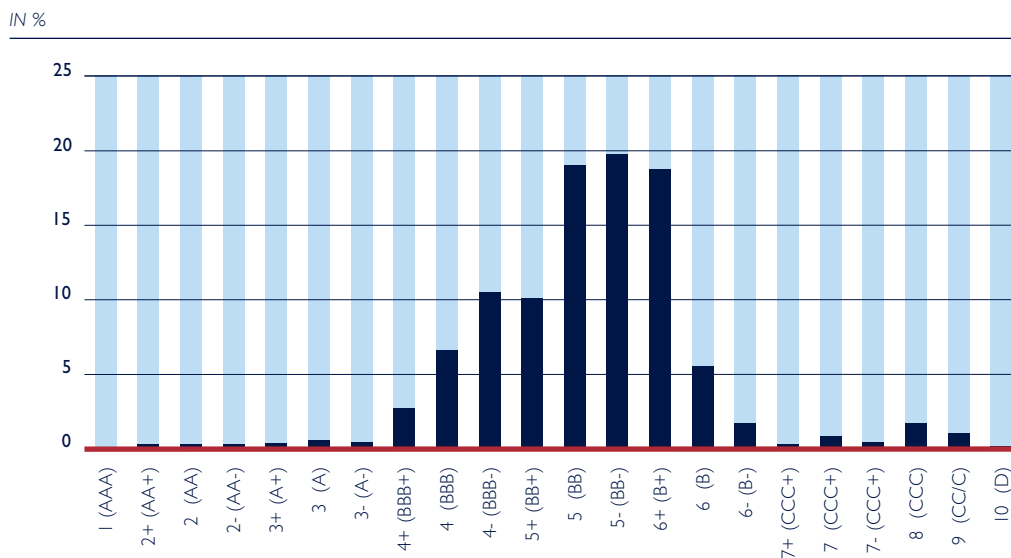


% of Total impaired¹ corporate loans outstandings 2007

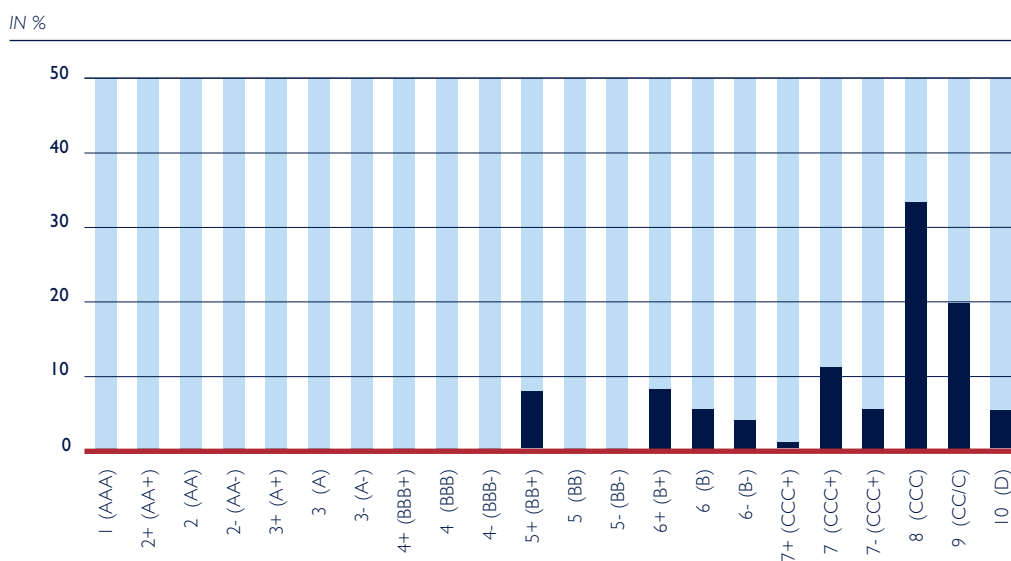


1. Impaired: we classify loans that meet one or more of the impairment criteria as 'impaired' and classify the entire outstanding amount of the loan, including other facilities of the same debtor which do not meet the impairment criteria, as an 'impaired outstanding'.

% of Total excluding impaired¹ corporate loan exposure 2006



% of Total impaired¹ corporate loans outstanding 2006



1. Impaired: we classify loans that meet one or more of the impairment criteria as 'impaired' and classify the entire outstanding amount of the loan, including other facilities of the same debtor which do not meet the impairment criteria, as an 'impaired outstanding'.

Total corporate loan exposure amount (both drawn and undrawn) of EUR 9.7 billion (2006 EUR 9.9 billion). Certain assets in our corporate loan portfolio, totalling EUR 0.1 billion (2006 EUR 0.3 billion), are not rated according to our internally-generated credit ratings for various reasons.

The rating distribution of our corporate loan portfolio (which represented approximately 51% of our total assets, excluding the securitised mortgages we hold on our balance sheet) as at 31 December 2007 and 42% as at 31 December 2006. Almost all of our exposures are in the 'BBB' to 'B' range, as measured by our internal ratings methodology.

Corporate lending portfolio – industry segment and geographical composition

The following charts and tables provide an overview of the total exposure amount (both drawn and undrawn) of our corporate loan portfolio per industry segment, rating distribution per segment and total exposure amount per region as at 31 December 2007 and 2006. Although our business operations and client activities focus on our seven client coverage teams, for risk management purposes we categorise industry segments according to the breakdown in the following charts and tables. These categories are those commonly used throughout the financial services industry, making comparative analysis and use of third party data possible.

The following table presents the distribution of the total exposure amount (both drawn and undrawn) of our corporate loan portfolio, by industry segment, as at 31 December 2007 and 2006.

	(Including non rated exposure)			
	2007		2006	
	Exposure ¹	% of portfolio	Exposure	% of portfolio
Real Estate	2,489	25.5%	2,231	21.8%
Shipping	1,488	15.2%	1,472	14.4%
Manufacturing	1,388	14.2%	2,061	20.1%
Trade	1,347	13.8%	1,347	13.2%
Transport / Telecom	1,156	11.8%	744	7.3%
Health / Education	733	7.5%	682	6.7%
Utilities	291	3.0%	422	4.1%
Food / Agriculture	171	1.7%	350	3.4%
Financial Services	137	1.4%	194	1.9%
Aviation	116	1.2%	179	1.7%
Other sectors	465	4.8%	559	5.5%
TOTAL LOAN PORTFOLIO²	9,781	100.0%	10,241	100.0%

1. Includes EUR 0.1 billion for 2007 and EUR 0.3 billion for 2006 in assets which are not rated according to our internally-generated credit ratings for various reasons.

2. Includes loans for securitisation and / or syndication.

The following table presents the distribution of credit ratings, as categorised according to the counterparty credit rating generated by our internal credit rating model and by industry segment in our corporate loan portfolio as at 31 December 2007 and 2006.

Distribution of Credit Ratings by Industry Segment 2007 (Excluding non rated exposure)

	AAA	AA	A	BBB	BB	B	CCC+	CCC	CC / C	D	Total
Aviation	0.00%	0.00%	0.00%	0.02%	0.12%	0.66%	0.03%	0.11%	0.50%	0.04%	1.48%
Financial Services	0.00%	0.00%	0.00%	0.00%	1.12%	0.47%	0.00%	0.00%	0.15%	0.00%	1.73%
Food / Agriculture	0.00%	0.00%	0.54%	0.83%	0.00%	0.65%	0.04%	0.00%	0.01%	0.01%	2.07%
Health / Education	0.00%	0.41%	0.12%	2.03%	3.08%	1.36%	0.00%	0.00%	0.00%	0.00%	6.99%
Manufacturing	0.00%	0.06%	0.00%	2.76%	4.00%	4.34%	0.02%	0.01%	0.27%	0.00%	11.47%
Other	0.00%	0.01%	0.11%	0.44%	1.78%	2.78%	0.01%	0.00%	0.00%	0.00%	5.14%
Real Estate	0.00%	0.31%	0.35%	2.06%	18.86%	6.78%	0.11%	0.00%	0.12%	0.04%	28.65%
Shipping	0.00%	0.00%	0.14%	2.03%	11.08%	1.39%	0.03%	0.00%	0.00%	0.02%	14.69%
Trade	0.00%	0.00%	0.00%	1.27%	5.68%	6.63%	0.00%	0.11%	0.09%	0.00%	13.78%
Transport / Telecom	0.00%	0.11%	0.00%	3.76%	3.03%	2.14%	0.18%	0.00%	1.49%	0.00%	10.70%
Utilities	0.00%	0.00%	0.15%	1.55%	0.99%	0.59%	0.01%	0.00%	0.00%	0.00%	3.30%
GRAND TOTAL	0.00%	0.90%	1.40%	16.76%	49.75%	27.78%	0.44%	0.23%	2.62%	0.11%	100.00%

Proportion of total corporate loan portfolio, outstanding drawn amount of EUR 7.6 billion and is excluding the undrawn exposure of EUR 2,148 million.

Distribution of Credit Ratings by Industry Segment 2006 (Excluding non rated exposure)

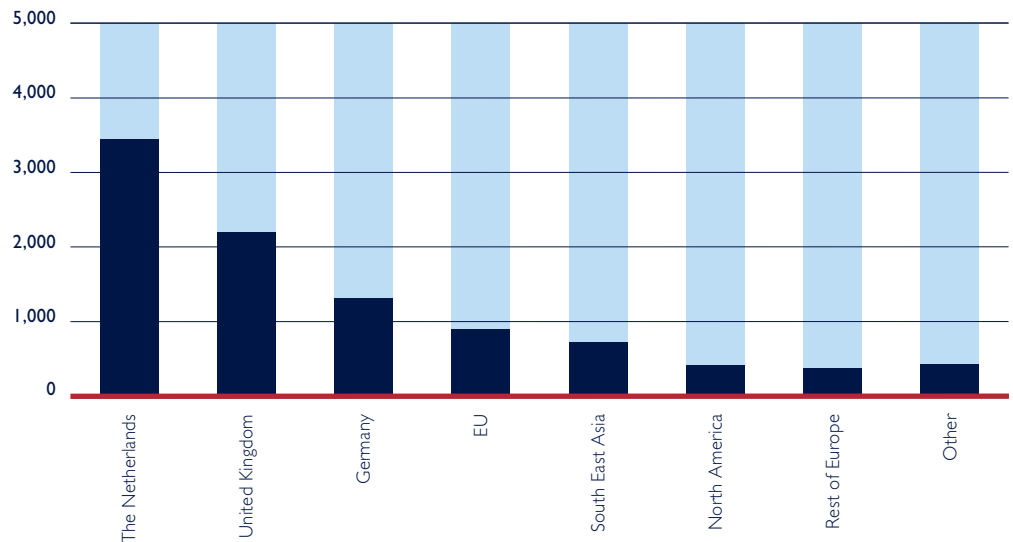
	AAA	AA	A	BBB	BB	B	CCC+	CCC	CC / C	D	Total
Aviation	0.0%	0.0%	0.0%	0.1%	0.4%	0.5%	0.2%	0.4%	0.0%	0.1%	1.8%
Financial Services	0.0%	0.0%	0.0%	0.0%	0.7%	1.1%	0.0%	0.0%	0.0%	0.0%	1.9%
Food / Agriculture	0.0%	0.0%	0.4%	1.4%	0.7%	0.3%	0.2%	0.0%	0.0%	0.0%	3.0%
Health / Education	0.0%	0.4%	0.1%	2.2%	3.1%	0.7%	0.0%	0.2%	0.0%	0.0%	6.7%
Manufacturing	0.0%	0.0%	0.0%	3.4%	7.4%	9.0%	0.3%	0.3%	0.1%	0.0%	20.7%
Other	0.0%	0.0%	0.1%	0.5%	3.1%	1.5%	0.0%	0.0%	0.0%	0.0%	5.3%
Real Estate	0.0%	0.2%	0.3%	4.3%	12.5%	4.7%	0.1%	0.0%	0.1%	0.0%	22.3%
Shipping	0.0%	0.0%	0.0%	1.9%	9.9%	3.0%	0.0%	0.0%	0.0%	0.0%	14.9%
Trade	0.0%	0.0%	0.0%	1.8%	7.3%	3.1%	0.1%	0.1%	0.2%	0.0%	12.7%
Transport / Telecom	0.0%	0.0%	0.0%	2.9%	1.6%	1.3%	0.1%	0.5%	0.2%	0.0%	6.7%
Utilities	0.0%	0.0%	0.1%	1.0%	2.1%	0.6%	0.1%	0.1%	0.2%	0.0%	4.2%
GRAND TOTAL	0.0%	0.6%	1.1%	19.6%	48.8%	25.9%	1.3%	1.6%	0.9%	0.1%	100.00%

Proportion of total corporate loan portfolio, outstanding drawn amount of EUR 7.5 billion and is excluding the undrawn exposure of EUR 2,750 million.

The following charts present the distribution of the total exposure amount (both drawn and undrawn) of our corporate loan portfolio as at 31 December 2007 and 2006, by geographic region, according to the country in which the borrower's cash flows are generated.

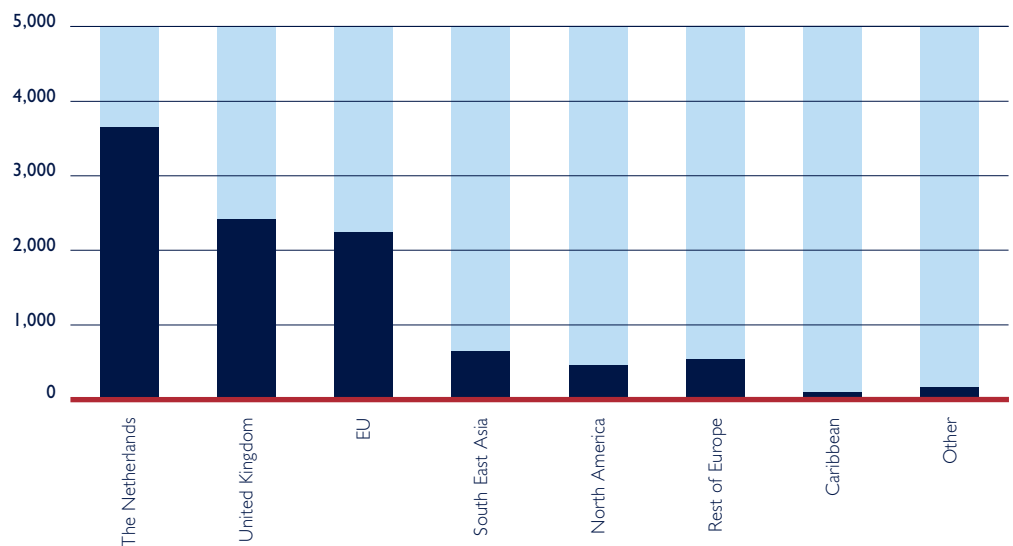
Corporate Loan exposure per region 2007

IN EUR MILLIONS



Corporate Loan exposure per region 2006

IN EUR MILLIONS



Total exposure amount (drawn plus undrawn) EUR 9.8 billion (2006 EUR 10.2 billion).

As at 31 December 2007, 40% of our total exposure amount (both drawn and undrawn) by region related to the Benelux region and approximately 84% of our geographical exposure (both drawn and undrawn) was within Europe.

Corporate lending portfolio – leveraged finance

Because of the increasingly aggressive debt structures especially during the first half of 2007 in the Leveraged Finance market, we exercised restraint in approving new Leveraged Finance debt especially with regard to covenant lite transactions and second lien debt and decreased our portfolio from EUR 1.7 billion to EUR 1.26 billion at year end. By the end of January 2008 the portfolio was reduced to EUR 0.95 billion. The portfolio comprises of over 80 transactions with an average size of EUR 15 million. The portfolio is spread over 8 different industry segments. The largest single exposure comprises less than 5% of the total exposure and is well collateralised. In general the companies have strong and sustainable market positions in their respective markets which are important risk mitigants.

It is our policy to focus on mid market transactions in the UK, German and Benelux markets which are characterized by significantly lower leverage ratios compared to the large Jumbos and Nordic transactions and in general better expected recovery ratios. Besides leverage and recovery ratios an adequate equity cushion including a financially committed management are relevant issues in our approval considerations.

Furthermore we focus on selected core equity sponsors with excellent track records to further mitigate the transaction risk.

As a result of the above considerations the number and size of new transactions in 2007 was very low.

Corporate lending portfolio – commercial real estate portfolio of Real Estate Markets SBU

The Commercial real estate loan portfolio of the SBU REM (EUR 1,958 million of the total EUR 2,489 million commercial real estate exposure of NIBC) consists of 124 mortgage loans to 35 counterparties. At year end EUR 1,716 million (88%) of the total exposure was drawn.

The portfolio is diversified across various commercial real estate classes and various countries. Loans financing multi-family properties account for 68% of the portfolio, loans financing office and retail properties account for 6.6% and 2.5% respectively. Hotel financing constitutes 12.7% and construction financing constitutes 5.9% of the portfolio. The remainder of 4.3% of the portfolio comprises of loans financing miscellaneous properties, including mixed use and industrial properties.

The commercial real estate is located for 39.4% in Germany, for 45.4% in the Netherlands and for 0.7% in other European countries.

The weighted average LTV of the entire portfolio is 73.9%. Of the total portfolio EUR 103 million exposure relates to so called B-notes (2nd lien exposure).

NIBC is continuing to distribute its portfolio through a broad array of distribution methods. The price levels achieved in the most recently closed distribution transactions (mainly in the banking market) provide the benchmark for the mark-to-market valuation per ultimo 2007.

Corporate lending portfolio – country risk

Country risk is potentially an important cause of increased counterparty default risk since a large number of related individual debtors could default at the same time. Our policy is to attempt to minimise country risk by monitoring the following elements:

- **Gross country exposure:** as a rule, we allocate exposure to the country in which the borrower's cash flows are generated. We define our gross country exposure as the aggregate maximum exposure (both drawn and undrawn) to all our borrowers or guarantors in a given country;
- **Net country exposure:** our net country exposure is our gross country exposure modified to take into account the value of certain moveable assets, such as ships and aircraft, securing loans to borrowers in a given country. The fair market value of such collateral is, after applying a valuation formula, deducted facility by facility from our gross exposure under all lending facilities in a given country to generate our net country exposure;
- **Country limits:** we maintain a country limit system to manage country risks by net country exposure for certain countries. In general, we do not apply a country limit to OECD countries. For other selected countries, we use a methodology based on government bond ratings provided by Moody's or Standard and Poor's to determine country limits.

The following table shows the gross and net exposures in our corporate loan portfolio, for countries bound by a country limit, as at 31 December 2007 and 2006.

	Gross exposure in EUR millions	% of portfolio	Net exposure in EUR millions	% of portfolio
REGION				
South East Asia	486	4.97%	224	2.29%
Non-OECD Europe	136	1.39%	85	0.87%
Caribbean	34	0.35%	21	0.21%
Other	241	2.46%	121	1.23%
TOTAL	897	9.17%	450	4.60%

Proportion of total corporate loan portfolio, exposure amount (drawn plus undrawn)
EUR 9.8 billion.

	Gross exposure in EUR millions	% of portfolio	Net exposure in EUR millions	% of portfolio
REGION				
South East Asia	463	4.52%	236	2.30%
Non-OECD Europe	193	1.89%	106	1.03%
Caribbean	108	1.06%	73	0.72%
Other	167	1.63%	86	0.84%
TOTAL	931	9.09%	501	4.89%

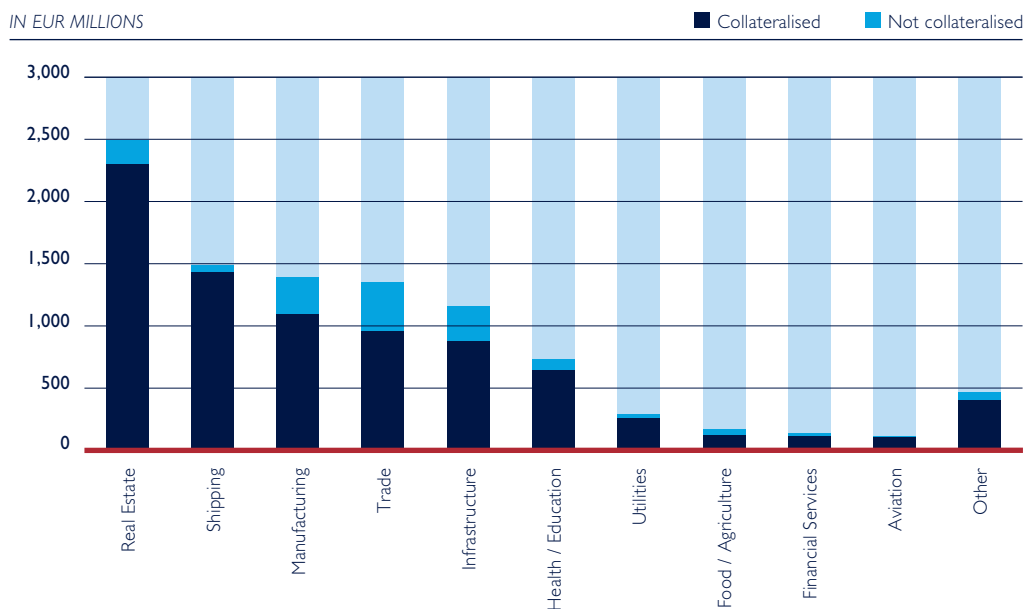
Proportion of total corporate loan portfolio, exposure amount (drawn plus undrawn)
EUR 10.2 billion.

Most of our gross and net exposure relates to our deep sea shipping portfolio. Our South-East Asia exposure originates mainly from pre-delivery shipping finance activities which are for the most part guaranteed by South-East Asian export banks. For 2006, most of our Caribbean exposure originates from the financing of utilities which was sold of during 2007.

Corporate lending portfolio – collateral risk mitigation

Corporate loans can be collateralised¹ by assets such as mortgages and receivables, by leases, or by liens on property, machinery and equipment or by third party guarantees and other similar agreements. If so, we deem the loan to be collateralised. Of our corporate loan portfolio by total exposure amount (both drawn and undrawn), 85% was collateralised as at 31 December 2007 and 75% was collateralised as at 31 December 2006. The following table shows the collateral profile of our corporate loan portfolio by industry segment and by proportion of exposure as at 31 December 2007 and 2006.

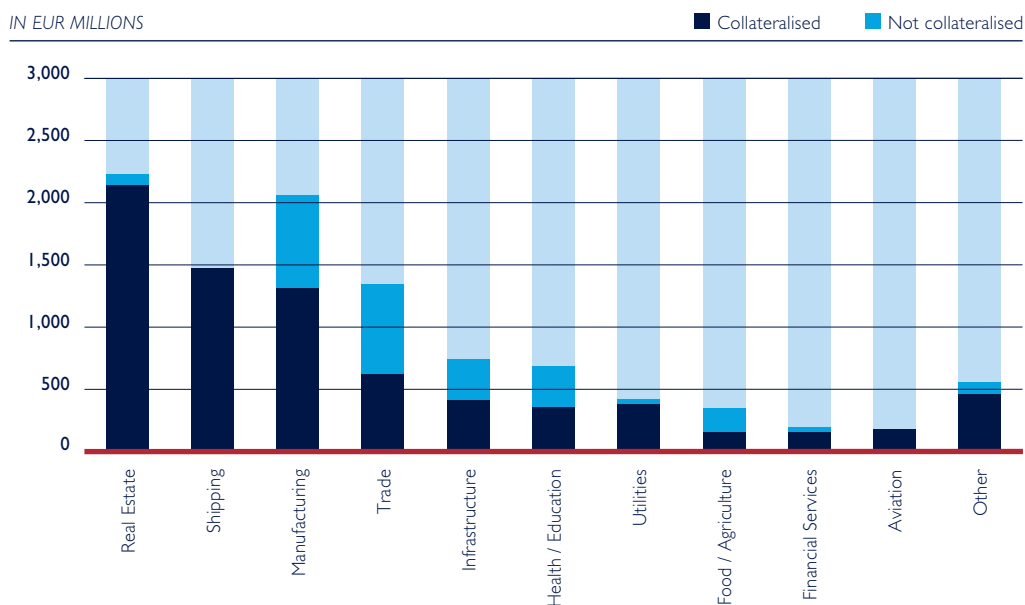
Breakdown of Collateral by Industry Segment and Proportion of Exposure 2007



Total exposure amount (drawn plus undrawn) EUR 9.8 billion.

1. Collateralised: Corporate loans can be (partly) secured by assets such as mortgages and receivables, by leases, or by liens on property, machinery and equipment or by third party guarantees and other similar agreements. If so, we deem the loan to be collateralised.

Breakdown of Collateral by Industry Segment and Proportion of Exposure 2006



Total exposure amount (drawn plus undrawn) EUR 10.2 billion.

In general, we request collateral to protect our interests. We ascribe value to collateral accepted for loans and guarantees, based on the assumption that documentation is effective and that enforcing our 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 forms of collateral securing our loans are tangible assets, such as real estate and equipment. We initially value collateral based on fair market value when structuring the transaction and evaluate the collateral (semi)-annually during the lifetime of the transaction. We typically confirm legal enforceability of our interest in collateral with independent third party experts. To arrive at the collateral value, we use external appraisers whenever possible, as well as methodologies based on common market practice. The realisable value of certain moveable assets, such as ships and aircraft, securing loans in the sectors shipping and aviation equals EUR 3,082 million as at 31 December 2007 and EUR 2,876 million as at 31 December 2006. Nearly all commercial real estate portfolio is collateralised. Also other parts of the corporate loan portfolio are to large extent collateralised (see figures above) but the collateral value is more difficult to determine, hence we, conservatively, value the collateral at nil.

Corporate lending portfolio – past due amounts

An arrear in payment occurs when a debtor is unable or unwilling to fulfil its obligations on any payment (including instalments and interests). If the past due arrear is more than 90 days old, one of the impairment criteria we apply is met and an impairment test is required in order to determine if an impairment amount is necessary.

The following table provides an overview of our corporate loan portfolio at 31 December 2007 and 2006, showing the total drawn exposure amounts for loans (both collateralised and not

collateralised) that have payments in arrear and the amounts of such arrears (comprising instalments and interest). The payments in arrear include arrears due to administrative causes.

Payments in Arrear 2007

IN EUR MILLIONS	Exposure amount of outstandings (including amounts in arrear)			% of outstandings	Amount in Arrear			% of outstandings
	Collateralised	Not collateralised	Total		Collateralised	Not collateralised	Total	
AGE OF PAYMENTS IN ARREAR								
Up to 30 days	176	29	205	2.68%	31	2	33	0.44%
30 - 60 days	10	-	10	0.13%	-	-	-	0.00%
60 - 90 days	7	-	7	0.09%	-	-	-	0.00%
SUBTOTAL LESS THAN 90 DAYS	193	29	222	2.90%	31	2	33	0.44%
Over 90 days	73	63	136	1.78%	10	26	36	0.47%
No payment arrear	6,415	860	7,275	95.32%	-	-	-	-
GRAND TOTAL	6,680	952	7,632	100.00%	41	28	69	0.90%

Payments in Arrear 2006

IN EUR MILLIONS	Exposure amount of outstandings (including amounts in arrear)			% of outstandings	Amount in Arrear			% of outstandings
	Collateralised	Not collateralised	Total		Collateralised	Not collateralised	Total	
AGE OF PAYMENTS IN ARREAR								
Up to 30 days	128	40	168	2.24%	3	-	3	0.04%
30 - 60 days	-	14	15	0.20%	-	14	14	0.19%
60 - 90 days	38	-	38	0.50%	-	-	-	0.00%
SUBTOTAL LESS THAN 90 DAYS	166	54	221	2.94%	3	15	18	0.24%
Over 90 days	292	87	378	5.04%	32	17	49	0.65%
No payment arrear	5,433	1,462	6,895	92.01%	-	-	-	-
GRAND TOTAL	5,890	1,603	7,494	100.00%	35	32	66	0.89%

Total undrawn exposure was EUR 2,148 as at 31 December 2007 (2006 EUR 2,750) and is excluded from this table.

Corporate lending portfolio – impairment amounts

Policies

We review the status of each of our loan counterparties at least once a year. In addition to this annual review, credit officers of the Corporate Finance SBU, Real Estate Markets SBU, Principal Investments SBU, Financial Markets SBU and CRM continually monitor the quality of counterparties in our portfolios. We classify loans that meet one or more of the impairment criteria as ‘impaired’ and classify the entire outstanding amount of the loan, including other facilities of the same debtor which do not meet the impairment criteria, as an ‘impaired outstanding’. Being deemed an impaired outstanding does not necessarily lead us to assign an impairment amount to a loan. By taking into account certain factors, and in particular the available collateral securing that loan, we calculate an impairment amount on an impaired outstanding only if the total impaired outstanding is greater than the sum of the net present value of the ‘realisable collateral value’ and any other cash flow we expect on the loan. We determine the realisable collateral value for a given element of collateral based upon our best estimate of what it could be sold, executed or liquidated for in the market, taking into account disposal and transaction costs. All loans are evaluated on an individual basis. Once we determine that an impaired outstanding requires an impairment amount, we classify the entire loan as a ‘non-performing outstanding’.

Impairments by industry segment and geographic region

Of the total impaired outstandings of EUR 451 million at 31 December 2007 and EUR 416 million at 31 December 2006, a total of EUR 165 million at 31 December 2007 and EUR 170 million at 31 December 2006 bore an impairment amount, and the drawn exposure amounts of the loans with impairment amounts were therefore classified as non-performing outstandings.

The following table sets out impairment data in relation to our corporate loan portfolio by industry segment as at 31 December 2007 and 2006.

Impairment amounts by Industry Segment 2007

	Impaired outstandings		Non-performing outstandings		Impairment amount	
	In EUR millions	In %	In EUR millions	In %	In EUR millions	In %
Transport / Telecom	132	29.3%	86	51.9%	22	37.2%
Manufacturing	97	21.4%	23	14.0%	14	24.0%
Real Estate	67	14.9%	12	7.5%	7	11.0%
Aviation	50	11.0%	32	19.6%	11	19.2%
Health / Education	45	10.0%	-	0.0%	-	0.0%
Trade	44	9.9%	7	4.1%	3	5.4%
Financial Services	11	2.5%	2	1.4%	-	0.4%
Food / Agriculture	3	0.7%	1	0.6%	-	0.8%
Shipping	2	0.3%	2	0.9%	1	1.9%
Utilities	-	0.0%	-	0.0%	-	0.0%
Other	-	0.0%	-	0.0%	-	0.1%
GRAND TOTAL	451	100.0%	165	100.0%	59	100.0%

As at 31 December 2007, total Corporate Loan portfolio EUR 9.8 billion, both drawn and undrawn.

The balance sheet impairment amount is EUR 67 million, the difference of EUR 8 million is due to the fact that the figure in this table includes only the value of the loan and not the provisions or other related payments.

Impairment amounts by Industry Segment 2006

	Impaired outstandings		Non-performing outstandings		Impairment amount	
	In EUR millions	In %	In EUR millions	In %	In EUR millions	In %
Manufacturing	117	28.2%	19	11.0%	15	17.9%
Aviation	75	18.0%	47	27.4%	19	22.5%
Transport / Telecom	71	17.2%	35	20.7%	20	24.1%
Trade	59	14.2%	24	14.0%	8	10.2%
Utilities	28	6.6%	28	16.2%	3	4.0%
Other	25	6.1%	1	0.4%	1	6.0%
Health / Education	21	5.0%	-	0.0%	-	0.0%
Real Estate	11	2.6%	9	5.2%	7	8.1%
Financial Services	6	1.4%	6	3.5%	4	4.8%
Shipping	2	0.4%	2	0.9%	1	1.4%
Food / Agriculture	1	0.2%	1	0.7%	1	1.1%
GRAND TOTAL	416	100.0%	170	100.0%	79	100.0%

As at 31 December 2006, total Corporate Loan portfolio EUR 10.2 billion, both drawn and undrawn.

The balance sheet impairment amount is EUR 83 million, the difference of EUR 4 million is due to the fact that the figure in this table includes only the value of the loan and not the provisions or other related payments.

The twenty most significant impaired outstandings represented 54% of our total impaired outstandings as at 31 December 2007 and 78% as at 31 December 2006. Although aviation was the segment with highest percentage of impaired outstandings in 2007, when related to the total loan exposure, our total lending to the aviation segment represented only 1.2% of our total loan exposure (drawn and undrawn) as of 31 December 2007 and 1.8% as at 31 December 2006. In 2007, we made no new loans in this segment as this is a run-off portfolio. Infrastructure, constituting 11.8% of our total loan exposure (drawn and undrawn) as of 31 December 2007 and 7.3% as at 31 December 2006, is the segment with the second highest percentage of impaired outstandings over the two years period.

	2007		2006	
	In EUR millions	In % ¹	In EUR millions	In % ¹
Impaired outstandings	451	5.9	416	5.5
Non-performing outstandings	165	2.2	170	2.3
Impairment amount	59	0.8	79	1.1

1. As a proportion of total drawn corporate loan exposure.

For any impairment amount, we have taken a charge in our consolidated income statement.

The following table presents historical information on the distribution of the impairment amounts by industry segment and geographic region as at the dates indicated.

Distribution of Impairment Amounts by Region, as at 31 December

IN EUR MILLIONS	2007	2006
United Kingdom	21	19
The Netherlands	18	28
Germany	9	7
North America	7	13
South East Asia	4	8
EU (except The Netherlands, Germany and UK)	-	3
Caribbean	-	1
Non-EU Europe	-	-
Other	-	-
TOTAL	59	79

Corporate lending portfolio – write-offs (unaudited)

Since the information provided here concerns non required disclosures the section has been marked as unaudited.

Once we have determined that a loan is unlikely to be recovered by restructuring the loan or by other means, we determine the write-off amount. The amount written-off will be deducted from the asset value of the loan and the related impairment amount.

The following table (unaudited) presents information on the movement of the impairment amounts and write-offs by industry segment as at the dates presented.

Change of Impairment Amounts and write-offs by Industry Segment 2007

	Impaired amount as at 31 December		Change from previous period	Write-off during 2007
	2006	2007		
Aviation	19	11	(8)	2
Financial Services	4	1	(3)	-
Food / Agriculture	1	-	(1)	-
Manufacturing	15	12	(3)	4
Real Estate	7	7	-	-
Shipping	1	1	-	-
Trade	8	6	(2)	-
Infrastructure	20	18	(2)	-
Utilities	3	-	(3)	-
Other	1	3	2	5
TOTAL	79	59	(20)	11

Change of Impairment Amounts and write-offs by Industry Segment 2006

	Impaired amount as at 31 December		Change from previous period	Write-off during 2006
	2005	2006		
Aviation	39	19	(20)	13
Financial Services	5	4	(1)	-
Food / Agriculture	1	1	-	-
Manufacturing	8	15	7	1
Real Estate	8	7	(1)	-
Shipping	2	1	(1)	-
Trade	5	8	3	-
Infrastructure	31	20	-	-
Utilities	7	3	(4)	-
Other	7	1	(6)	1
TOTAL	113	79	(34)	15

Impairment amounts as a percentage of our total risk weighted assets have been declining over time, and decreased to 0.4% in 2007 from 0.5% in 2006. Over the past 15 years, our annual write-offs have averaged 0.3% of the total drawn and undrawn exposures in our corporate loan book, and were most recently 0.15% in 2006 and 0.11% in 2007.

The following table (unaudited) analyses the amounts written off by industry segment as at the dates presented.

Write-offs by Industry Segment, as at 31 December

<i>IN EUR MILLIONS</i>	2007	2006
Aviation	2	13
Financial Services	-	-
Food / Agriculture	-	-
Manufacturing	4	1
Real Estate	-	-
Shipping	-	-
Trade	-	-
Infrastructure	-	-
Utilities	-	-
Other	5	1
TOTAL	11	15

The following table (unaudited) analyses the amounts written off by geography as at the dates presented.

Write-offs by Geography, as at 31 December

<i>IN EUR MILLIONS</i>	2007	2006
GEOGRAPHIC REGION		
Caribbean	-	-
EU (except The Netherlands Germany and United Kingdom)	2	-
North America	-	11
Non-EU Europe	-	-
South East Asia	2	-
United Kingdom	-	-
The Netherlands	5	4
Other	-	-
TOTAL	11	15

Corporate lending portfolio – distressed assets

Borrowers assessed as being impaired are generally managed by the Distressed Assets department within our Corporate Finance SBU, according to policies set by the TC. Upon transfer, the Distressed Assets department analyses the situation and begins working on a plan to improve the risk profile of the borrower. The aim of this process is to optimise the recovery. In some cases, a restructuring of the borrower's balance sheet in combination with a reorganisation of the borrower may be the recommended solution. In other cases, a foreclosure on our security rights may offer the highest recovery rate. For foreclosures we may employ an intermediary for the recovery.

Credit Risk Management – Real Estate Markets

The residential mortgage portfolio own book consists of residential mortgage loans originated in the Netherlands and Germany. The Dutch residential mortgage portfolio own book contains prime loans originated on a white label basis via business partners following sound underwriting criteria. Furthermore, as of the end 2007 14% of the mortgage loans have a Dutch government guarantee (a **NHG** guarantee) in accordance with the general terms and conditions sent by the Stichting *Waarborgfonds Eigen Woningen (WEW)*. The high quality of the portfolio is also characterized by low average loan to foreclosure value (original LTFV of 85%) and high seasoning (3.3 years as at 31 December 2007). These portfolio attributes lead to an overall high percentage of the portfolio with AAA internal rating class allocation (96%).

The major part of the German residential mortgage portfolio was acquired from third parties via two portfolio purchases. The purchased portfolios contain highly seasoned loans with low loan to market values. These loans were originated following conservative underwriting criteria. A small proportion of the portfolio has been originated previous year by REM Germany according to criteria that are in line with current market practices. The overall German residential mortgage portfolio has a considerable seasoning (7.3 years as at 31 December 2007) with low average loan to market value (original LTMV of 70.7%).

In order to control the credit risk of our residential mortgage portfolio, we have formulated an acceptance policy framework to screen residential mortgage applications. Acceptance depends on the following criteria:

- Conformity with the *Code of Conduct (Gedragscode)* on *Mortgage Credits (CCMC)* of the Dutch Bankers' Association, which we have signed up to and pledged compliance with;
- We check an applicant's credit history with the Dutch National Credit Register (*Bureau Krediet Registratie* or **BKR**), a central credit agency used by many financial institutions in the Netherlands which records five years of financial commitments and negative credit events;
- We secure mortgage loans by first ranking mortgage rights whenever possible;
- We apply a maximum loan to foreclosure value of 130% and require payment protection insurance for amounts exceeding 125% loan to foreclosure value;
- We set underwriting criteria for those of our mortgages that have a Dutch government guarantee (a **NHG** guarantee) in accordance with the general terms and conditions set by the Stichting *Waarborgfonds Eigen Woningen (WEW)*. The WEW finances itself by a one-off up-front charge to the borrower as a percentage of the principal amount of the mortgage loan. The NHG guarantee covers losses on the outstanding principal, accrued unpaid interest, and disposal costs, caused by foreclosure.

