

# ANNUAL REPORT NIBC HOLDING

2011



THE  
ENTREPRENEURIAL  
WAY

 NIBC

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# At a Glance

## Who we are

NIBC is an entrepreneurial bank that offers Corporate Banking and Consumer Banking. Agile and flexible, we think and act like entrepreneurs to support corporate clients in building their businesses. For our independent-minded, enterprising retail customers, we offer straightforward, transparent (online) products.

Our clients are our top priority. By understanding their needs and putting our know-how to work, we build long-term relationships with our customers. We work together with corporations, financial institutions, institutional investors, financial sponsors, family offices, entrepreneurial investors and retail clients.

## What we do

Our Corporate Banking activities cover advice, financing (including derivatives and structuring) and co-investment. We have expert sector knowledge in Commercial Real Estate; Food, Agri & Retail; Industries & Manufacturing; Infrastructure & Renewables; Oil & Gas Services; Shipping & Intermodal; and Technology, Media & Services. For every transaction, we put together a cross-discipline team to create tailor-made solutions.

Our Consumer Banking activities include residential mortgages and online retail saving products via NIBC Direct in the Netherlands, Germany and Belgium.

## Our mission

We believe clients want a long-term relationship of trust with their bank. In a complex world, they look for a bank that is transparent and accessible; a bank that provides them with clear and sustainable solutions. This is reflected in our mission: the bank of choice for decisive financial moments.

## Our strategy

Our clients are our starting point. Ever since our foundation in 1945, our strengths have been in our credit skills, especially in long-term asset finance; our strong client franchise; our investment management capabilities; and our high-quality, entrepreneurial people. We work in partnership with our business clients and we offer our consumer clients transparent retail products. In order to fulfil our ambitions, we have three strategic priorities: client focus; sustainable profitability; and strong solvency and liquidity.

## Our stakeholders

We have a responsibility to manage our impact on stakeholders and consider their interests in our decision-making. We define stakeholders as groups or individuals who are affected by or can affect the achievement of our objectives. We distinguish these groups of stakeholders as: clients, employees, shareholders, investors, suppliers, society and environment, peer banks, regulators, rating agencies and the government.

Mindful of our responsibility to our stakeholders, the NIBC Code of Conduct sets the framework for how we carefully balance their diverse interests. The code is based on our three core values - trust, professionalism and integrity - supported by our vision, mission and ambition and NIBC's business principles, and can be found on our website.

## Our clients

Client focus is our guiding principle; our clients are at the centre of everything we do. This is the basis of our business model and enshrined in our first business principle: 'We think clients'.

We spring into action with tailor-made transactions at our clients' decisive financial moments: that is the nature of our business. So every client, every

transaction, must be earned – and we can only achieve this if we truly focus on our clients and understand their individual needs. It is our goal to create a sustainable franchise for the future by building long-term relationships with our clients and delivering clear and sustainable solutions. To our retail clients, we offer competitive interest rates without complicated terms and conditions. Transparency and user-friendliness are key.

## Our offices

Headquartered in The Hague, NIBC also has offices in Brussels, Frankfurt, London and Singapore.

For further detail on NIBC and our activities, please refer to our website [www.nibc.com](http://www.nibc.com) or click on the links throughout this report.

## Our people

Our people have always been our most important asset. They form the basis of our success, giving our clients optimal advice and support. We strive to be an attractive employer that takes diversity into account and selects and retains the best people - who exhibit the same entrepreneurial spirit as our clients.

## Our corporate responsibility

At NIBC, we recognise that we operate in a complex world, in which natural resource constraints, climate change and the needs of a range of different stakeholders are rapidly changing the global business environment. We believe we can make a contribution towards creating a more sustainable society and delivering responsible financial services to our business and consumer clients.

Our main sustainability impact is through our interaction with clients. We have a sustainability policy framework in place that describes the main sustainability issues for the sectors in which we are active. It also lists the standards that we expect our clients to meet. These standards are based on national and international standards, such as the United Nations Global Compact, OECD guidelines and *Equator Principles (EP)*. The sustainability policy framework is part of the client assessment process for all our new clients and transactions.

Two additional sustainability topics are corporate citizenship (taking our social and environmental responsibility) and human capital (respecting the human rights of employees and people in the world around us).

# Letter from the CEO

The economic and market climate in 2011 invited inevitable comparisons with 2008, and there is no denying that conditions were extremely tough in the second half of last year. But the transformation NIBC has undergone in the past three years stood us in good stead for the challenges of 2011. In this letter, I want to shed some light on the general circumstances and on NIBC's activities last year.

We reacted fast to the last crisis, de-risking our balance sheet early and becoming fully client-oriented. We increased our capital base while strengthening and diversifying our funding position – not least by growing retail savings from zero to over EUR 6 billion in just three years. We kept costs tightly controlled, improved the quality of our operating income and saw impairments fall.

Despite difficult market conditions, NIBC achieved healthy results in 2011. NIBC Bank realised a net profit of EUR 68 million and NIBC Holding a net profit of EUR 86 million. As our figures show, we have a strong business model of sustainable, client-focused banking activities whose only trading activities are in support of our clients' businesses. This cushioned us last year from the volatile markets and the turmoil around Greek, Irish, Italian, Portuguese and Spanish sovereign debt – none of which NIBC holds.

Our strategic priorities - client focus, sustainable profitability and strong solvency and liquidity – remained the drivers of everything we did last year. We used our strong capital and liquidity position to continue strengthening our franchise, serving our clients through a series of significant transactions to support their business ambitions. This resulted in a 5% increase in our drawn Corporate Loan portfolio.

NIBC was a first mover in putting the focus firmly back on customers, and client satisfaction remains our key driver. Customers showed their appreciation in the positive feedback they gave us in 2011, among others through the outcomes of the *Net Promoter Score (NPS)* survey – a customer loyalty metric to measure client satisfaction – which we conducted for the first time. We also held a regular poll among our NIBC Direct clients, which

gives us input on how we can support customers even better.

We increased our name recognition and further sharpened NIBC's position in the market with a corporate campaign around our proposition of an entrepreneurial and sustainable bank with a 'Think yes' mentality: proactive, results-oriented and solution-driven based on knowledge and experience. The campaign received highly positive reactions and will be extended further in 2012.

We modified our structure last year to reflect better what NIBC does and how we work. As our retail activities grow, we are taking the logical step of progressing from our two-pillar strategy around Merchant Banking and Specialised Finance into an organisation centred around our two main activities of Corporate Banking and Consumer Banking.

Throughout 2011, we continued to intensify the client focus that is integral to our strategy. Our sector knowledge is at the very basis of our client focus. We moved further towards a more client-based approach so that we can better apply our sector expertise in developing tailored solutions for our corporate clients.

Client satisfaction is impossible to achieve without engaged employees. The commitment of our staff was re-emphasised in our annual employee engagement survey. Overall engagement was 86%, putting NIBC clearly ahead of other global financial services organisations and at the same level as other high-performing organisations around the world, whose benchmark engagement scores are 83% and 85% respectively. I am pleased that our staff maintained focus and concentration despite the



Rob ten Heggeler, Jeroen van Hessen, Kees van Dijkhuizen, Petra van Hoeken and Jeroen Drost

uncertain external climate. As an employer, NIBC strives to offer employees opportunities to develop themselves, and to remain an attractive employer, by offering flexible ways of working, for example, and promoting diversity.

NIBC Direct enjoyed another successful year with retail savings growing further, new products introduced and NIBC Direct launched in Belgium, its third country after the Netherlands and Germany.

The year saw some Managing Board changes. We said goodbye to *Chief Risk Officer (CRO)* Jan Sijbrand, who left NIBC to become Executive Director of the Governing Board of the Dutch central bank on 1 July. We were pleased to appoint as his successor Petra van Hoeken, who started work on 23 December 2011.

As a bank, we recognise our responsibility to all our stakeholders, including clients, employees, investors and the community. We are especially aware of global social and environmental challenges. Our restructured Code of Conduct reflects the different responsibilities we have

towards our stakeholders. I am pleased to see that awareness of our *Corporate Social Responsibility (CSR)* policy has increased among our employees and has been further integrated in our business activities.

I would like to thank all our stakeholders, and especially our employees, for their commitment and trust in 2011. For the year ahead, the economic climate remains uncertain and there is no clarity on when this uncertainty will end. However, NIBC has a strong basis for further growth, and with our stakeholders' continuing support, we can look with confidence to 2012 and beyond.

On behalf of the Managing Board,

The Hague, 6 March 2012

**Jeroen Drost**  
*Chief Executive Officer,  
 Chairman of the Managing Board*

# Review of 2011

The year 2011 was a difficult one for the global economy, especially in the second half as the eurozone crisis affected investor confidence and deteriorated market conditions. Yet NIBC's concentration on its strategic priorities - client focus, sustainable profitability and strong solvency and liquidity - enabled us to continue growing throughout the year.

Despite the harsh economic circumstances, our corporate loan book grew for the third year running by 5% drawn and 2% including undrawn. NIBC Bank ended 2011 with a net profit of EUR 68 million compared with EUR 76 million the

previous year; NIBC Holding realised a net profit of EUR 86 million compared with EUR 77 million in 2010. Some 66% of our operating income was made up of recurring net interest income and fee and commission income, compared with 51% in 2010.

## Income statement

IN EUR MILLIONS	2011	2010
Net interest income	172	150
Net fee and commission income	33	29
Dividend income	5	10
Net trading income	50	110
Gains less losses from financial assets	50	50
Share in result of associates	2	4
Other operating income	-	-
<b>OPERATING INCOME</b>	<b>312</b>	<b>354</b>
<b>OPERATING EXPENSES</b>	<b>173</b>	<b>176</b>
Impairments of financial assets	46	89
<b>TOTAL EXPENSES</b>	<b>219</b>	<b>264</b>
<b>PROFIT BEFORE TAX</b>	<b>93</b>	<b>90</b>
Tax	7	9
<b>PROFIT AFTER TAX</b>	<b>86</b>	<b>81</b>
Result attributable to non-controlling interests	-	3
<b>NET PROFIT ATTRIBUTABLE TO PARENT SHAREHOLDERS</b>	<b>86</b>	<b>78</b>

The income statement differs from that presented in the consolidated financial statements due to the treatment of non-financial companies controlled by NIBC. This only affects the presentation of the income statement and not the bottom-line profit figures. See note 1 to the consolidated financial statement for more information and a full reconciliation between the two presentations of the income statement. Small differences are possible in this table due to rounding.

## Total client focus

All core businesses continued to develop positively during the year as NIBC supported clients with advisory, financing and investment transactions across core regions and sectors. We were able to close a large number of interesting deals across all our sectors and disciplines.

We adjusted our organisational set-up so that we now take a sector-based approach towards serving our clients. The year also saw us launch a new private equity fund, NIBC Growth Capital Fund II, with well-known international investors, and spin off our Capital Partners private equity fund management activities into Avedon Capital Partners – evidence of our focus on providing growth capital to medium-sized businesses. The activities of our New York office - a subsidiary of NIBC Holding - were transferred to teams in The Hague in the first half of 2011. As a result, NIBC closed its New York office last year.

Our client-oriented business model means that since 2008, our trading activities have been in support of our clients' businesses. That operating model and our predominantly Northern European customer base also means we have no exposure whatsoever to peripheral European sovereign debt.

The Corporate Loan portfolio (both drawn and undrawn) increased from EUR 9.7 billion at end-2010 to EUR 9.9 billion at end-2011 due to increased origination of loans in 2011. NIBC's residential mortgage portfolio (both own book and securitised) decreased from EUR 9.8 billion to EUR 8.7 billion due to repayments being higher than originations.

Impairments decreased in 2011 by around 50%.

NIBC's international offices performed well in 2011. The growth of the German corporate loan book exceeded the overall NIBC growth rate as the country's economy outperformed those of its neighbours, and our fast, flexible, straightforward Dutch approach continued to appeal to clients. NIBC Belgium acquired new momentum last year, increasing its number of commercial staff and introducing NIBC Direct. Our offices in London, which completed a substantial number of infrastructure transactions, and Singapore, where the portfolio expanded and we added oil and gas

activities, also continued to make indispensable contributions to our overall performance.