Real Estate Markets – geographic risk

The following tables display the credit risk per region for the assets of our Real Estate Markets SBU, both residential and commercial / infrastructure portfolios that are eligible for sale or for securitisation, as at 31 December 2007 and 2006. In the following tables, and throughout this section Credit Risk Management – Real Estate Markets, we present credit risk exposure excluding securitised residential mortgages we hold on our balance sheet (for which we maintain no credit risk), although we do retain credit risk on the portion of the equity tranche notes and mezzanine interests we retain from our RMBS / CMBS programmes (included in the

analysis of this section and Real Estate Markets analysis in general). We allocate exposure to a region based on the geographical location in which the borrower's or counterparty's cash flows are generated.

The credit risk for real estate markets includes commercial real estate and infrastructure loan portfolios eligible for sale / securitisation portfolios. The total real estate markets can be specified as follows:

Credit Risk per Region 2007

	Credit risk exposure in EUR millions	% of total credit risk exposure
The Netherlands	4,480	69.2%
United Kingdom	391	6.0%
EU (except The Netherlands and United Kingdom)	1,599	24.7%
North America	-	0.0%
Southeast Asia	-	0.0%
Caribbean	-	0.0%
Other	-	0.0%
TOTAL	6,470	100.0%

Credit Risk per Region 2006

	Credit risk exposure in EUR millions	% of total credit risk exposure
The Netherlands	4,025	82.2%
United Kingdom	151	3.1%
EU (except The Netherlands and United Kingdom)	721	14.7%
North America	-	0.0%
Southeast Asia	-	0.0%
Caribbean	-	0.0%
Other	-	0.0%
TOTAL	4,897	100%

The credit risk for real estate markets includes commercial real estate and infrastructure loan portfolios eligible for sale / securitisation portfolios. The total real estate markets can be specified as follows:

Reconciliation

		2007	2006
RESIDENTIAL MORTGAGES OWN BOOK	BALANCE SHEET	5,285	4,438
Fair value		110	105
Pipeline		120	212
Provide Orange		(964)	(989)
Other		45	74
TOTAL RESIDENTIAL MORTGAGES	RISK EXPOSURE TABLE	4,596	3,840
LOANS AND RECEIVABLES (FVtPL)	BALANCE SHEET	1,374	952
SLT Portfolio		(133)	-
CLO Backbook		(113)	-
Undrawn facilities CMBS / Infrastructure (FVtPL)		97	-
Fair value		17	(7)
Infrastructure eligible for sale / securitisation portfolio AfS (drawn + undrawn)		93	-
CMBS eligible for sale / securitisation portfolio AfS (drawn + undrawn)		325	-
Other		1	-
TOTAL COMMERCIAL REAL ESTATE / INFRASTRUCTURE ELIGIBLE FOR SALE / SECURITISATION PORTFOLIOS	RISK EXPOSURE TABLE	1,661	945
DEBT SECURITIES	RECLASS FROM NOTE 5	4	3
Eliminated RMBS / CMBS notes		165	68
Due from other banks		44	40
TOTAL RMBS / CMBS / INFRASTRUCTURE NOTES	RISK EXPOSURE TABLE	213	112
TOTAL		6,470	4,897

Residential Mortgages – collateral management

The underlying property is the primary collateral for any mortgage loans we grant, though savings and investment deposits may also serve as additional collateral. Our residential mortgage portfolio is divided in two categories to provide insight into the quality of the collateral: one portfolio of ‘not fully collateralised’ mortgages, in which the original property value is less than the amount of the original loan, and another portfolio of ‘fully collateralised’ mortgages, in which the original property value is greater than or equal to the amount of the original loan. We also make a further distinction between NHG mortgages that have been guaranteed by the WEW, mortgages of which credit risk has been hedged by a credit default swap, and mortgages that are neither guaranteed nor hedged.

The following tables show both the nominal exposure value and the collateral value. The collateral value is defined as the fair value (loans originated before 2001) or the initial

foreclosure value (loans originated after 2001, which is our estimate of the sale value of the underlying property upon foreclosure, as at the date the mortgage was originated) of the collateral value of the real estate property (i.e. not including savings and investment deposits) underlying our residential mortgage portfolio, as at 31 December 2007 and 2006, both in respect of the mortgages own book and those we have securitised and maintain on our balance sheet. Based on the general estimated increase in house prices in the years after 2001 and the seasoning of our portfolio, the fair value of the collateral equals ca. EUR 9.0 billion (Residential mortgages own book) and EUR 9.7 billion (securitised residential mortgages). For 2006 these figures are EUR 7.1 billion and EUR 9.4 billion respectively.

Exposure and collateral value of the residential mortgage portfolio 2007

IN EUR MILLIONS	Fully collateralised		Not fully collateralised	
	Exposure	Collateral value	Exposure	Collateral value
RESIDENTIAL MORTGAGES¹				
Not guaranteed by NHG	3,097	6,305	734	504
NHG guaranteed	379	606	221	201
Hedged by credit default swaps ²	745	1,165	219	208
TOTAL	4,221	8,076	1,174	913
				Total exposure
TOTAL RESIDENTIAL MORTGAGES¹				5,395
FAIR VALUE ADJUSTMENT³				(110)
RESIDENTIAL MORTGAGES OWN BOOK ON OUR CONSOLIDATED BALANCE SHEET				5,285

1. Excluding the pipeline of residential mortgages. The pipeline consists of mortgage offers to clients.

2. This is hedged through the Provide Orange synthetic RMBS, on which we maintain no credit risk. The fair value of the credit default swap was zero at 31 December 2007.

3. 'Fair value adjustments' refers to the difference between the nominal exposure and the fair value of our residential mortgages as carried on our consolidated balance sheet under IFRS.

IN EUR MILLIONS	Fully collateralised		Not fully collateralised	
	Exposure	Collateral value	Exposure	Collateral value
SECURITISED RESIDENTIAL MORTGAGES				
Not guaranteed by NHG	3,620	6,258	356	334
NHG guaranteed	1,731	2,366	831	776
TOTAL	5,351	8,624	1,187	1,110
				Total exposure
TOTAL SECURITISED RESIDENTIAL MORTGAGES¹				6,572
FAIR VALUE ADJUSTMENT				(216)
SECURITISED RESIDENTIAL MORTGAGES ON OUR CONSOLIDATED BALANCE SHEET				6,356

1. 'Fair value adjustments' refers to the difference between the nominal exposure and the fair value of our securitised residential mortgages as carried on our consolidated balance sheet under IFRS.

Exposure and collateral value of the residential mortgage portfolio 2006

IN EUR MILLIONS	Fully collateralised		Not fully collateralised	
	Exposure	Collateral value	Exposure	Collateral value
RESIDENTIAL MORTGAGES¹				
Not guaranteed by NHG	2,168	4,255	234	206
NHG guaranteed	608	912	569	497
Hedged by credit default swaps ²	542	809	422	391
TOTAL	3,318	5,976	1,225	1,094
				Total exposure
TOTAL RESIDENTIAL MORTGAGES¹				4,543
FAIR VALUE ADJUSTMENT³				(105)
RESIDENTIAL MORTGAGES OWN BOOK ON OUR CONSOLIDATED BALANCE SHEET				4,438

1. Excluding the pipeline of residential mortgages. The pipeline consists of mortgage offers to clients.

2. This is hedged through the Provide Orange synthetic RMBS, on which we maintain no credit risk. The fair value of the credit default swap was at 31 December 2006.

3. 'Fair value adjustments' refers to the difference between the nominal exposure and the fair value of our residential mortgages as carried on our consolidated balance sheet under IFRS.

IN EUR MILLIONS	Fully collateralised		Not fully collateralised	
	Exposure	Collateral value	Exposure	Collateral value
SECURITISED RESIDENTIAL MORTGAGES				
Not guaranteed by NHG	3,786	6,081	1,080	995
NHG guaranteed	904	1,199	1,211	1,107
TOTAL	4,690	7,280	2,291	2,102
				Total exposure
TOTAL SECURITISED RESIDENTIAL MORTGAGES				6,981
FAIR VALUE ADJUSTMENT¹				7
SECURITISED RESIDENTIAL MORTGAGES ON OUR CONSOLIDATED BALANCE SHEET				6,988

1. 'Fair value adjustments' refers to the difference between the nominal exposure and the fair value of our securitised residential mortgages as carried on our consolidated balance sheet under IFRS.

The following table shows the internal rating class allocation of the residential mortgages portfolio including the pipeline on which we bear credit spread risk as at 31 December 2007 and 2006, based on our internal rating methodology for tranching a portfolio of residential mortgages.

Rating class allocation of the residential mortgages 2007

	Amount in EUR millions	In %
INTERNAL RATING CLASS		
AAA	4,406	95.9%
AA	62	1.4%
A	48	1.0%
BBB	35	0.8%
BB	25	0.5%
B	5	0.1%
Not rated	14	0.3%
TOTAL	4,596¹	100.0%

1. Excludes Provide Orange a synthetic RMBS, includes the pipeline of residential mortgages.

Rating class allocation of the residential mortgages 2006

	Amount in EUR millions	In %
INTERNAL RATING CLASS		
AAA	3,715	96.7%
AA	40	1.0%
A	31	0.8%
BBB	24	0.6%
BB	17	0.5%
B	4	0.1%
Not rated	9	0.2%
TOTAL	3,840¹	100.0%

1. Excludes Provide Orange a synthetic RMBS, includes the pipeline of residential mortgages.

Reconciliation

<i>IN EUR MILLIONS</i>		2007	2006
RESIDENTIAL MORTGAGES OWN BOOK	BALANCE SHEET	5,285	4,438
Fair value		110	105
Pipeline		120	212
Provide Orange		(964)	(989)
Other		45	74
TOTAL RESIDENTIAL MORTGAGES	RISK EXPOSURE TABLE	4,596	3,840

The following table shows how we allocate the EUR 118 million portfolio of retained residential equity tranches and mezzanine interests of past RMBS programmes as per 31 December 2007 and EUR 108 million as per 31 December 2006 (excluding retained tranches of commercial real estate securitisations, which are added in the reconciliation table on pages 47-48, to different rating classes, using our internal rating methodology. Due to the 'seasoning' effect, whereby older portfolios are considered to be of lower risk due to borrowers' established records of payment, we can now qualify approximately 68.9% of the portfolio of our equity tranche and mezzanine investments as 'investment grade' as at 31 December 2007 and 56.2% as at 31 December 2006.

Rating class allocation retained notes residential mortgage securitisations as of 2007

	Amount in EUR millions	In %
INTERNAL RATING CLASS		
AAA	45	37.9%
AA	11	9.1%
A	9	7.7%
BBB	17	14.2%
BB	16	13.8%
B	5	4.6%
Not rated	15	12.7%
TOTAL	118	100.0%

Rating class allocation retained notes residential mortgage securitisations as of 2006

	Amount in EUR millions	In %
INTERNAL RATING CLASS		
AAA	29	26.9%
AA	9	8.3%
A	11	10.2%
BBB	12	10.8%
BB	24	22.3%
B	4	3.3%
Not rated	20	18.2%
TOTAL	108	100.0%

		2007	2006
Eliminated RMBS notes	same notes as liabilities	74	68
Due from other banks	included in balance sheet, not in table	44	40
TOTAL RMBS NOTES	SUB TOTAL	118	108
Retained tranches of commercial real estate securitisations		95	4
TOTAL RMBS / CMBS / INFRASTRUCTURE NOTES	RISK EXPOSURE TABLE	213	112

In addition to this we hold ca. EUR 95 million of retained pieces of securitisations of Commercial Real Estate and Infrastructure as at 31 December 2007 (average rating BBB) and EUR 4 million as at 31 December 2006.

Corporate loan eligible for sale / securitisation portfolio – Commercial Real Estate and Infrastructure

Our Real Estate Markets SBU also has commercial real estate assets and infrastructure loans, which are part of our total corporate loan portfolio exposure (drawn plus undrawn). The following table shows total exposure amount (drawn and undrawn) and proportion of the CMBS (Commercial Mortgage Backed Securities) and Infrastructure eligible for sale / securitisation portfolios as at 31 December 2007 and 2006.

Commercial Real Estate and Infrastructure 2007

	Amount in EUR millions	In %
Commercial real estate loans	1,245	75%
Infrastructure loans	416	25%
TOTAL	1,661	100.0%

Commercial Real Estate and Infrastructure 2006

	Amount in EUR millions	In %
Commercial real estate loans	768	81%
Infrastructure loans	176	19%
TOTAL	945	100.0%

Commercial real estate assets and Infrastructure infrastructure loans are generally fully collateralised by the underlying property.

Reconciliation

		2007
LOANS AND RECEIVABLES (FVtPL)	BALANCE SHEET	1,374
SLT Portfolio		(133)
CLO backbook		(113)
Undrawn CMBS / Infrastructure (FVtPL)		97
Fair value		17
Infrastructure eligible for sale / securitisation portfolio AfS (drawn + undrawn)		93
CMBS eligible for sale / securitisation portfolio AfS (drawn + undrawn)		325
Other		1
TOTAL COMMERCIAL REAL ESTATE / INFRASTRUCTURE ELIGIBLE FOR SALE / SECURITISATION PORTFOLIOS	RISK EXPOSURE TABLE	1,661

Reconciliation

		2006
LOANS AND RECEIVABLES	BALANCE SHEET	952
Fair value		(7)
Infrastructure eligible for sale / securitisation portfolio		
TOTAL COMMERCIAL REAL ESTATE / INFRASTRUCTURE WAREHOUSES	RISK EXPOSURE TABLE	945

Credit Risk Management – Financial Markets

RM manages the credit risk of Financial Markets' operations. Credit risk in our Financial Markets SBU originates as either issuer risk from our investment and trading activities or as counterparty risk from OTC derivatives contracts. We measure issuer risk for banking products, such as deposits, based on nominal exposure amounts. We value counterparty risk on non-derivatives contracts and bonds on a daily basis and include exposure overviews based on their market value. For derivatives contracts, we calculate credit exposure as the replacement value plus an add-on percentage of the exposure amount, which reflects the potential future change in replacement value. The exposures are measured and controlled per issuer or counterparty group using an extensive limit framework. We set limits per issuer or counterparty depending on rating and maturity. Within our Financial Markets SBU, the credit risk limit framework only allows investment grade exposures, with the exception of the investment portfolios, which has some very small issuer limits of less than EUR 5 million for BB and B rated investments. We have no exposures in non-rated assets, except for EUR 26 million of investments in the retained equity tranches in our Securitised Debt and Leveraged Loans securitisations, and EUR 10 million in equity tranches of third party securitisations as per 31 December 2007 and respectively EUR 41 million and EUR 8 million as per 31 December 2006.

Financial Markets – country risk

The following tables display the credit risk per geographic region for the assets of our Financial Markets SBU as at 31 December 2007 and 2006 taking into account the value of collateral.

We allocate exposure to a region based on the geographical location in which the counterparty or issuer's cash flows are generated. In relation to the credit crisis, in 2007 total assets of FM declined as a result of the sale of the US RMBS subprime portfolio and the de-risking of other portfolios contributed to the decrease of assets.

Credit Risk per Geographic Region 2007

<i>IN EUR MILLIONS</i>	Credit risk exposure ¹ in EUR millions	% of total credit risk exposure
EU (except The Netherlands and the UK)	2,597	35%
North America	1,521	20%
The Netherlands	1,439	19%
Non-EU Europe	936	13%
United Kingdom	798	11%
South East Asia	112	2%
Other	36	0%
Caribbean	14	0%
TOTAL	7,453	100%

1. Defined as issuer (credit risk for bonds) and counterparty risk (credit risk for derivatives).

Credit Risk per Geographic Region 2006

	Credit risk exposure ¹ in EUR millions	% of total credit risk exposure
EU (except The Netherlands and the UK)	3,598	33%
North America	3,248	30%
The Netherlands	2,119	20%
United Kingdom	1,423	13%
Non-EU Europe	339	3%
South East Asia	74	1%
Other	36	0%
Caribbean	10	0%
TOTAL	10,847	100%

1. Defined as issuer (credit risk for bonds) and counterparty risk (credit risk for derivatives).

Financial Markets – debt securities and structured investments by rating

The table below presents an analysis of the debt securities and structured investments by rating agency designation as at 31 December 2007 and 2006, based on Standard & Poor's ratings or their equivalent.

Debt securities and structured investments 2007

	Nominal exposure amount in EUR millions	In %
RATING CLASS		
AAA	1,466	28.1%
AA	1,731	33.2%
A	1,132	21.7%
BBB	545	10.4%
BB	268	5.1%
B	-	0.0%
Equity	78	1.5%
TOTAL	5,220	100%

Debt securities and structured investments 2006

	Nominal exposure amount in EUR millions	In %
RATING CLASS		
AAA	2,509	26.3%
AA	3,585	37.6%
A	1,664	17.5%
BBB	1,260	13.2%
BB	265	2.8%
B	166	1.7%
Equity	88	0.9%
TOTAL	9,537	100.0%

The rating distribution illustrates the asset quality of FM's investment portfolios as at 31 December 2007 – more than 93% of the nominal value of the assets is investment grade and 61.2% have ratings of 'AA' or higher and as at 31 December 2006 respectively 94% and 63.9%.

IN EUR MILLIONS		2007	2006
FINANCIAL MARKET ASSETS	RISK EXPOSURE TABLE (PAGES 45-46)	5,005	8,907
Credit trading assets	Presented in terms of BPV in risk exposure table (pages 45-46)	215	630
TOTAL FINANCIAL MARKET	TABLE RATING DISTRIBUTION	5,220	9,537

Financial Markets – derivatives, foreign exchange and other risk

A derivative is a financial instrument, the value of which is derived from the value of another financial instrument. Examples of derivatives include swaps, futures, future rate agreements, various types of options, bonds and credit derivatives. We use derivatives to hedge or enter into risk positions. We mainly use derivatives to manage interest rate risk, to hedge or enter into individual credit positions, and to manage portfolio credit risks. We account for derivatives at fair market value, and present them on our balance sheet as assets or liabilities at fair value.

The following tables presents the derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date as at 31 December 2007 and 2006. The amounts disclosed in the tables are the contractual undiscounted cash flows.

Derivatives, as per 31 December 2007

IN EUR	0-3 months	3-12 months	1-5 Years	>5 Years	Total
DERIVATIVES HELD FOR TRADING					
FX FORWARD					
Inflow	26,550,997	13,110,063	-	-	39,661,059
Outflow	(20,216,797)	(23,292,989)	-	-	(43,509,787)
INTEREST RATE DERIVATIVES					
Inflow	1,582,098,844	6,282,621,212	14,718,682,267	10,045,864,021	32,629,266,345
Outflow	(1,567,804,752)	(6,222,759,702)	(14,758,514,003)	(9,609,170,132)	(32,158,248,589)
CREDIT DERIVATIVES					
Inflow	2,105,874	8,754,377	32,134,409	3,028,530	46,023,191
Outflow	(3,213,281)	(11,423,996)	(40,975,653)	(6,789,907)	(62,402,838)
DERIVATIVES HELD FOR HEDGING					
FX FORWARD					
Inflow	-	-	-	-	-
Outflow	-	-	-	-	-
INTEREST RATE DERIVATIVES					
Inflow	114,315,231	1,079,107,863	2,750,136,485	316,059,261	4,259,618,839
Outflow	(114,535,240)	(980,540,984)	(2,496,768,525)	(228,953,597)	(3,820,798,346)
CREDIT DERIVATIVES					
Inflow	-	-	-	-	-
Outflow	-	-	-	-	-
TOTAL INFLOW	1,725,070,946	7,383,593,514	17,500,953,161	10,364,951,812	36,974,569,434
TOTAL OUTFLOW	(1,705,770,070)	(7,238,017,671)	(17,296,258,181)	(9,844,913,637)	(36,084,959,560)

Derivatives, as per 31 December 2006

IN EUR	0-3 months	3-12 months	1-5 Years	>5 Years	Total
DERIVATIVES HELD FOR TRADING					
FX FORWARD					
Inflow	2,831,947,620	49,125,122	92,844,669	103,891,407	3,077,808,818
Outflow	(2,821,274,949)	(44,092,383)	(84,303,173)	(132,622,626)	(3,082,293,132)
INTEREST RATE DERIVATIVES					
Inflow	1,329,799,571	3,085,715,488	18,739,679,276	6,608,769,360	29,763,963,695
Outflow	(1,328,585,280)	(3,178,462,023)	(18,563,277,448)	(6,171,882,395)	(29,242,207,146)
CREDIT DERIVATIVES					
Inflow	(169,845,692)	(246,279,873)	(1,648,274,781)	(70,131,876)	(2,134,532,222)
Outflow	153,170,811	263,264,197	1,669,595,632	48,698,410	2,134,729,050
DERIVATIVES HELD FOR HEDGING					
FX FORWARD					
Inflow	35,523,444	198,948,170	434,262,985	132,622,626	801,357,225
Outflow	(35,205,908)	(199,828,749)	(444,068,052)	(103,891,407)	(782,994,116)
INTEREST RATE DERIVATIVES					
Inflow	218,463,155	580,230,053	1,305,642,460	432,579,310	2,536,914,979
Outflow	(208,514,982)	(560,784,052)	(1,301,732,681)	(533,476,728)	(2,604,508,442)
CREDIT DERIVATIVES					
Inflow	172,834,498	257,639,417	1,691,373,036	79,222,629	2,201,069,579
Outflow	(160,307,127)	(279,641,475)	(1,724,086,277)	(61,228,470)	(2,225,263,349)
TOTAL INFLOW	4,418,722,597	3,832,160,872	20,438,379,802	7,050,439,423	36,246,582,074
TOTAL OUTFLOW	(4,400,717,434)	(3,906,326,980)	(20,270,724,158)	(6,717,889,183)	(35,802,537,136)

The following table presents the weighted and unweighted credit equivalent of our derivatives portfolio as at the dates indicated. We measure the credit risk of our derivatives portfolio by analysing the positive replacement values of the contracts plus a mark-up on the positive replacement value for future potential increases in credit risk. This positive replacement value plus mark-up is deemed the 'unweighted credit equivalent', and is determined by the nature and terms of the derivative contract. In determining the credit risk of our derivatives portfolio for purposes of calculating BIS Capital and other regulatory capital ratios, we calculate the 'weighted credit equivalent', taking into account the risk weights of the specific counterparty types and the effect of collateral (including any netting arrangements) according to BIS standards.

Weighted and unweighted credit equivalent of our derivatives portfolio

IN EUR MILLIONS	As at 31 December 2007		As at 31 December 2006	
	Unweighted	Weighted	Unweighted	Weighted
Interest rate contracts	2,258	182	1,689	142
Foreign exchange contracts	1,578	271	1,186	82
Equity contracts	127	25	204	41
TOTAL CONTRACTS	3,963	479	3,079	265

We have no open equity positions from derivatives contracts creating equity market risk. As indicated in the table above, we do however maintain some counterparty risk on our equity positions, derived from certain 'equity contracts' originated in connection with our structured funding products and, to some degree, from the transactions of NPD which were novated to us after the liquidation of NPD. We hedge all these counterparty equity risk positions back-to-back, meaning swaps are entered into in order to neutralise the market risk.

Financial Markets – collateral management

To the extent possible, we attempt to limit the credit risk from derivatives that have a positive replacement value. Therefore we only enter into OTC derivatives contracts with investment grade counterparties, with the exception of small derivatives contracts entered into with clients. We also enter into bilateral collateral agreements with market participants to mitigate credit risk on OTC derivatives, usually by means of *Credit Support Annexes (CSAs)*. Our main counterparties in these CSAs are large international banks with ratings of 'A' or higher, and predominantly 'AA'.

We value our derivatives contracts daily, and we generally carry out weekly cash collateral payments to account for changes in the market value of the contracts included in a CSA. The net cash collateral position at nominal value was an amount of positive EUR 70 million receivable as at 31 December 2007 and negative EUR 187 million payable as at 31 December 2006. The terms and conditions of our CSAs are in line with general International Swaps and Derivatives Association credit support documents. Our main policies concerning collateral contracts are the following:

- We use cash only to settle collateral amounts weekly and, in some cases, monthly;
- We base interest payments on cash collateral on the Euro Overnight Index Average or the Overnight Index Swap rates, unless this meets strong opposition from the counterparty, in which case we seek to negotiate another solution;
- The counterparty is, in general, the valuation agent although in some cases we may use a third party as valuation agent. We check the valuation of the counterparty at least once per month and we reconcile differences with the counterparty. For counterparties with a rating below A, we carry out a weekly check;
- Collateral agreements are generally applicable to all transactions entered into with the relevant counterparty, including credit derivatives and other structured deals;
- We submit collateral agreements to our RM group and legal staff for approval;
- We periodically inform the TC about the status and progress of collateral counterparties and policies.

One master CSA is in place for all interest rate swap derivative contracts that we enter into with each of several SPVs established for securitisation of mortgage portfolios.

market risk management

Overview

Our market risks are predominantly credit spread and interest rate related. Our policy is to hedge significant currency risk and other risks (such as commodity and equity risk) and due to this policy, we believe, the risks are not material.

- We face market risks in certain of our SBUs, and particularly in our Financial Markets and Real Estate Markets SBUs, as described below. An amount of market risk is also present in the Corporate Center SBU in the form of interest rate risk as a result of the ALCO strategic mismatch positions we take on a regular basis. In contrast to other financial institutions, our assessment and management of market risk goes beyond the market risks resulting from our trading portfolios, and covers a larger range of our commercial activities;
- Within our Financial Markets SBU, we face trading market risks by managing short-term trading positions in interest rate and credit products, including credit default swaps, which we hold to be able to meet client requests for such products. Also within our Financial Markets SBU we face non-trading market risks through the day-to-day management of our corporate treasury activities and the investment portfolios;
- Our Real Estate Markets SBU faces non-trading market risks by originating assets such as residential mortgages and commercial real estate loans, assets that are eligible for sale / securitisation.

In order to manage market risks, we have put in place a set of risk limits and implemented a risk management system (called **Algorithmics**) to allow analysis of market risk and calculate and project the relevant risk figures. With the exception of the credit spread risk on our mortgage portfolios, which is calculated separately, the Algorithmics system analyses risk in virtually all our transactions, giving an overview of all our market risks. For all trading and investment portfolios in the Financial Markets, Real Estate Markets and Corporate Center SBUs, we maintain a standard set of risk measures, which we recalculate daily.

Market risk of residential and commercial mortgages is currently calculated outside Algorithmics because at this moment we are not able to divide the cashflows of these assets in different rating buckets in Algorithmics. Based upon our tranching model we are able to do so in a separate environment. In the near future, we plan to implement this methodology in Algorithmics. Currently this means that we are not able to calculate diversification effects between these assets and other assets in Algorithmics. The results on a aggregated level are therefore relatively conservative.

The risk measures tracked daily by Algorithmics include:

- Credit spread *Basis Point Value (BPV)* – the change in the present value of a position due to a one basis point increase in credit spreads;
- Interest rate BPV – the change in the present value of a position due to a one basis point increase in interest rates;
- Credit spread *Value at Risk (VAR)* – looking at four years of historical credit spread data, the adverse impact of one-day changes in market prices assuming a 99% confidence level;
- Interest rate VAR – looking at one year of historical interest rate data, the adverse impact of one-day changes in market prices assuming a 99% confidence level;
- Total VAR – looking at one year of historical interest and credit spread data, the adverse impact of one-day changes in market prices assuming a 99% confidence level.

A 99% confidence level means that there is a 1% probability that a one-day loss in a one-year period will be larger than the VAR. A wide set of scenarios, including scenarios intended as stress testing and vulnerability identification both based on historical events and on possible future outcomes complements our risk analysis.

Limitations of the market risk framework are the following:

- BPV measures do not take into account the volatility of underlying interest rates and credit spreads. For example, it does not discriminate between differences in volatility between high grade and low grade credit spreads;
- This shortcoming is partly mitigated by the VAR measure. However, because VAR is based upon historical data, it may over- or underestimates future volatility;
- Because of this and the 99% confidence interval, it is necessary always to complement the analysis by a framework of stress testing.

We measure VAR not only for trading activities in FM (which are limited), but also for non-trading activities, including FM's investment portfolios, the activities of our Real Estate Markets SBU and for Corporate Center's role in running our ALCO strategic mismatch positions. In this respect, we seek to maintain a comprehensive risk management system that attempts to account for VAR broadly and conservatively.

We set overall limits for these variables within each SBU per portfolio, in some cases per collection of portfolios and by department or group, at SBU level and also per currency, and group of securities with similar maturity level and industry segment. We define limits for interest rate and credit spread BPV as well as interest rate and credit spread VAR, total VAR and for certain other risk parameters for option positions. We determine these risk limits by

basing our risk allocations on the economic capital allocated to the SBU or to the operating department within the SBU, and derive risk limits appropriate to the level of allocated economic capital. A detailed issuer framework limits specific risk in all portfolios and seeks to ensure adequate diversification of risk. Any significant breach of market risk or counterparty risk limits is reported to our Chief Risk Officer, who also receives income statement reports for the trading books on a daily basis.

Credit Spread, Interest Rate and Currency Risk – General

Credit spread risk

As explained more fully in our discussion of economic capital allocations (see the following section ‘Economic Capital Usage and Allocations’), credit spread risk is the largest element (measured by the amount of economic capital allocated to the risk) of our total market risk. We face credit spread risk mainly in those assets that tend to have high credit ratings. The average weighted credit rating, according to our external ratings and internally-developed credit rating methodology, for assets that carry credit spread risk was both ‘A / A-’ as at 31 December 2007 and A- as at 31 December 2006.

The main sources of our credit spread risk are: FM, as a result of its investment portfolios; our Real Estate Markets SBU, as a result of its residential and commercial mortgage eligible for sale / securitisation portfolios and pipeline, (and of the credit spread risk we retain on the portion of the equity tranche notes and mezzanine interests we retain from our RMBS / CMBS programmes).

The following tables show details of the credit spread BPV and credit spread VAR for all our activities for the twelve months ended 31 December 2007 and 2006.

Credit spread risk figures 2007

<i>IN EUR THOUSANDS</i>	Credit spread BPV	Credit spread VAR
High	(4,423)	33,938
Average	(5,300)	16,077
Low	(6,832)	5,819

The figures between brackets have a negative impact on the mark-to-market of the positions.

Credit spread risk figures 2006

<i>IN EUR THOUSANDS</i>	Credit spread BPV	Credit spread VAR
High	(4,714)	11,470
Average	(5,174)	8,492
Low	(5,881)	6,524

The figures between brackets have a negative impact on the mark-to-market of the positions.

Credit spread BPV and Credit Spread VAR are calculated on a weekly basis for Real Estate Markets and on a daily basis for our other assets.

We manage credit spread risk by setting limits on the level of credit spread BPV and credit spread VAR we will accept on each portfolio, department and SBU. We monitor these limits daily to ensure that our credit spread risk tolerance is not exceeded. In addition, at a consolidated level, we hedge portions of our credit spread risk through the use of derivative instruments at times upon market circumstances, carried on our 'credit trading' books.

Interest rate risk

Interest rate risk arises in all activities where our assets and liabilities have different repricing dates. As a result of these repricing date mismatches between assets and liabilities their fair market values may react differently when interest rates change. We use derivatives to manage interest rate risk, and measure and manage interest rate risk using interest rate BPV and interest rate VAR as applied to all fixed and floating rate assets and liabilities including loans, mortgages, investments, trading assets and funding.

We measure interest rate risk on a daily basis. Our goal is to concentrate assets with similar interest rate risk in dedicated trading and mismatch books and to minimise the sensitivity of our net interest income to changes in interest rates for all other activities. We set limits by portfolio, currency and time period.

The ALCO may decide to invest a portion of our equity in strategic interest rate mismatch positions by means of interest rate swaps, taking long-term interest rate positions funded by short-term interest rate positions. The interest rate risk generated by these ALCO strategic mismatch positions is assigned to our Corporate Center.

Interest rate BPV and VAR

The following table shows details of the low, average, and high values for both interest rate BPV and interest rate VAR for all our activities during the twelve months ended 31 December 2007 and 2006.

Overall interest rate risk NIBC 2007

IN EUR THOUSANDS	BPV				VAR			
	Low	Average	High	End of year	Low	Average	High	End of year
Interest rate trading	(458)	64	507	(38)	337	3,372	7,460	385
Mismatch positions ¹	(729)	(487)	(268)	(268)	4,794	7,355	11,194	4,888
Residual risk other books ²	(185)	(26)	147	91	1,008	1,951	3,609	2,789
TOTAL	(1,196)	(449)	1	(215)	1,680	5,678	15,955	2,438

1. Both ALCO strategic mismatch and FM mismatch books (merged in 2007).

2. Defined as the remaining interest rate risk (after hedging) of the CTB, FM's structured investments, fund investments and financials and sovereigns portfolios, FM investment books and the unhedged interest rate risk of our Real Estate Markets SBU.

The figures between brackets have a negative impact on the mark-to-market of the position.

Overall interest rate risk NIBC 2006

IN EUR THOUSANDS	BPV				VAR			
	Low	Average	High	End of year	Low	Average	High	End of year
Interest rate trading	(120)	127	416	(120)	236	2,076	4,649	3,553
Mismatch positions ¹	(438)	(190)	44	(410)	72	2,224	7,042	6,938
Residual risk other books ²	(203)	(63)	238	(138)	1,026	2,529	4,341	4,187
TOTAL	(697)	(127)	216	(697)	602	2,567	8,527	8,527

1. Both ALCO strategic mismatch and FM mismatch books (merged in 2007).

2. Defined as the remaining interest rate risk (after hedging) of the CTB, FM's structured investments, fund investments and financials and sovereigns portfolios, FM investment books and the unhedged interest rate risk of our Real Estate Markets SBU.

The figures between brackets have a negative impact on the mark-to-market of the position.

Interest Rate BPV and Interest Rate VAR are calculated on a weekly basis for Real Estate Markets and on a daily basis for our other assets.

The average interest rate BPV was negative EUR 449,000 with an average interest rate VAR across all our activities of EUR 5,678 million as at 31 December 2007 and respectively EUR 127,000 negative and EUR 2,567 million as at 31 December 2006.

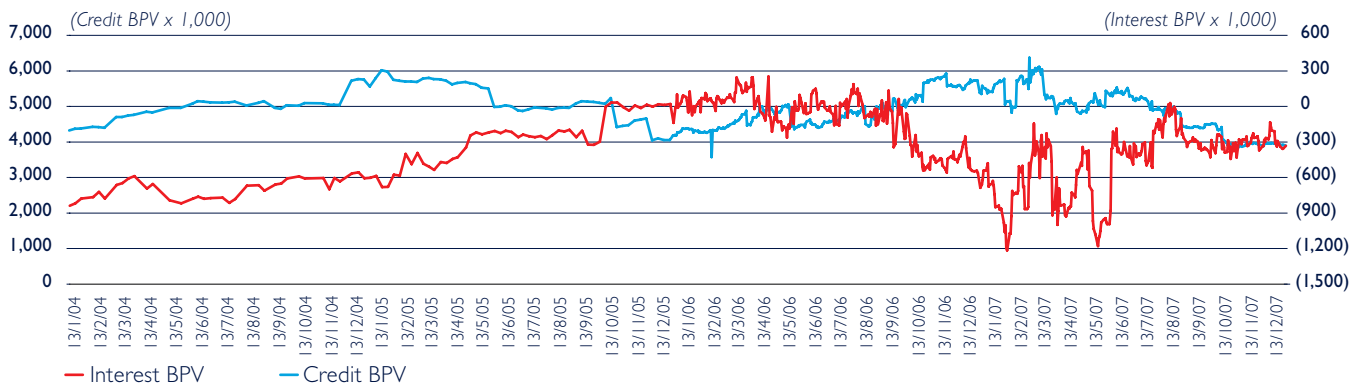
Impact change in market interest rates on net income and shareholders' equity

Assuming the financial assets and liabilities at 31 December 2007 and 2006 were to remain until maturity or settlement without any action on our part to alter the resulting interest rate risk exposure, an immediate and sustained increase of 1% in market interest rates across all maturities would increase our net interest income for the following year by approximately EUR 16 million (compared to an increase of EUR 17 million as at 31 December 2006) and decrease our shareholders' equity by approximately EUR 2 million (compared to a decrease of EUR 44 million as at 31 December 2006).

Interest rate and credit spread risk movements (unaudited)

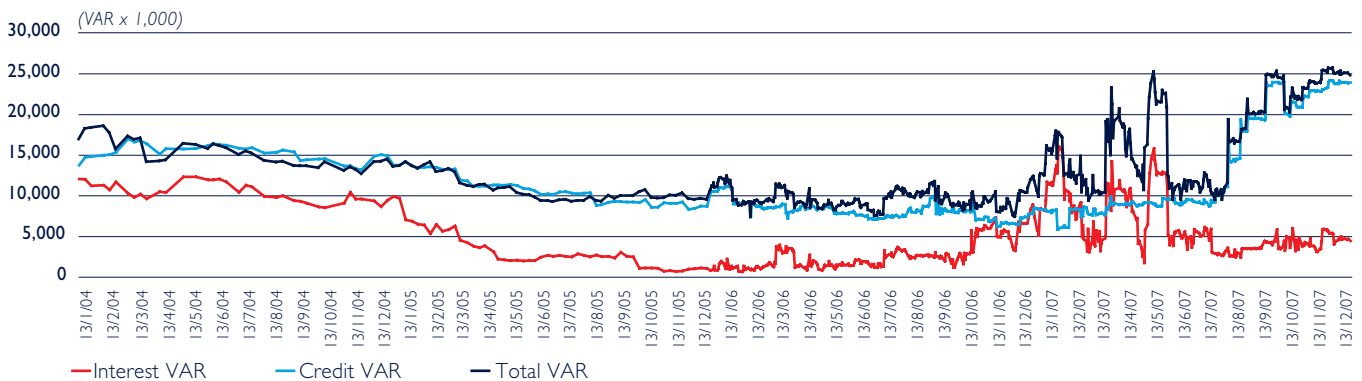
The following graph illustrate the development of interest rate and credit spread BPV on a bank-wide basis for all our assets except for our corporate loan portfolio and the assets of our Principal Investments SBU from 1 January 2004 until 31 December 2007.

BPV figures NIBC Bank NV - 2004-2007



The following graph illustrates the development of interest rate and credit spread VAR on a bank-wide basis for all our assets except for our corporate loan portfolio and the assets of our Principal Investments SBU from 1 January 2004 until 31 December 2007.

VAR figures NIBC Bank NV - 2004-2007



Credit spread risk, as measured by credit spread BPV in the chart above, increased in 2004 as a result of increased warehousing of mortgages and securitised debt products (including RMBSs, CMBSs, CDOs and CLOs). The increased volume of securitisations in 2005 moved these assets into SPVs and caused a decline in our credit spread risk exposure. In 2006, our total VAR experienced fluctuations, including both decreases and increases, as a result of continuing securitisations following periodic build-ups in our warehouses for securitised debt products and leveraged loans. In 2007 credit spread BPV steadily declined as a result of the sale of the US RMBS subprime portfolio and the de-risking of portfolios to a certain extent. Credit spread

risk, as measured by credit spread VAR in the chart above, has steadily declined over the period under review until 2006, largely due to lower volatility in the market and due to our securitisations. Despite the de-risking in 2007, credit spread VAR increased in 2007 as a result of higher credit spread volatility.

Interest rate risk, as measured by both interest rate BPV and interest rate VAR in the previous charts, steadily declined between 2004 and 2005, largely due to our closing of our interest rate mismatch positions in 2005. New mismatch positions in late 2006 increased our interest rate risk. In 2007 interest rate risk declined due to smaller trading positions as well as the closing of some mismatch positions. The remaining fluctuations in interest rate risk result mainly from changing positions in our interest rate trading books.

As a result of decreasing volatilities in interest rates and credit spreads since 2004, our total VAR has been moving downwards until the beginning of 2007. A rise in the volatility of these interest rate and credit spread factors in 2007 led to higher VAR figures.

Currency risk

We have the policy to hedge our positions in foreign currencies (including those of our subsidiaries) by funding investments in the appropriate foreign currency or hedging the exposures using cross currency swaps or FX contracts. On a monthly basis, the group finance department within the Corporate Center SBU determines our currency positions and reports them to the ALCO. When currency positions exceed our foreign currency exposure limit for that currency, we reduce our positions to bring our exposure back within the limit. Our total foreign currency position, by nominal amount, is generally under EUR 50 million in accordance with historical figures over the last few years.

Trading Market Risk – Financial Markets

FM faces trading market risks by managing trading positions in interest rate and credit products. FM's proprietary trading positions are a limited portion of our business, are of a short-term nature and are originated via client transactions and the team's view on future developments in the interest rate and credit spread markets. We always hedge positions in other risk types, such as commodity risk. Products used in managing trading market risk include swaps, futures, forward rate agreements, options, bonds and credit derivatives.

Non-Trading Market Risk – Financial Markets

Market risks on our non-trading books are generated in the Financial Markets SBU, by means of investment portfolios, in the Real Estate Markets SBU, which has residential mortgages, commercial real estate and infrastructure loans that are eligible for sale / securitisation and in the Corporate Center SBU, as a result of the strategic mismatch positions.

Financial Markets

FM has several investment portfolios that invest in different types of fixed-income assets and thereby generate non-trading market risk. Through its fund investments, FM provides capital to externally managed credit fixed-income funds. Through its structured investments, FM invests in highly rated structured products. Furthermore, FM manages a financials and sovereigns portfolio consisting of highly rated exposures on financial institutions and sovereigns. FM holds several other credit fixed-income portfolios to enhance overall yields. These include interests in global corporate and securitised debt products as well as leveraged loans, and the retained equity tranches of our securitisations of securitised debt products and leveraged loans. FM's activities are subject to interest rate risk, credit spread risk and counterparty default risk.

FM's interest rate risks in these portfolios are hedged by using interest rate swaps and futures. Credit spread and FM's counterparty default risks are therefore the predominant market risks in FM's investment portfolios.

In accordance with FM's investment policies, FM considers counterparty risk when first selecting its investments. Therefore FM focuses its investments in highly rated assets, primarily in bonds and credit derivatives issued by financial institutions and sovereign debt with an average external credit rating from Moody's, Standard & Poor's and / or Fitch of 'AA' and a minimum external credit rating of 'A'. FM's portfolios of bonds issued by financial institutions and sovereigns create eligible assets under ECB rules. These assets can be used to draw funding from the ECB, improving our liquidity position.

In addition, FM is able to take advantage of our expertise in credit fixed-income management by selecting investments in a relatively small portfolio of credit fixed-income funds through participations in credit hedge funds and credit funds, for which no external rating criteria apply.

The following tables show the rating class allocation of FM's investment portfolios, using a combination of internal and external ratings as at 31 December 2007 and 2006. De-risking of FM's investment portfolios contributed to the decrease of assets. The FM risk exposure assets consist mainly of debt securities, structured investments and off-balance sheet assets.

The performance of NIBC in 2007 is strongly affected by the results on the US ABS investment book, which to a large extent was de-risked during 2007. NIBC decreased its debt securities portfolio from EUR 7.2 billion (end of 2006) to EUR 3.4 billion (end of 2007). This decrease includes the de-risking of the US ABS investment book which amounted to EUR 2.2 billion at the beginning of 2007 and EUR 0.7 billion at the end of 2007. In 2007 this result was a EUR 256 million loss net of tax.

The de-risking was executed by means of two actions:

- The sale of US securities of EUR 0.7 billion during the first half year of 2007;
- The sale of a portfolio of EUR 0.4 billion of all US sub prime residential mortgage ABS securities.

The remaining decrease of EUR 0.4 billion reflects the before tax loss on the US ABS investment book and the devaluation of the US dollar in the first half year of 2007.

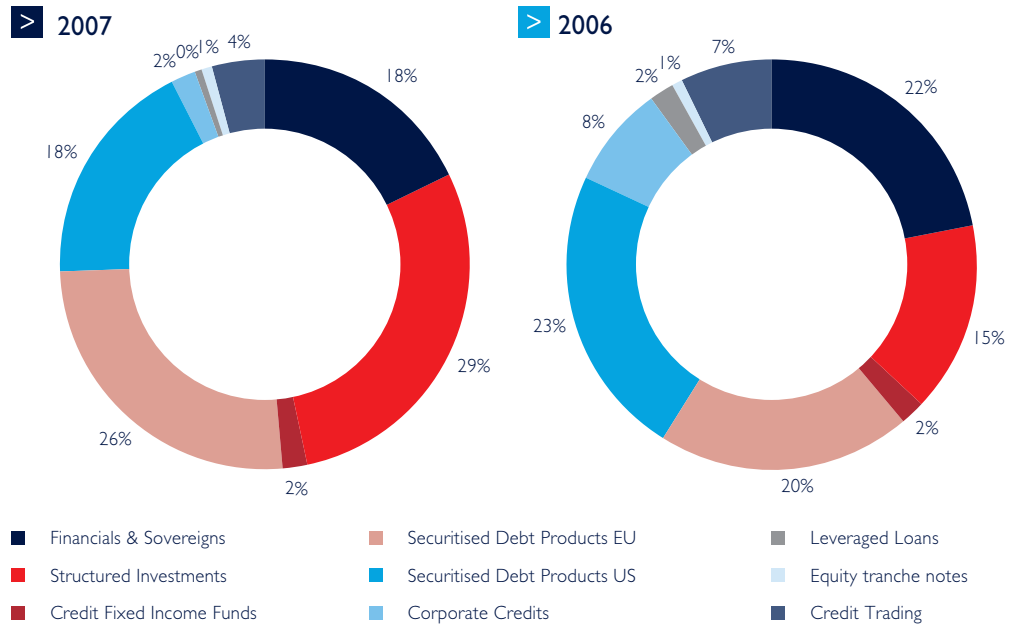
The following chart below presents the distribution of FM's investment portfolios, by asset type, as at 31 December 2007 and 2006.

Asset types:

- Securitised Debt Products EU: European structured credits e.g. RMBS, CMBS, ABS;
- Securitised Debt Products US: US structured credits e.g. RMBS, CMBS, ABS, CDO;
- Structured Investments: investments in highly rated structured debt;
- Credit Fixed Income Funds: participations in credit hedge funds and credit funds;
- Financials & Sovereigns: debt instruments issued by financial institutions and by governments;
- Corporate Credits: debt instruments issued by corporates;
- Credit trading: Corporate Credits / Securitised Debt Products as described above;
- Leveraged Loans: lending to companies with a high ratio of debt to market value;
- Equity tranche notes: retained equity tranches in our Securitised Debt and Leveraged Loans securitisations.

<i>IN EUR MILLIONS</i>		2007	2006
FINANCIAL MARKET ASSETS	RISK EXPOSURE TABLE (PAGES 45-46)	5,005	8,907
Credit trading assets	Presented in terms of BPV (tables pages 45-46)	215	630
TOTAL FINANCIAL MARKET	GRAPHS PAGES 100-101	5,220	9,537

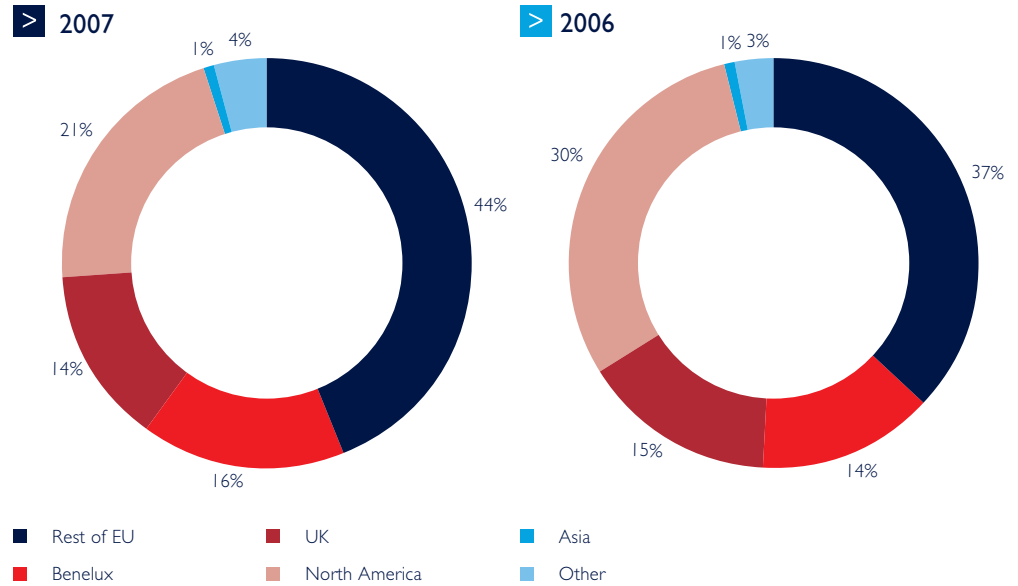
Financial Markets by Asset Type



2007: Total nominal value EUR 5,220 million (Total Financial Markets and Credit trading assets).
 2006: Total nominal value EUR 9,537 million (Total Financial Markets and Credit trading assets).

The following chart presents the distribution of the issuers of the assets in FM's investment portfolios, by geographic region, as at 31 December 2007 and 2006. We allocate exposure to a region based on the geographical location in which the counterparty or issuer's cash flows are generated.

Financial Markets by Geographic Breakdown



2007: Total nominal value EUR 5,220 million (Total Financial Markets and Credit trading assets).
 2006: Total nominal value EUR 9,537 million (Total Financial Markets and Credit trading assets).

The geographic distribution illustrates that the majority of these assets were originated from European issuers.

The following table presents an overview of our European and US Securitised Debt Products, per rating class at the end of 2007 and 2006.

Securitized Debt products, nominal values 2007 ¹

IN EUR MILLIONS	AAA	AA	A	BBB	BB	Below BB	Grand Total
US							
CMBS / CRE CDO exposure	149	186	289	269	18	4	914 ¹
EU							
ABS	22	12	(1)	1	5	-	39
CDO	206	48	(36)	22	24	-	264
CMBS	235	85	43	35	7	-	404
RMBS	333	61	107	132	36	1	672
TOTAL EU	796	206	113	190	72	1	1,378 ²
TOTAL	945	392	402	458	90	5	2,292

1. Fair Value at 31 December 2007 EUR 726 million.

2. Fair value at 31 December 2007 EUR 1.3 billion.

Securitized Debt products, nominal values 2006

IN EUR MILLIONS	AAA	AA	A	BBB	BB	Below BB	Grand Total
US							
CMBS / CRE CDO exposure	200	193	259	730	29	2	1,413
CDO	20	66	240	50	-	-	377
RMBS	224	78	61	53	4	1	420
Other ABS	6	-	-	-	0	-	6
TOTAL US	450	337	560	834	33	2	2,216
EU							
ABS	282	53	1	18	17	-	370
CDO	206	129	56	47	11	-	448
CMBS	487	118	222	141	28	4	1,000
RMBS							
TOTAL EU	1,046	314	285	212	71	4	1,931
TOTAL	1,496	651	845	1,045	104	6	4,147

The following table summarises the key trading risk statistics of FM's investment portfolios and proprietary trading activities using for the twelve months ended 31 December 2007 and 2006. Credit spread BPV of FM declined in 2007 as a result of the sale of the US RMBS subprime portfolio. Also the de-risking of other portfolios contributed to the decrease of the credit spread BVP. Despite the de-risking in 2007, credit spread VAR increased in 2007 as a result of higher credit spread volatility. Interest BPV and VAR figures have fluctuated with trading positions as well as the former FM mismatch position until that was part of FM until June 2007.

Key risk statistics Financial Markets 2007

IN EUR THOUSANDS	Interest rate		Credit spread		Total VAR
	BPV	VAR	BPV	VAR	
High	398	10,115	(1,156)	15,589	16,576
Average	(74)	3,745	(2,310)	6,899	8,726
Low	(741)	979	(3,760)	3,080	3,455

The figures between brackets have a negative impact on the mark-to-market of the position.

Key risk statistics Financial Markets 2006

IN EUR THOUSANDS	Interest rate		Credit spread		Total VAR
	BPV	VAR	BPV	VAR	
High	227	3,982	(2,553)	8,553	9,560
Average	(36)	1,761	(3,006)	4,929	5,829
Low	(324)	490	(3,627)	2,213	2,190

The figures between brackets have a negative impact on the mark-to-market of the position. Interest BPV and VAR and Credit spread BPV and VAR are calculated on a daily basis.

Real Estate Markets

The predominant business of our Real Estate Markets SBU is the origination of real estate financing, both residential mortgage financing in The Netherlands and the rest of EU and commercial real estate financing in Western Europe. These assets are subsequently eligible for sale / securitisation. Building a pipeline of and eventually originating assets such as residential mortgages and commercial real estate loans in order to sell / securitise them generates certain non-trading market risks. The most material non-trading market risk we face is credit spread risk from the residential mortgages.

Building a pipeline of residential mortgages, and subsequently originating them, results in credit spread risk, caused by changes in the value of the mortgages due to movements in credit spreads. Building a pipeline and originating residential mortgages also results in interest rate risk on our fixed-rate mortgages, resulting from the impact of interest rate changes on fair value adjustments to mortgage assets we have committed to in our pipeline, those we have built up in our warehouse and to those mortgages we have already securitised. Finally, our residential mortgage origination activities create credit risk, due to the possibility of borrower default.

By securitising our residential mortgage assets, we transfer a measure of the credit spread and credit risk of those assets to the investors, retaining only credit spread and credit risk on the portion of the equity tranche notes and mezzanine interests we retain from our RMBS programmes. In most cases, we as an originator retain the interest rate and prepayment risk after securitisation. We hedge these interest rate risks – i.e. on building a pipeline, on origination and on securitisation with swaps, taking into account the expected rate of pre-payment on the portfolio. Real Estate Markets is also exposed to, and maintains after securitisation, a certain degree of risk that mortgage borrowers will prepay their mortgages

earlier than expected, resulting in possible fair value adjustment losses (although largely compensated by borrower penalties). This prepayment risk is managed by allocating economic capital that reflects adverse potential losses due to prepayments.

Origination of commercial mortgages and infrastructure loans results in similar credit spread, credit, interest rate and pre-payment risks to those resulting from residential mortgages. We transfer a measure of credit spread and credit risk to the noteholders in the same manner as with our RMBS securitisations, again retaining credit and credit spread risk on the portion of the equity tranche notes and mezzanine interests we retain from our CMBS and infrastructure programmes. Because commercial mortgages and infrastructure are predominantly floating rate, we derive less interest rate risk from these loans than from our residential mortgage loans, which are predominantly fixed rate. For those commercial mortgages that are fixed rate, after securitisation we retain both the interest rate risk as well as the pre-payment risk. FM hedges the interest rate risks of our commercial real estate and infrastructure portfolios.

Although we sell the majority of the equity tranche notes and mezzanine interests to investors, we retain some equity tranche notes and mezzanine interests on our own balance sheet, to demonstrate commitment to investors. Our Real Estate Markets SBU retains credit spread and credit risk from our RMBS programmes on the portion of the equity tranche notes and mezzanine interests we retain. As at 31 December 2007, the total nominal value of the equity tranche notes and mezzanine interests issued under our RMBS programmes which we still held was EUR 118 million and EUR 108 million as at 31 December 2006 (excluding retained equity tranches of commercial real estate securitisations). A breakdown of the credit rating of these equity tranche notes and mezzanine interests is presented above in section 'Residential Mortgages – Collateral Management'. Also with respect to Commercial real estate and infrastructure securitisations we have retained some notes, totalling EUR 95 million at 31 December 2007 and EUR 4 million at 31 December 2006 (average rating BBB).

For our Real Estate Markets SBU, we use the BPV and VAR measures described above to measure and control market risks. The following table shows the key risk statistics of our Real Estate Markets SBU for the twelve months ended 31 December 2007 and 2006. In 2007 credit spread BPV rose as a result of larger residential mortgages and commercial real estate portfolios (eligible for sale / securitisation). Credit spread VAR and total VAR rose even more as a result of increased credit spread volatility.

Key risk statistics of our Real Estate Markets SBU 2007

IN EUR THOUSANDS	Interest rate		Credit spread		Total VAR
	BPV	VAR	BPV	VAR	
High	62	906	(1,771)	21,011	21,300
Average	(22)	417	(3,007)	9,472	9,933
Low	(130)	125	(3,627)	2,047	2,562

The figures between brackets have a negative impact on the mark-to-market of the position.

Key risk statistics of our Real Estate Markets SBU 2006

IN EUR THOUSANDS	Interest rate		Credit spread		Total VAR
	BPV	VAR	BPV	VAR	
High	105	939	(1,827)	4,297	4,647
Average	(14)	336	(2,126)	3,437	3,760
Low	(103)	101	(2,547)	(3,005)	3,175

The figures between brackets have a negative impact on the mark-to-market of the position.

Interest BPV and Interest VAR are calculated on a daily basis whereas Credit spread BPV and Credit Spread VAR are calculated on a weekly basis. As a result, averages are calculated on daily data for Interest risk and on weekly data for Credit Spread risk. For Total VAR, the calculation is on 'daily' data, where the Credit spread data has been made daily by keeping the weekly numbers constant the days of the weeks.

The previous table indicates that credit spread risk is the predominant element of market risk faced by our Real Estate Markets SBU. We manage the credit spread risks of our Real Estate Markets SBU as described in section 'Credit Spread, Interest Rate and Currency Risk – General – Credit Spread Risk' above. We limit and hedge interest rate risk within our Real Estate Markets SBU. In 2007 credit spread VAR and total VAR figures of REM increased significantly due to increased volatility of the credit spreads.

Other

Other non-trading market risk mainly results from interest rate risk from the ALCO strategic mismatch positions we take on a regular basis.

The following tables summarises the key risk statistics of our other non-trading market risk for the twelve months ended 31 December 2007 and 2006.

Key risk statistics of our Corporate Center SBU 2007

IN EUR THOUSANDS	Interest rate		Credit spread		Total VAR
	BPV	VAR	BPV	VAR	
High	(174)	6,461	-	-	6,461
Average	(366)	5,371	-	-	5,371
Low	(453)	2,669	-	-	2,669

The figures between brackets have a negative impact on the mark-to-market of the position.

Key risk statistics of our Corporate Center SBU 2006

IN EUR THOUSANDS	Interest rate		Credit spread		Total VAR
	BPV	VAR	BPV	VAR	
High	50	4,629	(1)	95	4,642
Average	(81)	1,245	(40)	42	1,250
Low	(283)	110	(179)	3	108

The figures between brackets have a negative impact on the mark-to-market of the position.

Interest BPV and VAR and Credit spread BPV and VAR are calculated on a daily basis.

The previous table above shows a maximum (absolute) interest rate BPV of negative EUR 453,000 in 2007 and a maximum of negative EUR 283,000 for 2006. This is a result of new ALCO strategic mismatch positions taken in 2007. In the course of 2007 some mismatch positions were closed again.

We manage our other non-trading interest rate risks and credit spread risk as described in section 'Credit Spread, Interest Rate and Currency Risk – General – Interest Rate Risk' as from page 93.

investment risk management

Overview

Our investment risk relates to positions in mezzanine or private equity investments that are all recorded in the Principal Investments SBU, and are managed by the Principal Investments SBU (direct investments) and the Investment Management SBU (limited partnership investments in NIBC Funds). Investment risk for mezzanine financing is comparable with credit risk, which is the risk that a change in the credit quality or default of a counterparty will affect the value of our position. Credit risk has been described in section 'Credit Risk Management'.

Investment risk for our equity investments is the risk that the value of the investment will deteriorate and is part of the market risk approach.

The main investment risk management principles we apply are:

- We authorise investment risk exposure independent of the business originators;
- Before we commit to an investment, we require authorisation by the relevant committee or at least two authorised individuals according to the 'four-eyes principle';
- We perform systematic risk analysis on the investment, with the aim of identifying, measuring and evaluating all risks, and utilising experts who are independent of the functions responsible for commercial or financial performance;
- We make 'know your customer', 'customer due diligence' and 'corporate social responsibility' principles an integral part of our overall investment assessment and approval process.

Management of Investment Exposures

Responsibility for the management of direct investment exposures rests with the Principal Investment SBU, and for the management of NIBC Funds with the Investment Management SBU. Risk policies are recorded in the Investment Risk Manual and the (fund) Risk Manual respectively. For equity investments without quoted market prices, the fair value of the investments is estimated per quarter, and the valuation principles set forth by the International Private Equity and Venture Capital Valuation Guidelines are applied to the extent these are consistent with IAS 39. The International Private Equity and Venture Capital Valuation Guidelines set out recommendations, intended to represent current best practise, on the valuation of private equity and venture capital.

The assets of our Principal Investments SBU are primarily private equity and warrant positions with low liquidity. Because the size of the Principal Investments portfolio is limited, we assess concentration risk per individual new asset. In the investment risk assessment process, we take into account the impact of a specific asset on both our market and geographical exposure profiles.

Investment Process

Every investment proposition is assessed by an investment team, consisting of at least one senior investment manager and an analyst working within our Principal Investments SBU. After an initial screening, the investment team may decide to reject the proposition or to prepare a preliminary analysis to determine if the investment is worth pursuing. The preliminary analysis is then discussed in a weekly team meeting and, if we make the decision to continue,

we undertake a due diligence and market analysis and ultimately write and submit an investment proposal to the *Investment Committee (IC)* for a final decision on the investment.

We assign all non-equity investment exposures an internal risk rating, which is validated by CRM. After approval by the IC, either an internal or external lawyer will draft the documentation, which (in the latter case) will be approved by our legal team.

Investment Control Process

We review all investment exposures quarterly and the internal risk rating at least annually. The relevant investment manager drafts the review and makes a valuation of the investment based on International Private Equity and Venture Capital Valuation Guidelines consistent with IFRS. The IC approves the valuations.

Exit Process

In each quarterly review we will update our exit strategy on given investments if applicable. Once an exit has been decided upon by the investment team, the investment manager drafts an exit proposal outlining, among other things, the timing of exit, the reason for the exit and the expected revenues. This form is submitted to the IC for approval.

Composition of Investment Exposure

The direct investment portfolio of Principal Investments consists primarily of mezzanine and private equity investments, including private and listed common equity investments, preference and common shares and shareholder loans. The indirect investment portfolio consists of Limited Partnership interests in own funds (non-consolidated) and third party funds.

The fair value of Principal Investments' portfolio was broken down as follows as at the dates indicated:

IN EUR MILLIONS	2007	2006
Direct Investments	320	299
Indirect Investments	94	63
TOTAL INVESTMENTS	414	363

The following table shows the key risk statistics of the equity investment portfolio in case of a 1% change of equity.

IN EUR MILLIONS	2007	2006
Direct Investments	3.20	2.99
Indirect Investments	0.94	0.63
TOTAL INVESTMENTS	4.14	3.63

Large Holdings and Concentrations

Principal Investments have holdings larger than 5% in one listed company, Kendrion N.V. We value this asset at the bid price. Other large shareholdings are private equity holdings.

liquidity risk management

Overview

Maintaining a comfortable liquidity and funding profile is one of our most important risk management objectives. We analyse our funding profile by mapping all assets and liabilities in time buckets corresponding to their maturities. Based on projections prepared by the SBUs and the current asset and liability profiles, we prepare a short-term liquidity forecast and stress test on a weekly basis and present it to the ALCO to create continuous monitoring of the liquidity position.

A comfortable liquidity position, meaning the ability to meet our financial obligations even if we are unable to raise any new funding over the next twelve months, is one of the cornerstones of our liquidity strategy. We have sought to enhance our liquidity profile by managing our loan and mortgage portfolios to enhance liquidity. A part of our investment portfolio qualifies as eligible assets that may be held as collateral with the ECB in order to raise short-term funding with the ECB. As at 31 December 2007, our ECB eligible funding capacity (being the sum of drawn and unused funding) had increased to EUR 4.8 billion (including EUR 0.9 billion of securities borrowed from an entity controlled by NIBC Holding N.V. under a securities borrowing agreement) compared to EUR 2.2 billion as at 31 December 2006. Our ECB eligible funding capacity equates to approximately 95%-100% of the fair value of ECB eligible assets: the haircut depends on the precise nature of the assets. We expect to use part of this funding capacity in the normal course of business over the forthcoming months, while the remaining portion functions as a liquidity buffer to be used in times of stress. We also have a three year EUR 850 million committed credit facility with a group of international financial institutions, which further enhances our liquidity position.

Stress Scenario (unaudited)

Since the information provided here concerns theoretical future predictions the section has been marked as unaudited.

We model liquidity using a 'stress' scenario on a weekly basis. This short-term stress scenario (12 months) assumes a world wide liquidity shortage in which no market funding can be raised and external sales or securitisations are not possible. In order to maintain our business franchise, we assume that production continues at a minimum level. Some other additional NIBC specific issues are considered and for example we assume that 50% of the undrawn exposure on the corporate loans is drawn within the next year. Furthermore, conservative assumptions for prepayments, callable funding and collateral cash out (payments from CSAs) are made.

Assumptions of 2007 stress test are adjusted in comparison to 2006 (as a result of changing levels of liquidity of assets), and aligned with current liquidity crisis.

We plan further internal securitisations that will create additional eligible assets that can be used to collateralise ECB funding. ECB funding can be drawn on the total amount of eligible assets, besides a buffer of EUR 500 million, which we need for intra-day payments. Lastly, we assume we will be able to use our committed liquidity facility of EUR 850 million, other sources of funding.

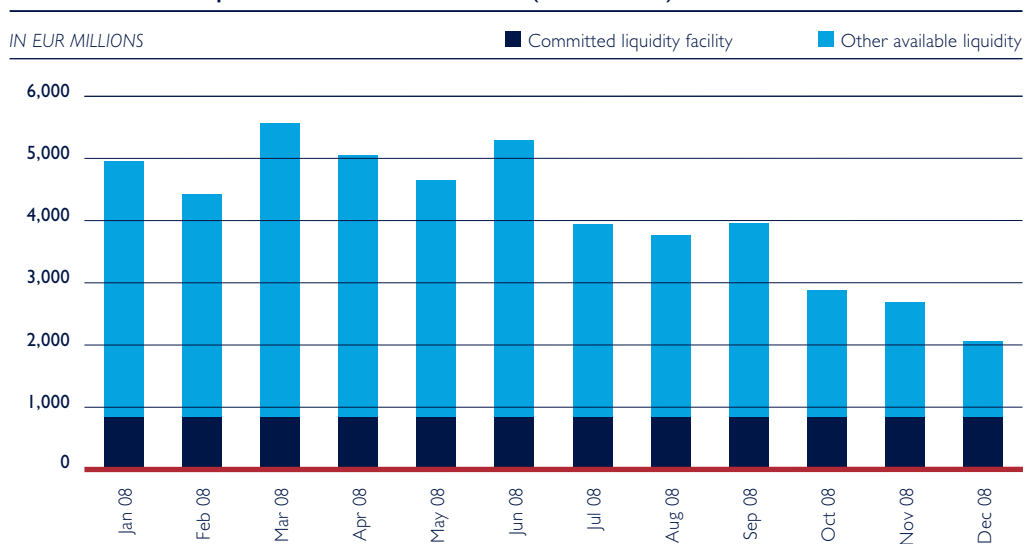
We plan to have created a further pool of EUR 3.0 billion of ECB eligible assets over the twelve months to 31 December 2008

Other available liquidity as presented below is comprised of:

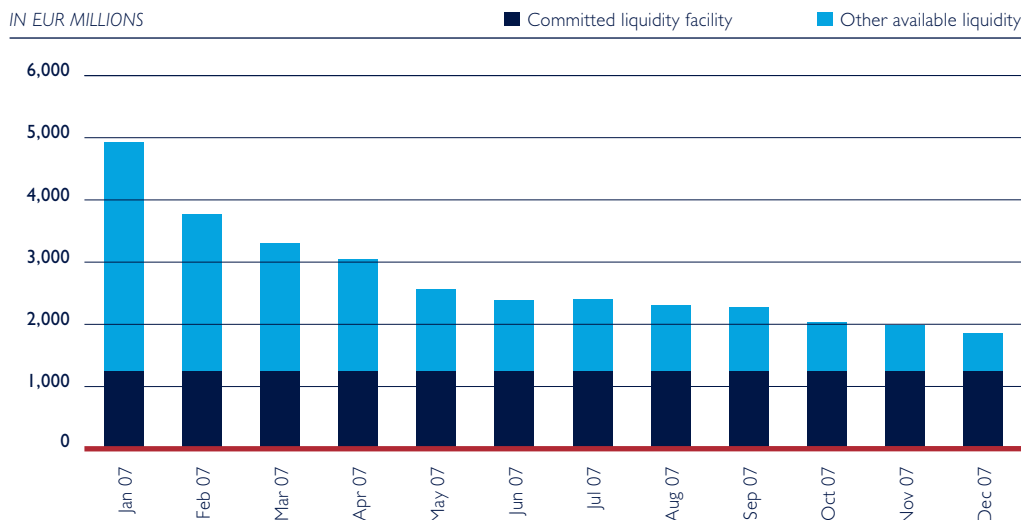
- Our projected pool of ECB eligible collateral (reduced by the haircuts demanded by the ECB) at each month end;
- Reduced by the funding needs created by maturing liabilities and other projected cash outflows (e.g. from new business);
- Increased by the inflow of funds arising on assets maturing during the month.

The following unaudited charts show our strong liquidity position in the stress scenario.

Stress Scenario per 31 December 2007 (unaudited)



Stress Scenario per 31 December 2006 (unaudited)



The results of the stress scenario demonstrate that we expect to be able to meet our financial obligations, maturing over the next twelve months, even if we were unable to raise any new funding over the next twelve months, and without using our committed credit facility.

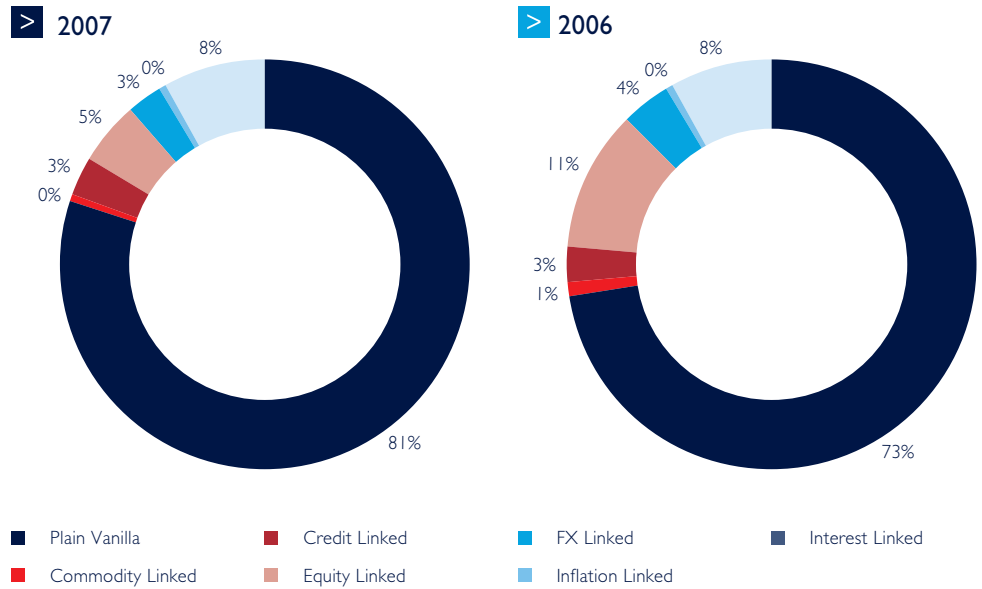
Funding

NIBC's funding policy is to seek a healthy balance between its funding requirements and demand from investors by maintaining a presence in and regularly returning to the debt capital markets for additional funds under its different funding programmes in order to maintain its reputation as a flexible, responsive and reliable issuer. Approximately two-thirds of NIBC's annual funding requirements are met through the issuance of either fixed rate or floating rate plain vanilla debt securities, including notes and commercial paper. Approximately one-third of the total annual funding is derived from 'structured funding', which involves the issuance of debt securities with embedded options tailored to specific investors' need. All embedded options in structured funding are hedged back-to-back in order to minimise the risk associated with the various types of embedded options. The hedging activity effectively creates synthetic floating rate funding.

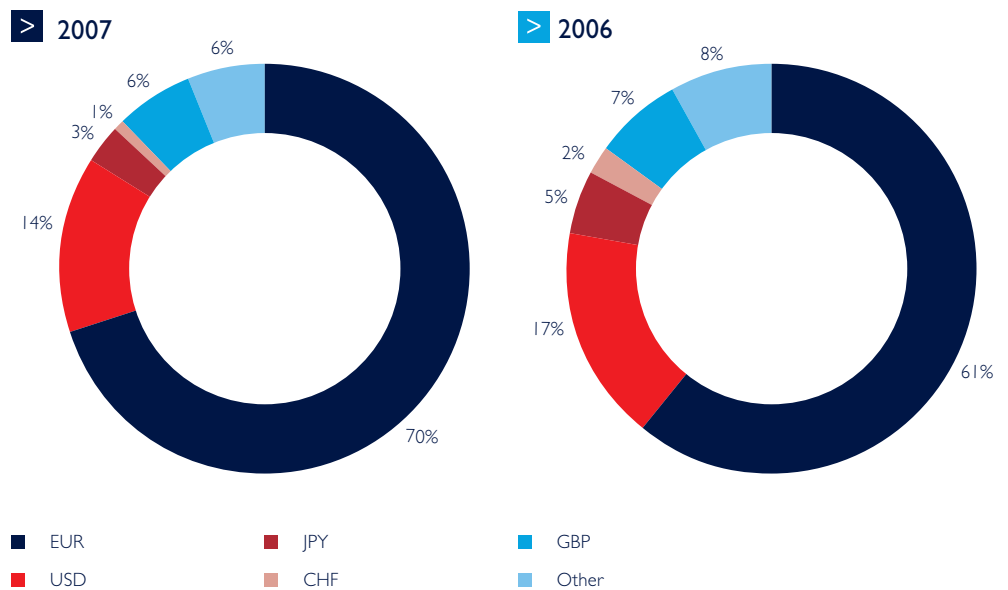
As a result of the current credit and liquidity crisis, the funding policy is at this moment difficult to apply in attracting new funding. New funding initiatives as for example corporate deposits have been introduced. Other new initiatives have been started and will be implemented in 2008.

An overview of the funding portfolio at 31 December 2007 and 2006, is shown in the following charts. The primary source of funding is the issuance of debt securities through both private placements and public offerings. The current investor base is predominantly located in Germany, the UK, France, Japan and the Benelux region as well as other countries in Europe, Asia and North America.

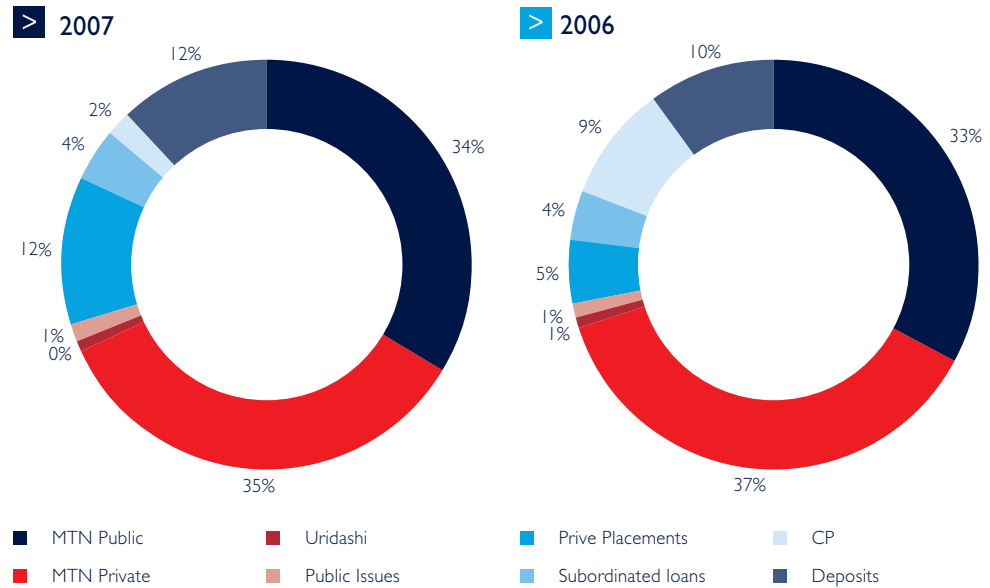
Breakdown of Funding Character



Breakdown of Funding Currency



Breakdown of Funding Paper



Maturity Profile

The contractual maturities of our financial contracts form the basis of our liquidity analysis. In the following tables, we summarise the maturity profiles of all the assets and liabilities on our balance sheet as at 31 December 2007 and 2006. The following tables are based on projected cash flows according to legal payment dates.