In line with our strategy, the composition of operating income further improved in 2011 after an already significant improvement in 2010. Net interest income increased to EUR 172 million in 2011, a growth of 15% compared to 2010, mainly as a result of growth in our corporate loan portfolio and lower funding costs. Together with the improvement of net fee and commission income in 2011, this led to a significant increase in recurrent income (net interest income and net fee and commission income) as a proportion of overall operating income (66% in 2011 compared to 51% in 2010), thus creating a stable income base for future growth. Net trading income declined and gains less losses from financial assets remained at the same level as in 2010.

## Solid funding and strong solvency

We further strengthened and diversified our funding position in 2011. We issued a EUR 500 million covered bond to institutional investors, backed by Dutch and German residential mortgages, and launched Dutch MBS XVI, a EUR 750 million securitisation issued under our long-standing Dutch MBS programme. The deal was collateralised by a portfolio of high-quality Dutch residential mortgages.

Funding also increased through our successful NIBC Direct operations. Retail savings in the Netherlands and Germany via NIBC Direct increased by 45% to EUR 6.1 billion by year-end, continuing the remarkable growth since NIBC Direct was launched just three years ago. We also launched NIBC Direct in Belgium at the end of December 2011.

Our strong liquidity position is represented in the balance sheet items 'Cash and balances with central banks' and 'Due from other banks' (NIBC's short-term liquid assets). This increased from EUR 3.0 billion at end-2010 to EUR 4.6 billion at end-2011. Part of this will be used to repay the maturing government-guaranteed funding due in the first quarter of 2012.

Maintaining a strong solvency and liquidity position has been a strategic priority in recent years. NIBC's core Tier-1 ratio was 12.8% and our Tier-1 ratio was 15.2% at end-December 2011: clearly above both the new Basel III capital requirements and the new *European Banking Authority (EBA)* announced capital target. NIBC comfortably met the European stress test in July 2011, which we performed voluntarily.

## Cost control

Our cost-to-income ratio went up to 55% from 2010's 50%, but it is our target to reduce this ratio to below 50% again in 2012.

Personnel expenses decreased by 10% to EUR 100 million. The number of *full-time equivalents (FTEs)* decreased slightly from 685 to 664 in 2011. Other operating expenses increased in 2011 by 14%, which is mainly due to investments in NIBC Direct in the Netherlands, the launch of NIBC Direct in Belgium and the renovation of our offices in The Hague.

The spin-off of NIBC Capital Partners and our organisational shift to a sector-driven structure will mean a reduction in FTEs during 2012, expected to be realised mainly through natural attrition. The Managing Board also approved several cost measures last year that will be implemented as of 2012, and will create scope to invest in new business opportunities.

## Committed employees

Our second annual Employee Engagement Survey, which drew an impressive 86% response rate (up from 69% in 2010), showed an upward trend in our performance across the board. We clearly outperform the Financial Services Benchmark, with a level of engagement equivalent to other high-performance organisations, and as many as 91% of employees said they would recommend NIBC as a great place to work.

## Sustainability

Our sustainability efforts in our client business were further professionalised. Additional sector policies were introduced and sustainability was embedded even more deeply in our daily processes. Reporting on CSR was expanded, in line with our commitment to transparency.

Climate change remains an important topic. To reduce our own footprint, we renovated our offices in The Hague, which will result in substantial reduction of energy use over time. As of mid-2012, we will use thermal energy storage in our building. Climate change also creates opportunities on the business side: our renewables portfolio has a value of EUR 306 million, an increase of almost 50% compared to a year ago.

NIBC makes its contribution toward stimulating financial literacy in the wider community. Through our ongoing debt prevention project, we stimulate encourage young people to manage their finances responsibly.

The outcome of our Employee Engagement Survey showed that awareness of CSR has increased significantly among our employees.

## Targets and performance in 2011

The following table sets out the targets the Managing Board set for 2011, and our performance against those targets.

Targets	Performance
<p>✓ Increase name recognition and strengthen proposition among client target groups</p>	<p>NIBC's corporate campaign was launched in the first half of 2011. The campaign was highly rated by clients and employees. This was confirmed by an independent agency measuring the effectiveness and impact of the campaign. The campaign generated strong visibility, a significant increase in brand awareness and brand preference, and a much clearer brand image.</p> <p>NPS for Corporate Banking clients was introduced, and NIBC achieved an excellent score: with a score of 25 we were among just 7% of Dutch companies to have a positive NPS. The NIBC Direct customer poll is held four times yearly, with the most recent rating 7.8 out of 10.</p>
<p>✓ Grow corporate loan book</p>	<p>Despite the difficult economic environment, our loan book grew with 5% drawn and 2% including undrawn.</p>
<p>✓ Keep excellent Tier-I capital ratio</p>	<p>We ended 2011 with a Tier-I ratio of 15.2% versus 14.0% at end-2010. Our core Tier-I ratio was 12.8% and BIS ratio 16.3% at the close of 2011.</p>
<p>✓ Maintain tight credit risk control</p>	<p>We remained vigilant on our exposure and on loan covenants. Impairments fell by around 50%.</p>
<p>✓ Maintain our policy of funding diversification</p>	<p>We issued a EUR 500 million covered bond to institutional investors and launched a EUR 750 million mortgage-backed securitisation under our Dutch MBS programme. Retail savings through NIBC Direct grew strongly by 45% to EUR 6.1 billion at end-2011 from EUR 4.2 billion at end-2010.</p>
<p>✓ Maintain strong liquidity position</p>	<p>NIBC's liquidity profile remains very strong. Even in stressed market conditions where funding markets are closed, NIBC would be able to comfortably meet its financial obligations in the next 12 months.</p>
<p>✗ Improve cost-to-income ratio</p>	<p>The tough markets pressured our operating income and as a result our cost-to-income ratio. We ended 2011 with a 55% cost-to-income ratio, but we expect the ratio to improve in 2012 to below 50% (also due to cost measures taken).</p>
<p>✓ Exceed global financial sector benchmark for employee engagement</p>	<p>Our 2011 Employee Engagement Survey showed overall engagement was 86%, putting NIBC clearly ahead of other global financial services organisations and at a similar level as other high-performance organisations around the world, whose benchmark engagement scores are 83% and 85% respectively.</p>
<p>✓ Expand contribution of international offices</p>	<p>The total German Corporate Loan portfolio grew to EUR 1.8 billion from EUR 1.6 billion in 2010. NIBC's Oil &amp; Gas team is now also represented in Singapore. NIBC Direct was successfully launched in Belgium at the end of 2011.</p>
<p>✓ Further embed sustainability in every aspect of our organisation by increasing awareness of our sustainability strategy among employees and make sustainability part of our day-to-day activities</p>	<p>Sustainability has increasingly become part of our day-to-day activities. In line with our commitment to transparency, we expanded reporting on CSR on our website, where our sustainability statements are now published. Our 2011 Annual Report is based on GRI for the first time. We intensified contacts and entered into dialogue with selected external stakeholders on our CSR strategy last year.</p> <p>We also fulfilled our aim of becoming a carbon-neutral organisation globally in 2011.</p>

# Strategy

We were established in 1945 with a fundamental social purpose: to provide financing for the entrepreneurs who helped rebuild the Netherlands after World War Two. Putting clients first was then, is now and will always be our guiding principle. We employ a 'yes' mentality - spotting opportunities for our clients and doing all we can to help them reach their goals.

In order to serve our clients to the best of our abilities, we need to be financially healthy. Sustainable profitability, strong solvency and ample liquidity are the strategic priorities that support our client focus – NIBC's primary strategic priority.

We are highly conscious of our responsibility towards all our stakeholders. The strategic priorities that support our client orientation are also of great importance to those other stakeholder groups.

## Client focus

Our clients are our starting point, driving everything we do. We are a trustworthy banking partner and act swiftly and resolutely at decisive moments for our clients, offering both Corporate Banking and Consumer Banking services.

In Corporate Banking, we concentrate on our chosen sectors so as to best help our clients navigate complex issues and achieve their strategic ambitions. Our relatively modest size enables sector and product specialists to work closely together to develop tailor-made financial solutions for evolving client demands. In these turbulent times, we remain focused on the long term.

We aim to build out existing client relationships on the back of our sector knowledge, as well as using that knowledge and our track record to expand our client base.

In Consumer Banking, we offer no-nonsense, transparent retail products such as online savings accounts, brokerage activities and mortgage lending. Here too, we have the clear intention to grow.

Last year, we began fine-tuning our strategy. Our aim is to leverage our expertise and knowledge to better serve our customers, and to optimise our cost base through efficiencies in processes, structure and people. This will create scope to invest in new business opportunities.

## Sustainable profitability

Our aim is to be profitable, and to do this in a sustainable manner, which is a multi-year process. Sustainable profitability is crucial to all our stakeholders. We aim to deliver the optimal balance between risk and return, in order to serve our clients and create shareholder and stakeholder value.

Our performance is not only measured on the basis of economic and financial achievements, but also by our social and environmental contribution. Three areas of attention have been defined to ensure that sustainability considerations are incorporated in every aspect of our business, drive our performance and contribute to sustainable profitability:

1. Client Business: to maintain long-term relationships, deliver responsible services and realise sustainable growth;
2. Corporate Citizenship: to take our social and environmental responsibility;
3. Human Capital: to respect human rights as a responsibility towards our employees and people in the world around us.

We believe this will enable us to perform better as a company and to build sustainable client relationships.

## Strong solvency and liquidity position

In order to serve our clients well, we need a solid funding position. We must also demonstrate to regulators that we have strong solvency and liquidity.

Financial institutions worldwide have seen their access to capital markets deteriorate rapidly since the credit crisis. Diversification of funding has been an important part of our strategy since the beginning of 2008.

In order to ensure long-term stability, we took decisive steps to diversify our funding and ensure stable, transparent and tightly-controlled liquidity. We have sought forms of funding such as online retail savings products via NIBC Direct, covered bonds and securitisations. Achieving and maintaining a rating appropriate to our position in the banking world is part of our long-term sustainable funding policy.

# Our Clients

As our retail activities grow, we are taking the logical step of progressing from our two-pillar strategy around Merchant Banking and Specialised Finance into an organisation centred around our two main activities of Corporate Banking and Consumer Banking. These are supported by our Treasury, Risk Management and Corporate Center teams.



We invested further in our client focus in 2011, concluding the first phase of our sales training programme. All NIBC's commercial staff have now completed the first leg of this specialist sales training, which will continue in 2012.

To better advise our clients, we attracted the support of Joost van der Does de Willebois, former *Chief Executive Officer (CEO)* of Euronext, the pan-European stock exchange, and Philippe de Vicq de Cumplich, former CEO of KBC Private Equity, part of one of Belgium's biggest banks, as Senior Board Advisors. They add value for NIBC's clients by bringing strategic insight and advising them on new opportunities and avenues for growth. Entrepreneur Koos Tesselaar has been a Senior Board Advisor since 2010.

We also welcomed Ad Scheepbouwer, former CEO of KPN, the leading Dutch telecommunications and ICT service provider, to our Corporate Banking Advisory Board. Composed of senior professionals with a strong track record and reputation and a

large network, the Advisory Board groups experts who are highly experienced in the business sectors and fields in which NIBC excels. It meets regularly to discuss strategy, trends and special issues for the benefit of NIBC's clients. Please visit our website to learn more about the Senior Board Advisors and the members of the Advisory Board and their background.

## Corporate Banking clients

Our Corporate Banking activities cover advice, financing (including derivatives and structuring) and co-investment. We have expert sector knowledge in Commercial Real Estate; Food, Agri & Retail; Industries & Manufacturing; Infrastructure & Renewables; Oil & Gas Services; Shipping & Intermodal and Technology, Media & Services.

We work in partnership with our business clients; they can rely on us to spring into action with spot-on solutions at moments critical to their company's development. Our specialists work closely together to develop tailor-made solutions that meet our customers' evolving needs.

We were able to close a large number of interesting deals for our Corporate Banking clients across all our sectors and disciplines in 2011. Our flexibility and innovative approach were especially useful in a difficult environment where clients grew increasingly cautious over the year and one-size-fits-all services were unable to meet complex needs.