In the following tables, a portion of our funding is short term funding we draw to originate assets for securitisation. Because the assets originated for our securitisation warehouses are generally long-term assets which remain on our balance sheet for only a relatively short time, the funding we draw to originate these assets is generally shorter-term than the corresponding assets in the following table.

Consolidated balance sheet, for the period ended 31 December 2007

<i>IN EUR MILLIONS</i>	Not dated	Payable on demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Assets							
Cash and balances with central banks		874					874
Due from other banks		689	2,418	5	38	0	3,150
Loans and receivables			34	97	423	704	1,258
Securitised loans and receivables						638	638
AVAILABLE FOR SALE ASSETS							
Loans and advances to customers			231	337	2,144	2,452	5,164
Equity Investments	144						144
Debt Securities					15	296	311
FINANCIAL ASSETS FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)							
Loans and receivables			-	8	53	1,313	1,374
Residential mortgages own book			11	14	87	5,173	5,285
Securitised residential mortgages			2	2	17	6,335	6,356
Debt securities			154	133	442	2,326	3,055
Structured investments			618	70	20	504	1,212
Equity Investments	147						147
Derivative financial assets held for trading			169	686	957	821	2,633
Derivative financial assets used for hedging			3	2	27	53	85
Investments in associates	44						44
Intangible assets	338						338
Property and other fixed assets (for own use)	72						72
Investment property	1						1
Current tax assets				106			106
Deferred tax assets					20		20
Other assets				142			142
TOTAL ASSETS	746	1,563	3,640	1,602	4,243	20,615	32,409

Consolidated balance sheet, for the period ended 31 December 2007

IN EUR MILLIONS	Not dated	Payable on demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Liabilities							
Due to other banks		612	1,966	901	1,492	484	5,455
Other deposits		1	304	112	239	387	1,043
Other borrowings						2	2
FINANCIAL LIABILITIES FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)							
Debt securities in issue structured			360	223	1,595	1,942	4,120
Own debt securities in issue			26	67	92	33	218
DEBT SECURITIES IN ISSUE							
Own debt securities in issue			1,304	2,568	4,935	170	8,977
Debt securities in issue related to securitised mortgages			70	528	5,293	1,323	7,214
Other liabilities				252			252
Current tax liabilities							0
Deferred tax liabilities					24		24
Employee benefit obligations				5	6		11
Subordinated liabilities – amortised cost				7	52	173	232
Subordinated liabilities – fair value through profit and loss				10	48	469	527
TOTAL LIABILITIES (EXCLUDING DERIVATIVES)¹	-	613	4,030	4,673	13,776	4,983	28,075
Estimated interest cash flow			305	758	2,274	1,023	4,359
TOTAL LIABILITIES (EXCLUDING DERIVATIVES) INCLUDING ESTIMATED INTEREST RATE CASHFLOWS	-	613	4,335	5,431	16,050	6,006	32,434

1. For the cash flows of derivatives, see table on page 88.

In the previous table, the maturity of all assets at fair value are based on discounted cashflows. In the previous table, all liabilities are based on undiscounted cash flows.

In the previous table, all liabilities are measured at amortised costs (and the maturity of these liabilities is based on undiscounted cash flows). Financial liabilities at fair value through profit or loss are restated to nominal amounts.

Consolidated balance sheet, for the period ended 31 December 2006

<i>IN EUR MILLIONS</i>	Not dated	Payable on demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Assets							
Cash and balances with central banks		239					239
Due from other banks		866	877	3	6	13	1,765
AVAILABLE FOR SALE ASSETS							-
Loans and advances to customers			535	762	3,656	1,944	6,897
Equity Investments	185						185
FINANCIAL ASSETS FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)							-
Corporate loan warehouse			21	3	48	880	952
Residential mortgages own book			45	17	9	4,367	4,438
Securitised residential mortgages			14	2	1	6,971	6,988
Debt securities			318	180	606	6,098	7,202
Structured investments			58	76	335	447	916
Derivative financial assets held for trading			83	184	1,214	459	1,940
Derivative financial assets used for hedging			30	10	195	65	300
Investments in associates	33						33
Intangible assets	338						338
Property and other fixed assets (for own use)	82						82
Investment property	8						8
Current tax assets				49			49
Deferred tax assets					3		3
Other assets				301			301
TOTAL ASSETS	646	1,105	1,981	1,587	6,073	21,244	32,636

1. In the table above, the maturity of all assets at fair value are based on discounted cash flows.

Consolidated balance sheet, for the period ended 31 December 2006

IN EUR MILLIONS	Not dated	Payable on demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Liabilities							
Due to other banks		354	1,759	2	1,059	227	3,401
Other deposits			1,431	237	366	547	2,581
Due to customers					3	10	13
FINANCIAL LIABILITIES FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)							
Debt securities in issue structured			249	587	2,267	1,265	4,369
DEBT SECURITIES IN ISSUE							
Own debt securities in issue			1,000	281	7,333	720	9,335
Debt securities in issue related to securitised mortgages			-	448	2,177	4,621	7,246
Other liabilities				500			500
Current tax liabilities							-
Deferred tax liabilities					60		60
Employee benefit obligations				5	12		17
Subordinated liabilities				8	121	559	688
TOTAL LIABILITIES (EXCLUDING DERIVATIVES) ¹	-	354	4,439	2,068	13,398	7,949	28,210
Estimated interest cash flow			244	638	2,227	18	3,127
TOTAL LIABILITIES (EXCLUDING DERIVATIVES) INCLUDING ESTIMATED INTEREST RATE CASHFLOWS		354	4,683	2,706	15,625	7,967	31,337

1. For the cash flows of derivatives, see table on page 89.

In the previous table, the maturity of all assets at fair value are based on discounted cashflows. In the previous table, all liabilities are based on undiscounted cash flows.

In the previous table, all liabilities are measured at amortised costs (and the maturity of these liabilities is based on undiscounted cash flows). Financial liabilities at fair value through profit or loss are restated to nominal amounts.

operational risk management (unaudited)

Since the information provided here concerns non required disclosures the section has been marked as unaudited.

We define operational risk as the risk of direct or indirect loss resulting from inadequate or failed internal processes or systems, from human error or external events including legal risk that affect our image, operational earnings and / or have adverse effects on capital value. Because of our relatively small size, we face a greater impact from loss of any client relationships than our larger competitors, and therefore have also included reputation and strategic business risk as subcategories of operational risk. Because of the sophistication of our products, we face higher risks of operational errors which also contribute to reputation risks.

The responsibility for monitoring and managing operational risk lies with our Operational Risk Manager and the business unit manager, who are responsible for implementing the enterprise-wide operational risk framework. This framework sets out the roles and responsibilities for management supervision, as well as those 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. In addition, this framework outlines our ambition to work towards qualification for the *Advanced Measurement Approach (AMA)* under Basel II. In order to qualify for AMA, we must satisfy the Dutch Central Bank that, at a minimum, our Managing Board and Supervisory Board and senior management are actively involved in risk management, that our risk management system is independent, conceptually sound and implemented with integrity. Finally, we need to ensure that there are sufficient resources available to execute the purpose and strategy of operational risk management and the business units as well as implement control, compliance and audit functions.

We manage operational risk at both a group and strategic business unit level. The *Operating Risk Committee (ORC)* provides consistency and oversight of significant operational issues and oversees the adoption of best practice across the bank. At the SBU level and below, managers are responsible for adherence to operational risk management policy framework, for oversight of all operational risks specific to the business, and for reporting of all operational events and losses. The Operational Risk Manager, working in conjunction with business unit managers, has developed tools to assist in managing, monitoring, reporting and reducing the effects of operational risk. The tools utilised by managers provides for an integrated view of the risk self assessment, control identification, action planning, and loss and event registration. This integrated view assists in identifying, evaluating and reducing operational risk and planning mitigation measures. The evaluation process assists in identifying emerging operational risk issues and determining how they should be managed. From the information gathered through the process, we have developed a set of key risk and control indicators. These indicators have the potential to be used to identify trends and issues at both the group and SBU level. An analysis of these key risk indicators, when combined with the systematic collection of operational loss and event data, enables us to manage operational risk pro-actively.

We have sought to build operational risk management into all our business processes. We monitor operational risk on a daily basis and perform self assessments semi-annually. The year end self assessment and forms the basis for our 'In Control Report' and the Risk System and Control System section of this annual report. 'In control' reporting seeks to ensure that operational risk management policy framework is integrated into the daily activities of all our employees and that it forms an integral part of our internal control system. The reporting system is focused on control of the identified risks related to the operational execution of the different business activities.

economic capital (unaudited)

Since the information provided here concerns non required disclosures the section has been marked as unaudited.

Overview

Economic capital is the amount of capital which we notionally allocate as a buffer against potential losses from business activities, based upon our assessment of risks. The economic capital we allocate to each SBU is based on the risk of that SBU's activities, as measured by VAR and other risk factors, as described below under 'Economic Capital Allocations'. Relating the risk-based economic capital of each SBU to its profit results in a calculation of its RAROC. Economic capital, RAROC and EVA are key tools used in support of our capital usage process, assisting us in allocating our shareholders' equity as efficiently as possible based on expectations of both risks and return. We report usage of economic capital for the activities of our Financial Markets, Real Estate Markets and Corporate Center SBUs on a weekly basis, and for our Corporate Finance and Principal Investments SBUs on a monthly basis. The ALCO resets the maximum allocation level of economic capital to and within our SBUs quarterly, taking into account business expectations and our desired risk profile. Economic capital allocation is based on a one-year risk horizon, using a 99.9% confidence level. This confidence level means that there is a 0.1% probability that losses in a period of one year will be larger than the allocated economic capital.

Adopting Advanced Internal Rating Based approach under Basel II will result in convergence between economic capital usage and regulatory capital required, as for both the loan and mortgage portfolios we can expect a lower regulatory capital charge.

Economic Capital Usage and Allocations

We allocated economic capital to all our SBUs on the basis of limits set by the ALCO, and calculate the amount of economic capital usage of each SBU based on the risk of its activities, as measured by VAR and other risk factors.

- For our Corporate Finance SBU, which uses a major part of our economic capital. We calculate economic capital usage using the Basel II regulatory capital formula and add-ons for concentration risks and operational risks. For a description of Basel II, see section 'Basel II compliance' as from page 123;

- For our Financial Markets, Real Estate Markets, and Corporate Center SBUs, we use a VAR framework to determine economic capital usage. We calculate economic capital usage for our Financial Markets and Corporate Center SBUs using VAR calculated with four years of historical data;
- For our Principal Investments SBU, we calculate economic capital usage for mezzanine investments by applying the Basel II regulatory capital formula and an add-on for operational risks. For the equity investments we use fixed percentages;
- For our Investment Management SBU, we calculate economic capital usage according to the level of operational risk.

The economic capital that is not used by an SBU is defined as excess economic capital.

The following (unaudited) table shows our average economic capital usage, by SBU, and the diversification effects for the periods indicated.

Average economic capital usage by SBU ^{1,3}

<i>IN EUR MILLIONS</i>	2007	2006
Corporate Finance	504	483
Real Estate Markets	220	123
Financial Markets	273	174
Principal Investments	124	110
Investment Management	14	5
Corporate Center	151	63
AVERAGE ECONOMIC CAPITAL USAGE	1,285	959
Diversification effect	(112)	(24)
TOTAL AVERAGE ECONOMIC CAPITAL USAGE NET OF DIVERSIFICATION EFFECT	1,173	935
TOTAL AVERAGE UNUSED ECONOMIC CAPITAL ²	566	449

1. All figures are excluding the allocation made for BIS II; reputation risk (EUR 100 million), business risk (EUR 18 million) and model risk (EUR 20 million).

2. Defined as the difference between the economic capital usage and the available capital that can be allocated to the business activities.

3. Figures deviate from segment reporting. Segment reporting is based upon allocated economic capital. This table is based upon economic capital usage.

The diversification effect across all our SBUs measures the extent to which risks, as measured by the amount of economic capital allocated, are to some degree correlated with one another and therefore provide a natural hedge. For instance, we hold two opposite interest rate positions, any loss from one of them will to some degree be cancelled out by a gain in the other. In a similar fashion, certain interest rate risks may offset certain credit spread risks. A diversification effect therefore effectively means that the aggregate risk of multiple positions is smaller than the sum of those risk positions measured on a stand-alone basis.

The average economic capital usage of our Corporate Finance SBU increased by EUR 21 million, or 4% to EUR 504 million in 2007, compared to EUR 483 million in 2006. The increase between 2007 and 2006 was a result of larger portfolios in the first 6 months of 2007.

The average economic capital usage of our Real Estate Markets SBU increased by EUR 97 million, or 79%, to EUR 220 million in 2007, compared to EUR 123 million in 2006. The increase between 2007 and 2006 was a result of the increased volatility in European CMBS and RMBS spreads.

The average economic capital usage of our Financial Markets SBU increased by EUR 99 million, or 56% to EUR 273 million in 2007, compared to EUR 174 million in 2006. The increase between 2007 and 2006 was a result of the increased volatility in US and European structured credits spreads.

The average economic capital usage of our Principal Investments SBU increased by EUR 14 million, or 13% to EUR 124 million in 2007, compared to EUR 110 million in 2006. The differences between economic capital usage in these years are mainly due to fluctuations in the size and risk weighting of Principal Investment's portfolios.

The average economic capital usage of our Investment Management SBU increased by EUR 9 million, or 174% to EUR 14 million, compared to EUR 5 million in 2006. The increase between 2007 and 2006 was a result of the reallocation of assets under management to Investment Management.

The average economic capital usage of our Corporate Center SBU increased by EUR 88 million, or 140%, to EUR 151 million in 2007, compared to EUR 63 million in 2006. The increase between 2007 and 2006 was a result of an increase in the average size of strategic mismatch positions in 2007.

The diversification effect increased by EUR 85 million, or 354%, to negative EUR 109 million in 2007, compared to negative EUR 24 million in 2006. The larger diversification effect in 2007 compared with the end of 2006 was predominantly the result of the larger average strategic mismatch position in 2007.

Risk Categories

We also break down our total economic capital into several risk categories to assist in monitoring our risk profile as established by the ALCO. The following (unaudited) table shows our average economic capital usage as at the dates indicated per risk category, defined as follows:

- 'Credit risk accrual' risk refers to credit risk from the Corporate Finance SBU's corporate loan portfolio and counterparty risk from OTC derivatives;
- 'Credit spread trading' risk refers to credit spread risk from our residential and commercial mortgages in our warehouse and pipeline, and from FM's investment portfolios;
- 'Interest rate non-trading' risk refers to risks arising from the strategic mismatch position and the residual interest rate risk containing mortgages, CTB portfolios and Financial Markets books;
- 'Interest rate trading' risk refers to risks arising from our 'Interest and Derivatives Trading', 'Money Market and Repo-Trading' and 'Fair Value Interest Rate' trading books of FM;
- 'Equity and mezzanine' risk mainly arises from investments of our Principal Investments SBU;

- 'Operational and other risks' arises from the potential risk of inadequate performance in the day-to-day processing of transactions, inadequate procedures and measures for timely detection of control failures, shortcomings in human resources and poor decision-making as a result of inadequate management information.

Average economic capital usage per risk category ¹

IN EUR MILLIONS	2007		2006	
	Economic capital usage	% of total economic capital used	Economic capital usage	% of total economic capital used
CREDIT RISK				
Credit risk accrual	568	39%	500	50.0%
MARKET RISK				
Credit spread trading	453	31%	235	23.5%
Interest rate non-trading	45	3%	42	4.2%
Interest rate trading	155	11%	28	2.7%
INVESTMENT RISK				
Equity & mezzanine	125	9%	108	10.8%
OPERATIONAL AND OTHER RISK				
Operational and other	114	8%	88	8.8%
TOTAL ECONOMIC CAPITAL	1,460	100%	1,000	100%
Diversification effect	(287)		(65)	
TOTAL ECONOMIC CAPITAL NET OF DIVERSIFICATION EFFECT	1,173		935	

1. All figures are excluding the allocation made for BIS II; reputation risk (EUR 100 million), business risk (EUR 18 million) and model risk (EUR 20 million).

Credit-related risks are our most significant risk categories, accounting for approximately EUR 981 million, or 69% of our economic capital usage as at 31 December 2007. Credit-related risk in this context includes both credit spread trading risk and credit risk accrual.

Interest rate-related risks accounted for approximately EUR 200 million, or 14% of our economic capital usage. Interest rate-related risks in this context include both interest rate trading and interest rate non-trading risks. Compared to 2006, in 2007 we had on average larger mismatch positions and larger trading positions.

basel II compliance (unaudited)

Since the information provided here concerns non required disclosures the section has been marked as unaudited.

The Basel Accords

In 1988 the first Basel Accord was introduced with the goal to introduce capital requirements for banks to avoid systemic risk and to create a level playing field in the international banking sector (**Basel I**). This resulted in the first Capital Adequacy Directive in 1990. In 1999 the Basel Committee introduced a new risk-based capital framework for the banking sector (**Basel II**).

Basel II sets forth the details for an increase in risk-sensitive minimum capital requirements for banks in comparison to Basel I. The objective of Basel II is to improve the capital adequacy of the banking industry by making it more responsive to risk. Banks are encouraged to improve their risk management techniques and use their own risk estimates as a basis for the minimum capital requirements.

The Basel II framework is based on 3 'pillars':

- **Pillar 1** describes the capital adequacy requirements for 3 risk types; Credit risk, Market risk and Operational risk;
- **Pillar 2** describes the additional supervisory review process where regulators analyse the internal capital adequacy assessment process of the individual banks;
- In **Pillar 3** the required risk reporting standards are reflected to support additional market discipline in the international capital market.

With respect to Pillar 1, the Basel Committee has set out a number of requirements with regard to risk measurement and risk control on both credit risk and operational risk. The market risk regime remains largely unaffected with only a few additional requirements from Basel I. Basel II has given banks the option to choose between various approaches, each with a different level of sophistication in risk management, ranging from 'standardised' to 'advanced'.

Basel II at NIBC

For measuring Credit risk under Pillar 1, NIBC has adopted the Advanced Internal Rating Based approach as further specified in Basel II. This choice is a logical extension of the development and use of our internal rating systems. Many of these systems have been operational since 2000 and are fully embedded in the organisation. In 2007 NIBC received approval from its regulator to start using the Advanced Internal Rating Based framework for regulatory reporting in 2008.

For measuring Operational risk, NIBC has adopted the Standardised Approach on an initial basis, but ultimately we intend to move towards the Advanced Measurement approach, both as further specified in Basel II.

For measuring market risk, NIBC will switch to an internal model VAR approach (Value at Risk) in 2008. Until 2007 the Value at Risk method was internally used for monitoring the trading books while the standardised measurement method was used to report NIBC's market risk to the Dutch Central Bank.

Under Pillar 2 NIBC has implemented its economic capital framework during 2007. This framework is fully embedded in the organisation with weekly reporting to the *Asset and Liability Committee (ALCO)*. Amongst the topics covered in Pillar 2 are NIBC's risk appetite, capital planning and concentration and diversification effects.

The basis for Pillar 2 is NIBC's *Internal Capital Adequacy Assessment Process (ICAAP)*.

NIBC will start the Pillar 3 risk reporting based on the activities of NIBC in 2008.

financial risk management

In addition to the information set out below we refer to the comprehensive risk management information. The information below refers to NIBC Bank N.V. as the Basel I Capital Accord applies to NIBC Bank N.V. and not to NIBC Holding N.V.

Capital Adequacy

The principal ratios for reviewing the capital adequacy of NIBC Bank N.V. are the Tier-I 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 still based on the 1988 Basel I Capital Accord. A comprehensive revision of this Basel I Capital Accord, which is currently underway, will bring it closer in line with the concept of economic capital.

The NIBC Bank N.V. monitors developments in the ratios on a monthly basis, including comparison between the expected ratios and the actual ratios. These ratios indicate capital adequacy to hedge onbalance risks including off-balance sheet commitments and market risks and other risk positions expressed as risk-weighted items in order to reflect their relative risk. During the year ended 31 December 2007, NIBC Bank N.V. complied amply with the capital requirements imposed by the Dutch Central Bank, which require a minimum Tier-I ratio of 4% and a minimum BIS ratio of 8%.

In 2007 the Tier-I ratio decreased from 12.3% to 11.7% and the BIS ratio increased from 13.3% to 13.4%.

Below is the summary of the risk positions comparing the notional amount and the risk-weighted amount for NIBC Bank N.V. Tier-I capital consists of share capital, reserves (excluding the hedging reserve and the revaluation reserve), retained earnings and hybrid Tier-I capital, net of intangible fixed assets and proposed dividend. Total capital (BIS) consists of Tier-I capital plus the revaluation reserve and subordinated loans adjusted for deductible items.

Capital adequacy NIBC Bank N.V.

	Balance sheet / Notional amount		Risk-weighted amount	
	2007	2006	2007	2006
BALANCE SHEET ASSETS				
Cash	874	239	-	-
Banks	3,145	1,762	360	207
Loans and receivables amortised cost	2,092	-	2,092	-
Financial assets available for sale	5,923	7,252	5,610	6,398
Financial assets fair value through profit or loss (including trading)	19,429	22,731	4,386	3,119
Investments in participating interests	44	23	44	23
Property and other fixed assets (for own use)	72	81	72	81
Investment property	1	8	1	8
Tax assets	60	43	-	-
Other assets	153	311	99	157
TOTAL	31,793	32,450	12,664	9,993
OFF-BALANCE SHEET POSITIONS				
Credit related commitments	3,396	4,594	1,636	1,887
Derivatives contracts	141,313	125,342	478	265
TOTAL	144,709	129,936	2,114	2,152
OTC Derivative instruments – Interest contracts	126,921	111,272	182	142
OTC Derivative instruments – Foreign exchange contracts	13,853	13,256	271	82
OTC Derivative instruments – Equity contracts	539	814	25	41
TOTAL DERIVATIVE CONTRACTS	141,313	125,342	478	265
Unassigned market-risk components			620	2,636
TOTAL RISK-WEIGHTED ASSETS			15,398	14,781

	Capital		BIS %	
	2007	2006	2007	2006
BIS CAPITAL RATIOS				
Tier-I capital	1,794	1,813	11.7%	12.3%
Tier-I + Tier-II capital (BIS)	2,199	2,164	13.4%	13.3%

concentration of currency risk

Consolidated balance sheet, for the period ended 31 December 2007

IN EUR MILLIONS	EUR	USD	GBP	JPY	Other	Total
Assets						
Cash and balances with central banks	874	-	-	-	-	874
Due from other banks	2,785	321	35	-	9	3,150
Loans and receivables	992	151	68	30	17	1,258
Securitised loans and receivables	638	-	-	-	-	638
AVAILABLE FOR SALE ASSETS						
Loans and receivables	2,743	1,237	1,103	20	61	5,164
Equity investments	109	30	5	-	-	144
Debt securities	311	-	-	-	-	311
FINANCIAL ASSETS FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)						
Loans and receivables	999	25	347	-	3	1,374
Residential mortgages own book	5,285	-	-	-	-	5,285
Securitised residential mortgages	6,356	-	-	-	-	6,356
Debt securities	1,739	1,073	230	10	3	3,055
Structured investments	1,040	171	1	-	-	1,212
Equity investments	147	-	-	-	-	147
Derivative financial assets held for trading	(3,506)	4,145	748	641	605	2,633
Derivative financial assets used for hedging	244	(157)	(2)	-	-	85
Investments in associates	44	-	-	-	-	44
Intangible assets	338	-	-	-	-	338
Property and other fixed assets (for own use)	72	-	-	-	-	72
Investment property	1	-	-	-	-	1
Current tax assets	106	-	-	-	-	106
Deferred tax assets	20	-	-	-	-	20
Other assets	98	28	14	1	1	142
TOTAL ASSETS	21,435	7,024	2,549	702	699	32,409

Consolidated balance sheet, for the period ended 31 December 2007

IN EUR MILLIONS	EUR	USD	GBP	JPY	Other	Total
Liabilities						
Due to other banks	4,918	536	-	-	1	5,455
Other deposits	1,070	210	2	-	-	1,282
Other borrowings	2	-	-	-	-	2
FINANCIAL LIABILITIES FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)						
Debt securities in issue structured	2,685	718	225	391	133	4,152
Own debt securities in issue	142	-	-	6	67	215
Derivative financial liabilities held for trading	(2,835)	2,496	1,739	300	591	2,291
Derivative financial liabilities used for hedging	(458)	1,728	(230)	(144)	(843)	53
DEBT SECURITIES IN ISSUE						
Own debt securities in issue	6,252	1,099	819	140	725	9,035
Debt securities in issue related to securitised mortgages	7,027	187	-	-	-	7,214
Other liabilities	446	(209)	15	-	-	252
Current tax liabilities	(6)	3	-	-	3	-
Deferred tax liabilities	34	(4)	(6)	-	-	24
Employee benefit obligations	11	-	-	-	-	11
Subordinated liabilities	377	339	-	-	17	733
TOTAL LIABILITIES	19,665	7,103	2,564	693	694	30,719
SHAREHOLDERS' EQUITY						
Share capital						-
Other reserves						-
Retained earnings						-
Net profit attributable to parent shareholders						-
TOTAL PARENT SHAREHOLDERS' EQUITY	1,660	18	-	-	1	1,679
Minority interest	11	-	-	-	-	11
TOTAL SHAREHOLDERS' EQUITY	1,671	18	-	-	1	1,690
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	21,336	7,121	2,564	693	695	32,409
NET ON BALANCE SHEET FINANCIAL POSITION	99	(97)	(15)	9	4	-

Consolidated balance sheet, for the period ended 31 December 2006

IN EUR MILLIONS	EUR	USD	GBP	JPY	Other	Total
Assets						
Cash and balances with central banks	239	-	-	-	-	239
Due from other banks	1,550	181	19	1	14	1,765
AVAILABLE FOR SALE ASSETS						
Loans and advances to customers	3,433	1,746	1,599	17	102	6,897
Equity Investments	156	26	3	-	-	185
FINANCIAL ASSETS FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)						
Corporate loan warehouse	952	-	-	-	-	952
Residential mortgages own book	4,438	-	-	-	-	4,438
Securitised residential mortgages	6,988	-	-	-	-	6,988
Debt securities	3,628	2,996	518	17	43	7,202
Structured investments	855	15	46	-	-	916
Derivative financial assets held for trading	(5,999)	4,677	1,570	815	877	1,940
Derivative financial assets used for hedging	511	(210)	(1)	-	-	300
Investments in associates	33	-	-	-	-	33
Intangible assets	338	-	-	-	-	338
Property and other fixed assets (for own use)	82	-	-	-	-	82
Investment property	8	-	-	-	-	8
Current tax assets	48	1	-	-	-	49
Deferred tax assets	5	(2)	-	-	-	3
Other assets	112	182	7	-	-	301
TOTAL ASSETS	17,377	9,612	3,761	850	1,036	32,636

Consolidated balance sheet, for the period ended 31 December 2006

IN EUR MILLIONS	EUR	USD	GBP	JPY	Other	Total
Liabilities						
Due to other banks	2,740	413	201	-	47	3,401
Other deposits	2,098	329	117	-	37	2,581
Due to customers	10	3	-	-	-	13
FINANCIAL LIABILITIES FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)						
Debt securities in issue structured	2,458	1,075	202	566	252	4,553
Derivative financial liabilities held for trading	(6,475)	4,364	3,129	272	721	2,011
Derivative financial liabilities used for hedging	101	2,036	(747)	(186)	(1,071)	133
DEBT SECURITIES IN ISSUE						
Own debt securities in issue	6,455	846	813	200	1,020	9,334
Debt securities in issue related to securitised mortgages	7,037	209	-	-	-	7,246
Other liabilities	479	(24)	42	-	3	500
Current tax liabilities	(3)	-	-	-	3	-
Deferred tax liabilities	49	5	5	-	1	60
Employee benefit obligations	17	-	-	-	-	17
Subordinated liabilities	285	386	-	-	17	688
TOTAL LIABILITIES	15,251	9,642	3,762	852	1,030	30,537
SHAREHOLDERS' EQUITY						
Share capital						-
Other reserves						-
Retained earnings						-
Net profit attributable to parent shareholders						-
TOTAL PARENT SHAREHOLDERS' EQUITY	2,066	32	-	-	1	2,099
Minority interest	-	-	-	-	-	-
TOTAL SHAREHOLDERS' EQUITY	2,066	32	-	-	1	2,099
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	17,317	9,674	3,762	852	1,031	32,636
NET ON BALANCE SHEET FINANCIAL POSITION	59	(62)	(1)	(2)	5	(1)

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Consolidated Income Statement

For the year ended 31 December

IN EUR MILLIONS	NOTE	2007	2006
Interest and similar income	2	1,717	1,338
Interest expense and similar charges	2	1,470	1,087
NET INTEREST INCOME	2	247	251
Fee and commission income	3	69	62
Fee and commission expense	3	6	1
NET FEE AND COMMISSION INCOME	3	63	61
Dividend income	4	84	35
Net trading income	5	(372)	92
Gains less losses from equity investments and associates	6	108	45
Share in profit of associates	28	11	16
Other operating income	7	5	16
		(164)	204
OPERATING INCOME		146	516
Personnel expenses	8	141	130
Other operating expenses		63	68
Depreciation	9	17	11
OPERATING EXPENSES		221	209
Impairment of financial assets	10	2	(14)
TOTAL EXPENSES		223	195
OPERATING PROFIT		(77)	321
Result on disposal of subsidiaries	11	-	1
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		(77)	322
Tax	12	(75)	69
PROFIT AFTER TAX FROM CONTINUING OPERATIONS		(2)	253
RESULT FROM DISCONTINUED OPERATIONS	53	-	35
NET PROFIT		(2)	288
Result attributable to minority interest	13	3	-
NET PROFIT ATTRIBUTABLE TO PARENT SHAREHOLDERS		(5)	288

Consolidated Balance Sheet

At 31 December

IN EUR MILLIONS	NOTE	2007	2006
Assets			
FINANCIAL ASSETS AT AMORTISED COST			
Cash and balances with central banks	14	874	239
Due from other banks	15	3,150	1,765
Loans and receivables	16	1,258	-
Securitised loans	17	638	-
FINANCIAL ASSETS AT AVAILABLE FOR SALE			
Loans and receivables	18	5,164	6,897
Equity investments	19	144	185
Debt securities	20	311	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)			
Loans and receivables	21	1,374	952
Residential mortgages own book	22	5,285	4,438
Securitised residential mortgages	23	6,356	6,988
Debt securities	24	3,055	7,202
Structured investments	25	1,212	916
Investments in associates	26	147	-
Derivative financial assets held for trading	27	2,633	1,940
Derivative financial assets used for hedging	27	85	300
Investments in associates	28	44	33
Intangible assets	29	338	338
Property and other fixed assets (for own use)	30	72	82
Investment property	31	1	8
Current tax assets	32	106	49
Deferred tax assets	33	20	3
Other assets	34	142	301
TOTAL ASSETS		32,409	32,636

IN EUR MILLIONS	NOTE	2007	2006
Liabilities			
Due to other banks	35	5,455	3,401
Other deposits	36	1,282	2,581
Other borrowings	37	2	13
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)			
Debt securities in issue structured	38	4,152	4,553
Own debt securities in issue	39	215	-
Derivative financial liabilities held for trading	27	2,291	2,011
Derivative financial liabilities used for hedging	27	53	133
DEBT SECURITIES IN ISSUE			
Own debt securities in issue	40	9,035	9,334
Debt securities in issue related to securitised mortgages	41	7,214	7,246
Other liabilities	42	252	500
Deferred tax liabilities	43	24	60
Employee benefit obligations	44	11	17
SUBORDINATED LIABILITIES			
Amortised cost	45	236	256
Fair value through profit or loss	46	497	432
TOTAL LIABILITIES		30,719	30,537
SHAREHOLDERS' EQUITY			
Share capital	47	1,363	1,363
Other reserves	47	225	369
Retained earnings		96	79
Net profit attributable to parent shareholders		(5)	288
TOTAL PARENT SHAREHOLDERS' EQUITY		1,679	2,099
TOTAL MINORITY INTEREST		11	-
TOTAL SHAREHOLDERS' EQUITY		1,690	2,099
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		32,409	32,636

Consolidated Statement of Changes in Shareholders' Equity

IN EUR MILLIONS	Attributable to parent shareholders				Minority Interest	Total
	Share capital	Other Reserves	Retained earnings	Net Profit		
BALANCE AT 1 JANUARY 2006	1,362	299	149	158	4	1,972
Net result on cash flow hedging instruments	-	(12)	-	-	-	(12)
Revaluation loans and receivables	-	15	-	-	-	15
Revaluation equity investments	-	16	-	-	-	16
Revaluation property in own use	-	15	-	-	-	15
TOTAL GAINS AND (LOSSES) RECOGNISED DIRECTLY IN EQUITY	-	34	-	-	-	34
Profit appropriation	-	-	158	(158)	-	-
Net result for the period	-	-	-	288	-	288
COMPREHENSIVE NET RESULT	-	34	158	130	-	322
Dividends ¹	-	-	(255)	-	-	(255)
Disposal of a subsidiary	-	-	-	-	(4)	(4)
Proceeds from shares issued	1	5	-	-	-	6
Treasury shares purchased by STAK	-	(6)	-	-	-	(6)
Release liability NIBC Choice	-	31	-	-	-	31
NIBC Choice expense	-	6	27	-	-	33
BALANCE AT 31 DECEMBER 2006	1,363	369	79	288	-	2,099
BALANCE AT 1 JANUARY 2007	1,363	369	79	288	-	2,099
Net result on cash flow hedging instruments	-	(11)	-	-	-	(11)
Revaluation loans and receivables	-	(117)	-	-	-	(117)
Revaluation equity investments	-	(24)	-	-	-	(24)
Revaluation debt securities	-	(6)	-	-	-	(6)
Revaluation property in own use	-	1	-	-	-	1
TOTAL GAINS AND (LOSSES) RECOGNISED DIRECTLY IN EQUITY	-	(157)	-	-	-	(157)
Profit appropriation	-	-	288	(288)	-	-
Net result for the period	-	-	-	(5)	3	(2)
COMPREHENSIVE NET RESULT	-	(157)	288	(293)	3	(159)
Dividends ²	-	-	(274)	-	(1)	(275)
Capital contribution of third parties in a subsidiary controlled by NIBC	-	-	-	-	9	9
Proceeds from shares issued	-	7	-	-	-	7
Treasury shares purchased by STAK	-	(7)	-	-	-	(7)
Release liability NIBC Choice	-	4	-	-	-	4
NIBC Choice expense	-	9	2	-	-	11
Other movements	-	-	1	-	-	1
BALANCE AT 31 DECEMBER 2007	1,363	225	96	(5)	11	1,690

1. Dividends in 2006 are comprised of EUR 102 million ordinary dividend over 2005, EUR 51 million interim dividend over 2006 and EUR 102 million extraordinary dividend.
 2. Dividends in 2007 are comprised of EUR 61 million final ordinary dividend over 2006 and EUR 213 million extraordinary dividend in 2007.

Consolidated Cash Flow Statement

For the year ended 31 December

IN EUR MILLIONS	2007	2006
OPERATING ACTIVITIES		
Net profit	(5)	288
ADJUSTMENTS FOR NON-CASH ITEMS		
Depreciation and impairment losses	19	(3)
Changes in employee benefit obligations	(6)	(12)
Gains less losses from equity investments and associates	(108)	(45)
Share in profit of associates	(11)	(17)
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Derivative financial instruments	(289)	(301)
Operating assets	2,673	123
Operating liabilities	436	863
Dividends received from associates	-	1
CASH FLOWS FROM OPERATING ACTIVITIES	2,709	897
INVESTING ACTIVITIES		
Proceeds from the sale of property and other fixed assets	8	11
Acquisition of property and other fixed assets	(8)	(16)
Disposal of subsidiaries, associates and joint ventures	22	26
Acquisition of subsidiaries, associates and joint ventures	(25)	(10)
CASH FLOWS FROM INVESTING ACTIVITIES	(3)	11
FINANCING ACTIVITIES		
Net increase / (decrease) in own debt securities in issue	(84)	103
Net increase / (decrease) in subordinated liabilities	45	11
Net increase / (decrease) in debt securities in issue structured	(401)	(745)
Proceeds from issued shares	7	6
Dividends paid	(274)	(255)
CASH FLOWS FROM FINANCING ACTIVITIES	(707)	(880)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	1,999	28
CASH AND CASH EQUIVALENTS AT 1 JANUARY	1,982	1,954
Net increase / (decrease) in cash and cash equivalents	1,999	28
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3,981	1,982
CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:		
Taxes paid	15	147
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Cash and balances with central banks	874	239
Due from other banks (maturity ≤ 3 months)	3,107	1,743
	3,981	1,982

accounting policies

general information

NIBC Holding N.V. (the **Company**), together with its subsidiaries (**NIBC** or the **Group**) is a merchant bank focused on the mid-cap segment in Western Europe with a global distribution network. NIBC offers innovative corporate finance, risk management and investment solutions to corporate clients, financial institutions, institutional investors, financial sponsors and family offices. NIBC has offices in The Hague, London, Brussels, Frankfurt, New York and Singapore.

NIBC Holding N.V. is domiciled in the Netherlands.

The risk management disclosures on pages 42 to 129 constitute part of these financial statements. These consolidated financial statements were approved for issue by the Managing Board of NIBC.

summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. The comparative income statement and cash flow statement have been re-presented as if an operation discontinued during the current period had been discontinued from the start of the comparative period (see note 53).

Basis of Preparation

The Group's consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards (IFRS)* as endorsed by the European Union. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, available for sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, and all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the 'Critical Accounting Estimates and Judgements'.

(a) Standards, amendments and interpretations effective in 2007

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007:

- IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduce new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments;
- IFRIC 9, 'Reassessment of embedded derivatives': An entity is required to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The application of this interpretation does not have a material impact on the Group's financial statements;
- IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(b) Standards, amendments and interpretations effective in 2007 but not relevant to the Group

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but are not relevant to the Group's operations:

- IFRIC 7, 'Applying the Restatement Approach under IAS 29, 'Financial reporting in hyperinflationary economies';
- IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2;
- IFRS 4, Insurance contracts: this is not relevant to NIBC's operating activities and therefore has no material effect.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- IAS 23 (Amendment), 'Borrowing costs'. The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. NIBC will apply IAS 23 (Amended) from 1 January 2009, but the Standard is currently not applicable to NIBC as NIBC has no qualifying assets;

- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. NIBC will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management. Any changes may also require NIBC to reallocate goodwill to the newly identified operating segments;
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions'. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. Management is currently investigating the impact of this interpretation;
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. NIBC will apply IFRIC 14 from 1 January 2008, but it is not expected to have a material impact on NIBC's financial position;
- IFRIC 12, 'Service concession arrangements'. IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. Management is currently reviewing the requirements of IFRIC 12 to determine whether it will have a material impact on NIBC's financial position;
- IFRIC 13, 'Customer loyalty programmes'. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to NIBC's operations because NIBC does not operate any loyalty programmes.

Company income statement

Under Article 402 of Part 9, Book 2 of the Netherlands Civil Code, it is sufficient for a company's statutory income statement to present only the income of Group companies and other income and expenses after income tax.

basis of consolidation

The consolidated financial statements are comprised of the financial statements of NIBC Holding N.V. and its subsidiaries as at and for the years ended 31 December 2006 and 2007.

Subsidiaries

Subsidiaries are all entities (including special purpose entities) controlled by NIBC. Control exists when NIBC has the power, directly or indirectly, to govern the financial and operating

policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether NIBC 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement.

The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by NIBC.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred.

Minority interests

The Group 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.

At the date of acquisition, minority interests are stated at the share of fair value of the net assets acquired (excluding goodwill). Subsequent to the date of acquisition, minority interests comprise the amount calculated at the date of acquisition adjusted for the minority's share of changes in equity since the date of acquisition.

Disposals to minority interests result in gains and losses for NIBC that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Joint ventures

A joint venture exists where the Group 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 the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

With effect from 1 January 2007, to the extent that newly acquired joint ventures are held by the Principal Investments business unit, which is considered to be a venture capital organisation, as that term is used in IAS 31, the Group designates upon initial recognition all newly acquired investments in joint ventures 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.

Associates

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.

Investments in associates acquired before 1 January 2007 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 Principal Investments business unit, which is considered to be a venture capital organisation, as that term is used in IAS28, 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.

Under the equity method, the Group's share of its associates' post-acquisition profits or losses is recognised in the income statement; its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of NIBC's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by NIBC.

Dilution gains or losses in associates are recognised in the income statement.

segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments. In the financial statements, primary segment reporting refers to reporting on business segments and secondary segment reporting refers to reporting on geographical segments.

Business segments are the primary reporting segments.

Group costs are allocated to segments on a reasonable and consistent basis. Transactions between segments are generally accounted for in accordance with Group policies as if the segment were a stand-alone business with intra-segment revenue and costs being eliminated in Corporate Centre.

foreign currency translation

Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The consolidated financial statements are presented in euros, the functional currency and presentation currency of NIBC Holding N.V.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying net investment hedges.

Changes in the fair value of monetary loans denominated in foreign currency that are classified as available for sale are analysed between foreign exchange translation differences and other changes in the carrying amount of the loan. Foreign exchange translation differences are recognised in the income statement, and other changes in the carrying amount are recognised in equity.

Foreign exchange translation differences on non-monetary assets and liabilities that are stated at fair value through profit and loss are reported as part of the fair value gain or loss. Translation differences on non-monetary items classified as available for sale assets are included in the fair value reserve in equity.

Group companies

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

recognition of financial instruments

A financial instrument is recognised in the balance sheet when NIBC becomes a party to the contractual provisions that comprises the financial instrument.

NIBC applies trade date accounting to all financial instruments. All purchases and sales of financial assets requiring delivery within the time frame established by regulation or market convention are recognised on the trade date, which is the date on which NIBC commits to purchase or sell the asset.

Forward purchases and sales other than those requiring delivery within the time frame established by regulation or market convention are treated as derivative forward contracts.

derecognition of financial assets and liabilities

Financial assets (or, where applicable, a part of a financial asset or part of a group of similar financial assets) are derecognised when:

- The rights to receive cash flows from the financial assets have expired;
- When NIBC has transferred its contractual right to receive the cash flows of the financial assets, and either
 - substantially all risks and rewards of ownership have been transferred;

- substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

If NIBC has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of NIBC's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that NIBC could be required to repay.

Where continuing involvement takes the form of a written and / or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of NIBC's continuing involvement is the amount of the transferred asset that NIBC may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of NIBC's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

If an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

changes to the classification of financial instruments

The Group made the following changes:

■ Loans and receivables

Loans and receivables originated before 1 July 2007 are accounted for at fair value through profit or loss (residential mortgages, commercial real estate loans and leveraged loan warehouses, secondary loan trading and distressed asset trading) or available for sale (all other corporate lending). With the exception of residential mortgages, loans originated after 1 July 2007 are classified as loans and receivables at amortised cost. These loans are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. The reason for this change is the alignment with industry practice.

■ Debt securities (assets)

With effect from 1 July 2007, newly originated assets in the EU structured credits books are classified as available for sale. Assets acquired before 1 July 2007 were classified as Held for Trading. The reason for this change is the alignment with best market practice.

- **Equity investments in associates and joint ventures**

With effect from 1 January 2007, all newly acquired investments in associates and joint ventures held by the Principal Investments business unit are designated at fair value through profit or loss. Previously acquired investments in associates, where material, were accounted for using the equity method and investments in joint ventures were proportionately consolidated. The Principal Investments business unit is considered to be a venture capital organisation, as that term is used in IAS 28 and IAS 31. This change brings NIBC's accounting into line with industry practice.

- **Equity investments**

Equity investments acquired before 1 January 2007 held in the investment portfolio of the Principal Investments business unit are classified as available for sale assets in the consolidated balance sheet. With effect from 1 January 2007, all newly acquired equity investments held by the Principal Investments business unit are designated upon initial recognition as financial assets at fair value through profit or loss. This change brings NIBC's accounting into line with industry practice for venture capital organisations.

- **Fixed rate long-term debt securities in issue (liabilities)**

During the period commencing 1 January 2007, plain vanilla fixed rate long-term debt securities (liabilities) were issued together with matching interest rate swaps as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the debt securities in issue were accounted for at amortised cost, because the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating the long-term debt as fair value through profit or loss, the movement in the fair value of the long-term debt will also be recorded in the income statement, and thereby off-set the gains or losses on the derivative instrument that is also included in the income statement.

classification of financial instruments

Financial assets are classified as:

- Financial instruments at fair value through profit or loss, including derivative instruments that do not qualify for cash flow hedge accounting;
- Available for sale financial instruments;
- Loans and receivables at amortised cost.

Financial liabilities are classified as:

- Financial instruments at fair value through profit or loss including derivative instruments that do not qualify for cash flow hedge accounting;
- Borrowings at amortised cost.

The measurement and income recognition in the income statement depend on the IFRS classification of the financial asset or liability. The classification of financial instruments is determined upon initial recognition.

financial instruments at fair value through profit or loss

This category has two subcategories: financial instruments held for trading and financial instruments designated as at fair value through profit and loss at inception.

Financial instruments Held for Trading

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near future with the objective of generating a profit from short-term fluctuations in price or dealer's margin. Derivatives are also categorised as held for trading unless they are designated and effective hedging instruments.

The measurement of these financial instruments is initially at fair value, with transaction costs taken to the income statement. Subsequently, their fair value is re-measured, and all gains and losses from changes therein are recognised in the income statement in net trading income as they arise.

Financial instruments designated upon initial recognition as Fair Value through Profit or Loss

Financial instruments are classified in this category if they meet one or more of the criteria set out below, and provided they are so designated by management. NIBC may designate financial instruments at fair value when the designation:

- Eliminates or significantly reduces valuation or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases. Under this criterion, the main classes of financial instruments designated by NIBC at fair value through profit or loss are:
 - Residential mortgage loans (own book and securitised);
 - Investment portfolios;
 - Structured investments;
 - Associates and joint ventures within our venture capital organisation Principal Investments; and
 - Certain fixed rate long term debt securities issued after 1 January 2007.
- Applies to groups of financial assets, financial liabilities or combinations thereof that are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis. Under this criterion, equity investments, commercial real estate loans (originated before 1 July 2007), leveraged loan warehouses, secondary loan trading and distressed asset trading are the significant classes of financial instruments so designated. NIBC has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risks. Reports are provided to management on the fair value of the assets;
- Relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments. Under this criterion, the main class of financial instrument designated by NIBC at fair value through

profit or loss are certain structured funding portfolios. Under this criterion, the main classes of financial instruments designated by NIBC at fair value through profit or loss are:

- Debt securities in issue structured;
- Subordinated liabilities at fair value through profit or loss.

The fair value designation, once made, is irrevocable.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or liabilities are included in net trading income.

Financial instruments at fair value through profit or loss (comprising the categories described above) are initially recognised at fair value, and transaction costs are expensed in the income statement. Subsequent measurement is at fair value and all changes in fair value are reported in the income statement as net trading income and gains less losses from equity investments. Interest is recorded in interest income using the effective interest rate method, while dividend income is recorded in dividend income when NIBC's right to receive payment is established.

available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as:

- Loans and receivables;
- Held-to-maturity investments;
- Financial assets at fair value through profit or loss.

The main classes of financial instruments designated as available for sale financial assets include corporate lending advanced before 1 July 2007 (excluding commercial real estate and leverage loan warehouses, secondary loan trading and distressed asset trading), securities in the EU structured credits books and liquidity portfolios (acquired after 1 July 2007) and equity investments acquired before 1 January 2007. Available for sale financial assets are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are initially measured at fair value plus transaction costs and are subsequently measured at fair value. Changes in fair value are recognised directly in the revaluation reserve in equity, until the financial instrument is derecognised or impaired. When available for sale securities are sold, cumulative gains or losses previously recognised in equity are recognised in the income statement as net trading income or gains less losses from equity investments.

Interest calculated using the effective interest method and foreign currency gains and losses on monetary instruments classified as available for sale are recognised in the income statement as interest and similar income and net trading income respectively. Dividends on available for sale financial instruments are recognised in the income statement as dividend income when NIBC's right to receive payment is established.

loans and receivables at amortised cost

Loans and receivables at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that NIBC intends to sell immediately or in the short term, which are classified as held for trading;
- Those that NIBC upon initial recognition designates as at fair value through profit or loss;
- Those that NIBC upon initial recognition designates as available for sale;
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

These loans are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method.

borrowings

With the exception of those borrowings designated as at fair value through profit or loss, these are initially recognised at fair value net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement.

NIBC classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Group's perpetual bonds are not redeemable by the holders but bear an entitlement to distributions that is not at the discretion of the Group. Accordingly, they are presented as a financial liability.

Subordinated liabilities are recognised initially at fair value net of transaction costs incurred. Subordinated liabilities without embedded derivatives are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Subordinated liabilities containing one or more embedded derivatives that significantly modify the cash flows are designated at fair value through profit and loss.

recognition of day one profit or loss

The best evidence of fair value at initial recognition is the transaction price (i.e., the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The Group has entered into transactions where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such financial instruments are initially recognised at the transaction price, which is the best indicator of fair value, although

the value obtained from the relevant valuation model may differ. Significant differences between the transaction price and the model value, commonly referred to as 'day one profit and loss', are not recognised immediately in the income statement.

Deferred day one profit or losses are amortised to income over the life until maturity or settlement. The financial instrument is subsequently measured at fair value as determined by the relevant model adjusted for any deferred day one profit or loss.

offsetting

Financial assets and liabilities are offset, and the net amount is reported in the balance sheet when a legally enforceable right to set-off the recognised amounts exists and the Group intends to settle on a net basis, or realise the asset and settle the liability simultaneously.

collateral

The Group enters into master agreements and credit support annexes with counterparties whenever possible and when appropriate. Master agreements provide that, if the master agreement is being terminated as a consequence of an event of default or termination event, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis. In case of a Credit Support Annex with counterparties the Group has the right to obtain collateral for the net counterparty exposure.

The Group obtains collateral in respect of counterparty liabilities when this is considered appropriate. The collateral normally takes the form of a lien over the counterparty's assets and gives the Group a claim on these assets for both existing and future liabilities.

The Group also pays and receives collateral in the form of cash or securities in respect of other credit instruments, such as derivative contracts, in order to reduce credit risk. Collateral paid or received in the form of cash together with the underlying is recorded on the balance sheet. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

derivative financial instruments and hedging

NIBC uses derivative financial instruments both for trading and hedging purposes. NIBC uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks and to credit spread risk.

Derivative financial instruments are initially measured, and are subsequently re-measured, at fair value. The fair value of exchange-traded derivatives is obtained from quoted market

prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

The method of recognising fair value gains and losses depends on whether the derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement.

When derivatives are designated as hedges, NIBC classifies them as either a:

- Fair value hedge of interest rate risk (portfolio fair value hedges);
- Fair value hedge of interest rate risk and foreign exchange rate risk (micro fair value hedges);
- Cash flow hedge of the variability of highly probable cash flows (cash flow hedges);
- Hedges of net investments in a foreign operation (net investment hedge).

Hedge accounting is applied to derivatives designated as hedging instruments, provided certain criteria are met.

Hedge accounting

Where derivatives are held for risk management purposes, and when transactions meet the criteria specified in IAS 39, the Group applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation as appropriate to the risks being hedged.

At the inception of a hedging relationship, NIBC documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. NIBC also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging relationships are highly effective in offsetting changes attributable to the hedged risk in the fair value or cash flows of the hedged items. Interest on designated qualifying hedges is included in net interest income.

The Group discontinues hedge accounting prospectively when:

- It is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- The derivative expires, or is sold, terminated or exercised;
- The hedged item matures or is sold or repaid;
- A forecast transaction is no longer deemed highly probable.

Fair value hedge

NIBC applies portfolio fair value hedge accounting and fair value hedge accounting on a micro level.

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statements together with changes in the fair value of the hedged items attributable to the hedged risk.

If a hedge relationship no longer meets the criteria for hedge accounting, the cumulative fair value adjustment to the carrying amount of the hedged item is amortised to the income statement over the remaining period to maturity using the effective interest method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

Portfolio fair value hedge

NIBC applies portfolio fair value hedge accounting to the interest rate risk arising on portfolios of fixed interest rate corporate loans (classified as available for sale financial assets) and to portfolios of plain vanilla fixed interest rate funding (liabilities classified at amortised cost).

In order to apply portfolio fair value hedge accounting, the cash flows arising on the portfolios are scheduled into time buckets based upon when the cash flows are expected to occur. For the first two years, cash flows are rescheduled using monthly time buckets; thereafter annual time buckets are used. Hedging instruments are designated for each time bucket, together with an amount of assets or liabilities that NIBC is seeking to hedge. Designation and de-designation of hedging relationships is undertaken on a monthly basis, together with an assessment of the effectiveness of the hedging relationship at a portfolio level, across all time buckets.

Ineffectiveness within the 80%-125% bandwidth is recognised in the income statement through the actual hedge adjustment. Ineffectiveness outside the 80%-125% bandwidth is recognised by not posting a hedge adjustment to the hedged item.

Micro fair value hedge

NIBC applies micro fair value hedge accounting to the interest rate risk and the foreign exchange risk arising from plain vanilla fixed interest rate funding denominated in a foreign currency. Cross currency interest rate swaps are used as hedging instruments. Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement together with changes in the fair value of the hedged items attributable to the hedged risks.

Retrospective effectiveness is tested monthly, by comparing the cumulative clean fair value movement (since inception) of the hedged item, due to changes in both benchmark interest rates and foreign exchange rates, to the total clean fair value movement of the hedging instrument (the cumulative dollar offset method).

Ineffectiveness within the 80%-125% bandwidth is recognised in the income statement through the actual hedge adjustment. Ineffectiveness outside the 80%-125% bandwidth is recognised by not posting a hedge adjustment to the hedged item. In this case, the micro hedge relationship is de-designated and it is re-designated at the beginning of the new period.

Cash flow hedge

Cash flow hedging is applied to hedge the variability arising on expected future cash flows due to interest rate risk on available for sale corporate loans with floating interest rates. Corporate loans subject to cash flow hedging are classified as available for sale, and are reported at fair

value with fair value movements reported as a component of shareholder's equity. As interest rates fluctuate, the future cash flows on these instruments also fluctuate. NIBC uses interest rate swaps to hedge the risk of such cash flow fluctuations.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in equity within the cash flow hedging reserve. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity at that time remains in equity until the forecast cash flow is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is sold.

Hedge effectiveness testing

To qualify for hedge accounting, NIBC requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must also be demonstrated on an ongoing basis.

The documentation of each hedging relationship describes how effectiveness will be assessed. For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80%-125% for the hedge to be deemed effective.

Hedge ineffectiveness is recognised in the income statement in net trading income.

Derivatives managed in conjunction with financial instruments designated as at fair value through profit or loss

All gains and losses arising from changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the income statement. Derivatives used to manage the interest rate and credit spread exposure on certain financial assets and liabilities (mainly structured funding, debt securities and residential mortgage loans) are not designated in hedging relationships. Gains and losses on these derivatives together with the fair value movements on these financial assets and liabilities are reported within net trading income.

Fair value

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. NIBC determines fair value either by reference to a quoted market price for a given financial instrument or, when a quoted market price is not available, by using a valuation model.

Further information on the determination of fair value for financial instruments valued using a valuation model and the assumptions therein is set out in the 'Critical Accounting Estimates and Judgements' section on pages 165 to 173.

Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Certain derivatives embedded in financial instruments are bifurcated when their risks and characteristics are not closely related to those of the host contract and the host contract is not reported as fair value through profit or loss. These embedded derivatives are separately accounted for and measured at fair value, with fair value movements reported in the income statement.

sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, due from other banks or other deposits as appropriate.

Securities purchased under agreements to resell (reverse repos) are recorded as loans and receivables to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

impairment**General**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and twelve months.

Losses expected from future events, no matter how likely, are not recognised.

Financial Assets reported at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows from a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectible, it is written-off against the related provision for loan impairment. Such loans are written-off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

Financial Assets classified as available for sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

Reversals of impairment losses are subject to contrasting treatments depending on the nature of the instrument concerned:

- Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement;
- If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment losses and the reversal of such losses, for non-financial assets other than goodwill, are recognised directly in the income statement.

Renegotiated loans

Loans that are subject to collective impairment assessment and whose terms have been renegotiated are no longer considered past due but are treated as new loans only after the minimum number of payments required under the new arrangements have been received.

intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of these cash-generating units is represented by each of the Group's primary reporting segments.

Property (land and buildings)

Land and buildings are shown at fair value. This fair value is based on the most recent appraisals by independent registered appraisers, less straight-line depreciation for buildings over the estimated economic life taking into account any residual value, with a maximum of 50 years. Land is not depreciated. Any accumulated depreciation at the date of revaluation is eliminated against the carrying amount of the asset, and the net amount is restated to the re-valued amount of the asset.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the re-valued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to NIBC and when the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating income. When re-valued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Other fixed assets

Other fixed assets are measured on initial recognition at cost. Following initial recognition, these assets are carried at cost less accumulated depreciation and accumulated impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are depreciated over their estimated useful lives (three to five years).

Costs associated with research and maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by NIBC and that generate economic benefits exceeding one year are capitalised as intangible assets. Computer software development costs recognised as assets are amortised over their estimated useful lives (three to five years).

At each reporting date, NIBC assesses whether there is any indication that an asset may be impaired or whenever events or changes in circumstances indicate that the carrying value may not be recoverable (see above, under Impairment – non-financial assets).

investment property

Investment property is property (land or a building or part of a building or both) held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes or sale in the ordinary course of business.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. The fair value is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction, without any deduction for transaction costs it may incur on sale or other disposal. The unrealised gains and losses arising from the changes in fair value of the investment property as a result of appraisals are included in other operating income in the income statement.

Investment properties are derecognised when they have been disposed of.

Property related to foreclosures

Property acquired as a result of foreclosures or in settlement of debt is measured at the lower of the carrying amount and net realisable value.

leases

The leases entered into by the Group are primarily operating leases and the Group entity is the lessee. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three month's maturity from the date of acquisition, including cash and non-restricted balances with central banks and net credit balances on current accounts with other banks.

Cash balances are measured at face value while bank balances are measured at cost.

provisions

Provisions are recognised when NIBC has a present obligation (legal or constructive) as a result of a past event, it is more likely than not that an outflow of resources will be required to settle

the obligation; and a reliable estimate can be made of the amount of the obligation. Given their short term nature, these provisions are not discounted.

Contingent liabilities are not recognised in the financial statements but are disclosed, unless they are remote.

financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management. Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses. Any liability remaining is recognised in the income statement when the guarantee is discharged, cancelled or expires.

employee benefit obligation

Pension obligations

NIBC and its subsidiaries have various pension arrangements in accordance with the local conditions and practices in the countries in which they operate. NIBC generally funds these arrangements through payments to insurance companies or trustee administered funds, determined by periodic actuarial calculations. These various pension arrangements consist of a defined contribution plan, a defined benefit plan or a combination of these plans.

A defined contribution plan is a pension plan under which NIBC pays fixed contributions to a separate entity; the contributions are recognised as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. NIBC has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past service costs are recognised immediately in administrative expenses, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past-service costs are amortised on a straight-line basis over the vesting period.

Other post-retirement obligations

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology that is the same as for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

Obligations arising in respect of these post-retirement healthcare plans were settled in 2007 and the plans terminated.

Share-based compensation

NIBC operates both equity-settled and cash-settled share-based compensation plans.

For equity-settled share-based compensation plans, the fair value of the employee services received in exchange for the grant of the share-based compensation is recognised as an expense in the income statement as personnel expenses.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of instruments that are expected to become exercisable. At each balance sheet date, NIBC revises its estimates of the number of instruments that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the instruments are exercised.

For the cash-settled shared-based compensation plan, the fair value of the employee services received in exchange for the grant of shared based compensation is recognised as a liability. The liability is re-measured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement in personnel expenses.

Profit-sharing and bonus plans

A liability is recognised for cash settled bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to our shareholders after certain adjustments. NIBC recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

income tax

Income tax on the profit or loss for the year is comprised of current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates (and laws) enacted or substantially enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when NIBC intends to settle on a net basis and a legal right of offset exists.

Deferred income tax assets are provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NIBC's principal temporary differences arise from the revaluation of certain financial assets and liabilities including derivative contracts, the depreciation of property and provisions for pensions and other post-retirement benefits.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss.

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to the fair value re-measurement of available for sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the deferred gain or loss is recognised in the income statement.

shareholders' equity

Share capital

Shares are classified as equity when there is not a contractual obligation to transfer cash or other financial assets.

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period that the obligation for payment has been established, being in the period in which they are approved by the shareholders.

Treasury shares

When the Company or an entity in the Group acquires the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until the shares are cancelled. When such shares are subsequently sold or re-issued, any consideration received is included in shareholders' equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of NIBC's own equity instruments.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments, and changes in fair value are reported in the income statement.

interest income and expense

Interest income and interest expense are recognised in the income statement for all interest bearing instruments, including those classified as held for trading or designated at fair value through profit or loss.

For all interest bearing financial instruments, interest income or expense is recognised using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability (on an amortised cost basis). The calculation includes all contractual terms of the financial instrument (for example, prepayment options) but not future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets is impaired, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

fee and commission income and expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

Asset management fees related to investment funds are recognised pro rata over the period in which the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and liabilities measured at fair value through profit or loss and held for trading as

well as realized gains and losses of financial assets measured at amortised cost, available for sale or loss and held for trading (including exchange gains and losses).

dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations;
- Is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as a discontinued operation, the comparative income statement and cash flow statement are re-presented as if the operation had been discontinued from the start of the comparative period.

cash flow statement

The cash flow statement, based on the indirect method of calculation, gives details of the source of cash and cash equivalents which became available during the year and the application of these cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operations, including banking activities, investment activities, and financing activities. Movements in loans and receivables and inter-bank deposits are included in the cash flow from operating activities. Investment activities are comprised of acquisitions, sales and redemptions in respect of financial investments, as well as investments in, and sales of, subsidiaries and associates, property and equipment. The issuing of shares and the borrowing and repayment of long-term funds are treated as financing activities. Movements due to currency translation differences as well as the effects of the consolidation of acquisitions, where of material significance, are eliminated from the cash flow figures.

fiduciary activities

NIBC acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

critical accounting

estimates and judgements

NIBC makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgements and estimates are principally made in the following areas:

- Estimated impairment of goodwill;
- Fair value of certain financial instruments;
- Impairment of loans and receivables;
- Impairment of equity investments classified as available for sale;
- Securitisations and special purpose entities;
- Pension benefits;
- Income taxes.

estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with its accounting policy.

The recoverable amount of a *cash generating unit* (CGU) is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the Managing Board covering a four year period (2008 - 2011). Cash flows beyond the four year period are extrapolated using an estimated growth rate.

The key assumptions used in the value-in-use calculations for 2007 are as follow:

■ Growth rate	2.00%
■ Pre tax discount rate	12.32%
■ Tax rate	25.50%

Management determined budgeted results based upon past performance and its expectations of market developments. The discount rate used is pre-tax and reflects specific risks relating to the Group.

The rate used to discount the future cash flows of CGUs can have a significant effect on the CGU's valuation. The discount rate calculated depends on inputs reflecting a number of financial and economic variables including the risk free interest rate and a premium to reflect

the inherent risk of the business being evaluated. These variables are established on the basis of management judgement.

If the estimated pre-tax discount rate applied to the discounted cash flow for the cash generating units had been 1% higher than management estimates (13.32% instead of 12.32%) the Group would have recognised an impairment of EUR 7.5 million (within the cash generating unit Financial Markets).

Management judgement is also required in estimating the future cash flows of the CGUs. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement to compare resulting forecasts with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects.

When this exercise demonstrates that the expected cash flows of a CGU have declined and / or that its discount rate has increased, the effect is to reduce the CGU's estimated recoverable amount. If this results in an estimated recoverable amount that is lower than the carrying value of the CGU, a charge for impairment of goodwill will be recorded, thereby reducing by a corresponding amount NIBC's profit for the year.

If the budgeted profit before tax of the CGUs used in the value-in-use calculation had been 5% lower than management's estimates at 31 December 2007, the Group would have recognised a goodwill impairment of EUR 7 million (2006: EUR nil) in respect of the cash generating unit Financial Markets.

fair value of certain financial instruments

Where NIBC determines fair value using valuation models (for example, in the case of mortgage loans, corporate loans and certain debt securities), the valuation is determined by discounting to present value the cash flows (after expected pre-payments) that it expects to receive from holding the instrument. These models require management to estimate a number of parameters, including interest rate yield curves, credit spreads, equity and commodity prices, option volatilities and currency rates. Most (but not all) parameters are either directly observable or are implied from instrument prices in the market place. In light of the dramatic widening in credit spreads, valuations have become particularly sensitive to this parameter. Because of the near absence of liquidity in a number of instruments, directly observable data on credit spreads is sparse.

Gains (or losses) are recognised upon initial recognition only when such profits (or losses) can be measured by reference to observable current market transactions or valuation techniques based on observable market inputs.

The calculation of fair value for any financial instrument may also require adjustment of the quoted price or the value generated by the valuation model to reflect the cost of credit risk (where not embedded in underlying models or prices used) or to reflect hedging costs not captured in the valuation model (to the extent that they would be taken into account by market participants in determining a price).

The process of determining fair value for illiquid instruments using valuation models may require estimation of the expected maturity of an instrument (and therefore the expected cash flows), certain pricing parameters, or other assumptions or model characteristics. Although NIBC calibrates its valuation models against industry standards and observable transaction prices, the calculation of fair value is an inherently subjective process, particularly when data on observable transactions is sparse.

At 31 December 2007, market conditions were characterised by the near absence of liquidity in credit markets and a significant widening of credit spreads. In these market conditions, the estimation of the fair value of NIBC's remaining portfolio of US structured credits (mainly *Commercial Mortgage Backed Securities (CMBS)* and *Commercial Real Estate Collateralised Debt Obligations (CRE CDOs)*), its residential mortgage loans, corporate loans and its own liabilities designated at fair value through profit or loss is highly judgemental and necessarily subjective, given the absence of market transactions and other observable market data. Consequently, the ranges within which NIBC has estimated the fair value of these portfolios have widened significantly.

US Structured Credits classified as Held for Trading Debt Securities

At 31 December 2007, the fair value of this portfolio was estimated to be EUR 723 million (31 December 2006: EUR 2,225 million). This portfolio was classified as held for trading, and is reported on the face of the balance sheet under financial assets at fair value through profit or loss (including trading) within the line item debt securities.

The US structured credits portfolio that remains at 31 December 2007 consists mainly of CMBS and CRE CDOs. CMBS are debt securities collateralised by a pool of underlying real estate loans. CRE CDOs are debt securities collateralised by CMBS, real estate loans and tranches of other CDOs.

The fair value of the US structured credits portfolio is determined using a valuation model developed by NIBC whereby the expected cash flows of the CMBS and CRE CDOs over their *Weighted Average Life (WAL)* are discounted using the *London Interbank Offered Rate (LIBOR)*, adjusted for the credit spread applicable to each individual debt security. The credit spread for CMBS is based on the generic CMBS primary issuance spread quoted by third parties for the rating category corresponding to that of the debt security. This spread is then adjusted for the origination vintage and WAL of NIBC's US structured credits portfolio as compared to the recent primary issuance using a ratio derived from the spreads of the corresponding series of CMBX indices. The credit spread applied to CRE CDOs is derived from the credit spread of CMBS of the equivalent rating category, adjusted by a conversion factor that reflects the historical relationship between CRE CDOs and CMBS credit spreads.

The valuation of the US structured credits portfolio is sensitive to a range of factors, in particular the credit spread used to discount future expected cash flows and the WAL of the debt securities. Relatively small changes in these factors can have a significant impact on the resulting valuation. For example, a 50 basis point change in the CMBS primary issuance spread would increase or decrease profit after tax from continuing operations by EUR 16 million. A change in the WAL of each debt security of 1 year would increase or decrease profit after tax from continuing operations by EUR 11 million.

Own liabilities designated at Fair Value through Profit or Loss

At 31 December 2007, the fair value of these liabilities was estimated to be EUR 4,864 million (31 December 2006: EUR 4,985 million). This portfolio was designated at fair value through profit or loss and is reported on the face of the balance sheet under the following headings:

- Financial Liabilities at fair value through profit or loss (debt securities in issue structured);
- Financial Liabilities at fair value through profit or loss (own debt securities in issue);
- Financial Liabilities at fair value through profit or loss (subordinated liabilities).

Debt securities in issue structured consist of notes issued with embedded derivatives that are tailored to specific investors' needs. The return on these notes is dependent upon the level of certain underlying equity, interest rate, currency, credit, commodity or inflation-linked indices. The embedded derivative within each note issued is fully hedged on a back-to-back basis, such that effectively synthetic floating rate funding is created. Because of this economic hedge, the income statement is not sensitive to fluctuations in the price of these indices.

In the case of debt securities in issue structured and subordinated liabilities, the fair value of the notes issued and the back-to-back hedging swaps is determined using a valuation model developed by a third party employing Monte Carlo simulation, lattice valuations or closed formulas, depending on the type of embedded derivative.

For each class of own liabilities at fair value through profit or loss, the expected cash flows are discounted to present value using interbank zero-coupon rates. The resulting fair value is adjusted for movements in the credit spread applicable to NIBC issued funding.

The valuation of all the above classes of liabilities at fair value through profit or loss is sensitive to the estimated credit spread used to discount future expected cash flows. A 10 basis point change in the weighted average credit spread used to discount future expected cash flows would increase or decrease profit after tax from continuing operations by EUR 14 million (2006: EUR 14 million).

The credit spread used to revalue these liabilities is not directly observable because NIBC's funding is not actively traded and because NIBC has not issued any new funding close to the year end. Consequently, the credit spread was estimated taking into account observable 'market' data on debt issuances by other financial institutions, developments in composite sector curves published by Bloomberg, and management estimates made by NIBC Treasury. The determination of an appropriate credit spread is necessarily a subjective matter.

Residential mortgages

NIBC determines the fair value of residential mortgages (both those it holds in its warehouse and those it has securitised) by using a valuation model developed by NIBC; this model assumes that the residential mortgage book is securitised. NIBC discounts expected cash flows (after expected prepayments) to present value using interbank zero-coupon rates, adjusted for a spread that principally takes into account the credit spread risk of the mortgages and uncertainty relating to prepayment estimates. The spread used to reflect credit risk is largely based on spreads of comparable RMBS transactions in the market. During the fourth quarter of 2007, the RMBS market was characterised by the near absence of primary RMBS transactions. In the absence of observable primary RMBS transactions the credit spread used for valuation purposes at 31 December 2007 was derived largely from RMBS-spreads quoted by a number of investment banks.

At 31 December 2007, the most significant unobservable parameters used in the valuation are the applicable credit spreads, prepayment rate estimates, and the applicable discount rate loaded for prepayment risk.

Negative changes in the fair market value of mortgages as result of prepayment rate changes are, to a certain extent, mitigated by penalties paid by the mortgagors.

The determination of the applicable credit spread, prepayment rates and a spread for prepayment risk requires NIBC to make subjective judgements. A one basis point shift in either direction of the credit spreads across the mortgage portfolio would have had either a positive or a negative impact of approximately EUR 2.1 million (2006: EUR 3.6 million) on the fair value of the mortgages as at 31 December 2007. A 1% point shift in the assumption NIBC makes about expected prepayments would have had an impact of approximately EUR 11.2 million (2006: EUR 0.2 million) on the fair value of the mortgages as at 31 December 2007.

All parameters and estimates are reviewed, challenged and approved before usage in our Parameter Committee. This committee consists of staff from Credit Risk Management, Market Risk Management, Credit Portfolio, senior management and is chaired by the SBU CFO.

Corporate loans

Corporate loans at fair value through profit or loss

Corporate loans designated at fair value through profit or loss consist of assets that are traded in the secondary loan market or an active syndications market. The assets on our book are mark-to-market by applying market bid quotes. The quotes received from other banks or brokers and applied in the mark to market process are calibrated to actual trades executed and settled to the extent possible. The secondary loan market is (mainly) an inter-bank market with limited deal flow as compared to the corporate bond market. As a result of this limited flow, for some assets no quotes were available at 31 December 2007. In these limited instances we applied a discounted cash flow valuation of the asset, performed by staff independent from the traders / originators. The profit after tax on continuing operations for 2007 is not sensitive (in all material respects) to these valuations.

Corporate loans designated as available for sale

Corporate loans designated as available for sale are mark-to-market applying a valuation model. The reason for applying a valuation model is that there is no active market for these assets.

The model assumes that the loan book is securitised. The most significant valuation parameters are yield curves by currency and the credit discount spread. An average life of the loan book of four years is assumed, consistent with NIBC's historical experience. The valuation is particularly sensitive to the credit spread assumptions. This spread reflects two important inputs. The first input is CLO and CMBS-spreads, both derived from independent brokers (J.P. Morgan and Lehman). The CLO and CMBS markets were both characterised by the near absence of primary issuances. Consequently, in the absence of observable primary transactions, the credit spread used for valuation purposes at 31 December 2007 was derived largely from spreads quoted by independent banks.

The second input is the model used to tranche the portfolio. NIBC applies the Fitch Vector model (version 3.01), including the probabilities of default provided by Fitch. All parameters and estimates are reviewed, challenged and approved before usage in our Parameter Committee. This committee consists of staff from Credit Risk Management, Market Risk Management, Credit Portfolio, senior management and is chaired by the SBU CFO.

The year 2007 has witnessed a significant decrease in the revaluation reserve on available for sale corporate loans. This decrease was mainly driven by the substantial increases in credit spreads (CLO and CMBS). Both the CLO and the CMBS-spreads were stable up and until the general market turmoil. Since then, the spreads on average quadrupled. This led to a decrease in the pre-tax revaluation reserve of EUR 85 million to a debit reserve of EUR 65 million. A one basis point shift in the applicable credit spread in either direction would have an impact of EUR 1 million (2006: EUR 2 million) on the revaluation reserve, before taxation.

Fair value of equity investments

For equity investments without quoted market prices, NIBC estimates the fair value of the instrument using valuation models, and it applies the valuation principles set forth by the International Private Equity and Venture Capital Valuation Guidelines to the extent these are consistent with IAS 39. These models require NIBC to estimate parameters for individual investments including maintainable earnings, capitalisation multiples (it applies multiples to maintainable earnings to estimate market value), free cash flow and market-related discount rates.

The determination of the fair value of an unlisted equity security in this manner is necessarily a subjective process. For the equity and warrant portfolio as at 31 December 2007, a 10% increase in the capitalisation multiples that NIBC uses would have produced an increase in the fair value of the equity and warrant investments of approximately EUR 25 million (2006: EUR 30 million). A 10% decrease in capitalisation multiples would have produced a decrease in the fair value of the equity and warrant investments of approximately EUR 24.6 million (2006: EUR 11 million).

impairment of loans and receivables

NIBC assesses whether there is an indication of impairment of corporate loans classified as available for sale assets or as loans and receivables at amortised cost, on an individual basis and at least quarterly. NIBC considers a range of factors that have a bearing on the expected future cash flows that it expects to receive from the loan, including the business prospects of the borrower and its industry sector, the realisable value of collateral held, the level of subordination relative to other lenders and creditors, and the likely cost and likely duration of any recovery process. Subjective judgements are made in the process including, among others, the determination of expected future cash flows and their timing, the market value of collateral, and market discount rates. Furthermore, NIBC's judgements change over 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 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 and actual loss experience.

If, as at 31 December 2007, for each of the impaired loans, the net present value of the estimated cash flows had been 5% lower than we estimated, we would have recognised an additional impairment loss of EUR 6.8 million (2006: EUR 21 million). If, as at 31 December 2007, for each of NIBC's impaired loans, the net present value of the estimated cash flows had been 5% higher than we estimated, our impairment loss would have been reduced by EUR 6.8 million (2006: EUR 5 million).

impairment of equity investments classified as available for sale

NIBC determines an impairment loss on the available for sale equity investments held in the investment portfolio of its Principal Investments business unit when there has been a significant or prolonged decline in the fair value below its original cost (including previous impairment losses). NIBC exercises 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 whose securities we hold, a decline in industry or sector performance, adverse changes in technology or problems with operational or financing cash flows.

The level of the impairment loss that NIBC recognises in the consolidated income statement is the cumulative loss that has been recognised directly in equity. If NIBC had deemed 'significant' or 'prolonged' all of the declines in fair value of our equity investments below cost, the effect would have been a EUR 0.8 million (2006: EUR 5 million) reduction in the profit before tax from continuing operations in 2007.

securitisations and special purpose entities

NIBC sponsors the formation of *Special Purpose Entities (SPEs)* primarily for the purpose of allowing clients to hold investments in separate legal entities, to allow clients to invest jointly in alternative assets, for asset securitisation transactions, and for buying or selling credit protection. NIBC does not consolidate SPEs that it does not control.