NIBC's sector knowledge and liquidity meant we could help our clients, not only with financing but also with expert advisory, balance sheet and non-balance sheet services. We closed a number of innovative hybrid lending/equity deals, such as our joint venture with Vopak to build and operate a new

terminal for strategic oil products that can service European strategic oil storage demand.

Other notable deals of 2011 included our role as advisor to W.W. Grainger, Inc. on its acquisition of Fabory Group; advising Nieuwe Steen Investments on the merger with Vastned Offices/Industrial; acting as modelling bank for the financing of the Sleaford straw-fired biomass plant in the UK; closing a senior secured credit facility with Heerema Marine Contractors; acting as sole arranger and hedge provider in a facility for Vroon Group B.V. and arranging and underwriting part of the senior debt to finance the buyout of RHM Kliniken und Pflegeheime by Waterland Private Equity Investments.

We were proud to launch NIBC Growth Capital Fund II, a new private equity fund. NIBC, Goldman Sachs and the European Investment Fund of the European Investment Bank are cornerstone investors in the fund, which realised a first close at EUR 100 million and aims for a final close of around EUR 200 million. For additional credentials, we refer to our website.

A key element of our stakeholder consultation in 2011 was an intensive set of client interviews with existing and prospect clients to discuss market and sector developments and specific client issues. We also held events for clients in specific sectors, at which they could, for example, exchange experiences on automotive, or learn about the latest developments in the media industry. We invited CFOs of clients to our offices to explain to them how our transaction approval process works and for them to understand our requirements in this process.

For NPS measurement, introduced last year, we sent out surveys to over 250 clients and received feedback from around 30%. The outcomes were very pleasing: with a score of 25 we were among just 7% of Dutch companies to have a positive NPS. Our speed and sector knowledge were particularly appreciated by respondents.

We were pleased to grow our corporate loan book in 2011 and closed the year with a well-filled pipeline of corporate transactions. However, the difficult markets mean it now takes longer to close deals, and we are increasingly seeing clients being cautious with transactions such as refinancings or acquisitions.

## Sustainable corporate client relationships

NIBC's sustainability framework is the core of our corporate responsibility approach in our client activities. It is part of our client risk assessment process and serves as a strong framework for assessing and managing risks.

For our policies and our procedures for assessing and screening environmental and social risks in our business lines, please visit our website.

In 2011, three additional sustainability sector policies were introduced as part of this framework – for the Food, Agri & Food Retail Services sector, General Industries (industrials and manufacturing) and Retail Services. These provide specific guidance on managing environmental and social issues – including human rights and labour standards – in these sectors. Feedback and input from different stakeholders, including employees, clients, Eerlijke Bankwijzer and Oxfam Novib, was gathered while developing these policies.

All new corporate banking clients were assessed in line with the standards set out in our Sustainability Policy, and where applicable, our sector-specific policies. This means that, where relevant, NIBC discusses environmental and social issues with new clients. In 2011, there were five new transactions where an increased risk assessment applied. The risk assessment for these transactions was completed after additional dialogue with the client. NIBC's *Engagement & Compliance Committee (ECC)* assesses the outcomes of this risk assessment. In one case, where the client's parent company activities related to controversial weapons, it was decided not to proceed with a specific transaction. In four cases, environmental and social risks – ranging from animal welfare to labour standards in a retail company's supply chain – were appropriately managed by the clients and these transactions were approved. For all project financing transactions, NIBC applies the EP. In 2011, 24 project financing transactions were closed in line with EP. Please find the full EP report on our website.

Since the introduction of the Sustainability Policy framework in 2010, all existing clients have also been reviewed against this framework to identify potential issues. This review was completed in 2011. In a small number of cases, the review identified the need to look more closely at certain client files.

However, this did not reveal any increased sustainability risks that demanded special action.

In general, the biggest sustainability impact we can make is in our core business – screening our clients and engaging them in efforts to improve in CSR. However, our influence remains limited and effective engagement remains a challenge, for several reasons. Our commercial people need to be well-versed in CSR issues, for example; and we must be aware of the CSR issues in our clients' sectors. Despite such challenges, and the limits to our leverage, we are committed to doing all in our power to help our clients do business more sustainably.

## Consumer Banking clients

Our Consumer Banking activities became more prominent in 2011. Our NIBC Direct savings product continued to grow well in the Netherlands and Germany, and we launched NIBC Direct in Belgium in December 2011. We expanded our retail product range, launching a brokerage service in Germany. We aim to further balance our Corporate and Consumer Banking activities in 2012.

### NIBC Direct

Under the brand name NIBC Direct, we provide online retail savings to clients in the Netherlands, Germany and Belgium. Our consumer clients are drawn by the combination of simple products, transparent communication and competitive interest rates. The same motto applies to all countries: no small print and equal treatment of all savings clients, regardless of age, amount of savings, new or existing customers.

NIBC Direct, launched in 2008, experienced strong growth again in 2011 as increasing numbers of consumers placed their trust in us. Since its launch, NIBC Direct has attracted more than 200,000 customers. The total value of Dutch and German savings with NIBC Direct rose from EUR 4.2 billion in 2010 to EUR 6.1 billion at end-2011. Some 41% of the savings volume is placed in term deposits with maturities of up to 10 years.

NIBC Direct began brokerage activities in Germany in summer 2011. We wanted to offer our retail clients an extra service and the opportunity to keep their savings and financial investments in one place.

Via the NIBC Direct platform, customers can – on an execution-only basis – invest in different shares, bonds, investment funds and index trackers. NIBC Direct expanded its operations into Belgium at the end of 2011. The addition of a third country opens up a large new market with a great tradition in saving, bringing attractive new opportunities, as well as further diversifying NIBC's funding mix.

We ask our customers four times each year via a survey, conducted by an independent research bureau, if they are content with the service level at NIBC Direct. Customers are sent a detailed questionnaire covering a wide range of topics, including our call centres. The trend in these survey results is rising, and the last rating we gained was 7.8 out of 10. We will work hard to stay at this level or improve in 2012 by enhancing our services even further and introducing new products.

Our client-focused way of working, our openness and clarity in communicating and constructing our products was also recognised by consumers and authorities. NIBC Direct Germany and the Netherlands were named best bank for on-demand savings and/or term deposits by German and Dutch consumer organisations. We were assigned a top three position for our customer-centric savings policy in a survey by the Dutch regulator *Authority for the Financial Markets (AFM)*.

The growth in our retail client base means we now receive more questions on how we invest the funds deposited with us. NIBC has actively engaged with various stakeholders to understand the information they seek about our activities. We cannot immediately provide all detailed information that certain stakeholders request, due to agreements with clients or administrative impact. However, we are taking steps toward providing more transparency on our activities, clients and sustainability criteria. One such step is reflected in the fact the annual report of NIBC Bank is in line with GRI level B criteria.

### Residential mortgages

The Dutch market for residential mortgages experienced a difficult 2011. Due to economic developments and uncertainties, fewer houses were bought. The market for mortgage providers appears to have stabilised, and criteria for issuing mortgages have been tightened. NIBC – whose mortgage portfolio is of very high quality – maintained a very low profile in the mortgage market in 2011.

# Our People

NIBC's success as the bank of choice for decisive financial moments depends to a large extent on the quality of our people. Our human resources strategy is aimed at enabling sustainable growth by supporting our staff to deliver the best performance they can.

## HR focus areas in 2011

We use staff feedback to identify and fine-tune our priorities. Based on the results of our 2010 Employee Engagement Survey, three main areas of attention were defined by the Managing Board. These were taken as a starting point for our HR activities:

- *Putting clients first.* We made sure our people are fully aware of the needs of our clients and are offered opportunities to further develop their skills, such as sales skills through our sales training programme. We will continue strengthening our client and service delivery in 2012.
- *Managing with impact.* We developed and introduced training programmes for line managers, in which about 60 managers practised their management skills during 10 sessions. We also continued our 'leadership event' programme with particular attention given to leadership styles.
- *Communicating our story.* We took steps to ensure employees are familiar with our ethical codes and important issues such as diversity and promoting a flexible workforce.

## Employee engagement

NIBC met its employee engagement target in 2011. The 2011 Employee Engagement Survey showed NIBC was once again ahead of other global financial services companies and on a par with high-performing organisations. Overall engagement was 86% (2010: 85%). We aim to stay in this zone in 2012.

The response rate to this second annual survey increased to 86% of employees from 69% in 2010. We see this as a sign of our employees appreciating

that we respond to their feedback by taking concrete actions based on the outcome of the survey.

## Promoting diversity

We aim to offer a stimulating work environment for people of all backgrounds. Having a representative workforce that better reflects the diversity of our international clients makes NIBC more attractive, both as an employer and a banking partner of choice.

In 2011, four working groups explored different themes related to diversity – nationality, work-life balance, age and gender – of which the latter was identified as the most relevant diversity criterion. In 2011, 9.4% of managers in senior positions were women. We committed ourselves to the ambitious target of 30% women in senior management positions by 2015. We will sign the 'Talent to the Top Charter' in 2012. As of December 2011, we have a female Managing Board member for the first time in NIBC's history.

Another important topic in diversity is work-life balance. As part of our commitment to promoting a healthy work-life balance, last year we ran a pilot project enabling employees to adopt new, flexible ways of working. This means employees have more freedom and responsibility when choosing the time and place to do their work. Managers must shift from outcome-based performance to presence-based performance. New ways of working have been shown to boost efficiency and effectiveness. Based on the results of the pilot, the Managing Board decided to launch a 'new ways of working' programme in 2012.

In 2012, we will adjust our HR policies to support our diversity ambition.

## Talent development

We continued providing training to employees in 2011. We developed a broad offering of business, management and personal development courses, which will be available in 2012.

We further embedded our leadership profile, which defines the leadership qualities NIBC requires, such as styles, competencies and behaviours. Around 70 senior managers participated in a leadership style and climate survey. The results were used for personal development plans and actions. We also continued developing training curricula for staff in the business units. All business units now have a curriculum, which means they can train their people to ensure they have the required skills for their job. About 400 employees (almost two-thirds of all employees) completed courses in 2011.

Our Analyst Program for young bankers, aimed at developing banking and general skills, was fully subscribed in 2011, with 18 people attending.

## Health and safety

We conducted our regular three-year evaluation of our Health and Safety policy in 2011. Results were very positive. Only minor adjustments were required, such as providing more health and safety information and ways on dealing with stress. We provided information to increase employee awareness about these issues and also offered other preventive health and safety measures, such as flu inoculations. The absenteeism percentage remained low at 2.7%.

## Sustainable remuneration

NIBC's remuneration policy for all staff is sustainable, balanced and in line with our chosen strategy and risk appetite. NIBC uses a mix of fixed salary and variable compensation for all staff. We met industry remuneration standards when they were introduced and now meet the latest standards of the Committee of European Banking Supervisors. For more information on remuneration, please refer to the Remuneration Report.

## Employees' Council

The *Employees' Council* (**Council**) represents all NIBC employees based in the Netherlands and ensures that management objectives are aligned with those of employees. The EC consists of 11 members from across all departments and levels within the bank.

Aside from regular meetings, the EC meets periodically with the CFO to stay abreast of financial developments and meets twice a year with members of the Supervisory Board. All meetings are held in constructive cooperation and open dialogue.

The Council advised on several matters in 2011, such as the appointment of Petra van Hoeken as new CRO and member of the Managing Board. It also advised on the spin-off of NIBC's Capital Partners team into Avedon Capital Partners and on the fine-tuning of the NIBC strategy that took place at the end of the year.

Furthermore, the Council actively supported and was involved in the proposals and findings around diversity and new ways of working. Adjustments in the remuneration policy and various changes to the staff manual were approved by the Council. In addition, the Council reviewed the regular Harrewijn Report on the connection between remuneration and performance, and evaluated its advice on the reorganisation of the Technology and Operations department, which took place in 2010.

Finally, the Council is closely following developments within the NIBC Pension Fund and the fund's performance.

## Employment

The number of FTEs at NIBC decreased in 2011. We ended the year with 664 FTEs, of whom 20% worked at our international offices, versus 669 at end-2010.

Our total workforce consists of around 30% women, which is in line with 2010. In 2011, 9.4% of managers in senior positions were women, as were 21% of NIBC's sub-top.

## Responsible corporate citizen

To NIBC, corporate citizenship means contributing to building a sustainable society for future generations and taking action to minimise our impact on the environment.

### Social responsibility

NIBC wants to contribute to society and enable and encourage employees to do the same by allocating time and expertise to projects in our community. Social citizenship projects initiated by NIBC have a local focus, as we believe our impact is most effective at the local community level. These activities also have an educational theme related to children and youth, as we believe children are our future and education is a key building block of a sustainable society.

Twenty NIBC volunteers participated in our debt prevention project in 2011. NIBC initiated this project, aimed at training to manage their finances responsibly, in 2009, responding to an increasing expectation from society that financial institutions should tackle the problem of financial illiteracy.

NIBC wrote the material of the course, together with the Municipality of The Hague. In 2011, we invited three other Hague-based financial institutions (BNG, FMO and De Nederlandse Waterschapsbank) to participate. Volunteers from all the banks facilitated guest lessons, group discussions and workshops at three local high schools, reaching 240 students. The project will be continued in 2012 and it is our goal to expand the number of participating schools to five.

In cooperation with the Mauritshuis art gallery in The Hague, with which NIBC has a long-standing relationship, 25 of our employees gave 'guest lessons' at nine local primary schools to trigger interest in art. The volunteers also accompanied schoolchildren on a visit to the museum. About 400 children participated in the programme.

Following the Mauritshuis project, we initiated a similar project in cooperation with the Beelden aan Zee sculpture gallery in The Hague. In total 18 NIBC volunteers, along with museum staff, gave guest lessons at nine schools and accompanied 308 pupils to the museum's exhibition.

NIBC continued to match funds raised and time spent on charitable projects by our employees. Among charities supported by NIBC staff in 2011 were organisations promoting cancer research, and organisations helping disadvantaged children and the disabled.

### Environmental responsibility

Renovations of NIBC's offices in The Hague took place during 2011 to make the building more energy-efficient and improve its energy label, with steps including renewing the air conditioning system, installing 'cooling ceilings' and equipping lights with energy-saving presence detectors and daylight-saving devices. In 2012, a heat/cold storage facility will be built. All measures combined will result in a 20-25% saving on our energy use as of end-2013 compared to 2009.

It is not feasible to operate as a fully CO<sub>2</sub>-neutral organisation. Therefore, and in line with NIBC's CSR policy, we compensate remaining CO<sub>2</sub> emissions (building, travel, paper use, and so on). To this end, NIBC buys carbon credits from the Climate Neutral Group. All NIBC's offices compensate their emissions and are carbon-neutral.

# Risk Overview

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

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

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

Key focal areas in 2011 were developments in commercial real estate, where vacant properties combined with lagging economic recovery may increase the risk of credit defaults, and the shipping sector, where we intensified contacts with our clients to manage credit risk. We expect that these markets will continue to require our close attention in 2012.

The centre of gravity of our credit portfolio is in the Netherlands and Germany, but we also concentrate on international sectors such as oil & gas and shipping.

Managing liquidity risk has been and will continue to be a major priority. We moved quickly in recent years to increase our capital base while strengthening and diversifying our funding position. Implementation of Basel III and similar regulations of the Dutch central bank (*De Nederlandsche Bank, DNB*) will stimulate financial institutions to attract more capital and further strengthen liquidity.

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

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

Our retail savings programme NIBC Direct provides access to liquidity and more stable funding in the Netherlands, Germany and – since late last year – Belgium. We are committed to delivering customer convenience through the internet, maintaining excellent security standards. As our retail savings programme expands, we enjoy the trust of an increasing number of clients, making our reputation an even more important asset than before. We are keenly aware of the importance of maintaining our established reputation.

We expect economic and financial market conditions to remain volatile in 2012. Together with our clients, we will continue to proactively manage risks and seize opportunities resulting from these economic and market developments.

More detailed information on risk management is included in the Risk Management chapter and note 54-56 to the consolidated financial statements in this Annual Report.

# Outlook and Targets 2012

As we enter 2012, the global economy remains highly volatile and the outlook uncertain. Markets remain nervous and vulnerable to the twists and turns of the eurozone crisis.

As we enter 2012, the global economy remains highly volatile and the outlook uncertain. Markets remain nervous and vulnerable to the twists and turns of the eurozone crisis.

Increasingly, we expect the financial sector to take its social responsibility, not only by doing sustainable client transactions, but also by being transparent about its activities. The interests of all stakeholders will be a driving force in this.

Although the macroeconomic climate is likely to remain difficult, NIBC is set to stay on course and continue to do business prudently. We are a cash-rich bank with a well-filled Corporate Banking pipeline, and a growing Consumer Banking business.

We start the year with a strong capital and liquidity position that offers us ample scope to service existing and new clients. We intend to take our expertise and knowledge to the next level to serve our clients even better in the years to come, and we face the future with confidence.

## Targets

### Clients

- Strengthen our proposition among client target groups: use Net Promoter Score and NIBC Direct surveys to assess client perceptions and take appropriate action;
- Further balance Corporate Banking and Consumer Banking activities;
- Sustainability in client business: continue screening 100% of clients for environmental and social risks while further developing and embedding a risk-based sustainability framework.

### People

- Exceed global financial sector benchmark for employee engagement;
- Diversity: increase number of women in management positions, with mid-term goal to increase this to 30% in 2015.

### Financial

- Bring cost-to-income ratio below 50%;
- Keep NIBC core Tier-1 capital ratio above 10%;
- Keep leverage ratio (debt/equity) below 15;
- Maintain tight credit risk control and keep impairment level of total loan portfolio < 40 basis points;
- Continue funding diversification by further increasing retail savings and, already in 2012, keep the Basel Liquidity Coverage Ratio and the Net Stable Funding Ratio above 100%;
- Maintain strong liquidity position.

### Corporate citizenship

- Aim to realise all the above targets – not only the more ‘social’ ones – with close attention to the needs of all stakeholders;
- Act as responsible social citizen and stimulate employees to undertake or participate in our social citizenship activities;
- Further reduce NIBC’s energy use (aiming for 25% saving on our energy use as of end-2013 compared to 2009) and use green power from the Netherlands for our Dutch office.

The Hague, 6 March 2012

[Managing Board](#)

Jeroen Drost, *Chairman, Chief Executive Officer*  
Kees van Dijkhuizen, *Vice-Chairman, Chief Financial Officer*,  
Rob ten Heggeler, *Member*  
Jeroen van Hessen, *Member*  
Petra van Hoeken, *Chief Risk Officer*

# Report of the Supervisory Board

Despite difficult economic and market conditions in the second half of last year, NIBC achieved robust results. The social and political focus on corporate governance and the role of supervisory boards continued to intensify, as did the weight of regulation imposed on financial institutions. Such factors require the intensive involvement and constant vigilance of the Supervisory Board, whose tasks and responsibilities have been increased as a consequence.

Members of the NIBC Supervisory Board take their responsibilities seriously, expending time and effort in discussing intensively the bank's organisation, operations and strategy. This, in turn, enhances the quality of governance and supervision at NIBC. All Supervisory Board members sit on at least one of the committees of the Supervisory Board.

At the request of the Supervisory Board, Egon Zehnder International performed an external evaluation of the Supervisory Board in 2010, as required by the Dutch Banking Code. The Supervisory Board followed up on Egon Zehnder's recommendations with the implementation of most

of the action points that came out of the external evaluation.

For example, the intensity of Supervisory Board members' involvement and contact with one another was enhanced in 2011 by holding Supervisory Board meetings over two days rather than one. This also gives members more time to interact informally.

Another action point implemented was the introduction of a strategy day, at which the Supervisory Board discussed with the Managing Board the current and future strategy of NIBC. Supervisory Board members also met regularly with senior management below the Managing Board level, for example at lunch meetings or business presentations.

The Supervisory Board thanks the Managing Board and all staff for their invaluable efforts during 2011.

## Composition of the Supervisory Board

NAME	Year of birth	Nationality	Member since	End of term	Committee Memberships <sup>1</sup>
Mr. W.M. van den Goorbergh (Chairman)	1948	Dutch	2005	2014	ACC, RNC, RPC, RPTC, SC
Mr. D.R. Morgan (Vice-Chairman)	1947	Australian	2010	2014	RNC, RPC
Mr. A.A.G. Bergen	1950	Belgian	2010	2014	ACC, RPC, RPTC
Mr. M.J. Christner	1972	German	2011	2015	ACC
Mr. C.H. van Dalen	1952	Dutch	2005	2013	ACC, SC
Mr. N.W. Hoek	1956	Dutch	2005	2013	RNC, SC
Mr. A. de Jong	1954	Dutch	2005	2015	RPC
Sir Callum McCarthy	1944	British	2011	2015	RPC
Ms. S.A. Rocker	1954	US	2009	2013	RNC, SC
Mr. D.K.M. Rümker	1937	German	2005	2015	ACC, RPC, SC
Mr. A.H.A. Veenhof	1945	Dutch	2006	2015	RPTC, RNC

1. ACC - Audit and Compliance Committee; RNC - Remuneration and Nominating Committee; RPC - Risk Policy Committee; RPTC - Related Party Transaction Committee; SC - Strategic Committee.

As at 31 December 2011, the Supervisory Board of NIBC Bank was composed of 11 members, who are also members of the Managing Board of NIBC Holding (see previous table). Mr. Christner and Sir Callum McCarthy were appointed members of the Supervisory Board as per 14 January 2011 by the Extraordinary General Meeting of Shareholders on 20 October 2010. Mr. Rümker and Mr. Veenhof were reappointed as members of the Supervisory Board at the General Meeting of shareholders on 24 May 2011.

Four of the eleven Supervisory Board members do not meet the independence criteria contained in the Dutch Corporate Governance Code. For a detailed explanation of this non-compliance with the Dutch Corporate Governance Code, we refer to our website. All members of the Supervisory Board meet the criteria of the Dutch Corporate Governance Code relating to other positions, in so far as they are relevant to the performance of the duties of the Supervisory Board member. For a detailed overview of their additional functions, we refer to our website.

## Composition of the Managing Board

NAME	Year of birth	Nationality	Member since	End of term <sup>1)</sup>
Mr. J.P. Drost (Chairman, CEO)	1961	Dutch	2008	2012
Mr. C. van Dijkhuizen (Vice-Chairman, CFO)	1955	Dutch	2005	2014
Mr. R.H.L. ten Heggeler	1963	Dutch	2009	2013
Mr. J.A. van Hessen	1962	Dutch	2009	2013
Ms. P.C. van Hoeken (CRO)	1961	Dutch	2011	2015

<sup>1)</sup> These are the dates until which the appointment as statutory director runs. They do not refer to the expiry of employment contracts.

As at 31 December 2011, the Managing Board of NIBC Bank was composed of five members, who are also members of the Managing Board of NIBC Holding (see previous table). As per 30 June 2011, Mr. Sijbrand left the Managing Board of NIBC to continue his career at the Dutch central bank. The

Supervisory Board accepted his resignation and thanked him for his dedication and contribution. As per 23 December 2011, Ms. van Hoeken was appointed as member of the Managing Board in the role of CRO.

## Meetings of the Supervisory Board

The Supervisory Board met on six occasions in 2011. Eight members of the Supervisory Board participated in all the 2011 meetings; three members were absent from one or two meetings. As mentioned above, the external evaluation held in 2010 led to the implementation of several action points in 2011. The meetings of the Supervisory Board were spread over two days in 2011 instead of the one-day meetings of previous years. In addition to the regular meetings, a strategy day was organised in June 2011 at which the Supervisory Board and the Managing Board discussed the current and future strategy of NIBC. Each quarter, the Supervisory Board had lunch meetings with selected managing directors of NIBC.