The determination of whether NIBC exercises control over an SPE requires NIBC to make judgements about its exposure to the risks and rewards derived from the SPE as well as its ability to make operational decisions for the SPE in question. In many instances, elements are present that considered in isolation indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

When assessing whether NIBC has to consolidate an SPE, it evaluates a range of factors, including whether:

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

Where the Group not to consolidate the assets, liabilities and the results of these consolidated SPEs, the net effect on the balance sheet would be a decrease in net assets of EUR 10.0 billion (2006: EUR 7.9 billion) and the net effect on the income statement in both 2007 and 2006 would be insignificant.

Derecognition of assets and recognition of continuous involvement

NIBC executed transactions under their CMBS program. Purpose of this program is to offer NIBC real estate clients access to capital markets. NIBC incorporated SPEs for the commercial backed securities program. All loans transferred to the SPE's are collateralised by commercial real estate properties. The SPE's obtain funding from the capital markets by issuing CMBS notes. Certain commercial real estate loans, which are included in the commercial mortgage backed securities program, have been originated by NIBC or by other banks prior to the securitisation. The total amount of commercial loans originated by NIBC prior to the securitisation, which have been subsequently transferred to these SPE's equals EUR 1,288 million at 31 December 2007. The loans continued to be recognised to the extent of NIBC's continuing involvement amounted to EUR 710 million at 31 December 2007. The reason for recognizing this continuing involvement is that, based on a risks and rewards analysis, NIBC did not transfer substantially all risks and rewards associated with the securitised assets. The continuing involvement is reflected in the balance sheet as EUR 638 million in loans valued at amortized cost and corresponding debt securities in issue structured, EUR 64 million in securitised mortgages and corresponding debt securities in issue structured, which concerns the nominal value of clean up calls which NIBC holds in certain CMBS-programs and EUR 8 million in

debt securities at fair value through profit or loss which concerns the fair value of NIBC's investment in certain CMBS notes.

pension benefits

The present value of pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) of pensions include the discount rate, the expected return on plan assets, future salary increases, future inflation and future pension increases. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 44.

Were the discount rate used to differ by 10% from management's estimates, the carrying amount of pension obligations would be an estimated EUR 14 million (2006: EUR 13 million) lower or EUR 16 million (2006: EUR 14 million) higher. The service cost would be EUR 0.7 million (2006: EUR 0.6 million) lower or EUR 0.8 million (2006: EUR 0.7 million) higher.

income taxes

NIBC is subject to income taxes in a number of tax jurisdictions. NIBC makes estimates in determining its worldwide provision for income taxes, and files its tax returns after the finalisation of its financial statements. The ultimate tax determination by tax authorities for certain transactions arising in the ordinary course of business may remain uncertain for several years after their occurrence. NIBC recognises liabilities for taxation when it is probable that the relevant taxation authority will require NIBC to pay taxation. Where the final outcome of such determination is different from the amounts that were initially estimated and recorded, these differences will impact the income tax expenses or deferred tax position in the period in which the determination is made.

notes

to the consolidated financial statements



Segment reporting

Segment information is presented in respect of NIBC's business and geographical segments.

Primary Reporting Format – Business segments

NIBC is comprised of the following main business segments, which are referred to as *Strategic Business Units (SBUs)*:

- Corporate Finance;
- Financial Markets;
- Real Estate Markets;
- Investment Management;
- Principal Investments;
- Corporate Center.

The SBU *Corporate Finance (CF)* focuses on originating, structuring and executing M&A advisory, capital markets financing and risk management solutions for clients. Client coverage teams, together with product specialists operating in multidisciplinary teams, deliver a wide range of customised products and solutions.

The SBU *Financial Markets (FM)* focuses on the global distribution of NIBC's assets to the international capital markets. The SBU is also responsible for the trading of credit fixed-income products and the corporate treasury function and from managing certain assets and liabilities not allocated to the commercial SBUs. See below for further comments on the management of shareholder's equity.

The SBU *Real Estate Markets (REM)* focuses on the origination and securitisation of residential mortgages and commercial real estate financing. The SBU also develops and offers securitisation and fund solutions for other asset classes.

The SBU *Investment Management (IM)* focuses on NIBC's asset management and fund services activities for credit fixed-income securitisations and equity funds.

The SBU *Principal Investments (PI)* comprises NIBC's mezzanine investments and private equity activities.

The SBU *Corporate Center* (CC) supports all activities of NIBC. This support consists of shared services relating to Human Resources, Group Finance, Corporate Communications & Investor Relations, Group Technology & Operations, Legal, Corporate Tax, Internal Audit, Compliance, Payments and Facilities & Services. The SBU CC derives net interest income from certain strategic interest rate mismatch positions. Additionally, income of EUR 2 million (2006: 2 million) on certain other interest rate mismatch positions and interest expenses of EUR 6 million (2006: EUR 4 million) on hybrid Tier-I and subordinated loans were attributed to Corporate Center in 2007 and to Financial Markets in 2006.

Costs of certain business units within CC are allocated to the other SBUs based upon a cost allocation model with allocation keys depending on the actual usage of services. Certain CC costs are however not allocated to the commercial SBUs, such as one-off expenses and expenses related to general management support.

The measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes. Transactions between segments are conducted on normal commercial terms and conditions. The funding requirements of each segment reflect funding at market interest rates. Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Whilst the management of shareholders' equity takes place within SBU FM, the associated funding benefit of this capital is allocated from SBU FM to SBUs (within net interest income) as follows:

- For SBUs other than Financial Markets, the benefit is allocated to the SBU (and reported within net interest income) based on the SBUs average allocated economic capital for the year;
- For Financial Markets, the benefit reported within net interest income is based on the SBUs average allocated capital and average excess capital for the year. Average excess capital is defined to be the difference between total average shareholders' equity less goodwill and certain reserves for the year less the allocations of economic capital used by the SBUs.

Inter SBU payments are mainly management fees paid by SBU Financial Markets to SBU Investment Management of EUR 6 million (2006: EUR 8 million), and fees paid by SBU Principal Investments to SBU Investment Management of EUR 29 million (2006: nil). The fees paid by the SBU Principal Investments to the SBU Investment Management concern management and performance fees relating to funds in which Principal Investments has invested but which are managed by Investment Management.

Compared to the presentation in the Annual Report 2006 the following changes have been made:

- In 2006, the average unallocated capital was assigned to Corporate Center. With effect from 1 January 2007, the average unallocated capital was assigned to Financial Markets. Furthermore, economic capital allocations to business units were revised in 2007 to reflect changing business usage. As a result of this revised allocation of economic capital, the remaining unallocated average economic capital is not significant. The net interest income in Corporate Center on unallocated average economic capital in 2006 amounted to EUR 18 million. Due to these changes, this benefit is nil in 2007;
- In 2007, the return allocated to business units on average economic capital and unallocated capital was increased from 2.80% in 2006 to 3.75% in 2007. In 2007, an amount of 1% on average economic capital was charged by Financial Markets to the other Strategic Business Units as additional expense for funding the SBU businesses. In 2006, this was not the case. The net interest income benefit in Financial Markets in 2007 of this 1% change was EUR 13 million (2006: nil).

The primary segment report displays the breakdown of profit after tax from continuing operations to business segments. If the result from discontinued operations was to be included in the report this result would have been allocated to Investment Management.

Secondary Reporting Format – Geographical segments

NIBC operates principally in Western Europe, but also has operations in North America and South-East Asia. In Europe, operations are conducted in the Netherlands, Belgium, the United Kingdom and Germany. The presented information on the basis of geographical segments is based on the location of the entity that generated the revenue.

Business segments (primary)

	Corporate Finance		Financial Markets		Real Estate Markets		Investment Management		Principal Investments		Corporate Center		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<i>IN EUR MILLIONS</i>														
Interest and similar income	475.1	368.9	401.8	265.4	788.0	632.0	1.3	1.2	28.9	29.0	22.1	41.4	1,717.2	1,337.9
Interest expense and similar charges	340.8	254.0	383.8	249.7	720.9	575.3	0.3	-	17.4	7.9	7.0	-	1,470.2	1,086.9
NET INTEREST INCOME	134.3	114.9	18.0	15.7	67.1	56.7	1.0	1.2	11.5	21.1	15.1	41.4	247.0	251.0
Net fee and commission income	42.5	35.5	(16.6)	(1.9)	5.7	3.9	60.0	24.2	(28.3)	(0.8)	(0.5)	-	62.8	60.9
Dividend income	0.8	5.4	45.0	20.9	-	-	-	-	38.1	9.1	-	-	83.9	35.4
Net trading income	0.4	6.3	(348.3)	60.0	(24.4)	26.1	-	-	-	-	-	-	(372.3)	92.4
Gains less losses from equity investments and associates	1.0	0.8	-	0.1	-	-	-	-	107.1	43.8	-	-	108.1	44.7
Share in profit of associates	3.8	3.0	(0.1)	12.6	(3.1)	-	9.7	-	0.7	0.1	-	-	11.0	15.7
Other operating income	2.9	11.7	0.2	(1.8)	-	-	0.3	-	0.6	(0.1)	1.0	6.0	5.0	15.8
OPERATING INCOME	185.7	177.6	(301.8)	105.6	45.3	86.7	71.0	25.4	129.7	73.2	15.6	47.4	145.5	515.9
OPERATING EXPENSES	70.8	75.2	28.1	28.6	25.2	22.0	44.1	24.0	11.6	18.8	40.7	40.5	220.5	209.1
Impairment of financial assets	2.5	(5.0)	-	-	-	-	0.3	-	(0.7)	(9.1)	-	-	2.1	(14.1)
TOTAL EXPENSES	73.3	70.2	28.1	28.6	25.2	22.0	44.4	24.0	10.9	9.7	40.7	40.5	222.6	195.0
OPERATING PROFIT	112.4	107.4	(329.9)	77.0	20.1	64.7	26.6	1.4	118.8	63.5	(25.1)	6.9	(77.1)	320.9
Result on disposal of subsidiaries	0.2	1.1	-	-	-	-	-	-	-	-	-	-	0.2	1.1
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	112.6	108.5	(329.9)	77.0	20.1	64.7	26.6	1.4	118.8	63.5	(25.1)	6.9	(76.9)	322.0
Tax	27.8	32.0	(98.7)	9.0	5.1	15.8	1.8	-	4.6	9.4	(15.6)	2.9	(75.0)	69.1
PROFIT AFTER TAX FROM CONTINUING OPERATIONS	84.8	76.5	(231.2)	68.0	15.0	48.9	24.8	1.4	114.2	54.1	(9.5)	4.0	(1.9)	252.9
AVERAGE ALLOCATED ECONOMIC CAPITAL	550	483	275	174	225	123	50	5	200	110	-	39	1,300	934
AVERAGE UNALLOCATED CAPITAL	-	-	162	-	-	-	-	-	-	-	-	592	162	592
SEGMENT ASSETS	6,602	7,657	11,151	12,696	13,707	11,426	-	-	414	377	535	480	32,409	32,636
SEGMENT LIABILITIES	6,258	7,165	10,570	11,879	12,992	10,691	-	-	392	353	507	449	30,719	30,537
CAPITAL EXPENDITURE	1	2	1	7	1	-	-	-	-	-	4	-	7	9
INVESTMENTS IN ASSOCIATES	37	21	-	-	6	-	-	-	150	12	(2)	-	191	33

Geographical segments (secondary)

IN EUR MILLIONS	The Netherlands		Other Europe		North America & Caribbean		South-East Asia		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Interest and similar income	1,452	1,151	233	145	-	13	32	29	1,717	1,338
Interest expense and similar charges	1,285	989	167	77	-	5	18	16	1,470	1,087
NET INTEREST INCOME	167	162	66	68	-	8	14	13	247	251
Net fee and commission income	33	36	19	12	10	11	1	2	63	61
Dividend income	83	33	1	1	-	1	-	-	84	35
Net trading income	(347)	96	(24)	5	-	(4)	(1)	(5)	(372)	92
Gains less losses from equity investments and associates	108	39	-	6	-	-	-	-	108	45
Share in profit of associates	11	16	-	-	-	-	-	-	11	16
Other operating income	5	4	-	12	-	-	-	-	5	16
OPERATING INCOME	60	386	62	104	11	16	14	10	146	516
OPERATING EXPENSES	185	175	25	22	9	10	2	2	221	209
Impairment of financial assets	(2)	(16)	4	2	-	-	-	-	2	(14)
TOTAL EXPENSES	183	159	29	24	9	10	2	2	223	195
OPERATING PROFIT	(123)	227	33	80	2	6	12	8	(77)	321
Result on disposal of subsidiaries	-	1	-	-	-	-	-	-	-	1
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	(123)	228	33	80	2	6	12	8	(77)	322
Tax	(85)	49	8	18	1	1	1	1	(75)	69
PROFIT AFTER TAX FROM CONTINUING OPERATIONS	(38)	179	25	62	1	5	11	7	(2)	253
EQUITY	1,385	1,555	142	345	5	27	158	172	1,690	2,099
SEGMENT ASSETS	28,866	28,512	2,882	3,527	7	31	654	566	32,409	32,636
SEGMENT LIABILITIES	27,481	26,957	2,740	3,182	2	4	496	394	30,719	30,537
INVESTMENTS IN ASSOCIATES	191	33	-	-	-	-	-	-	191	33

Capital expenditure of EUR 7 million (2006: EUR 9 million) is recognised in the Netherlands.

> 2

Net interest income

IN EUR MILLIONS	2007	2006
Interest and similar income	1,717	1,338
Interest expense and similar charges	1,470	1,087
	247	251

For the year ended 31 December 2007, net interest income includes interest on impaired financial assets (those at amortised costs or available for sale) of EUR 5 million (2006: EUR 2 million).

Interest and similar income include interest income of EUR 936 million (2006: EUR 875 million) on assets designated at fair value through profit or loss. Interest expense and similar charges include interest expense of EUR 652 million (2006: EUR 398 million) on liabilities designated at fair value through profit or loss.

Interest income from debt and other fixed-income instruments held for trading or designated as fair value through profit or loss is recognised in interest and similar income at the effective interest rate.

> 3

Net fee and commission income

IN EUR MILLIONS	2007	2006
FEE AND COMMISSION INCOME		
Agency and underwriting fees	36	26
Investment management fees	20	15
Other	13	21
	69	62
FEE AND COMMISSION EXPENSE		
Other non-interest related	6	1
	6	1
	63	61

The other non-interest related fees mainly relate to M&A advisory.

> 4

Dividend income

IN EUR MILLIONS	2007	2006
Equity investments (available for sale)	33	9
Equity investments (fair value through profit or loss)	6	-
Structured investments (fair value through profit or loss)	45	21
Other	-	5
	84	35

> 5

Net trading income

<i>IN EUR MILLIONS</i>	2007	2006
ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING RELATED DERIVATIVES):		
Residential mortgages	(101)	26
Other loans	(3)	-
Liabilities	106	-
TRADING RESULT AND OTHER		
Trading result and other	(374)	66
	(372)	92

Net trading income includes a foreign exchange gain of EUR 11 million (2006: EUR 13 million).

Both the loss on residential mortgages as well as the gain on liabilities in 2007 nearly fully relate to substantial credit spread widening in 2007. 75% of the liabilities designated as fair value through profit or loss is used for funding the residential mortgage business.

Trading result and other of EUR 374 million includes a before tax loss of EUR 350 million with respect to US asset backed securities. EUR 196 million of this before tax loss is related to a portfolio of US sub prime residential mortgage backed securities, which was sold on 24 August 2007. As of that date NIBC no longer has any US sub prime residential mortgage backed securities on its balance sheet. The remaining loss of EUR 154 million is related to NIBC's portfolio of US commercial real estate backed securities. At 31 December 2007 this portfolio amounted to EUR 0.7 billion (notional amount of EUR 0.9 billion).

In 2007, NIBC changed certain estimates used in the determination of the fair value of mortgage assets. These changes resulted in a one-off credit to net trading income of EUR 21 million.

> 6

Gains less losses from equity investments and associates

<i>IN EUR MILLIONS</i>	2007	2006
Net gain / (losses) on disposal (available for sale)	10	29
Net revaluation gain / (losses) transferred from equity (available for sale) on disposal	20	16
Gains less losses from associates at fair value through profit or loss	78	-
	108	45

> 7

Other operating income

IN EUR MILLIONS	2007	2006
Real estate rental income	1	2
Results from restructuring and work-outs	-	13
Other	4	1
	5	16

> 8

Personnel expenses

IN EUR MILLIONS	2007	2006
Salaries	71	60
Variable compensation	50	59
PENSION AND OTHER POST RETIREMENT CHARGES:		
Defined benefit plan (note 44)	8	10
Defined contribution plan	2	-
Other post retirement charges	2	(6)
Other social security charges	6	6
Other staff expenses	2	1
	141	130

The increase in salaries is due to 11% higher average *Full Time Equivalents (FTEs)* in 2007 (an average of 722 FTEs in 2007 compared to an average of 650 FTEs in 2006) and an average salary rise of 4%.

The higher pension and other post retirement charges in 2007 are mainly explained by higher average FTEs in 2007 and a one-off release of a health care provision in 2006 of EUR 6 million.

Information on the pension charge is included in employee benefit obligations (note 44).

Information on NIBC's share-based payment plans as well as on the remuneration of the management and supervisory boards can be found in note 55.

> 9

Depreciation

IN EUR MILLIONS	2007	2006
Property	4	3
Other fixed assets	13	8
	17	11

The increase in the depreciation expense reflects the accelerated depreciation of certain project costs that were capitalised at 31 December 2006.

> 10

Impairment of financial assets

<i>IN EUR MILLIONS</i>	2007	2006
IMPAIRMENT		
Equity investments classified as available for sale	1	1
Loans and receivables classified as available for sale	15	14
	16	15
REVERSALS OF IMPAIRMENT		
Loans and receivables classified as available for sale (excluding interest on impaired assets)	(14)	(29)
	(14)	(29)
	2	(14)

For further details on interest on impaired assets see note 2, net interest income.

> 11

Result on disposal of subsidiaries

<i>IN EUR MILLIONS</i>	2007	2006
Result on disposal of subsidiaries	-	1
	-	1

The result on disposal of subsidiaries in 2006 reflects a profit on the sale of NIBC Bank (N.A.) N.V.

> 12

Tax

IN EUR MILLIONS	2007	2006
Current tax	(77)	65
Deferred tax	2	4
	(75)	69
THE TAX BURDEN CAN BE ANALYSED AS FOLLOWS:		
Profit before tax from continuing operations	(77)	322
Tax calculated at the nominal Dutch corporate tax rate of 25.5% (2006: 29.6%)	(22)	96
Effect of different tax rates in other countries	1	(2)
Impact of income not subject to tax	(55)	(25)
Impact of expenses not deductible for tax purposes	9	2
Utilisation of previously unrecognised tax losses	(2)	(2)
Release of provision relating to prior years	(6)	-
	(75)	69
Effective tax rate	97.4%	21.4%

The impact of income not subject to tax mainly relates to income from equity investments and associates, in which NIBC has a stake of more than 5%, being income that is tax exempt under Dutch tax law.

NIBC Holding N.V. is the parent company of a number of subsidiaries such as NIBC Bank N.V., NIBC Investments N.V. and NIBC Investment Management N.V., which all are part of the same fiscal entity.

> 13

Result attributable to minority interest

IN EUR MILLIONS	2007	2006
Result attributable to minority interest	3	-
	3	-

The minority interest reflects third party participations in investment funds controlled by NIBC.

> 14

Cash and balances with central banks (amortised cost)

IN EUR MILLIONS	2007	2006
Balances with central banks	874	239
	874	239

The amounts included in this item are available on demand.

The fair value of this balance sheet item does not materially deviate from its face value, due to the short term nature of the underlying assets.

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Due from other banks (amortised cost)

IN EUR MILLIONS	2007	2006
Current accounts	462	589
Placements with other banks	2,688	1,176
	3,150	1,765
ANALYSIS:		
Payable on demand	689	866
Not payable on demand	2,461	899
	3,150	1,765
MATURITY ANALYSIS OF THE ITEMS NOT PAYABLE ON DEMAND:		
In three months or less	2,418	877
In more than three months but not more than one year	5	3
In more than one year but not more than five years	38	6
Longer than five years	-	13
	2,461	899

Subordinated loans included in this item amount to EUR 4.6 million (2006: EUR 5.0 million).

The fair value of this balance sheet item does not materially deviate from its face value, due to the short term nature of the underlying assets and the credit quality of the counterparties.

> 16

Loans and receivables (amortised cost)

IN EUR MILLIONS	2007	2006
Loans to corporate entities	1,258	-
	1,258	-
THE LEGAL MATURITY ANALYSIS OF THE LOANS AND RECEIVABLES IS ANALYSED AS FOLLOWS:		
In three months or less	34	-
In more than three months but not more than one year	97	-
In more than one year but not more than five years	423	-
Longer than five years	704	-
	1,258	-

If NIBC had fair valued the corporate loans classified as amortised cost using the valuation methodology applied to loans designated as available for sale, then the balance sheet amount would decrease at the balance sheet date by EUR 10 million (2006: nil).

The maximum credit risk exposure including unused credit facilities arising on loans and receivables at amortised cost amounts to EUR 1,613 million (2006: nil).

The total amount of subordinated loans in this item, as at 31 December 2007, amounts to EUR 0 million (2006: nil), of which EUR 0 million (2006: nil) is guaranteed by the State of the Netherlands.

No impairments were recorded in 2007 on loans and receivables at amortised cost.

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Securitised loans (amortised cost)

<i>IN EUR MILLIONS</i>	2007	2006
Loans to corporate entities	638	-
	638	-
THE LEGAL MATURITY ANALYSIS OF THE SECURITISED LOANS IS ANALYSED AS FOLLOWS:		
In three months or less	-	-
In more than three months but not more than one year	-	-
In more than one year but not more than five years	-	-
Longer than five years	638	-
	638	-
THE MOVEMENT IN SECURITISED LOANS (AMORTISED COST) IS SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	-	-
Additions	638	-
BALANCE AT 31 DECEMBER	638	-

If NIBC had fair valued the securitised loans classified as amortised cost using the valuation methodology applied to loans designated as available for sale, then the balance sheet amount would have decreased at the balance sheet date by EUR 25 million (2006: nil).

The maximum credit risk exposure including unused credit facilities arising on securitised loans at amortised cost amounts to EUR 818 million (2006: nil).

The total amount of subordinated loans in this item, as at 31 December 2007, amounts to EUR 0 million (2006: nil), of which EUR 0 million (2006: nil) is guaranteed by the State of the Netherlands.

No impairments were recorded in 2007 on securitised loans at amortised cost.

Loans and receivables (available for sale)

IN EUR MILLIONS	2007	2006
Loans to corporate entities	5,105	6,806
Public sector	59	91
	5,164	6,897

THE LEGAL MATURITY ANALYSIS OF THE LOANS AND RECEIVABLES IS ANALYSED AS FOLLOWS:

In three months or less	231	535
In more than three months but not more than one year	337	762
In more than one year but not more than five years	2,144	3,656
Longer than five years	2,452	1,944
	5,164	6,897

IN EUR MILLIONS	2007	2006
IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES		
BALANCE AT 1 JANUARY	85	121
IMPAIRMENT LOSSES RECOGNISED:		
Additional allowances	15	14
Write-offs	(9)	(12)
Amounts released	(14)	(29)
Unwinding of discount adjustment	(5)	(2)
	72	92
Differences due to foreign currency translation	(5)	(7)
BALANCE AT 31 DECEMBER	67	85

Impairment losses are defined as the difference between the fair value of loans and receivables that exhibit indicators of impairment and original cost.

The maximum credit risk exposure including unused credit facilities arising on loans and receivables recognised as available for sale amounts to EUR 6,622 million (2006: EUR 9,312 million).

The total amount of subordinated loans in this item, as at 31 December 2007, amounts to EUR 141 million (2006: EUR 270 million), of which EUR 59 million (2006: EUR 91 million) is guaranteed by the State of the Netherlands.

Equity investments (available for sale)

<i>IN EUR MILLIONS</i>	2007	2006
Listed	18	23
Unlisted	126	162
	144	185
THE MOVEMENT IN EQUITY INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	185	165
Additions	37	73
Disposals (sale and capital repayments)	(49)	(74)
Changes in fair value	(28)	21
Impairment	(1)	-
BALANCE AT 31 DECEMBER	144	185
IMPAIRMENT LOSSES ON EQUITY INVESTMENTS		
BALANCE AT 1 JANUARY	30	45
IMPAIRMENT LOSSES RECOGNISED:		
Additional allowances	1	1
Write-offs	(8)	(16)
BALANCE AT 31 DECEMBER	23	30

Impairment losses are defined as the difference between the fair value of equity investments that exhibit indicators of impairment and original cost.

Debt securities (available for sale)

<i>IN EUR MILLIONS</i>	2007	2006
Debt securities (available for sale)	311	-
	311	-
DEBT SECURITIES AVAILABLE FOR SALE CAN BE CATEGORISED AS FOLLOWS:		
Government	-	-
Other	311	-
	311	-
Listed	273	-
Unlisted	38	-
	311	-
THE LEGAL MATURITY OF DEBT SECURITIES IS ANALYSED AS FOLLOWS:		
In three months or less	-	-
In more than three months but not more than one year	-	-
In more than one year but not more than five years	15	-
Longer than five years	296	-
	311	-
THE MOVEMENT IN DEBT SECURITIES IS SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	-	-
Additions	323	-
Disposals (sale and redemption)	(4)	-
Charges in fair value	(8)	-
BALANCE AT 31 DECEMBER	311	-

Loans and receivables (designated as fair value through profit or loss)

IN EUR MILLIONS	2007	2006
Loans to corporate entities	1,374	952
	1,374	952

IN EUR MILLIONS	2007	2006
THE LEGAL MATURITY ANALYSIS OF LOANS AND RECEIVABLES IS ANALYSED AS FOLLOWS:		
In three months or less	-	21
In more than three months but not more than one year	8	3
In more than one year but not more than five years	53	48
Longer than five years	1,313	880
	1,374	952

THE MOVEMENT IN LOANS AND RECEIVABLES MAY BE SUMMARISED AS FOLLOWS:

BALANCE AT 1 JANUARY	952	-
Additions	440	952
Changes in fair value	(18)	-
BALANCE AT 31 DECEMBER	1,374	952

Interest income from loans and receivables is recognised in interest and similar income based on the effective interest rate. Fair value movements (clean) are recognised in net trading income.

The portion of fair value changes in 2007 included in the balance sheet amount (designated as fair value through profit or loss) as at 31 December 2007 relating to the movement in credit spreads amounts to EUR 18 million credit being a reduction in the balance sheet carrying amount (2006: EUR nil).

The maximum credit risk exposure including unused credit facilities amounts to EUR 1,762 million (2006: EUR 1,286 million).

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Residential mortgages own book (designated as fair value through profit or loss)

IN EUR MILLIONS	2007	2006
THE LEGAL MATURITY ANALYSIS OF THE RESIDENTIAL MORTGAGES OWN BOOK IS ANALYSED AS FOLLOWS:		
In three months or less	11	45
In more than three months but not more than one year	14	17
In more than one year but not more than five years	87	9
Longer than five years	5,173	4,367
	5,285	4,438

IN EUR MILLIONS	2007	2006
THE MOVEMENT IN THE RESIDENTIAL MORTGAGES OWN BOOK MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	4,438	5,029
Additions	2,633	2,377
Disposals (sale and redemption, including transfers to consolidated SPVs)	(1,746)	(2,860)
Changes in fair value	(40)	(108)
BALANCE AT 31 DECEMBER	5,285	4,438

Interest income from residential mortgages own book is recognised in interest and similar income based on the effective interest rate. Fair value movements (clean) are recognised in net trading income.

The maximum credit exposure including committed but undrawn facilities is EUR 5,524 million (2006: EUR 4,791 million).

At 31 December 2007, EUR 964 million (2006: EUR 964 million) of credit protection by means of credit default swaps through a synthetic securitisation (Provide Orange) was in place in connection with NIBC's residential mortgages own book.

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Securitised residential mortgages (designated as fair value through profit or loss)

IN EUR MILLIONS	2007	2006
THE LEGAL MATURITY ANALYSIS OF THE SECURITISED RESIDENTIAL MORTGAGES IS ANALYSED AS FOLLOWS:		
In three months or less	2	14
In more than three months but not more than one year	2	2
In more than one year but not more than five years	17	1
Longer than five years	6,335	6,971
	6,356	6,988

IN EUR MILLIONS	2007	2006
THE MOVEMENT IN THE SECURITISED RESIDENTIAL MORTGAGES MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	6,988	8,417
Additions	1,160	506
Disposals (sale and redemption)	(1,603)	(1,701)
Changes in fair value	(189)	(234)
BALANCE AT 31 DECEMBER	6,356	6,988

At 31 December 2007, securitised residential mortgages in the amount of EUR 6,356 million (2006: EUR 6,988 million) were pledged as collateral for NIBC's own liabilities (refer to note 50).

Interest income from securitised residential mortgages is recognised in interest and similar income at the effective interest rate. Fair value movements (clean) are recognised in net trading income.

The maximum credit exposure including submitted commitments (the pipeline) is EUR 6,595 million (2006: EUR 7,341 million).

The portion of fair value changes in 2007 included in the balance sheet amount (designated as fair value through profit or loss) as at 31 December 2007 relating to the movement in credit spreads on residential mortgages own book (note 22) and securitised residential mortgages (note 23) amounts to EUR 112 million credit, being a reduction in the balance sheet carrying amount (2006: EUR 14 million debit).

This change in fair value related to credit spread movements was determined by a credit spread basis point value calculation, based on a number of parameters such as a tranching of the portfolio based on internal credit ratings, credit spread migration in the market of benchmark RMBS securitisation transactions and the level of interest rates.

The aggregate difference yet to be recognised in the profit or loss between transaction prices at initial recognition and the fair value determined by valuation models is in both years not material.

Securitised mortgages are retained on NIBC's balance sheet based on the risks and rewards NIBC retains in the *Special Purpose Entities (SPEs)* issuing the mortgage backed notes. Risks and rewards can be retained by NIBC by (among others) retaining issued notes, providing overcollateralisation to the SPEs or implementing reserve accounts in the SPEs. At the balance sheet date, NIBC retained EUR 75 million (2006: EUR 68 million) of notes issued by the SPEs, overcollateralisation provided to the SPEs amounted to EUR 28 million (2006: EUR 21 million) and reserve accounts amounted to EUR 15 million (2006: EUR 16 million).

Debt securities (designated as fair value through profit or loss)

IN EUR MILLIONS	2007	2006
Held for trading (non-government)	2,098	5,479
Designated as fair value through profit or loss	957	1,723
	3,055	7,202
DEBT SECURITIES HELD FOR TRADING CAN BE CATEGORISED AS FOLLOWS:		
Listed	1,325	4,142
Unlisted	773	1,337
	2,098	5,479
DEBT SECURITIES DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS CAN BE CATEGORISED AS FOLLOWS:		
Government	356	682
Other	601	1,041
	957	1,723
Listed	773	1,285
Unlisted	184	438
	957	1,723
THE LEGAL MATURITY ANALYSIS OF THE DEBT SECURITIES IS ANALYSED AS FOLLOWS::		
In three months or less	154	318
In more than three months but not more than one year	133	180
In more than one year but not more than five years	442	606
Longer than five years	228	619
	957	1,723
THE MOVEMENT OF THE DEBT SECURITIES DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	1,723	1,813
Additions	677	946
Disposals (sale and redemption)	(1,344)	(943)
Exchange differences	(36)	(54)
Changes in fair value	(63)	(39)
BALANCE AT 31 DECEMBER	957	1,723

The decrease in 2007 of debt securities reflects the sale of the portfolio of US sub-prime residential mortgage backed securities, which amounted to EUR 0.5 billion at 31 December 2006 and nil at the end of 2007. In 2007, the loss from this business was EUR 90 million, after tax (NIBC therefore no longer has any US sub-prime residential mortgage exposure in its portfolios). The remaining decrease of this portfolio of EUR 0.1 billion reflects fair value losses and the devaluation of the US dollar in 2007.

The portion of fair value changes in 2007 included in the balance sheet amount (designated as fair value through profit or loss) as at 31 December 2007 relating to the movement in credit spreads amounts to EUR 4 million credit, being a reduction in the balance sheet carrying amount (2006: nil).

Interest income from debt securities and other fixed-income instruments is recognised in interest and similar income at the effective interest rate. Fair value movements (clean) are recognised in net trading income.

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Structured investments (designated as fair value through profit or loss)

<i>IN EUR MILLIONS</i>	2007	2006
Structured investments	1,212	916
	1,212	916
THE LEGAL MATURITY ANALYSIS OF THE STRUCTURED INVESTMENTS IS ANALYSED AS FOLLOWS:		
In three months or less	618	58
In more than three months but not more than one year	70	76
In more than one year but not more than five years	20	335
Longer than five years	504	447
	1,212	916
THE MOVEMENT OF THE STRUCTURED INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	916	361
Additions	587	554
Disposals	(292)	-
Changes in fair value	18	(1)
Exchange differences	(17)	2
BALANCE AT 31 DECEMBER	1,212	916

All structured investments are unlisted instruments.

Dividends received from structured investments are recognised in dividend income.
Fair value movements (clean) are recognised in net trading income.

The portion of fair value changes in 2007 included in the balance sheet amount (designated as fair value through profit or loss) as at 31 December 2007 relating to the movement in credit spreads amounts to EUR 5 million credit, being a reduction in the balance sheet carrying amount (2006: nil).

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Investments in associates (designated as fair value through profit or loss)

<i>IN EUR MILLIONS</i>	2007	2006
THE MOVEMENT IN INVESTMENTS IN ASSOCIATES MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	-	-
Additions	69	-
Changes in fair value	78	-
BALANCE AT 31 DECEMBER	147	-

All of these associates are unlisted instruments and are held by the SBU Principal Investments.

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Derivative financial instruments (designated as fair value through profit or loss)

<i>IN EUR MILLIONS</i>	2007	2006
DERIVATIVE FINANCIAL ASSETS		
Derivative financial assets held for trading (trading portfolios)	2,034	1,283
Derivative financial assets held for trading (other portfolios)	599	657
Derivative financial assets used for hedging	85	300
	2,718	2,240
DERIVATIVE FINANCIAL LIABILITIES		
Derivative financial liabilities held for trading (trading portfolios)	1,708	1,205
Derivative financial liabilities held for trading (other portfolios)	583	806
Derivative financial liabilities used for hedging	53	133
	2,344	2,144

Derivative financial instruments – Held for trading (trading portfolios) at 31 December 2007

IN EUR MILLIONS	Notional amount with remaining life of			Total	Assets	Liabilities
	Less than three months	Between three months and one year	More than one year			
INTEREST RATE DERIVATIVES						
<i>OTC-PRODUCTS:</i>						
Forward rate agreements	8,925	12,975	-	21,900	35	39
Interest rate swaps	14,463	11,353	58,784	84,600	952	918
Interest rate options (purchase)	-	32	749	781	9	-
Interest rate options (sale)	2	28	675	705	-	13
SUBTOTAL	23,390	24,388	60,208	107,986	996	970
CURRENCY DERIVATIVES						
<i>OTC-PRODUCTS:</i>						
Currency / cross currency swaps	1	3,546	3,757	7,304	937	664
SUBTOTAL	1	3,546	3,757	7,304	937	664
OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)						
<i>OTC-PRODUCTS:</i>						
Other swaps	131	20	1,742	1,893	5	8
Other options (purchase)	103	52	267	422	96	-
Other options (sale)	36	24	176	236	-	66
SUBTOTAL	270	96	2,185	2,551	101	74
TOTAL DERIVATIVES HELD FOR TRADING (TRADING PORTFOLIOS)	23,661	28,030	66,150	117,841	2,034	1,708

Derivative financial instruments – Held for trading (trading portfolios) at 31 December 2006

IN EUR MILLIONS	Notional amount with remaining life of			Total	Assets	Liabilities
	Less than three months	Between three months and one year	More than one year			
INTEREST RATE DERIVATIVES						
<i>OTC-PRODUCTS:</i>						
Forward rate agreements	-	303	-	303	23	14
Interest rate swaps	14,365	8,433	55,618	78,416	629	596
Interest rate options (purchase)	-	-	379	379	2	-
Interest rate options (sale)	-	8	552	560	-	6
SUBTOTAL	14,365	8,744	56,549	79,658	654	616
CURRENCY DERIVATIVES						
<i>OTC-PRODUCTS:</i>						
Currency / cross currency swaps	103	475	6,586	7,164	481	520
SUBTOTAL	103	475	6,586	7,164	481	520
OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)						
<i>OTC-PRODUCTS:</i>						
Other options (purchase)	77	411	1,186	1,674	145	9
Other options (sale)	91	129	656	876	3	60
SUBTOTAL	168	540	1,842	2,550	148	69
TOTAL DERIVATIVES HELD FOR TRADING (TRADING PORTFOLIOS)	14,636	9,759	64,977	89,372	1,283	1,205

Derivative financial instruments – Held for trading (other portfolios) at 31 December 2007

IN EUR MILLIONS	Notional amount with remaining life of			Total	Assets	Liabilities
	Less than three months	Between three months and one year	More than one year			
INTEREST RATE DERIVATIVES						
<i>OTC-PRODUCTS:</i>						
Interest rate swaps	1,033	1,276	13,285	15,594	372	367
SUBTOTAL	1,033	1,276	13,285	15,594	372	367
CURRENCY DERIVATIVES						
<i>OTC-PRODUCTS:</i>						
Forward rate agreements	18	374	145	537	85	85
Interest currency rate swap	2,883	705	2,009	5,597	117	99
Other swaps	4	48	183	235	-	5
SUBTOTAL	2,905	1,127	2,337	6,369	202	189
<i>OTC-PRODUCTS:</i>						
Credit default swaps (guarantees given)	39	104	316	459	20	1
Credit default swaps (guarantees received)	17	103	255	375	5	26
SUBTOTAL	56	207	571	834	25	27
TOTAL DERIVATIVES HELD FOR TRADING (OTHER PORTFOLIOS)	3,994	2,610	16,193	22,797	599	583

Derivative financial instruments – Held for trading (other portfolios) at 31 December 2006

IN EUR MILLIONS	Notional amount with remaining life of			Total	Assets	Liabilities
	Less than three months	Between three months and one year	More than one year			
INTEREST RATE DERIVATIVES						
<i>OTC-PRODUCTS:</i>						
Interest rate swaps	573	1,270	13,541	15,384	371	459
Interest currency rate swap	170	11	1,763	1,944	164	230
SUBTOTAL	743	1,281	15,304	17,328	535	689
CURRENCY DERIVATIVES						
<i>OTC-PRODUCTS:</i>						
Forward rate agreements	6	-	-	6	75	72
Interest currency rate swap	1,698	-	-	1,698	11	8
SUBTOTAL	1,704	-	-	1,704	86	80
<i>OTC-PRODUCTS:</i>						
Credit default swaps (guarantees given)	-	670	628	1,298	30	-
Credit default swaps (guarantees received)	81	37	447	565	6	37
SUBTOTAL	81	707	1,075	1,863	36	37
TOTAL DERIVATIVES HELD FOR TRADING (OTHER PORTFOLIOS)	2,528	1,988	16,379	20,895	657	806

The following table discloses the fair value of the swaps designated in fair value hedging relationships.