During the regular meetings, there was discussion of NIBC's liquidity position, rating, funding plan, market developments, strategic issues and remuneration policy. Extensive risk/return and financial performance discussions were held in

relation to the interim results of 2011 and the 2012 budget. Other matters discussed were quarterly results, control-related topics, the financial reporting process, composition of the Supervisory Board and its committees and compliance with legislation and regulations.

In 2011, the Supervisory Board continued its programme of lifelong learning including a session on the Dutch mortgage market and securitisations, the Dutch private banking market, operations and private equity. For more detail on the lifelong learning programme we refer to our website.

The financial statements and the findings of the external auditor were discussed in the external auditor's presence. Most of the discussions and decisions of the Supervisory Board were prepared in the committees referred to below, at which at least two members of the Supervisory Board are always present. Members of the Managing Board

attended all but one meeting of the Supervisory Board at which the Supervisory Board discussed the following topics: its own functioning and that of its individual members; the desired profile, composition and competence of the Supervisory Board; and the functioning of the Managing Board collectively and in terms of its individual members.

Members of the Supervisory Board attended two consultation meetings between the Managing Board and the Employees' Council. The Supervisory Board also met with the external auditor to discuss the financial statements. .

## Meetings of the committees of the Supervisory Board

The Supervisory Board is supported by five committees consisting of members of the Supervisory Board.

### **Audit and Compliance Committee**

The *Audit and Compliance Committee (ACC)* 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 its annual financial statements and reports. The ACC also advises on corporate governance and corporate social responsibility issues.

During 2011, the ACC extensively reviewed NIBC's quarterly, half-yearly and annual financial reports and related press releases and trading updates, and discussed the reports of the external auditor, including Board Report and Management Letter, before these were dealt with in the Supervisory Board meeting.

The ACC also discussed Internal Audit's year plan and its quarterly reports, and Compliance's year plan and semi-annual reporting. Both internal auditor and external auditor reported on the quality and effectiveness of governance, internal control and risk management. In 2011, the ACC assessed NIBC's newly-developed sustainability policies for its Corporate Banking sectors.

The ACC also took note of and discussed NIBC's contacts with *de Nederlandse Bank (DNB)*.

The ACC evaluated the external auditor and the functioning of Internal Audit and Compliance. The internal auditors and the compliance officer were represented at all meetings. The external auditors, by mutual agreement, were represented at all but one meeting of the ACC in 2011.

The ACC met five times in 2011 in the presence of all members of the Managing Board.

### **Remuneration and Nominating Committee**

The *Remuneration and Nominating Committee (RNC)* advises the Supervisory Board on the remuneration of the members of the Supervisory Board, the Managing Board and certain other senior managers, provides the Supervisory Board with proposals for appointments/re-appointments of the Supervisory Board, its committees and the Managing Board, evaluates the performance of the other Supervisory Board committees, and assesses the performance of the members of the Managing Board and the Supervisory Board. In addition, the RNC monitors the remuneration policy, which entails discussing the total pool available for variable compensation and defining the collective and individual performance targets that form the basis for the variable compensation of individual members of the Managing Board.

In 2011, the RNC discussed an amendment to the Managing Board Remuneration Policy resulting in a more sustainable, long-term remuneration policy in response to social developments and further changes in regulation. Among other changes, the amendment eliminates short-term variable compensation altogether and strengthens the existing long-term variable compensation element. For more detail we refer to the separate Remuneration Report in this Annual Report. The RNC also discussed the Remuneration Policy of the Supervisory Board and other staff, individual compensation arrangements for the members of the Managing Board, the overall available funding for variable compensation arrangements, and the performance of the Managing Board.

Furthermore, the RNC conducted a self-assessment of the Remuneration Policy at the request of DNB and discussed the nomination of Ms. van Hoeken as member of the Managing Board. The nomination was made after a careful process that included drawing up the profile of the vacant position and

identifying, interviewing and presenting the candidates to the full Supervisory Board.

The RNC met 10 times (including conference calls) in 2011.

### Risk Policy Committee

The *Risk Policy Committee (RPC)* assists the Supervisory Board in monitoring NIBC's risk policy and profile in relation to its general lending and investment policy. The committee also advises the Supervisory Board on credit, liquidity, market, investment and operational risks and with regard to regulatory changes. During 2011, the RPC extensively discussed NIBC's assets, liquidity, stress tests and risk profile, including NIBC's risk appetite. Syndication reports, reports on specific parts of the Corporate Banking portfolio, country risk reports, impairment reports and credit risk portfolio overviews were also discussed.

On a regular basis, the committee also discussed NIBC's market risk and event risk reports, economic capital reports and liquidity risk reports. Additionally, the RPC reviewed and approved the *New Product Approval Process (NPAP)*.

The RPC met five times in 2011.

### Related Party Transactions Subcommittee

The Related Party Transactions Subcommittee is a subcommittee of the RPC for the purposes of Related Party Transactions. It helps the Supervisory Board to assess material agreements of any kind with a person or group of persons who hold, directly or indirectly, 10% of NIBC's 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 material transactions to the Related Party Transactions Subcommittee.

In the case of transactions in which there are conflicts of interest with the Managing Board and/or the Supervisory Board, best practice provisions III.6.1 to III.6.3, III.6.4 and II.3.2 to II.3.4 will be observed and complied with. In 2011, no related party transactions that require Supervisory Board approval were presented to

the Related Party Transactions Subcommittee.

The Related Party Transactions Subcommittee did not meet in 2011.

### Strategic Committee

The Strategic Committee discusses the strategic options that present themselves to NIBC.

The Strategic Committee did not meet in 2011.

The strategic issues that came up were discussed during Supervisory Board meetings.

## Financial statements and dividend proposal

The financial statements have been drawn up by the Managing Board and audited by PricewaterhouseCoopers Accountants N.V., who issued an unqualified opinion dated 6 March 2012. The Supervisory Board advises and proposes that shareholders adopt the 2011 Financial Statements at the Annual General Meeting of Shareholders on 15 May 2012. The Supervisory Board supports the proposal of the Managing Board to pay out dividends twice a year if the results allow it. The Supervisory Board has approved the Managing Board's proposal for the payment of dividend over and over in 2011.

The Supervisory Board 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 2011.

### The Hague, 6 March 2012 Supervisory Board

Mr. W.M. van den Goorbergh, *Chairman*

Mr. D.R. Morgan, *Vice-Chairman*

Mr. A.A.G. Bergen

Mr. M.J. Christner

Mr. C.H. van Dalen

Mr. N.W. Hoek

Mr. A. de Jong

Sir Callum McCarthy

Ms. S.A. Rocker

Mr. D.K.M. Rümker

Mr. A.H.A. Veenhof



# Corporate Governance

It is crucial for NIBC that its corporate governance and reporting lines are sound and transparent. On our website, you can find our articles of association, policies, charters and other information on corporate governance, the Dutch Banking Code and the Dutch Corporate Governance Code. This chapter contains some important highlights of our governance structure.

## Managing Board

The Managing Board is responsible for the day-to-day operations of the business and our long-term strategy. It also ensures we comply with relevant legislation and regulatory requirements. The five members of the Managing Board have thorough and in-depth knowledge of the financial sector in general and the banking sector in particular.

Jan Sijbrand left the Managing Board on 1 July 2011 to become a board member of DNB. NIBC found an excellent replacement in the highly experienced Petra van Hoeken, who joined the Managing Board as CRO on 23 December 2011.

The Managing Board, which meets weekly, represents and balances the interests of all stakeholders. The interests of stakeholders are also discussed in the ECC, which combines members of the Managing Board, general counsel, the head of Group Compliance and the head of CSR. The ECC meets weekly, to manage potential conflicts of interests presented by commercial deals or clients, and to ensure that the decision-making process for commercial deals fulfils legal, regulatory and other compliance and corporate social responsibility requirements.

The Managing Board members have all signed the moral and ethical declaration as prescribed in the Dutch Banking Code. This declaration is embedded in our updated Code of Conduct, which is implemented throughout the entire organisation and included in our employee contracts. More information concerning the Managing Board, including short biographies, can be found on our website.

Last June, we set up the Ethics Advisory Bureau, which advises on ethical dilemmas. This body, which falls under the auspices of the ECC, is a sounding board that makes non-binding recommendations on ethical dilemmas submitted to it by NIBC individuals, teams or bodies such as the *Transaction Committee (TC)* or *Investment Committee (IC)*.

## Supervisory Board

The Supervisory Board oversees management performance and advises the Managing Board. It consists of 11 people with extensive and international expertise in fields such as banking and finance, corporate governance and corporate management.

For more information concerning the Supervisory Board, its activities and short biographies of its members, please refer to the report of the Supervisory Board or visit our website.

## Dutch Banking Code

The Dutch Banking Code was established by the Dutch Banking Association in September 2009 following the outbreak of the financial crisis. Its aim was to restore public trust in financial institutions, which was damaged by the crisis. Under the Code, banks must abide by rules on issues such as remuneration, risk management and audit.

In December 2009, the Supervisory Board approved revisions to NIBC's charters, those of its committees, the Supervisory Board and the

Managing Board, to ensure our governance was fully aligned with the Dutch Banking Code.

We have now implemented all the procedural and operational measures required under the Banking Code. We revised our remuneration policy for staff and completed the revision of our remuneration policy for the Managing Board. The Managing Board members signed a moral and ethical conduct declaration as prescribed by the Banking Code and this is published on NIBC's website. A programme of lifelong learning was drawn up and training sessions for the Managing Board and the Supervisory Board were held in 2010 and 2011. The members of the Supervisory Board evaluated their performance, with the support of external advisors, and began following up on the recommendations. The Report of the Supervisory Board offers more information.

NIBC is fully compliant with the Dutch Banking Code, which came into effect on 1 January 2010. A detailed explanation of the Dutch Banking Code and an overview of NIBC's compliance with it can be found on our website.

## Dutch Corporate Governance Code

NIBC voluntarily supports and applies the principles of the Dutch Corporate Governance Code, which was updated in 2009. NIBC only partly deviates from best practices and principles as laid out in the Code. The main deviation is that NIBC does not comply with best practice provision III.2.1, which provides that the members of a supervisory board should be independent, except for one member. On our website you can find a detailed overview of NIBC's compliance with the principles of the Code, including the explanation for the above and other minor deviations, as well as the full text of the Corporate Governance Code.

To the extent that they are applicable, NIBC adheres to the recommendations made in the third report of the Corporate Governance Code Monitoring Committee as published in December 2011.

# Remuneration Report

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

As a result, the remuneration opportunities of the Managing Board have been substantially reduced and the governance strengthened.

NIBC's remuneration policy and the actual remuneration for 2011 are outlined below. Additionally, information about the new remuneration policy for the Managing Board in 2012 is provided, as is an overview of the remuneration of other staff and the Supervisory Board.

## Managing Board remuneration 2011

To avoid unnecessary duplication, we refer to note 53 of the consolidated financial statements for all relevant tables. These can be considered an integral part of this remuneration report. More information about the remuneration policy can be found on our website.

### Remuneration principles

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

### Peer group composition

The peer group consists of all AEX and AMX (Euronext) listed companies. As such, it is an objective measure outside of NIBC's control.

### Market positioning

Through the cycle, total compensation for the Chairman and members of the Managing Board is targeted just below the median of their peers in the aforementioned peer group, based on benchmark data provided by external independent compensation consultants.

### Base salaries

Base salaries for the Chairman and most of the other members of the Managing Board were determined at the beginning of 2007 and have not changed since. As a result base salary for the Chairman was increased from EUR 700,000 to EUR 750,000 and base salaries for the other members of the Managing Board were increased from EUR 400,000 to EUR 450,000 as of 1 March 2011.

### Short-term incentive compensation

Based on an objective assessment of the Managing Board's performance, short-term variable compensation would have been warranted. However, given the ongoing debate about remuneration in general, and more specifically about variable compensation, and in view of the proposed legislation, for the fourth consecutive time, no short-term variable compensation was awarded to any Managing Board member for the performance year 2011.

The remuneration policy 2011 entitles Managing Board members to *short-term incentive compensation (STI)* up to a maximum of 75% (for CEO and members of the Managing Board responsible for commercial activities) and 55% (for CRO and *Chief Financial Officer (CFO)*). For on-target performance, the percentages are 50% and 35% respectively. Performance is measured by looking at achievement against short-term (annual) performance targets.