<i>IN EUR MILLIONS</i>		2007	2006
Fair value pay – fixed swaps (hedging assets)	assets	11	17
Fair value pay – fixed swaps (hedging assets)	liabilities	(18)	(30)
		(7)	(13)
Fair value pay – floating swaps (hedging liabilities)	assets	38	207
Fair value pay – floating swaps (hedging liabilities)	liabilities	(36)	(94)
		2	113

The following table discloses the fair value of the swaps designated in cash flow hedging relationships.

Cash flow hedges of interest rate risk

<i>IN EUR MILLIONS</i>		2007	2006
Fair value receive – fixed swaps	assets	36	38
Fair value receive – fixed swaps	liabilities	-	(5)
		36	33
Fair value receive – floating swaps	assets	-	38
Fair value receive – floating swaps	liabilities	-	(4)
		-	34

The average remaining maturity (in which the related cash flows are expected to enter into the determination of profit and loss) is 4 years (2006: 4 years).

Derivative financial instruments – Used for hedging at 31 December 2007

IN EUR MILLIONS	Notional amount with remaining life of			Total	Assets	Liabilities
	Less than three months	Between three months and one year	More than one year			
DERIVATIVES ACCOUNTED FOR AS FAIR VALUE HEDGES OF INTEREST RATE RISK						
<i>OTC-PRODUCTS:</i>						
Interest rate swaps	430	173	2,326	2,929	33	33
Interest currency rate swaps	7	65	243	315	16	20
SUBTOTAL	437	238	2,569	3,244	49	53
DERIVATIVES ACCOUNTED FOR AS CASH FLOW HEDGES OF INTEREST RATE RISK						
<i>OTC-PRODUCTS:</i>						
Interest rate swaps	-	-	407	407	36	-
SUBTOTAL	-	-	407	407	36	-
TOTAL DERIVATIVES USED FOR HEDGING	437	238	2,976	3,651	85	53

Derivative financial instruments – Used for hedging at 31 December 2006

IN EUR MILLIONS	Notional amount with remaining life of			Total	Assets	Liabilities
	Less than three months	Between three months and one year	More than one year			
DERIVATIVES ACCOUNTED FOR AS FAIR VALUE HEDGES OF INTEREST RATE RISK						
<i>OTC-PRODUCTS:</i>						
Interest rate swaps	1,573	1,289	4,645	7,507	49	83
Interest currency rate swap	276	164	2,264	2,704	175	41
SUBTOTAL	1,849	1,453	6,909	10,211	224	124
DERIVATIVES ACCOUNTED FOR AS CASH FLOW HEDGES OF INTEREST RATE RISK						
<i>OTC-PRODUCTS:</i>						
Interest rate swaps	591	400	2,589	3,580	76	9
SUBTOTAL	591	400	2,589	3,580	76	9
TOTAL DERIVATIVES USED FOR HEDGING	2,440	1,853	9,498	13,791	300	133

Hedging activities

Portfolio fair value hedge of plain vanilla funding

According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate plain vanilla funding activities above certain limits prescribed by the *Asset and Liability Committee (ALCO)*. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the fixed rate plain vanilla funding and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2007 was EUR 6 million (2006: EUR 92 million). The gains on the hedging instruments were EUR 1 million (2006: EUR 58 million). The losses on the hedged item attributable to the hedged risk were EUR 2 million (2006: EUR 62 million).

Micro fair value hedge of plain vanilla funding

According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate plain vanilla funding activities above certain limits prescribed by ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a micro fair value hedge for the fixed rate plain vanilla funding and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2007 was EUR 3 million credit (2006: EUR 0 million). The losses on the hedging instruments were EUR 1 million (2006: EUR 0 million). The gains on the hedged item attributable to the hedged risk were EUR 1 million (2006: EUR 0 million).

Portfolio fair value hedge of corporate loans

According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its corporate loan activities above certain limits as set by ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising from these fixed rate loans. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the fixed rate corporate loans and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for period longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these hedge relationships at 31 December 2007 was EUR 7 million credit (2006: EUR 7 million). The gains on the hedging instruments were EUR 3 million (2006: EUR 15 million). The losses on the hedged item attributable to the hedged risk were EUR 4 million (2006: EUR 14 million).

Cash flow hedges

The variability in interest cash flows arising on floating rate corporate loans is hedged on a portfolio basis with interest rate swaps that receive fixed and pay floating (generally 1, 3 and 6 months floating rates). The highly probable cash flows being hedged relate both to the highly probable cash flows on outstanding corporate loans and to the future reinvestment of these cash flows. NIBC does not hedge the variability of future cash flows of corporate loans arising from changes in credit spreads.

Interest rate swaps with a net fair value of EUR 36 million (2006: EUR 67 million) were designated in a cash flow hedge relationship. The cash flow on the hedged item will be reported in income over the next 10 years. In 2007, the ineffectiveness recognised in income statements that arose from cash flow hedges was EUR 3 million (2006: nil).

There were no transactions in respect of which cash flow hedge accounting had to be ceased in 2007 or 2006 as a result of the highly probable cash flows no longer being expected to occur.

The amount that was recognised in equity during the year 2007 is EUR 1 million (2006: EUR 5 million). The amount that was removed from equity and included in the income statement in 2007 was EUR 16 million (2006: EUR 16 million).

Net investment hedge

NIBC hedges part of the currency translation risk arising on its net investments in foreign operations by using foreign currency debt as a hedging instrument. Debt amounting to USD 231 million (2006: USD 211 million) as included in other liabilities was designated as a hedging instrument, and gave rise to currency profits for the year of EUR 18 million (2006: EUR 18 million), which were recognised in the translation reserve component of equity. No ineffectiveness was recognised in the income statement arising from hedges of net investments in foreign operations. No amounts were withdrawn from equity during the year (2006: nil), as there were no disposals of foreign operations that were included in the net investment hedge.

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Investments in associates

IN EUR MILLIONS	2007	2006
BALANCE AT 1 JANUARY	33	24
Purchases and additional payments	25	10
Disposals	(22)	(17)
Share of results	4	16
Dividend received	7	-
Impairments	(3)	-
BALANCE AT 31 DECEMBER	44	33

At the end of 2007 and 2006, all investments in associates were unlisted.

There are no significant restrictions on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

There is no unrecognised share of losses of an associate, both for the period and cumulatively.

We refer to note 54 for further details on the investments in associates.

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Intangible Assets

IN EUR MILLIONS	2007	2006
BALANCE AT 1 JANUARY	338	347
Disposal of a subsidiary	-	(9)
BALANCE AT 31 DECEMBER	338	338

Goodwill is tested annually for impairment, or more frequently when there are indications that impairments may have occurred. There was no impairment identified in 2007 (2006: nil). For the purpose of impairment testing, goodwill acquired is allocated to NIBC's cash generating units, being the primary segments.

IN EUR MILLIONS	2007	2006
GOODWILL HAS BEEN ALLOCATED TO THE SBUS (CASH GENERATING UNITS) AS FOLLOWS:		
Corporate Finance	76	76
Financial Markets	15	15
Real Estate Markets	181	181
Investment Management	-	-
Principal Investments	66	66
Corporate Center	-	-
	338	338

Property and other fixed assets (for own use)

IN EUR MILLIONS	2007	2006
Land and buildings	65	68
Other fixed assets	7	14
	72	82

MOVEMENTS IN PROPERTY AND OTHER FIXED ASSETS (FOR OWN USE) WERE AS FOLLOWS:

BALANCE AT 1 JANUARY	82	61
Additions	7	15
Disposals	-	(1)
Revaluation	-	18
Depreciation	(17)	(11)
BALANCE AT 31 DECEMBER	72	82

IN EUR MILLIONS	2007	2006
THE ACCUMULATED DEPRECIATION AS AT 31 DECEMBER IS FOR:		
Land and buildings	28	25
Other fixed assets	14	35
	42	60

Buildings in use by the company are insured for EUR 62.5 million (2006: EUR 61.1 million). Other fixed assets are insured for EUR 25.7 million (2006: EUR 25.1 million.)

There is no property and other fixed assets pledged as security for liabilities.

There is no expenditure recognised in the carrying amount of property and other fixed assets in the course of construction at 31 December 2007 and 31 December 2006.

There are no contractual commitments for the acquisition of property and other fixed assets at 31 December 2007 and 31 December 2006.

The revaluation in 2006 of EUR 18 million of property and other fixed assets is based on an external appraisal carried out in January 2007.

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Investment property

<i>IN EUR MILLIONS</i>	2007	2006
Land and buildings	1	8
	1	8

Investment property is stated at fair value. The fair value at 31 December 2007 is based upon various external appraisals of which the most recent were made in 2005, on the basis that there have been no material changes in the fair value of the investment property since 2005.

This balance sheet item includes acquired property of EUR 1 million (2006: nil) from work-out and restructuring activities related to residential mortgages.

Investment property is insured for EUR 0 million (2006: EUR 7 million.)

<i>IN EUR MILLIONS</i>	2007	2006
MOVEMENTS IN INVESTMENT PROPERTY WERE AS FOLLOWS:		
BALANCE AT 1 JANUARY	8	17
Additions resulting from acquisition	1	1
Disposals	(8)	(10)
BALANCE AT 31 DECEMBER	1	8

The amount recognised in profit or loss is EUR 0 million (2006: EUR 1 million), concerning rental income.

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Current tax assets

<i>IN EUR MILLIONS</i>	2007	2006
Corporate tax	106	49
	106	49

It is expected that the total tax asset will be settled within 12 months.

Deferred tax assets

IN EUR MILLIONS	2007	2006
DEFERRED INCOME TAX ASSETS ARE ATTRIBUTABLE TO TEMPORARY DIFFERENCES ARISING FROM THE FOLLOWING ITEMS:		
Employee benefit obligations	-	3
Loans and receivables (available for sale)	18	-
Debt securities (available for sale)	2	-
	20	3

IN EUR MILLIONS	2007	2006
THE MOVEMENT ON THE DEFERRED INCOME TAX ACCOUNT IS AS FOLLOWS:		
BALANCE AT 1 JANUARY	3	7
EMPLOYEE BENEFIT OBLIGATIONS:		
(Charged) / credited to the income statement	(3)	(4)
LOANS AND RECEIVABLES (REPORTED AS AVAILABLE FOR SALE):		
Reclassification from deferred tax liabilities	(27)	-
Fair value remeasurement (charged) / credited to revaluation reserve	44	-
Fair value hedges through revaluation reserve	(1)	-
Changes in tax rates	2	-
DEBT SECURITIES (REPORTED AS AVAILABLE FOR SALE):		
Fair value remeasurement (charged) / credited to revaluation reserve	2	-
	20	3
BALANCE AT 31 DECEMBER	20	3

The recovery period for the deferred tax assets is estimated at 2.5 years.

Tax losses of EUR 5 million (2006: EUR 10 million) have not been tax recognised because it is not probable that these losses can be utilised. These unrecognised tax losses have no expiry date.

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Other assets

<i>IN EUR MILLIONS</i>	2007	2006
Interest	77	281
Other accruals and receivables	65	20
	142	301

The decrease in interest in 2007 reflects the transfer of interest receivables on all financial instruments excluding residential mortgages and loans to the carrying values of the underlying assets in the balance sheet.

Interest includes interest accrued on corporate loans and residential mortgages, whether classified as amortised cost, available for sale or fair value through profit or loss.

The fair value of this balance sheet item does not materially deviate from its face value, due to the short term nature of its related assets.

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Due to banks

<i>IN EUR MILLIONS</i>	2007	2006
Payable on demand	612	354
Not payable on demand	4,843	3,047
	5,455	3,401
MATURITY ANALYSIS OF THE ITEMS NOT PAYABLE ON DEMAND:		
Three months or less	1,966	1,759
Longer than three months but not longer than one year	901	2
Longer than one year but not longer than five years	1,492	1,059
Longer than five years	484	227
	4,843	3,047

Interest is recognised in interest expense and similar charges on an effective interest basis.

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Other deposits

<i>IN EUR MILLIONS</i>	2007	2006
Other deposits	1,282	2,581
	1,282	2,581
MATURITY ANALYSIS OF OTHER DEPOSITS:		
Three months or less	345	1,431
Longer than three months but not longer than one year	205	237
Longer than one year but not longer than five years	364	366
Longer than five years	368	547
	1,282	2,581

Interest is recognised in interest expense and similar charges on an effective interest basis.

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Other borrowings

<i>IN EUR MILLIONS</i>	2007	2006
Payable on demand	-	-
Not payable on demand	2	13
	2	13
MATURITY ANALYSIS OF OTHER BORROWINGS:		
Three months or less	-	-
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	-	3
Longer than five years	2	10
	2	13

The fair value of this balance sheet item does not materially deviate from its face value.

Interest is recognised in interest expense and similar charges on an effective interest basis.

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Debt securities in issue structured (designated as fair value through profit or loss)

IN EUR MILLIONS	2007	2006
Bonds and notes issued	4,152	4,553
	4,152	4,553
MATURITY ANALYSIS OF DEBT SECURITIES IN ISSUE STRUCTURED:		
Three months or less	404	293
Longer than three months but not longer than one year	253	681
Longer than one year but not longer than five years	1,731	2,373
Longer than five years	1,764	1,206
	4,152	4,553

The contractual amounts of these liabilities to be repayed at maturity, including unpaid but accrued interest at the balance sheet date amounts to EUR 4,132 million on 31 December 2007 (2006: EUR 4,384 million).

The portion of fair value changes in 2007 included in the balance sheet amount at 31 December 2007 relating to the movement in credit spreads amounts to EUR 81 million debit, being a reduction in the carrying value of these liabilities (2006: EUR nil).

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Own debt securities in issue (designated as fair value through profit or loss)

IN EUR MILLIONS	2007	2006
Bonds and notes issued	215	-
	215	-
MATURITY ANALYSIS OF DEBT SECURITIES IN ISSUE:		
Three months or less	26	-
Longer than three months but not longer than one year	67	-
Longer than one year but not longer than five years	90	-
Longer than five years	32	-
	215	-

The contractual amounts of these liabilities to be repayed at maturity, including unpaid but accrued interest at the balance sheet date amounts to EUR 223 million on 31 December 2007 (2006: nil).

In 2007, there were no significant gains or losses attributable to changes in the credit risk for these financial liabilities, which are designated as fair value through profit or loss.

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Own debt securities in issue

<i>IN EUR MILLIONS</i>	2007	2006
Bonds and notes issued	9,059	9,366
Fair value hedge adjustment	(24)	(32)
	9,035	9,334
MATURITY ANALYSIS OF DEBT SECURITIES IN ISSUE:		
Three months or less	1,290	1,000
Longer than three months but not longer than one year	2,590	281
Longer than one year but not longer than five years	4,975	7,333
Longer than five years	180	720
	9,035	9,334

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Debt securities in issue related to securitised mortgages

<i>IN EUR MILLIONS</i>	2007	2006
Bonds and notes issued	7,218	7,257
Fair value hedge adjustment	(4)	(11)
	7,214	7,246
MATURITY ANALYSIS OF DEBT SECURITIES IN ISSUE RELATED TO SECURITISED MORTGAGES:		
Three months or less	70	-
Longer than three months but not longer than one year	528	448
Longer than one year but not longer than five years	5,293	2,177
Longer than five years	1,323	4,621
	7,214	7,246

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Other liabilities

<i>IN EUR MILLIONS</i>	2007	2006
Interest	-	257
Liability related to cash settled NIBC Choice instruments	1	5
Accruals	64	42
Payables	187	196
	252	500

The decrease in interest in 2007 reflects the transfer of interest payable on all liabilities to the carrying values of the underlying liabilities in the balance sheet.

The amortisation of any discount or premium and interest related to other liabilities is recognised in interest expense and similar charges using the effective interest method.

Deferred tax liabilities

IN EUR MILLIONS	2007	2006
DEFERRED INCOME TAX LIABILITIES ARE ATTRIBUTABLE TO TEMPORARY DIFFERENCES ARISING ON THE FOLLOWING ITEMS:		
Loans and receivables (available for sale)	-	27
Equity investments (available for sale)	3	5
Cash flow hedges	12	17
Property	9	11
	24	60

IN EUR MILLIONS	2007	2006
THE MOVEMENT ON THE DEFERRED INCOME TAX ACCOUNT IS AS FOLLOWS:		
BALANCE AT 1 JANUARY	60	54
PROPERTY REPORTED AS FAIR VALUE:		
Fair value remeasurement charged / (credited) to revaluation reserve	-	4
Charged / (credited) to the income statement	(1)	-
Changes in tax rate	(1)	-
EQUITY INVESTMENTS REPORTED AS AVAILABLE FOR SALE:		
Fair value remeasurement charged / (credited) to revaluation reserve	(2)	1
LOANS AND RECEIVABLES REPORTED AS AVAILABLE FOR SALE:		
Fair value remeasurement of loans and receivables charged / (credited) to revaluation reserve	(27)	-
Fair value hedge accounting charged / (credited) to revaluation reserve	-	5
CASH FLOW HEDGES:		
Fair value remeasurement charged / (credited) to hedging reserve	(4)	(4)
Changes in tax rates	(1)	-
BALANCE AT 31 DECEMBER	24	60

The recovery period for the deferred tax liabilities is estimated at 2.5 years.

Employee benefit obligations

<i>IN EUR MILLIONS</i>	2007	2006
Pension benefit obligations	6	6
Stock appreciation rights	-	6
Other	5	5
	11	17

Pension benefit obligations

NIBC operates a number of pension plans covering substantially all employees. The schemes are generally funded through payments to insurance companies or separate trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which NIBC each year pays a fixed percentage of the salaries of the members into the plan. The size of the fund on retirement will be determined by how much was contributed to the plan and the investment return achieved. NIBC has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a plan that is not a defined contribution plan and where the rules specify the benefits to be paid to the members at retirement. These benefits will depend on the number of years of service, the final salary (up to a maximum) upon retirement and the accrual rate of the scheme. Most of the pension plans are defined benefit plans based on a maximised final pay salary and are funded.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The latest actuarial valuation was carried out at 31 December 2007. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The assets of the funded plans are held independently of NIBC's assets in separate trustee administered funds.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to the income statement over the employees' expected average remaining working lives. Past-service costs are recognised immediately in the income statement.

For defined contribution plans, NIBC pays directly into the member's plan. NIBC has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

<i>IN EUR MILLIONS</i>	2007	2006
Present value of funded obligations	163	167
Fair value of plan assets	157	148
DEFICIT FOR FUNDED PLANS	6	19
Present value of unfunded obligations	1	2
Unrecognised actuarial losses	(1)	(15)
PENSION BENEFIT OBLIGATION	6	6

<i>IN EUR MILLIONS</i>	2007	2006
CHANGES IN THE PRESENT VALUE OF FUNDED AND UNFUNDED OBLIGATIONS ARE AS FOLLOWS:		
BEGINNING OF YEAR	169	169
Current service cost	8	8
Interest cost	7	6
Actuarial (gains) / losses	(15)	(9)
Benefits paid	(5)	(5)
END OF YEAR	164	169

<i>IN EUR MILLIONS</i>	2007	2006
CHANGES IN THE FAIR VALUE OF PLAN ASSETS ARE AS FOLLOWS:		
BEGINNING OF YEAR	148	147
Expected return on plan assets	7	5
Actuarial (gains) / losses	(1)	(9)
Employer contributions	8	10
Benefits paid	(5)	(5)
END OF YEAR	157	148

The actual return on plan assets was EUR 6 million (2006: EUR 0 million)

<i>IN EUR MILLIONS</i>	2007	2006
THE AMOUNTS RECOGNISED IN THE INCOME STATEMENTS ARE AS FOLLOWS:		
Current service cost	8	8
Interest cost	7	7
Expected return on plan assets	(7)	(5)
TOTAL INCLUDED IN STAFF COSTS	8	10

<i>IN EUR MILLIONS</i>	2007	2006
THE MOVEMENT IN THE LIABILITY RECOGNISED IN THE BALANCE SHEET IS RECONCILED AS FOLLOWS:		
BALANCE AT 1 JANUARY	6	6
Total expense – as above	8	10
Contribution paid	(8)	(10)
BALANCE AT 31 DECEMBER	6	6
THE PRINCIPAL ACTUARIAL ASSUMPTIONS USED WERE AS FOLLOWS:		
Discount rate	5.25%	4.50%
Expected return on plan assets	5.25%	4.50%
Future salary increases, excluding career developments	2.25%	2.25%
Future pension increases (price inflation)	2.00%	2.00%

<i>IN EUR MILLIONS</i>	2007	2006
PLAN ASSETS ARE COMPRISED AS FOLLOWS:		
Equities	41	44
Bonds	117	104
Cash	2	2
Subordinated loan	(3)	(2)
	157	148

For the mortality assumptions NIBC used the Generation tables from the Actuarial Society set back by 3 years for males and 1 year for females.

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Stock Appreciation Rights

<i>IN EUR MILLIONS</i>	2007	2006
THE MOVEMENT IN THE LIABILITY RECOGNISED IN THE BALANCE SHEET IS RECONCILED AS FOLLOWS:		
BALANCE AT 1 JANUARY	6	6
Expenses recognised during the vesting period	-	1
Exercised	(6)	(1)
BALANCE AT 31 DECEMBER	-	6

For further information on Stock Appreciation Rights and NIBC Choice see note 55.

Other

<i>IN EUR MILLIONS</i>	2007	2006
THE MOVEMENT IN THE LIABILITY RECOGNISED IN THE BALANCE SHEET IS RECONCILED AS FOLLOWS:		
BALANCE AT 1 JANUARY	5	10
Releases	-	(5)
BALANCE AT 31 DECEMBER	5	5

Other employee benefit obligations are related to payments to be made to in-active staff and in respect of other leave obligations. These obligations are short term in nature and therefore valued at nominal value. EUR 5 million is payable within 12 months (2006: EUR 5 million).

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Subordinated liabilities (amortised cost)

<i>IN EUR MILLIONS</i>	2007	2006
Subordinated loans qualifying as Tier-I capital	136	152
Other subordinated loans	100	104
	236	256
MATURITY ANALYSIS OF SUBORDINATED LIABILITIES:		
One year or less	8	8
Longer than one year but not longer than five years	55	59
Longer than five year but not longer than ten years	25	25
Longer than ten years	148	164
	236	256

All of the above loans are subordinated to the other liabilities of NIBC. The EUR 136 million (2006: EUR 152 million) qualifying as Tier-I capital is subordinated to other subordinated loans that rank pari passu. These securities are perpetual securities and may be redeemed by NIBC at its option after 10 years with the prior approval of the Dutch Central bank. Interest expense of EUR 16 million was recognised on these subordinated liabilities during the year 2007 (2006: EUR 14 million).

Subordinated liabilities (designated as fair value through profit or loss)

<i>IN EUR MILLIONS</i>	2007	2006
Subordinated loans qualifying as Tier-I capital	219	239
Other subordinated loans	278	193
	497	432
MATURITY ANALYSIS OF SUBORDINATED LIABILITIES:		
One year or less	10	-
Longer than one year but not longer than five years	49	62
Longer than five year but not longer than ten years	137	36
Longer than ten years	301	334
	497	432

The contractual amounts of these liabilities to be repayed at maturity, including unpaid but accrued interest at the balance sheet date amount to EUR 537 million on 31 December 2007 (2006: EUR 450 million).

The portion of fair value changes in 2007 included in the balance sheet amount at 31 December 2007 relating to the movement in credit spreads amounts to EUR 25 million debit, being a reduction in the balance sheet amount (2006: EUR nil).

All of the above loans are subordinated to the other liabilities of NIBC. The EUR 219 million (2006: EUR 239 million) qualifying as Tier-I capital is subordinated to other subordinated loans that rank *pari passu*. These securities are perpetual securities and may be redeemed by NIBC at its option after 10 years with the prior approval of the Dutch Central bank. Interest expense of EUR 28 million was recognised on these subordinated liabilities during the year 2007 (2006: EUR 31 million).

Fair value of liabilities

Debt securities in issue structured, own debt securities in issue and derivative financial instruments are valued at fair value. All other liabilities are valued at amortised cost. For these other liabilities, the carrying value is considered to approximate fair value, except for own debt securities in issue and subordinated liabilities. The carrying value of own debt securities in issue classified at amortised cost amounts to EUR 9,035 million (2006: EUR 9,335 million), and the fair market value amounts to EUR 8,917 million (2006: EUR 9,348 million). The carrying value of subordinated liabilities amounts to EUR 236 million (2006: EUR 256 million), and the fair market value amounts to EUR 226 million (2006: EUR 248 million). The fair values of these items are calculated by applying a benchmark curve reflecting current spreads for repurchasing debt securities and reflecting current spreads for issuing new debt securities.

NIBC has not had any defaults of principal, interest or redemption amounts during both 2006 and 2007 on its liabilities.

Shareholders' equity

The ultimate parent company is New NIB limited, a company incorporated in Ireland.

Share capital

IN EUR MILLIONS	2007	2006
THIS ITEM CAN BE CATEGORISED AS FOLLOWS:		
Paid up capital	1,363	1,362
Proceeds from issued shares	-	1
	1,363	1,363

	2007	2006
THE NUMBER OF AUTHORISED SHARES IS SPECIFIED AS FOLLOWS:		
Number of authorised shares	500,000,000	500,000,000
Number of shares issued and fully paid	102,783,356	102,402,346
Par value per share	1	1

	2007	2006
RECONCILIATION OF NUMBER OF SHARES OUTSTANDING:		
BALANCE AT 1 JANUARY	102,402,346	102,094,820
Additional shares issued	381,010	307,526
BALANCE AT 31 DECEMBER	102,783,356	102,402,346

Out of the total number of shares issued by NIBC Holding N.V., 3,034,160 (2006: 2,675,660) shares are held by Stichting Administratiekantoor NIBC Holding.

Other reserves

IN EUR MILLIONS	2007	2006
OTHER RESERVES ARE COMPRISED OF:		
Share premium	177	170
Hedging reserve - cash flow hedges	35	46
Revaluation reserve - loans and receivables (available for sale)	(49)	68
Revaluation reserve - equity investments (available for sale)	51	75
Revaluation reserve - debt securities (available for sale)	(6)	-
Revaluation reserve - property and other fixed assets (for own use)	23	22
Treasury shares	(56)	(49)
Other	50	37
	225	369

In 2007, the change in the revaluation reserve for loans and receivables from a credit balance of EUR 68 million to a debit balance of EUR 49 million reflects an after tax impairment of EUR 1 million and a negative revaluation of the corporate loan portfolio of EUR 116 million, after tax.

<i>IN EUR MILLIONS</i>	Share premium	Hedging reserve	Revaluation reserve	Treasury Shares	Other	Total
BALANCE AT 1 JANUARY 2006	165	58	119	(43)	-	299
Net result on cash flow hedging instruments, after tax	-	(12)	-	-	-	(12)
Revaluation, after tax	-	-	46	-	-	46
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY	-	(12)	46	-	-	34
Proceeds from shares issued	5	-	-	-	-	5
Treasury shares purchased by STAK	-	-	-	(6)	-	(6)
Release liability NIBC Choice	-	-	-	-	31	31
NIBC Choice expense	-	-	-	-	6	6
BALANCE AT 31 DECEMBER 2006	170	46	165	(49)	37	369
BALANCE AT 1 JANUARY 2007	170	46	165	(49)	37	369
Net result on cash flow hedging instruments, after tax	-	(11)	-	-	-	(11)
Revaluation, after tax	-	-	(146)	-	-	(146)
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY	-	(11)	(146)	-	-	(157)
Proceeds from shares issued	7	-	-	-	-	7
Treasury shares purchased by STAK	-	-	-	(7)	-	(7)
Release liability NIBC Choice	-	-	-	-	4	4
NIBC Choice expense	-	-	-	-	9	(9)
BALANCE AT 31 DECEMBER 2007	177	35	19	(56)	50	225

Share premium

The proceeds from rights issues and options exercised received net of any directly attributable transaction costs deducted with the nominal value are credited to share premium.

Hedging reserve – cash flow hedges

This reserve comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge, after tax.

Revaluation reserve – available for sale (loans and receivables, equity investments and debt securities)

This reserve comprises changes in fair value of available for sale loans and receivables, equity investments and debt securities respectively, after tax.

Revaluation reserve – property and other fixed assets (for own use)

This reserve comprises changes in fair value of land and buildings, after tax.

Treasury shares

Where NIBC purchases NIBC's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Other

In the other reserves the release is recognised to shareholders' equity from liabilities relating to NIBC Choice instruments formerly qualified as cash settled instruments. Furthermore the vesting expenses of NIBC Choice equity settled instruments are recognised in this reserve.

Retained earnings

Retained earnings reflect accumulated earnings less dividends accrued and paid to shareholders and transfers from other reserves. The cumulative effect of changes in accounting policy and the correction of errors is also reflected as an adjustment in retained earnings.

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Repurchase and resale agreements

On 2 January 2008, NIBC Bank N.V. entered into a repo transaction with a third party, in which notes amounting to a notional of EUR 940 million were transferred from NIBC Bank N.V. to the third party in exchange for EUR 838 million in cash for a period starting on 4 January 2008 and ending on 4 July 2008.

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Commitments and contingent assets and liabilities

At any time, NIBC has outstanding commitments to extend credit. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one to three months. Commitments extended to customers related to mortgages at fixed interest rates or fixed spreads are hedged with interest rate swaps recorded at fair value. These commitments are designated upon initial recognition as fair value through profit or loss.

NIBC provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. Expirations are not concentrated in any period.

The contractual amounts of commitments (excluding mortgages commitments of EUR 239 million at 31 December 2007 (2006: EUR 353 million), which in these financial statements are measured at fair value through profit or loss) and contingent liabilities are set out in the following table by category. In the table it is assumed that amounts are fully advanced. The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

<i>IN EUR MILLIONS</i>	2007	2006
CONTRACT AMOUNT		
Committed facilities with respect to corporate loan financing	2,380	2,750
Guarantees and letters of credit	667	1,542
	3,047	4,292

These commitments and contingent liabilities have off balance-sheet credit risk because only commitment / origination fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

Details of concentrations of credit risk including concentrations of credit risk arising from commitments and contingent liabilities as well as NIBC's policies for collateral for loans are set out in the risk management section.

Legal proceedings

There were a number of legal proceedings outstanding against NIBC at 31 December 2007. No provision has been made, as legal advice indicates that it is unlikely that any significant loss will arise.

Liquidity facility

On 5 May 2006, twelve financial institutions provided an unconditional liquidity facility to NIBC. The size of the facility was EUR 1.25 billion with a tenor of three years. In August 2007, the liquidity facility was restructured in light of the proposed acquisition by Kaupthing bank hf. At 31 December 2007, the size of the facility was EUR 850 million maturing in May 2009. During 2006 and 2007, there were no draw downs on these facilities.

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Assets pledged as security

IN EUR MILLIONS	2007	2006
ASSETS HAVE BEEN PLEDGED AS SECURITY IN RESPECT OF THE FOLLOWING LIABILITIES AND CONTINGENT LIABILITIES:		
Liabilities		
Due to other banks	1,900	912
Other deposits	-	42
Other borrowings	-	4
Debt securities in issue related to securitised mortgages	7,214	7,246
Derivative financial liabilities	494	551
	9,608	8,755

IN EUR MILLIONS	2007	2006
DETAILS OF THE CARRYING AMOUNTS OF ASSETS PLEDGED AS COLLATERAL ARE AS FOLLOWS:		
Assets pledged		
Assets utilised as collateral	1,945	945
Due from other banks	263	254
Loans and receivables	231	344
Securitised residential mortgages	6,356	6,988
	8,795	8,531

The assets utilised as collateral have been determined based on an average haircut of 2.31% (2006: 3.46%) on the total portfolio eligible for use to collateralise funding of EUR 4.0 billion (2006: EUR 1.3 billion).

As of 31 December 2007 the excess cash liquidity of NIBC was EUR 1.8 billion, consisting of EUR 0.9 billion cash placed with the Dutch Central Bank and EUR 0.9 billion placed overnight with other banks.

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

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Assets under management

NIBC provides collateral management services, whereby it holds and manages assets or invests funds received in various financial instruments on behalf of the customer. NIBC receives fee income for providing these services. Assets under management are not assets of NIBC and are not recognised in the consolidated balance sheet. NIBC is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2007, the total assets held by NIBC on behalf of customers were EUR 8,373 million (2006: EUR 8,604 million).

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Related party transactions

Transactions related to employees

All transactions with employees are reported in the tables in note 55 'Remuneration of Statutory Board Members, Supervisory Board Members and Share based payments'.

Transactions related to associates

As at 31 December 2007, NIBC had EUR 286 million of loans advanced to its associates (2006: EUR 143 million). Besides interest income on these loans, NIBC earned EUR 1.6 million (2006: 3.0 million) in fees from these associates.

In June 2007, NIBC launched the NIBC European Infrastructure Fund I and raised EUR 330 million of which NIBC provided EUR 100 million. It is NIBC's first third party equity fund, and the final close at EUR 500 million is expected in 2008. The fund invests in infrastructure projects in Western Europe. NIBC sold all of its assets related to this activity to the fund and realised a gain on disposal in 2007 in operating income of EUR 9 million. In NIBC's financial statements, this fund is reported as an associate.

Transactions involving NIBC's shareholders

Significant related party transactions executed in 2007 concern the following:

- In June 2006, the general partner of J.C. Flowers II LP (together with its sister vehicle, 'Flowers Fund II'), an investment fund managed by an affiliate of J.C. Flowers & Co., accepted a USD 100 million capital commitment from NIBC. The management fee and the profits interest otherwise payable by limited partners in such fund have been waived with respect to the investment by NIBC. In addition, NIBC will receive a portion of
 - The profits interest payable to an affiliate of J.C. Flowers & Co. by investors in Flowers Fund II, and
 - The management fee payable to J.C. Flowers & Co. by Flowers Fund II, in each case based on the percentage of aggregate capital commitments to Flowers Fund II represented by the capital commitment of NIBC. In 2007, NIBC earned fees of EUR 1.2 million (2006: EUR 2.7 million) relating to this transaction.

Investment advisory firm J.C. Flowers & Co., receives a management fee from Flowers Fund II in consideration for acting as investment adviser to Flowers Fund II.

NIBC performs fund-raising activities for this fund for which a placement fee is received. Mr. Enthoven, the Chairman of the Managing Board and Chief Executive Officer of NIBC and Mr. Jansen Schoonhoven, one of NIBC's senior managers, serve on the Transaction and Advisory Committee of Flowers Fund II. This committee meets weekly to discuss new investment prospects, structuring and execution of investments under consideration and enhancing value in current portfolio companies of Flowers Fund II. In addition, three members of NIBC's Managing Board and some of NIBC's employees have personally invested in Flowers Fund II as limited partners;

- NIBC's US sub-prime related portfolio was sold on 24 August 2007 to a company controlled by the shareholders of NIBC Holding N.V. for USD 528 million. The acquisition by that company was partially funded by USD 248 million from NIBC Holding N.V. advanced in exchange for preference shares in the company, which were subsequently distributed by NIBC Holding N.V. to NIBC Holding N.V.'s shareholders as a dividend. During 2007, NIBC recognised a pre tax trading loss of EUR 124 million on this portfolio (2006: nil). As of 24 August 2007, both NIBC Bank N.V. and NIBC Holding N.V. are no longer exposed to US sub-prime residential mortgage securities;
- NIBC supported the bid of J.C. Flowers together with J.P. Morgan and Bank of America to acquire SLM Corp (Sallie Mae), the US student loan company. NIBC committed USD 75 million to the Sallie Mae acquisition, of which about half is syndicated. Through the SBU Principal Investments, NIBC subscribed to a further USD 20 million co-investment with J.C. Flowers. NIBC has a commitment of USD 100 million in the J.C. Flowers II LP, of which at 31 December 2007 USD 25 million was drawn. J.C. Flowers subsequently invoked the 'material adverse effect' clause and Sallie Mae responded with legal proceedings. In January 2008, Sallie Mae agreed to cease its pending lawsuit against JCF and the co-investors. In addition, the parties have agreed to terminate the merger agreement. The Buyer Group is not and will not be obligated to make any payment of any kind to Sallie Mae, which means that NIBC has no Sallie Mae-related exposure.

Loan from NIBC Bank to the Pension Fund

At the balance sheet date, NIBC has advanced a subordinated loan (interest charge: 0%) for an amount of EUR 3 million to the trustee-administered fund (NIBC's Pension Fund). There will be no repayment of this loan until the fund has reached a solvency ratio of 150%.

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Discontinued operations

The discontinued operations in 2006 concern Harcourt Investment Consulting A.G. (sold in 2006) and NIBC Wealth Management N.V. (sold in 2006). The income statement and cash flow statement of these entities are displayed below:

IN EUR MILLIONS	2007	2006
Net interest income	-	-
Net fee and commission income	-	1
Net trading income	-	-
OPERATING INCOME	-	1
OPERATING EXPENSES	-	(1)
OPERATING PROFIT	-	-
Result on disposal of subsidiaries	-	35
Tax	-	-
RESULT FROM DISCONTINUED OPERATIONS	-	35
Net result attributable to minority interest	-	-
Net result attributable to parent shareholders	-	35

Net assets related to discontinued operations were nil at the balance sheet date (2006: nil).