## Long-term incentive compensation

All Managing Board members received *long-term incentive compensation (LTI)*, delivered in *Conditional Restricted Depositary Receipts (CRDR)*, equal to 25% of their respective base salary at 1 January of each year. The LTI aims to stimulate long-term thinking and behaviour, and rewards the Chairman and the members of the Managing Board for achieving bank-wide long-term financial (average three-year Return on Equity) and non-financial (average three-year employee engagement) performance conditions. The LTI is conditional upon the achievement of performance conditions, is forward-looking and is subject to three-year cliff vesting and an additional lock-up or retention period of two years after vesting.

For the LTI that was granted conditionally to the Managing Board in 2009, the three-year cliff vesting period ended 1 January 2012. The Supervisory Board reviewed the agreed long-term financial and non-financial performance conditions and concluded that all criteria were met; consequently all relevant LTI 2009 CRDRs have vested into Conditional Common Depositary Receipts. The vested CRDRs have an additional retention period of two years. Furthermore, the vested CRDRs need to be held until a liquidity event takes place, to ensure continued alignment with the shareholders.

## Pension

The Chairman and members of the Managing Board are members of the NIBC pension plan, in line with the arrangements available to all other employees. The pension plan consists of a defined benefit pension arrangement up to a maximum salary and a defined contribution arrangement up to their respective base salaries.

The pensionable age for the Chairman and the members of the Managing Board is 65. There are no contractual early retirement provisions. A standard flat-rate contribution is paid by NIBC into the pension fund. Just like other employees, depending on the respective employment date, the Managing Board members are required to make a personal contribution towards their pension.

## Other key benefits

The Chairman and the members of the Managing Board are entitled to a company (lease) car up to a certain price limit or, if they choose, the equivalent value of the (lease) car limit as a gross cash

allowance. The Chairman is entitled to the use of a permanent chauffeur from the chauffeurs pool, while the other members of the Managing Board are entitled to use a chauffeur from the pool for business purposes only, unless specifically otherwise agreed by the Supervisory Board. Furthermore the Chairman and the members of the Managing Board are entitled to a dividend compensation on conditionally granted share awards. In line with other employees, the Chairman and the members of the Managing Board are entitled to a contribution towards their medical insurance, disability insurance, accident insurance and permanent travel insurance, a monthly expense allowance, and a subsidy on mortgage interest paid.

## Employment contracts

The Chairman and members of the Managing Board all have indefinite employment contracts, which are fully compliant with the Dutch Corporate Governance Code. Their appointment to the Managing Board is for a maximum term of four years. The term can be renewed. Any severance payment is limited to 12 months' base salary.

Mr. Sijbrand voluntarily resigned effective 1 July 2011. Given his subsequent position as executive director on the board of DNB, and his special responsibilities arising from that position, Mr. Sijbrand requested to discontinue his investments in NIBC. In consultation with the Supervisory Board, it was decided to buy back the Depositary Receipts Mr. Sijbrand had acquired as personal investments in the company in 2009. NIBC bought these back at the original acquisition price (although the fair value on 1 July 2011 was higher than the original acquisition price). Mr. Sijbrand irrevocably waived all other vested and non-vested Depositary Receipts to which he was entitled. As a result, Mr. Sijbrand has no remaining investments in NIBC.

## Amendments to Managing Board remuneration policy in 2012

In response to social developments and further regulatory changes, the Supervisory Board decided to further amend the remuneration policy for the Managing Board in early 2012. This resulted in an even more sustainable and long-term remuneration policy. The amendment includes eliminating short-term variable compensation altogether and strengthening the existing long-term variable compensation element.

As of 1 January 2012, all short-term variable compensation is eliminated. The maximum long-term incentive increases from 25% of base salary to 70% for the CEO, 60% for members of the Managing Board responsible for commercial activities and 40% for the CFO and CRO. In view of proposed legislation, it is envisaged that the Supervisory Board will not be able to grant any variable compensation whatsoever for as long as NIBC has not repaid all outstanding state guaranteed funding. The base salaries are determined at EUR 800,000 (Chairman) and EUR 500,000 (other Managing Board members).

If any LTI is conditionally granted, this will be in the form of 66.67% CRDRs and 33.33% cash. The LTI is conditional upon the achievement of performance conditions, is forward-looking and is subject to a three-year performance period and an additional three-year pro-rated deferral period. Every year, the Supervisory Board will agree a set of four to six financial and non-financial performance conditions, which will be aligned with the overall corporate targets (as described in chapter Outlook and Targets 2012). The final LTI grant depends on the degree to which the agreed performance criteria have been met.

## Other staff remuneration

In line with the DNB Principles, employees whose professional activities have a material impact on NIBC's risk profile are designated as 'Identified Staff'. Specific remuneration conditions may apply to Identified Staff other than Managing Board members. The outlines of the remuneration policies for Identified Staff and other staff are given further

on in this section. For further details on the policies for Identified Staff, please refer to our website.

### Total compensation funding

Each year, based on a proposal by the Managing Board, the Supervisory Board decides, in its discretion, on the total amount of money available for total compensation, the amount of variable compensation and the specific forms in which variable compensation may be awarded. The 2011 compensation ratio (total compensation costs as percent of operating income) is 31%.

### Variable compensation

All employees are eligible to receive STI compensation. Whether they actually receive it or not is wholly discretionary and depends on the overall performance of the bank, of their respective business unit and their own personal performance. Each employee will have a pre-agreed set of financial and non-financial performance targets. The performance assessment takes into account the realisation of pre-agreed targets, as well as the way the employee has behaved according to the Business Principles of NIBC.

In addition to STI compensation and subject to Managing Board discretion, senior management may qualify for LTI compensation subject to the same performance conditions as those that apply to the Managing Board.

The 100% cap (variable remuneration shall not exceed 100% of the base salary) introduced by the Dutch Banking Code will serve as a guideline for other employees, too.

### Pay mix

Variable compensation, if any, will be delivered in different components: (i) cash; (ii) deferred cash; (iii) vested *Phantom Share Units (PSUs)*; (iv) unvested PSUs; and (v) unvested CRDRs (for the purpose of the long-term incentive).

STI compensation will be a combination of cash, deferred cash and PSUs. The Managing Board determines the precise split between cash and equity or equity-linked components, the proportion of deferred compensation and the form in which this is distributed (e.g. cash or unvested equity), whether a threshold applies for the deferred component and, if so, how high that threshold is.

## Special situations

Only in exceptional cases and only in the first year of employment will the Managing Board offer sign-on or guaranteed minimum bonuses to new employees and retention bonuses to existing employees. In the unforeseen circumstance that these amount to more than 100% of the base salary of the individual employee concerned, prior approval will be obtained from the RNC and Supervisory Board.

Any severance payment made in the case of termination of employment by NIBC without cause, is subject to local legislation. For the Netherlands, the prevailing business court formula (kantonrechter-formule) and, in the case of reorganisation, the bank's Social Protocol are applicable. Special compensation plans for specific groups of employees, such as carried interest arrangements, are subject to prior approval by the Managing Board, which will annually inform the RNC and Supervisory Board about these arrangements.

## Supervisory Board remuneration

Remuneration for the Supervisory Board remains unchanged. The Chairman and the members of the Supervisory Board are entitled to an annual gross basic fee that amounts to EUR 60,000 for the Chairman, EUR 50,000 for the Vice-Chairman and EUR 40,000 for a member. In addition to the annual basic fee, the Chairman and members of the Supervisory Board are entitled to further fees for membership of one or more committees amounting to EUR 15,000 for the ACC, EUR 11,500 for the RPC and EUR 10,000 for the RNC. The Chairman and the members of the Supervisory Board are further entitled to reimbursement of genuine business expenses made in the fulfilment of their duties.

## Remuneration governance

In line with the various recommendations and guidelines issued by regulators, the governance surrounding the annual remuneration process has been strengthened and key roles have been agreed for the Human Resources, Risk Management, Compliance, Audit and Finance functions. This process was formalised at the end of 2010 by establishing a Remuneration Governance Work

Group consisting of representatives of the functions mentioned. The Supervisory Board has discussed employees with the highest proposed variable compensation for 2011 and the remuneration and performance of control functions. Scenario analyses have been conducted to assess the possible outcomes of the variable remuneration components on an individual and collective basis.

Any vested amounts of STI, LTI or one-off variable remuneration are subject to claw back by the Supervisory Board in the event they have been based on inaccurate financial or other data, fraud, or when the employee in question is dismissed 'for cause'. Moreover, in exceptional circumstances, the Supervisory Board has the discretion to adjust downwardly any or all variable remuneration if, in its opinion, this remuneration would have unfair or unintended effects. In assessing performance against pre-agreed performance criteria, financial performance shall be adjusted to allow for estimated risks and capital costs.

In addition to claw backs and as a result of the DNB Principles/CEBS Guidelines, the concept of malus was introduced into the remuneration policy. This is an arrangement that permits NIBC to prevent vesting of all or part of the amount of deferred compensation in relation to risk outcomes of performance. Malus is a form of ex-post risk adjustment, one of the key requirements, in addition to ex-ante risk adjustments, under the new guidelines.

In case of resignation, any unvested amounts of compensation will be forfeited.

## Conclusion

The RNC and the Supervisory Board believe that the remuneration policy is compliant with the latest regulations and is prudent and sustainable. The Supervisory Board continues to believe in prudent management of remuneration but recognises that NIBC operates in a competitive marketplace where it needs to be able to attract, motivate and retain sufficient talent.

NIBC is determined to make a positive contribution towards creating the level playing field that regulators envisage with regard to variable compensation.

# In Control Report

The responsibilities of the Managing Board are anchored in the principles of the Dutch Financial Supervision Act and other regulations. These responsibilities include compliance with relevant legislation and responsibility for the implementation of risk management and control systems. The management and control systems aim to ensure reliable financial reporting and to control downside risk to the operational and financial objectives of NIBC.

## Risk Management and Control

The Managing Board relies on the risk management and control framework and is supported by business unit management. The business unit managers provide an annual In Control Statement to the Managing Board, based on the risk and control self-assessment. The results of the self-assessments have been shared with the Supervisory Board.

The internal risk management and control systems based on a risk identification process combined with an established set of detective, preventative and repressive control measures provide reasonable assurance that the financial reporting does not contain errors of material importance and that the internal risk management and control systems regarding the financial reporting risks worked properly in the year under review.

In view of the above, the Managing Board of NIBC believes it is in compliance with the requirements of best practice II.1.4 and best practice II.1.5 of the Dutch Corporate Governance Code.

## Responsibility Statement

In respect of Article 5:25c, Section 2 (c) (1 and 2) of the Dutch Financial Supervision Act, the members of the Managing Board of NIBC hereby confirm, to the best of their knowledge, that:

- The annual financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of NIBC and its consolidated group companies;
- The annual report gives a true and fair view of the situation on the balance sheet date and developments during the financial year of NIBC and its consolidated group companies; and
- The annual report describes the material risks which NIBC faces.

**The Hague, 6 March 2012**

**Managing Board**

Jeroen Drost, *Chairman, Chief Executive Officer*  
Kees van Dijkhuizen, *Vice-Chairman, Chief Financial Officer*,  
Rob ten Heggeler, *Member*  
Jeroen van Hessen, *Member*  
Petra van Hoeken, *Chief Risk Officer*

# Risk Management

Risk management at NIBC includes credit, liquidity, regulatory, investment, operational and market risk. NIBC operates under the 'three lines of defence' risk management model. With its responsibilities as second line of defence, NIBC Risk Management monitors the risk appetite and supports the business by providing the right framework and tools to manage risk.

The year 2011 was composed of two distinctly different halves. Signs of economic recovery appeared before the summer, but conditions deteriorated in the second half, particularly in financial markets. As the European debt crisis continued, financial institutions' risk appetite decreased and funding costs increased. Despite the difficult markets, 2011 ended with lower losses for NIBC (32 basis points) compared to 2010 (46 basis points).

NIBC took a cautious approach amid these market developments but we still made sure we supported our clients and used our balance sheet for transactions that mattered most to them. We comfortably passed the European stress test for banks, which we performed voluntarily.

Our Risk teams performed strongly. We continued investing in further professionalising and diversifying our risk management teams.

Petra van Hoeken was appointed as NIBC's new Chief Risk Officer, starting in late December 2011.

Notes 54, 55, 56, and 57 to the consolidated financial statements contain more detailed information on Risk Management.

## Portfolio overview

Table 1 shows a breakdown of the book value of risk exposures (drawn and undrawn) of NIBC, together with the types of risk present in these portfolios. The numbers presented can differ from the numbers on the balance sheet, in which only drawn amounts are shown. The exposure amounts in table 1 are broadly aligned with the regulatory capital view of Basel II capital calculations, except for derivatives, which show the positive replacement values only, without netting and without any potential future exposure add-on. Note 54 to the

### I Overview of risk exposures

IN EUR MILLIONS	Main risk types	31 December 2011	31 December 2010
Corporate loans	Credit risk	9,879	9,674
Investment Management loans	Credit risk	232	205
Residential mortgages	Credit risk	8,745	9,767
Equity investments	Investment risk	354	372
<b>DEBT INVESTMENTS PORTFOLIO</b>			
Debt from financial institutions, corporate and sovereign entities	Credit risk/Market risk	707	1,365
Securitisations	Credit risk/Market risk	832	1,074
<b>CASH MANAGEMENT</b>			
Cash	Credit risk	3,030	1,958
Repo	Credit risk	21	3
Derivatives <sup>1</sup>	Credit risk/Market risk	3,880	3,318

1. Positive replacement values.

consolidated financial statements presents a more detailed comparison between risk figures and balance sheet amounts.

Definitions of NIBC's main risk types are given in the respective sections that follow.

## Organisation of risk management

At the level of the Supervisory Board, the Risk Policy Committee assists the Supervisory Board in overseeing all risks that NIBC is exposed to, the risk appetite and the relevant risk management framework. Risk appetite is determined by the Managing Board and then approved by the Supervisory Board. The bank's overall risk appetite is discussed by the Managing Board at least once per quarter.

Risk-related decisions are taken by various risk committees - which are the *Risk Management Committee (RMC)*, the *Transaction Committee (TC)*, the *Asset & Liability Committee (ALCO)*, the *Investment Committee (IC)* and the *Engagement and Compliance Committee (ECC)*. The risk committees review, monitor and evaluate all new and existing risk exposures, operations and products in the light of existing risk management standards and risk appetite.

Furthermore, the risk committees are supported by a robust risk management organisation which focuses on the daily monitoring and management of the risks that NIBC is exposed to. This risk management organisation consists of the *Credit Risk Assessment and Distressed Assets* department (**CRA/DA**), *Asset & Liability Management and Market Risk* department (**ALM/MR**), the *Financial Markets Credit Risk and Risk Policy & Reporting* department (**FMCR/RP&R**) and the *Operational Risk Management* department (**ORM**).

Internal risk reporting and management information ensures that risks are discussed and assessed properly. Furthermore, they enable the Supervisory Board, the Managing Board and the risk committees to assess whether the bank's risk profile remains within the predetermined risk appetite framework. All stakeholders are informed through annual reports, interim reports and reports

such as those relating to Pillar III (on capital adequacy and risk management). Every quarter, comprehensive reporting is reviewed by the Supervisory Board's RPC on all risk aspects.

## Credit risk

NIBC defines credit risk as the current or potential threat to the company's earnings and capital as a result of a counterparty's failure to make required debt or financial payments on a timely basis or to comply with other conditions of an obligation or agreement, including the possibility of restrictions on or impediments to the transfer of payments from abroad.

Credit risk at NIBC exists in different shapes and forms. Almost every activity at NIBC is related to credit risk: credit risk is present in the Corporate Loan portfolio, the Residential Mortgage portfolio, the Debt Investments portfolio, cash management and derivatives. Credit risk is also present in NIBC's portfolio of Investment Management loans. These portfolios are further discussed in note 54 to the consolidated financial statements.

### Corporate loans

NIBC employs an internally developed methodology for quantifying the credit risk in the Corporate Loan portfolio. In line with Basel II regulations, the methodology consists of two elements: a *counterparty credit rating (CCR)* that reflects the *probability of default (PD)* of the borrower, and an anticipated loss element that expresses the potential loss in the event of default (*loss given default, LGD*), which takes into account the presence of collateral. Both parameters are determined by internally developed Basel II *Advanced Internal Ratings Based (AIRB)* models. The Basel II AIRB approach for NIBC's corporate exposure class has been adopted by NIBC and approved by NIBC's regulatory authority, the Dutch central bank (*De Nederlandsche Bank, DNB*) since 1 January 2008, and is periodically assessed by the DNB to ensure that minimum requirements are met.

More information about NIBC's internal rating process and its use in decision-making can be found in note 54 to the consolidated financial statements, as well as in NIBC's Pillar III report on capital adequacy and risk management, published on NIBC's website.

## Main developments in the Corporate Loan portfolio in 2011

The Corporate Loan portfolio is one of the core portfolios of NIBC. The size of its exposure amounted to EUR 9,879 million at 31 December 2011.

Corporate loans at NIBC are originated and managed at sector level. These sectors are commercial real estate, infrastructure & renewables, shipping & intermodal (containers), oil & gas services, leveraged finance and corporate lending. Leveraged finance and corporate lending finance clients whose assets span a variety of sectors, as the focus is on clients across the economy. Specifically, corporate lending has three main focus areas, being i) food, agriculture & retail, ii) manufacturing & industrials, and iii) telecom, media & services. The Corporate Loan portfolio also includes a collateralised loan of EUR 400 million (the collateral is a pool of prime Dutch residential mortgages) to an investment-grade financial institution. This loan is managed by NIBC's Treasury department.

The geographical distribution of corporate loans remained almost unchanged compared to 2010. The most notable development is that Germany overtook the United Kingdom and became NIBC's second largest country in exposure size, reflecting the strategy of further growth in the German market. Europe accounts for 82% of exposure, which is located mainly in the Netherlands (36%), Germany (18%) and the United Kingdom (16%). The exposure distribution in Asia/Pacific (9%), North America (5%) and other regions (4%) also remained stable in 2011.

The relatively small growth of the Corporate Loan portfolio during 2011 was not evenly distributed across the various sectors, nor did all sectors expand. The most notable growth was seen in the oil & gas sector (EUR 965 million), which grew by more than 20% compared to 2010. The Oil & Gas portfolio did not experience any adverse situations, despite the turbulent financial markets in 2011. Total exposure in this portfolio is split over five main industry sectors of which drilling (31%), oil and gas extraction (27%) and support activities (26%) are the most important ones. In terms of geographical focus the majority of clients are located in North-western Europe (39%), North America (19%) and Asia/Pacific (18%), whereas the

assets are located all around the world in key oil and gas areas.

Another area that saw growth was the infrastructure and renewables sector (EUR 2,112 million). Although the infrastructure portion remained relatively stable, renewables (EUR 306 million) increased by almost 50% compared to 2010. Most of this growth took place in Germany, due in part to the government's stimulus measures such as the fixed feed-in tariff in this market. NIBC also closed in 2011 its first transactions in the solar segment. In terms of geographical distribution, 61% of the Infrastructure & Renewables portfolio is located in the United Kingdom, 14% in Germany, 14% in the Netherlands and the remainder in the rest of Europe. In terms of industries, the portfolio spans various industry sectors, of which education (25%), healthcare (18%), roads (15%) and renewable energy (14%) are the most important.

The portfolio of Shipping & Intermodal (EUR 1,718 million) also grew slightly, especially in the first half of 2011. However, the adverse economic conditions that the industry has been experiencing for the past three years became more pronounced in the second half of the year. In anticipation of a continued weak shipping market, new business opportunities were pursued selectively according to strict lending parameters with respect to the quality of the owners, the charterers/term employment and the assets. In order to prevent a weakening of the credit quality of the portfolio, active portfolio management remains a priority on an ongoing basis, and dialogue with clients has further intensified. NIBC's Shipping & Intermodal portfolio consists mainly of tankers (33%), bulk carriers (29%), containers (also known as intermodal; 11%) and container vessels (9%). Borrowers are mainly located in Asia/Pacific (43%), Europe (33%) and North America (14%).

The portfolio of Commercial Real Estate (EUR 2,243 million) remained stable. This sum includes an amount of EUR 613 million in securitised loans that concerns the Mesdag Delta securitisation, of which EUR 469 million has been sold. NIBC has retained notes for an amount of EUR 144 million, which entail the net credit risk exposure. Commercial real estate remains a well diversified portfolio across various commercial real estate classes. Residential commercial property financing accounts for 42% of the portfolio, which

significantly reduces the concentration risk in the underlying collateral pool. Other segments include retail property financing (14%), offices (13%), and financing of development companies (8%) and hotels (8%). The properties are almost exclusively located in the Netherlands (64%) and Germany (34%). While activities in the residential markets in the Netherlands seem to have come to a standstill, the residential markets in Germany (where the majority of NIBC's residential properties are located), and especially in Berlin, are in general still strong. All other asset classes both in Germany and in the Netherlands show little or no activity, with the exception of offices and retail properties that have long lease terms and are situated in top locations.

The Leveraged Finance portfolio (EUR 1,291 million) experienced a small decrease in 2011. The number of new deals increased in 2011 in both core geographies (Benelux and Germany). Nevertheless, the increase was offset by higher than expected early repayments. Furthermore, the upward rating migration observed across the portfolio in late-2010 and during the first half of 2011 began to reverse in the second half of 2011. The earlier decline in average leverage across the portfolio was offset by pressure from depressed trading performance on more recent transactions, restructured deals and early repayment of transactions closed at the 2005-2007 market peak. During the second half of 2011, NIBC responded to the deteriorating economic circumstances by increasing the selectiveness with which deals were closed. Closed transactions were all conservatively structured in terms of leverage, interest coverage, collateral and covenants and supported by substantial equity contributions. At year-end 2011, exposure was located in the Netherlands (46%), Germany (24%), the United Kingdom (17%), and the rest of Europe (13%). The most important sub-sectors of the portfolio are retail (23%), manufacturing of industrial products (14%), services (13%), wholesale (9%) and healthcare (8%). The remainder of the portfolio (33%) is spread over 16 sub-sectors, none of which represents more than 5%.

A decrease was also observed in NIBC's corporate lending activities (EUR 1,150 million). In the first half of 2011 market activity continued the strong growth that had been exhibited already since 2010. This trend, however, was reversed in the second

half of the year, which experienced larger than expected repayments, as well as certain prospect deals being postponed to 2012. The majority of new activity took place in Germany, where new clients entered NIBC's portfolio in all three focus areas: food, agriculture & retail; manufacturing & industrials, and telecom, media & services. The exposure of the portfolio was spread over financial services (47%), services (15%), manufacturing (14%), wholesale/retail/leisure (9%), telecom/media/technology (9%) and food and agriculture (6%). Certain transactions in the financial services industry are funded through a financial market structure with highly-rated collateral involved, and are self-liquidating. Geographically, the most notable development was the fact that the share of transactions closed in Germany more than doubled, accounting for 29% of the Corporate Lending portfolio. The Netherlands remains the biggest country (57%), and the remainder of the clients are located mainly in the rest of Western Europe.

#### Development of credit quality in 2011

The impact of the credit crisis on the Corporate Loan portfolio was less pronounced in 2011 compared to the period 2008-2010; however, 2011 still remained a volatile year. While market circumstances seemed more optimistic in the beginning of the year compared with 2010, the market sentiment changed after the summer of 2011, mainly due to the persistence of the Euro zone debt crisis. NIBC responded to these volatile circumstances by increasing selectiveness in closing deals and by focusing on credit quality.

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

Despite the pressure of the second half of 2011 and the downward CCR migration that was noted in certain portfolio segments, the overall credit quality of the Corporate Loan portfolio remained stable. New origination was characterised by stronger security packages, resulting in LGDs better than the portfolio average. Average CCRs remained stable at the same levels of 2010 for all corporate loan segments, and LGDs were either stable or improved.