Cash flow statement discontinued operations

IN EUR MILLIONS	2007	2006
OPERATING ACTIVITIES		
Cash flows from operating activities discontinued operations	-	-
INVESTING ACTIVITIES		
Cash flows from investing activities discontinued operations	-	2
FINANCING ACTIVITIES		
Cash flows from financing activities discontinued operations	-	(9)

Principal subsidiaries, joint ventures and associates

	%	Country	Assets	Liabilities	Operating Income	Net result
SUBSIDIARIES OF NIBC HOLDING N.V.						
NIBC Bank N.V., The Hague	100.0	Netherlands				
NIBC Credit Management Inc., New York	100.0	USA				
NIBC Venture Capital N.V., The Hague	100.0	Netherlands				
SUBSIDIARIES OF NIBC BANK N.V.						
NIBC Bank Ltd., Singapore	100.0	Singapore				
B.V. NIBC Mortgage Backed Assets, The Hague	100.0	Netherlands				
JOINT VENTURES						
SR-Hypotheek N.V., Rotterdam	50.0	Netherlands	543	501	(7)	(5)
ASSOCIATES (NET ASSET VALUE)						
De Nederlandse Participatie Maatschappij voor de Nederlandse Antillen N.V., The Hague	100.0	Netherlands	34	34	125	-
PE express I B.V., Breskens	37.5	Netherlands	17	-	5	I
PE express II B.V., Breskens	37.5	Netherlands	18	-	5	I
PE express III B.V., Breskens ¹	37.5	Netherlands	n.a.	n.a.	n.a.	n.a.
PE express IV B.V., Breskens ¹	37.5	Netherlands	n.a.	n.a.	n.a.	n.a.
Welke Beheer B.V., Hoorn	25.0	Netherlands	15	15	11	-
ASSOCIATES (DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS)						
	39.0	Netherlands	796	796	55	20

1. n.a. = not available

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

The list of participating interests under which statements of liability have been issued has been filed at the Chamber of Commerce in The Hague.

Remuneration of the Statutory Board Members, Supervisory Board Members, Share based payments and Deferred cash

Remuneration of the Statutory Board Members

In the year under review, the average number of members of the Statutory Board appointed under the articles of association was 4.0 (2006: 4.0). The total remuneration (including pension costs) paid or granted to the Statutory Board Members appointed under the articles of association amounted to EUR 2.8 million in 2007 (2006: EUR 4.7 million). The allocation of this amount per member of the Statutory Board is as follows:

IN EUR	Members				Total
	Mr. Michael Enthoven	Mr. Jurgen B.J. Stegmann	Mr. Jan L. van Nieuwenhuizen	Mr. Kees van Dijkhuizen	
Base Salary 2007	700,000	400,000	400,000	350,000	1,850,000
Base Salary 2006	650,000	350,000	350,000	350,000	1,700,000
Short Term Bonus 2007	-	-	140,000	140,000	280,000
Short Term Bonus 2006	500,000	300,000	300,000	105,000	1,205,000
Deferred Compensation 2007 ¹	-	-	140,000	140,000	280,000
Deferred Compensation 2006 ¹	650,000	350,000	350,000	125,000	1,475,000
TOTAL DIRECT COMPENSATION 2007	700,000	400,000	680,000	630,000	2,410,000
TOTAL DIRECT COMPENSATION 2006	1,800,000	1,000,000	1,000,000	580,000	4,380,000
Pension costs 2007	75,400	80,900	80,000	70,000	306,300
Pension costs 2006	-	70,000	70,000	70,000	210,000
Expense Allowance 2007	1,200	1,200	1,200	1,200	4,800
Expense Allowance 2006	5,407	4,084	3,771	1,200	14,462
Other emoluments 2007	34,050	14,121	-	10,147	58,318
Other emoluments 2006	22,574	11,706	21,000	7,546	62,826
TOTAL REMUNERATION 2007	810,650	496,221	761,200	711,347	2,779,418
TOTAL REMUNERATION 2006	1,827,981	1,085,790	1,094,771	658,746	4,667,288
Variance 2007 / 2006	(56%)	(54%)	(30%)	8%	(40%)

1. The after tax amounts of deferred compensation are mandatorily converted into restricted depositary receipts, based on the fair market value of the depositary receipts calculated in accordance with the conditions of administration of the foundation.

Remuneration of the Managing Board recognised as personnel expenses in the income statement 2007

IN EUR	Members				Total
	Mr. Michael Enthoven	Mr. Jurgen B.J. Stegmann	Mr. Jan L. van Nieuwenhuizen	Mr. Kees van Dijkhuizen	
TOTAL REMUNERATION 2007 (SEE REMUNERATION TABLE ABOVE)	810,650	496,221	761,200	711,347	2,779,418
Deferred compensation 2007 (see remuneration table above)	-	-	(140,000)	(140,000)	(280,000)
Vesting of deferred compensation granted in previous years ¹	(320,206)	(148,808)	1,005,558	73,112	609,656
TOTAL REMUNERATION RECOGNISED IN THE INCOME STATEMENT 2007	490,444	347,413	1,626,758	644,459	3,109,074

1. In light of their resignation, Messrs. Enthoven and Stegmann will forfeit their options.

Remuneration of the Managing Board recognised as personnel expenses in the income statement 2006

IN EUR	Members				Total
	Mr. Michael Enthoven	Mr. Jurgen B.J. Stegmann	Mr. Jan L. van Nieuwenhuizen	Mr. Kees van Dijkhuizen	
TOTAL REMUNERATION 2006 (SEE REMUNERATION TABLE ABOVE)	1,827,981	1,085,790	1,094,771	658,746	4,667,288
Deferred compensation 2006 (see remuneration table above)	(650,000)	(350,000)	(350,000)	(125,000)	(1,475,000)
Vesting of deferred compensation granted in previous years	4,546,407	2,641,868	2,480,810	265,750	9,934,835
TOTAL REMUNERATION RECOGNISED IN THE INCOME STATEMENT	5,724,388	3,377,658	3,225,581	799,496	13,127,123

Remuneration of the Supervisory Board members

The remuneration of the Supervisory Board members relates to their position within NIBC Holding N.V. and NIBC Bank N.V.

IN EUR	Annual Fixed Fees	Committee Fees	Expense allowance	Total Remuneration
MEMBERS OVER 2007				
J. H. M. Lindenbergh ¹	55,000	48,000	5,000	108,000
J. C. Flowers ¹	45,000	33,000	5,000	83,000
C.H. van Dalen	35,000	26,500	5,000	66,500
W.M. van den Goorbergh ¹	35,000	38,000	5,000	78,000
N.W. Hoek	35,000	-	5,000	40,000
J. R. Inciarte until 30-10-07 ¹	29,167	8,333	4,166	41,666
A. de Jong	35,000	-	5,000	40,000
D.B. Marron until 30-4-07	11,667	-	1,666	13,333
D. Rümker ¹	35,000	23,000	5,000	63,000
R.S. Sinha ¹	35,000	26,500	5,000	66,500
A.H.A. Veenhof	35,000	-	5,000	40,000
TOTAL	385,834	203,333	50,832	639,999
MEMBERS OVER 2006				
J. H. M. Lindenbergh ¹	55,000	48,000	5,000	108,000
J. C. Flowers ¹	45,000	33,000	5,000	83,000
C.H. van Dalen	35,000	26,500	5,000	66,500
W.M. van den Goorbergh ¹	35,000	38,000	5,000	78,000
N.W. Hoek	35,000	-	5,000	40,000
J. R. Inciarte ¹	35,000	10,000	5,000	50,000
A. de Jong	35,000	-	5,000	40,000
D.B. Marron	35,000	-	5,000	40,000
D. Rümker ¹	35,000	23,000	5,000	63,000
R.S. Sinha ¹	35,000	26,500	5,000	66,500
A.H.A. Veenhof	35,000	-	5,000	40,000
TOTAL	415,000	205,000	55,000	675,000

1. In line with Dutch tax regulations, an increase of 19% VAT is payable on the total remuneration payable to the relevant Supervisory Board member.

Remuneration of Statutory Board Members, Supervisory Board Members and Share based payments and Deferred cash

Stock Appreciation Rights

A *Stock Appreciation Right (SAR)* scheme was introduced in 2001 and is a cash settled variable compensation scheme. A SAR entitles the holder to a share in the growth of the *Net Asset Value (NAV)* of NIBC Holding N.V. The exercise value of part of the SARs awarded to Managing Directors (whether or not appointed under the Articles of Association) has been capped at EUR 126.37. As of 31 December 2005, all capped SARs were converted into NIBC Choice. The expected cost of the outstanding SARs is recognized as personnel expenses during the vesting period of five years.

On 15 November 2007, the Supervisory Board together with the Managing Board decided to exercise their right to discontinue the SAR Plan and allow accelerated vesting of all unvested SARs against the exercise price of EUR 124.79, being the fair value as at 30 June 2007. All outstanding SARs were consequently exercised. The SAR liability as at 31 December 2007 is therefore nil (2006: EUR 6.3 million).

The movement of the outstanding Stock Appreciation Rights can be analysed as follows:

	Staff	Total
POSITION AT 1-1-2006	163,791	163,791
SAR rights exercised	(36,872)	(36,872)
Weighted average exercise price	105.19	105.19
SAR rights forfeited	(10,320)	(10,320)
POSITION AT 31-12-2006	116,599	116,599
Weighted average grant price	75.88	75.88
POSITION AT 1-1-2007	116,599	116,599
SAR rights exercised	(115,807)	(115,807)
Weighted average exercise price	124.79	124.79
SAR rights forfeited	(792)	(792)
POSITION AT 31-12-2007	-	-

With respect to SARs, an amount of EUR 0.8 million credit was recognised in personnel expenses in the income statement in 2007 (2006: EUR 1.4 million expenses).

NIBC Choice

Introduction

In 2005, a new share-based compensation plan called NIBC Choice was introduced in close co-operation with the then new shareholders. This plan allowed Managing Board members and all other employees to convert the after tax proceeds of their accumulated rights under the Bank's various deferred compensation arrangements into common depositary receipts (with respect to vested rights) and restricted depositary receipts (with respect to unvested rights). All accumulated vested and unvested rights under the Stock Appreciation Rights plan and the Liquidity Event plan qualified for this conversion.

The opportunity to invest was offered in the firm belief that management and employee ownership that aligns personal financial interests with those of the other shareholders is instrumental in creating long term value for the Bank. As an additional incentive for all those who chose to participate in NIBC Choice, NIBC offered Matching Options for common or restricted depositary receipts acquired. Additionally, the new shareholders exercised their discretion to grant additional Management Options to the members of the Managing Board and selected executives.

All members of the Managing Board of NIBC chose to convert their after tax proceeds of vested amounts under the legacy plans into common depositary receipts and their after tax proceeds of unvested amounts under those plans into restricted depositary receipts. The purchase price of a depositary receipt when NIBC Choice was first introduced was EUR 18.25, equal to the share price paid by the then new shareholders. The initial NIBC Choice plan also allowed investment of own funds in depositary receipts.

Components of variable compensation

Under NIBC's remuneration policy, NIBC Choice forms the deferred compensation part of the variable compensation. The other part of the variable compensation is the award of a discretionary short term cash bonus. NIBC Choice is only open to management and employees and contains restrictions relating to termination of employment or certain corporate events, such as restructurings, affecting the rights that would otherwise accrue to them.

Additionally, with respect to some investment professionals within Investment Management, separate performance related rewards schemes ('carried interest') are agreed upon. These rewards are partly related to the employment of the investment professionals and partly related to their own investments and carried interest rights in the specific funds. All related expenses are recognised under personnel expenses in the income statement. The actual payment of the carried interest to the investment professionals is subject to specific conditions.

Depositary receipts (DRs)

The DRs, consisting of *Common depositary receipts (CDRs)* and *Restricted depositary receipts (RDRs)*, are issued by Stichting Administratiekantoor *NIBC Holding* (the **Foundation**) in accordance with its conditions of administration (administratievoorwaarden) applicable to the relevant DRs.

The Foundation issues a DR for each ordinary share it holds in NIBC Holding N.V. The Foundation exercises the voting rights in respect of each of these ordinary shares at its own discretion, while the holder of a DR is entitled to the dividends and other distributions declared payable in respect of the underlying ordinary share. Holders of DRs cannot exercise voting rights or request a power of attorney from the Foundation to vote in respect of our ordinary shares.

Under the conditions of administration, the holders of DRs have similar pre-emption rights as other shareholders of NIBC Holding N.V., subject to the Foundation having been given pre-emptive rights. Consequently, when given these pre-emptive rights, the Foundation will exercise the pre-emption rights attached to the ordinary shares underlying the DRs if these holders so elect. The purchase price established for a DR when NIBC Choice was first introduced was EUR 18.25. Employees are informed on a quarterly basis of the Fair Market Value for DRs, as that term is defined in the applicable conditions of administration.

RDRs cannot be transferred, and 50% of the RDRs granted prior to 30 March 2006 were to vest (i.e. convert into CDRs) after the first year and the remainder two years after the date of grant. However, on 20 February 2006, the Supervisory Board resolved to accelerate the vesting of the first 50% of the RDRs in issue on that date as a result of which these became CDRs as at 30 December 2005 as opposed to 1 January 2007. The remainder of the RDRs granted prior to 30 March 2006 (463,963 RDRs) will vest on 1 January 2008. In addition, RDRs are subject to certain limitations, including the right of the Foundation to cancel the RDR in case of termination of employment or certain corporate events, such as restructurings.

As part of NIBCs deferred compensation, NIBC Holding N.V. granted 422,806 new RDRs (the **2007 RDRs**) in 2007 in respect of the financial year 2006. The conditions of administration applicable to these 2007 RDRs are in line with the 2006 RDRs with 5 years vesting starting on 1 January 2008 whereby each year one fifth vests. When the 2007 RDRs were granted, the purchase price of EUR 19.68 was determined based on the changes in the net asset value of NIBC Holding N.V., calculated using a fixed formula contained in the conditions of administration of the Foundation, compared with the purchase price of EUR 18.25, which was determined when NIBC Choice was first introduced.

Stock Option Plan (SOP)

The initial NIBC Choice plan also comprised an employee option plan (the **Option Plan**) which allowed NIBC Holding N.V. to grant options to members of its Managing Board and employees up to a maximum of 5% of its share capital as at 14 December 2005 on a fully diluted basis. The Option Plan was introduced with the intention of further enhancing the attractiveness of converting accumulated rights under the legacy plans into NIBC Choice by granting options to employees who converted their entitlements into DRs. In addition, options were granted to encourage investment of own funds by employees in CDRs and as part of the compensation of senior management. NIBC does not envisage granting any further options under the current Option Plan or any other plan.

Each option gives the option holder the right to be issued one CDR. The options are only exercisable by the option holder himself. Of the options granted on a certain date, 50% vests after three years and the remainder vests after four years from the date of grant (or for options granted on or after 31 March 2006, from 1 January 2007). Options may be exercised as from the vesting date until 14 December 2012, or such other date as determined by the Managing Board of NIBC Holding N.V., provided that such period will end no later than 14 December 2015. As a general rule, all options shall be forfeited for no consideration upon termination of employment of an option holder. However, vested options are exercisable during open periods, provided that the option holder is still employed by NIBC or, if no longer employed by NIBC, during the next open period following termination. An open period generally is the 21-day period following the date of approval of our annual, semi-annual or quarterly results, taking into account NIBC's internal regulations on private investment transactions.

The exercise price of an option is equal to the fair market value of a DR at the date of grant as defined and calculated in accordance with the conditions of administration of the Foundation. This fair market value is based on the changes in NIBC's net asset value, calculated using a fixed formula, relative to the exercise price of EUR 18.25, which was determined when NIBC first introduced the Option Plan in December 2005. The resulting exercise price at the date of grant for options granted prior to 31 March 2006 ranged from EUR 18.25 in December 2005 to EUR 18.49 in March 2006 per option.

The exercise price at the date of grant for options granted on or after 31 March 2006 ranged from EUR 19.81 in April 2006 to EUR 20.67 in September 2006 (which is the month after which no further options have been granted) per option. The exercise price of an option is reduced by any dividends paid since the date of grant. Employees are informed on a quarterly basis of the exercise price of an option. The Managing Board may allow for a cashless exercise, allowing the holder to convert his options into fewer CDRs than he would otherwise be entitled to, while not having to pay the exercise price. Upon the occurrence of certain corporate events, such as capital adjustments, payment of stock dividends, an issue of shares or recapitalisations, the Managing Board, following consultation with the Supervisory Board, may adjust the number of options and / or the exercise price as is equitable to reflect the event.

NIBC Choice: Common depositary receipts (CDRs)

As at the year-end 2007, 1,964,712 (2006: 1,919,911) CDRs were issued to employees. The CDRs are cash settled to the extent that an employee has the right to demand cash settlement against their fair value, as determined in accordance with the conditions of administration. Of the position as at year-end 2007, 27,833 which is 1.4% (2006: 218,836 and 11.0%) of CDRs were as cash settled.

NUMBER OF CDRs	Mr. Michael Enthoven	Mr. Jurgen B.J. Stegmann	Mr. Jan L. van Nieuwenhuizen	Mr. Kees van Dijkhuizen	Subtotal	Staff	Total
POSITION AS AT 1-1-2006	264,919	178,203	189,329	10,000	642,451	1,243,748	1,886,199
Investments by / grants to new joiners	-	-	-	-	-	89,633	89,633
Weighted average grant price per CDR	-	-	-	-	-	20.44	20.44
Vesting of RDRs	-	-	-	-	-	1,685	1,685
CDRs repaid	-	-	-	-	-	(57,606)	(57,606)
POSITION AS AT 31-12-2006	264,919	178,203	189,329	10,000	642,451	1,277,460	1,919,911
Fair Market Value per Share as at 31-12-2006 ¹	19.68	19.68	19.68	19.68	19.68	19.68	19.68
POSITION AS AT 1-1-2007	264,919	178,203	189,329	10,000	642,451	1,277,460	1,919,911
Investments by / grants to new joiners	-	-	-	-	-	28,002	28,002
Weighted average grant price per CDR	-	-	-	-	-	19.68	19.68
Vesting of RDRs	3,440	1,688	2,236	520	7,884	43,895	51,779
CDRs repaid	-	-	-	-	-	(34,980)	(34,980)
POSITION AS AT 31-12-2007	268,359	179,891	191,565	10,520	650,335	1,314,377	1,964,712
Fair Market Value per depositary receipt as at 31-12-2007 ¹	17.32	17.32	17.32	17.32	17.32	17.32	17.32

1. The Fair Market Value per CDR is defined by the conditions of administration as parent shareholders' equity, decreased by the revaluation reserve for corporate loans, the hedging reserve and proposed (but not yet paid out) dividend, increased by the difference between the acquisition price of NIBC N.V. in 2005 and the fair market value of NIBC N.V. on June 30, 2005, divided by the number of outstanding shares in NIBC Holding N.V. on the applicable balance sheet date. The fair market value is calculated including the effect of proposed dividend.

NIBC Choice: Restricted Depositary Receipts (RDRs)

As at the year-end 2007, 1,047,725 (2006: 733,150) RDRs were issued to employees, with an average remaining vesting period of 1.02 (2006: 1.35) years. A requirement for vesting at the vesting date is that the holder is still employed by NIBC Holding N.V. or one of its group companies. The RDRs are considered cash settled (as opposed to equity settled) to the extent that an employee has the right to demand payment against their net asset value. Of the position as at year-end 2007, 3,902 which is 0.4% (2006: 27,017 and 4%) were considered as cash settled.

NUMBER OF RDRs	Mr. Michael Enthoven	Mr. Jurgen B.J. Stegmann	Mr. Jan L. van Nieuwenhuizen	Mr. Kees van Dijkhuizen	Subtotal	Staff	Total
POSITION AS AT 1-1-2006	107,202	47,817	57,754	0	212,773	285,675	498,448
Granted in 2006	17,199	8,437	11,180	2,596	39,412	229,818	269,230
Weighted average grant price per CDR	18.49	18.49	18.49	18.49	18.49	18.49	18.49
Forfeited	-	-	-	-	-	(40,343)	(40,343)
Granted in 2006	-	-	-	-	-	7,500	7,500
Weighted average grant price per CDR	-	-	-	-	-	18.51	18.51
Vested into CDRs	-	-	-	-	-	(1,685)	(1,685)
POSITION AS AT 31-12-2006	124,401	56,254	68,934	2,596	252,185	480,965	733,150
Fair Market Value per RDR as at 31-12-2006 ¹	19.68	19.68	19.68	19.68	19.68	19.68	19.68
POSITION AS AT 1-1-2007	124,401	56,254	68,934	2,596	252,185	480,965	733,150
Granted in 2007	21,007	8,537	11,311	3,049	43,904	378,902	422,806
Weighted average grant price per RDR	19.68	19.68	19.68	19.68	19.68	19.68	19.68
Forfeited	-	-	-	-	-	(56,452)	(56,452)
Granted in 2007	-	-	-	-	-	-	-
Weighted average grant price per CDR	-	-	-	-	-	-	-
Vested into CDRs	(3,440)	(1,688)	(2,236)	(520)	(7,884)	(43,895)	(51,779)
POSITION AS AT 31-12-2007	141,968	63,103	78,009	5,125	288,205	759,520	1,047,725
Fair Market Value per RDR as at 31-12-2007 ¹	17.32	17.32	17.32	17.32	17.32	17.32	17.32

1. The Fair Market Value per RDR is defined by the conditions of administration as parent shareholders' equity, decreased by the revaluation reserve for corporate loans, the hedging reserve and proposed (but not yet paid out) dividend, increased by the difference between the acquisition price of NIBC N.V. in 2005 and the fair market value of NIBC N.V. on 30 June 2005, divided by the number of outstanding shares in NIBC Holding N.V. on the applicable balance sheet date. The fair market value is calculated including the effect of proposed dividend.

NIBC Choice: Options

As at the year end 2007, 3,552,569 (2006: 4,931,439) options on depositary receipts of NIBC Holding N.V. were in issue, with an average remaining vesting period of 1.6 (2006: 2.6) years. A requirement for vesting at the vesting date is that the holder is still employed by NIBC Holding N.V. or one of its group companies. The average exercise period of the options is 5.1 (2006: 6.1) years. All options are equity settled instruments.

NUMBER OF OPTIONS	Mr. Michael Enthoven	Mr. Jurgen B.J. Stegmann	Mr. Jan L. van Nieuwenhuizen	Mr. Kees van Dijkhuizen	Subtotal	Staff	Total
POSITION AS AT 1-1-2006	758,586	432,313	410,286	60,000	1,661,185	2,910,411	4,571,596
Options 2005 granted	-	-	-	-	-	158,220	158,220
Average Exercise Price per Option	-	-	-	-	-	19.00	19.00
Options 2006 granted	-	-	-	-	-	370,000	370,000
Average Exercise Price per Option	-	-	-	-	-	20.67	20.67
Options forfeited	-	-	-	-	-	(168,377)	(168,377)
POSITION AS AT 31-12-2006¹	758,586	432,313	410,286	60,000	1,661,185	3,270,254	4,931,439
POSITION AS AT 1-1-2007	758,586	432,313	410,286	60,000	1,661,185	3,270,254	4,931,439
Options 2007 granted	-	-	-	-	-	-	-
Average Exercise Price per Option	-	-	-	-	-	-	-
Options forfeited	(758,586)	(432,313)	-	-	(1,190,899)	(187,971)	(1,378,870)
POSITION AS AT 31-12-2007	-	-	410,286	60,000	470,286	3,082,283	3,552,569
Average fair value at grant date ¹							6.07
Weighted Average Exercise Price per Option as at 31-12-2007			15.15	15.15	15.15	15.57	15.52

1. The fair value of the options at grant date is calculated using a Black & Scholes pricing model. For the options issued in 2005, the fair value was calculated using an implied volatility of 24%, based on the implied volatility from long term options of peer-banks, an exercise period of 7 years, an exercise price of EUR 18.25, a fair value of the underlying CDR of EUR 18.25, a risk free rate of return of 3.2% and expected dividend pay-outs of nil (as based on the NIBC Choice option regulation, these are periodically adjusted in the exercise price). These options represent 91% of the options outstanding at the end of 2007 (2006: 90%). The fair value at grant date of the two smaller series of options issued in 2006 are calculated in the same way using the same volatility, exercise period and dividend assumptions, but with updated input variables for the risk free rate of return, exercise price and fair value of the underlying. The average fair value at grant date was EUR 6.07 at the end of 2006. There were no new option series granted in 2007.

With respect to all instruments relating to NIBC Choice (CDRs, RDRs and options) an amount of EUR 20 million was expensed through personnel expenses in 2007 (2006: EUR 36 million), of which EUR 1 million credit (2006: EUR 6 million) refers to cash settled instruments and EUR 11 million (2006: EUR 24 million) to equity settled instruments. With respect to the cash settled instruments, the amount expensed during the vesting period through the income statement is based on the number of instruments originally granted at grant date and at balance sheet date, their fair value at grant date and at balance sheet date, the vesting period and estimates of the number of instruments that will be forfeited during the remaining vesting period. The liability in the balance sheet with respect to cash settled instruments is EUR 1 million (2006: EUR 5 million) which can be exercised at 31 December 2007. With respect to the equity settled instruments, options and RDRs, the amount expensed during the vesting period through the income statement is based on the number of instruments granted at balance sheet date, their fair value at grant date, the vesting period and estimates of the number of instruments that will be forfeited during the remaining vesting period.

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Subsequent events

On 30 January 2007, both NIBC Holding N.V. and Kaupthing Bank hf. announced to not proceed with the acquisition of NIBC Holding N.V. by Kaupthing Bank hf. The relevant regulatory submissions were withdrawn and the share purchase agreement was terminated. Michael Enthoven, Chief Executive Officer, and Jurgen Stegmann, Chief Risk Officer, of NIBC Holding N.V. and NIBC Bank N.V. have offered the Supervisory Board to step down from their respective positions. The Supervisory Board has accepted and respects their decision to step down. In order to support NIBC's ratings, the shareholders currently intend to contribute approximately EUR 300 million of new equity capital to NIBC Holding N.V.

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Profit appropriation

The profit appropriation is included in the Other Information.

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Company Income Statement

For the year ended 31 December

<i>IN EUR MILLIONS</i>	2007	2006
Results of subsidiaries after tax	(9)	288
Other results after tax	4	-
NET RESULT FOR THE YEAR	(5)	288

Company Balance Sheet

As at 31 December

<i>IN EUR MILLIONS</i>	NOTE	2007	2006
Assets			
Due from other banks	1	-	47
Loans and advances	2	307	-
Investments in controlled entities	3	1,439	2,061
Intangible assets	4	338	-
Current tax assets	5	66	2
TOTAL ASSETS		2,150	2,110
Liabilities			
Deposits from banks	6	465	-
TOTAL LIABILITIES		465	-
SHAREHOLDERS' EQUITY			
Share Capital	7	103	102
Other reserves		1,837	1,984
Retained earnings		(250)	(264)
Net result allocated to parent shareholders		(5)	288
TOTAL SHAREHOLDERS' EQUITY		1,685	2,110
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,150	2,110

Company Accounting Policies

basis of preparation

The principal accounting policies applied in the preparation of the Company financial statements are set out in the consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

The annual financial statements have been prepared in accordance with the legal requirements for financial statements contained in Title 9, Book 2, of the Netherlands Civil Code. NIBC Holding applies the provisions in Section 362, paragraph 8, Book 2, of the Netherlands Civil Code that make it possible to prepare the company financial statements in accordance with the accounting policies (including those for the presentation of financial instruments as equity or liability) used in its consolidated financial statements.

The annual financial statements are presented in euros rounded to the nearest million. The euro is the functional and presentation currency of NIBC Holding N.V. Under Article 402 of Part 9, Book 2 of the Netherlands Civil Code, it is sufficient for the Company's income statement to present only the income of Group companies and other income and expenses after income tax on 21 February 2008.

summary of significant accounting policies

Except as set forth below, the accounting policies applied in the Company financial statements are the same as those for the consolidated financial statements.

Investments in subsidiaries

Subsidiaries, as defined in the section 'Summary of significant accounting policies' in the basis of consolidation of subsidiaries (in the notes to the consolidated financial statements), are measured at net asset value. Net asset value is determined by measuring the assets, provisions, liabilities and income based on the accounting policies used in the consolidated financial statements. The company's share of its subsidiaries' profits or losses is recognised in the income statement. Its movement in reserves is recognised in reserves.

If the losses of Group companies that are attributable to the Company exceed the carrying value of the interest in the Group company (including separately presented goodwill, if any, and including other non-secured receivables), further losses are not recognised unless the company has incurred obligations or made payments on behalf of the Group company to satisfy obligations of the Group company. In such a situation, the Company recognises a provision up to the extent of its obligation.

Notes to the Company Financial Statements

> 1

Due from other banks

IN EUR MILLIONS	2007	2006
Due from other banks	-	47
	-	47

This item consist of receivables from group companies amounting to EUR 0 million (2006: EUR 47 million).

> 2

Loans and advances

IN EUR MILLIONS	2007	2006
Loans and advances	307	-
	307	-

This items consist of receivables from group companies amounting to EUR 307 million (2006: nil).

> 3

Investments in controlled entities

IN EUR MILLIONS	2007	2006
BALANCE AT 1 JANUARY	2,061	1,995
Movement in revaluation and hedging reserve	(157)	34
Dividend	(146)	(255)
Results of controlled entities	(9)	288
Goodwill	(338)	-
Other movements	28	(1)
BALANCE AT 31 DECEMBER	1,439	2,061

The direct subsidiaries are NIBC Bank N.V., NIBC Investment Management N.V., NIBC Investments N.V. and Stichting Administratiekantoor NIBC Holding (the Foundation). The intermediate holding NIBC N.V. was legally merged with NIBC Holding N.V. on 5 March 2007. NIBC N.V. ceased to exist on 6 March 2007. A list of principal companies is included in note 54 to the consolidated financial statements.

> 4

Intangible assets

IN EUR MILLIONS	2007	2006
Intangible assets	338	-
	338	-

The intangible assets fully relate to capitalised goodwill.

Goodwill is tested annually for impairment, or more frequently when there are indications that impairments may have occurred. There was no impairment identified in 2007 (2006: nil). For the purpose of impairment testing, goodwill acquired is allocated to NIBC's cash generating units, being the primary segments.

> 5

Current tax assets

IN EUR MILLIONS	2007	2006
Corporate tax	66	2
	66	2

It is expected that the total tax provision will be settled within 12 months.

> 6

Deposits from banks

IN EUR MILLIONS	2007	2006
NIBC Bank N.V.	160	-
Other banks	305	-
	465	-

MATURITY ANALYSIS OF DEPOSITS FROM BANKS:

In three months or less	165	-
In more than three months but not more than one year	-	-
In more than one year but not more than five years	-	-
Longer than five years	300	-
	465	-

> 7

Shareholders' equity

Share capital and reserves

The authorised capital amounts to EUR 500 million and is dividend into 500,000,000 shares, each of EUR 1 nominal value.

<i>IN EUR MILLIONS</i>	2007	2006
MOVEMENTS IN THE ITEM SHAREHOLDERS' EQUITY WERE AS FOLLOWS:		
BALANCE AT 1 JANUARY	2,110	2,012
Proceeds from shares issued	7	-
Other reserves	11	65
Revaluation	(157)	-
Dividends	(274)	(255)
Net result for the period	(12)	288
BALANCE AT 31 DECEMBER	1,685	2,110

For the details of the shareholders' equity we also refer to note 47 of the consolidated financial statements.

The difference of EUR 6 million (2006: EUR 11 million) between the consolidated and company parent shareholders' equity as presented in the consolidated and company financial statements concerns the balance of treasury shares and depositary receipts issued to employees under the equity settled NIBC Choice plan held by Stichting Administratiekantoor NIBC Holding.

At 31 December 2007 retained earnings and net profit attributable to parent shareholders includes unrealised fair value changes of residential mortgages (own book and securitised), of certain non-listed trading assets, of derivatives related to residential mortgages (own book and securitised) and to these non-listed trading assets and of equity investments and associates designated as fair value through profit or loss. With respect to these unrealised fair value changes, a legal reserve has been established of EUR 157 million (2006: EUR 3 million), that is included in other reserves. At the balance sheet date for associates accounted for based on net equity method a legal reserve has been established of EUR 2 million (2006: EUR 2 million), which is included in other reserves. At the balance sheet date the legal reserve for currency translation differences in nil (2006: nil).

Including the Revaluation and Hedging reserves displayed in note 47 of the Consolidated Financial Statements, total Legal Reserves at 31 December 2007 amount to EUR 213 million (2006: EUR 216 million).

> 8

Remuneration

For the remuneration of the managing board and supervisory board see note 55 of the consolidated annual accounts.

> 9

Related Parties

Details of related party transactions can be found in note 52 of the consolidated financial statements.

For services provided to NIBC Bank N.V. income earned in the year 2007 amounted to EUR 2 million (2006: EUR 1 million).

> 10

Employee information

During the year 2007, the average number of employees calculated on a full time equivalent basis was nil (2006: nil).

> 11

Commitments not shown in the balance sheet

No guarantees within the meaning of Section 403 Book 2 of the Dutch Civil Code have been given on behalf of NIBC Bank N.V.

> 12

Financial Risk Management

We refer to the financial risk management section on page 124.

The Hague, 21 February 2008

Managing Board

Mr. Michael Enthoven, *Chairman, Chief Executive Officer*

Mr. Jurgen Stegmann, *Vice-Chairman, Chief Risk Officer*

Mr. Kees van Dijkhuizen, *Chief Financial Officer*

Mr. Jan van Nieuwenhuizen, *member*

Supervisory Board

Mr. J.H.M. Lindenberg, *Chairman*

Mr. J.C. Flowers

Mr. W.M. van den Goorbergh

Mr. N.W. Hoek

Mr. A. de Jong

Mr. D. Rümker

Mr. R.S. Sinha

Mr. A.H.A. Veenhof

Mr. C.H. van Dalen

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Auditor's Report



To the General Meeting of Shareholders of NIBC Bank N.V.

Auditor's report

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Report on the financial statements

We have audited the accompanying financial statements 2007 of NIBC Holding N.V., The Hague as set out on pages 42 to 241 (excluding narrative and tables labelled unaudited). The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2007, the company income statement for the year then ended and the notes.

The managing board's responsibility

The managing board of the company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the managing board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the managing board, as well as evaluating the overall presentation of the financial statements.

Reference: JS/e0043809

PricewaterhouseCoopers is the trade name of among others the following companies: PricewaterhouseCoopers Accountants N.V. (Chamber of Commerce 34180285), PricewaterhouseCoopers Belastingadviseurs N.V. (Chamber of Commerce 34180284), PricewaterhouseCoopers Advisory N.V. (Chamber of Commerce 34180287) and PricewaterhouseCoopers B.V. (Chamber of Commerce 34180289). The services rendered by these companies are governed by General Terms & Conditions, which include provisions regarding our liability. These General Terms & Conditions are filed with the Amsterdam Chamber of Commerce and can also be viewed at www.pwc.com/nl



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of NIBC Holding N.V. as at 31 December 2007, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of NIBC Holding N.V. as at 31 December 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the managing board is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

The Hague, 21 February 2008
PricewaterhouseCoopers Accountants N.V.

Originally signed by J.A.M. Stael

profit appropriation

List of Principal Participating Interests of NIBC Holding N.V.

De Nationale Maatschappij voor Industriële Financieringen B.V., The Hague	100%
NIBC Bank N.V., The Hague	100%
NIBC Credit Management Inc., New York	100%
NIBC Venture Capital N.V.	100%
B.V. NIBC Mortgages Backed Assets, The Hague	100%
SR-Hypotheken N.V., Rotterdam	50%
Parnib Holding N.V., The Hague	100%
YCAP Group B.V., The Hague	100%
NIBC Principal Investments B.V., The Hague	100%

Profit appropriation

<i>IN EUR MILLIONS</i>	2007
Net profit attributable to parent shareholders	(5)
PROFIT AVAILABLE FOR SHAREHOLDERS' DISTRIBUTION	-

<i>IN EUR MILLIONS</i>	2007
Proposed final dividend 2007	-
Extraordinary dividend 2007	213
Transferred from retained earnings	(225)
TOTAL PROFIT APPROPRIATION	(5)

Subsequent events

On 30 January 2007 both NIBC Holding and Kaupthing hf. announced to not proceed with the acquisition of NIBC Holding by Kaupthing hf. The relevant regulatory submissions have been withdrawn and the share purchase agreement has been terminated. Michael Enthoven, Chief Executive Officer, and Jurgen Stegmann, Chief Risk Officer, of NIBC Holding N.V. and NIBC Bank N.V. have offered the Supervisory Board to step down from their respective positions. The Supervisory Board has accepted and respects their decision to step down.

In order to support NIBC's ratings, the shareholders currently intend to contribute approximately EUR 300 million of new equity capital.

articles of association

Profit and Loss – Article 40

- 1 The General Meeting may resolve to a distribution of Profits pursuant to the provisions of this Article following the adoption of the annual accounts which show that such distribution is allowed.
- 2 Insofar as the Profit shall not be allocated to the reserves by or pursuant to the law or the Articles of Association or shall be distributed pursuant to entitlements to Profit granted by the Company, it will be at the free disposal of the General Meeting.
- 3 The Company may make distributions from the Profit available for distribution to the shareholders and other persons entitled only insofar as its shareholders' equity exceeds the amount of the paid up and called up part of the capital increased by the reserves to be maintained pursuant to the law.
- 4 A deficit may only be repaid from the reserves prescribed by the law insofar as permitted by the law.

Dividend – Article 41

- 1 When calculating the dividends and other distributions payable in respect of shares only the nominal value of such shares shall be taken into account. Dividends and other distributions are due and payable two weeks after their declaration, unless the Board of Managing Directors sets a shorter term.
- 2 Dividends and other distributions that have not been taken possession of within five years of the start of the second day on which they became due and payable, will revert to the Company.
- 3 The General Meeting may resolve that dividends and other distributions are distributed wholly or in part otherwise than in cash.
- 4 The General Meeting may resolve that the Company shall make any distribution including an interim dividend distribution, whole or partial distribution of reserves or other distribution, provided with due observance of Article 105, paragraph 4 of Book 2 of the Dutch Civil Code and the provisions of paragraph 3 of Article 40. No distribution can be made without the approval of the General Meeting. A resolution to make a distribution may be passed by the General Meeting only with due observance of the provisions as laid down in Article 32, paragraph 5 under e. and Article 32, paragraph 6 under e.

principal subsidiaries and offices

The Netherlands

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annual report 2007

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Text contribution

CitySavvy, Amsterdam

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Disclaimer

Certain of the statements contained in this Annual Report are statements of future expectations and other forward-looking statements. These expectations are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ from those in such statements due to, among other things, (i) general economic conditions including persistency near absence of liquidity in credit markets, in particular in NIBC's core and niche markets, (ii) performance of financial markets, including developing markets, (iii) persistency levels, (iv) interest rate levels, (v) credit spread levels, (vi) currency exchange rates, (vii) general competitive factors, (viii) general changes in the valuation of assets (ix) changes in law and regulations, and (x) changes in policies of governments and / or regulatory authorities. NIBC assumes no obligation to update any forward-looking information contained in this document.

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