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

Note 54 to the consolidated financial statements provides more detailed information on the evolution of impairments and write-offs.

## Residential mortgages

Since 1 January 2008, NIBC's rating methodology for residential mortgages has received approval from the DNB to use the AIRB approach for calculating solvency requirements and reporting to the DNB. The calculation of PD, LGD and *Exposure at Default* (EAD) is performed by an internally developed Basel II AIRB model, which has been in use since 2006. This AIRB model is periodically assessed by the DNB to ensure that minimum requirements are met. More information about NIBC's internal rating process and their uses in decision-making process can be found in note 54 to the consolidated financial statements, as well as in NIBC's Pillar III report, published on NIBC's website.

The Residential Mortgage portfolio at 31 December 2011 amounted to EUR 8,745 million and consists of residential mortgage loans originated in the Netherlands and Germany. The majority (95%) of the Residential Mortgage portfolio consists of Dutch mortgages. The other 5% comprises German mortgages. The total Dutch mortgage book of

EUR 8,319 million is externally funded for EUR 5,560 million by bonds bought by investors in *Residential Mortgage-Backed Securities* (RMBS) programmes. The German mortgage book has a size of EUR 426 million. In 2011, the total portfolio decreased by approximately EUR 1 billion, due to repayments being higher than originations. Both portfolios are evenly distributed throughout their respective countries.

Despite the continuation of the negative market sentiment for the housing market in 2011, NIBC successfully placed a securitisation transaction (EUR 750 million) backed by residential mortgages under its longstanding Dutch MBS programme, and successfully issued EUR 500 million under its Covered Bond programme. The placement under the Dutch MBS programme increased the size of the securitised portfolio compared to 2010.

NIBC handles all management of amounts in arrear of its Dutch Residential Mortgage portfolio in-house. Over the past couple of years, NIBC has significantly strengthened arrears management by in-sourcing the arrears management process of the mortgages. This process of in-sourcing was finalised in 2009.

The residential mortgage market in 2011 remained challenging. The revision of the code of conduct brought a tightening of the underwriting criteria. The main changes concerned the lowering of the interest-only part of a mortgage loan to 50% of the market value of the property, and the maximum loan amount of 106% of the market value of the property.

The origination spread of mortgages in the Netherlands increased significantly, displaying increased perceived risk of mortgages and increased funding costs. The last two years showed an increase in losses, due to market circumstances; this trend was continued in 2011. Although the number of defaults remained quite stable, the losses arising from these defaults (LGD parameter) increased. Actual credit losses have been, nevertheless, low in the past years.

More information about the Residential Mortgage portfolio is provided in note 54 to the consolidated financial statements, as well as in NIBC's Pillar III report, published on NIBC's website.

## Debt investments

The Debt Investments portfolio contains issuer risk, which is the credit risk of losing the principal amount on products such as bonds. It is calculated based on the book value. This portfolio contained no sovereign exposures.

NIBC identifies the following sub-portfolios:

- Debt from financial institutions and corporate entities; and
- Securitisations, which are further broken down into:
  - Western European & Own Securitisations portfolio; and
  - Liquidity Investments portfolio

The portfolio of debt issued by financial institutions and corporate entities amounted to EUR 707 million at 31 December 2011. This portfolio is used in order to support NIBC's liquidity position.

Bonds issued by financial institutions comprised 87% of this amount, and 13% were corporate bonds. Exposure was mainly located in the Netherlands (28%), the United Kingdom (14%), Germany (11%) and other Western European countries (28%). The remainder of the exposure comprises almost exclusively bonds of North American banks. In terms of industry sectors, all financial institutions fall within NIBC's financial services industry sector. Corporate debt investments primarily fall within financial services (63%) and agriculture & food (19%). Unlike at year-end 2010, at 31 December 2011 there were no Credit Default Swaps (CDS) outstanding in this portfolio.

The total securitisation exposure amounted to EUR 832 million at 31 December 2011, of which 85% was located in Western Europe and the remainder in North America. Note 54 to the consolidated financial statement provides more details on the geographic breakdown of NIBC's securitisations.

The size of both portfolios decreased in 2011, mainly due to regular repayments, as well as active sale of assets. Note 54 to the consolidated financial statements provides more information for both portfolios.

## Cash management

NIBC is exposed to credit risk as a result of cash management activities. An example is the credit risk on accounts with other banks. NIBC holds

foreign currency accounts at correspondent banks and also utilises third-party account providers for internal securitisations.

In 2011, NIBC's risk management framework for cash management continued its conservative attitude that took into account the vulnerable financial markets and concern about various financial entities.

NIBC places its excess cash primarily with the DNB and with a select number of strong investment-grade financial institutions. For the approved financial counterparties, a monitoring process is set up within the FMCR department. Ratings of financial counterparties are verified on a daily basis. In 2011, limits were adjusted downwards as a result of the increased nervousness in the financial markets.

The size of this portfolio increased to EUR 3,051 million at 31 December 2011 from EUR 1,961 million at 31 December 2010. This increase in NIBC's cash balance is intended to cover the expiring state-guaranteed funding in February 2012. At 31 December 2011, 80% of NIBC's excess cash was placed with the DNB. The remainder was placed with financial institutions rated single-A or higher, of which 30% were located in the United Kingdom, 28% in the Netherlands, 5% in Germany 22% in other European countries and 15% in North America.

Note 54 to the consolidated financial statements provides more information on cash management.

## Derivatives

Credit risk in derivatives is the risk of having to replace the counterparty in derivative contracts. NIBC manages this risk based upon the marked-to-market value plus an add-on. The add-on reflects a potential future change in marked-to-market value during the remaining lifetime of the derivative contract.

NIBC's credit risk in derivatives can be split into exposures to financial institutions and corporate entities. NIBC's policy is to minimise this risk. With respect to financial institutions, NIBC only enters into *Over The Counter (OTC)* derivatives with investment-grade counterparties with ratings of single-A or higher. NIBC has bilateral collateral contracts in place with all of the main financial

institutions it does business with. These contracts aim to mitigate credit risk on the derivatives by means of *Credit Support Annexes (CSA)*. For corporate clients, NIBC enters into a derivative transaction as part of its overall relationship with the client. No CSA agreements are in place for these contracts, however corporate derivative exposures usually benefit from the security also supporting the related loan exposure.

The size of NIBC's derivative portfolio excluding netting, collateral and potential future exposure add-on amounted to EUR 3,880 million at 31 December 2011; including netting and collateral, the size was EUR 965 million. Netting and collateral almost exclusively reduce the exposure to derivatives with financial institutions.

Derivative contracts are closed with financial institutions and corporate clients in NIBC's core geographies. In terms of net exposure, 44% is located in the United Kingdom, 31% in the Netherlands and 13% in Germany. In terms of industry sector, all of NIBC's financial counterparties fall under the financial services sector. Corporate clients with derivatives are mainly active in Infrastructure & Renewables (49%), Commercial Real Estate (39%) and Shipping (4%).

Note 54 to the consolidated financial statements provides more information on derivatives.

## Market risk

NIBC defines market risk as the current and prospective threat to its earnings and capital as a result of movements in market prices. Market risk, therefore, includes price risk, interest rate risk and foreign exchange risk, both within and outside the Trading book. For fixed-income products, market risk also includes credit spread risk, which is the risk due to movements of underlying credit curves.

The predominant market risk drivers for NIBC are interest rate risk and credit spread risk.

The interest rate risk of NIBC is concentrated in the Trading portfolio, the Mismatch portfolio and the Banking Book.

In the Trading portfolio, NIBC takes short-term positions in the EUR, GBP and USD yield curves.

This portfolio also contains interest rate risk related to derivative transactions of NIBC's clients. The overall market risk in the Trading portfolio of NIBC is limited, as is also exhibited by the amount of Basel II/Pillar I regulatory capital required for this activity, which only comprises 2% of the total regulatory capital. This is further emphasised by the *Value at Risk (VaR)*, calculated with a 99% confidence interval, which amounted, on average, to only EUR 1.4 million in 2011. The VaR limit is currently set at EUR 2.25 million.

In the Mismatch portfolio, NIBC concentrates the interest rate risk of the bank based upon a long-term view. Traditionally, NIBC only takes mismatch positions in the currencies in which the bank has lending activities. In 2011, interest rates dropped to nearly all-time lows. Therefore, NIBC decided to close the existing mismatch positions in EUR and USD. As such, NIBC currently does not have an open mismatch position.

Apart from the Trading portfolio and the Mismatch portfolio, interest rate risk is also contained in a number of portfolios collectively referred to as the Banking Book. The Banking Book only contains residual interest rate risk and basis risk.

NIBC is subject to credit spread risk in the Debt Investment portfolio, which is part of the Banking Book and comprises mainly investments in financial institutions and securitised products.

NIBC has the policy not to take any active currency position. When currency positions exceed small facilitating limits, NIBC enters into a hedging transaction. The overall open currency position of NIBC, in general, is lower than EUR 25 million.

Note 55 to the consolidated financial statements and the Pillar III report provide more information on market risk.

## Investment risk

NIBC's investment risk relates to positions in private equity, infrastructure equity and real estate equity investments. These private equity investments can be divided in direct investments and indirect investments. Indirect investments are investments made through *funds set up and managed by NIBC (NIBC Funds)* that are

controlled by NIBC and thus consolidated into the consolidated financial statements of NIBC. Direct investments are all other investments and consist of private and listed common equity investments, preference shares, warrants and interests in funds managed by NIBC or by third parties in which NIBC does not exercise control.

Investment risk for the private equity investments of NIBC is the risk that the value of the investment will deteriorate. NIBC includes investment risk in its market risk framework.

The investment process is based on the following principles:

- Investment risk exposures are authorised independently of the business originators;
- Systematic risk analysis of the investment is undertaken, with a view to identifying, measuring and evaluating all risks and
- The principles of Know Your Customer, Customer Due Diligence and Corporate Social Responsibility are embedded as an integral part of the overall investment process.

## Management of investment exposures

Direct investment transactions with respect to private equity exposures are approved by the IC. As far as indirect investment transactions are concerned, these are approved by the investment committees of the NIBC Funds, subject to the investment guidelines stipulated in the fund agreements between the manager of the NIBC Fund and the investors.

NIBC's private equity investments are generally characterised by low liquidity. Because the size of the investment portfolio is limited, concentration risk is assessed per individual new asset. Market

and geographical exposure profiles are also taken into account.

All investment exposures are reviewed on a quarterly basis. The investment manager drafts a review document and prepares a valuation of the investment in accordance with the International Private Equity and Venture Capital Valuation Guidelines, to the extent that these are consistent with IAS 39. The International Private Equity and Venture Capital Valuation Guidelines set out recommendations, intended to represent current best practice on the valuation of private equity and venture capital. All valuations and impairments are approved by the IC.

In each quarterly review, the exit strategy of every investment is updated, where applicable. Divestment proposals for direct investments are submitted for approval to the IC. Divestment proposals for indirect investments are submitted for approval to the investment committee of the NIBC Fund.

In 2011, Avedon Capital Partners, which incorporated the activities of NIBC Capital Partners, spun off NIBC. Avedon Capital partners will manage the newly launched fund NIBC Growth Capital Fund II and the equity funds NIBC Merchant Banking Fund IA and IB. Avedon Capital Partners is fully independent of NIBC, in line with market requirements for governance of third-party funds.

## Composition of investment exposure

Tables 2 and 3 present the breakdown of the on-balance equity investments portfolio in industry sectors and regions. Off-balance commitments of NIBC amounted to EUR 67 million at 31 December 2011 (31 December 2010: EUR 68 million).

## 2 Breakdown of equity investments per industry sector

IN EUR MILLIONS	2011	2010
Wholesale/Retail/Leisure	131	152
Infrastructure	77	69
Financial Services	33	31
Commercial Real Estate	31	33
TMT	21	20
Manufacturing	18	21
Shipping	13	17
Agriculture & Food	5	-
Services	3	2
Other	22	27
<b>TOTAL AT 31 DECEMBER</b>	<b>354</b>	<b>372</b>

### 3 Breakdown of equity investments per region

IN EUR MILLIONS	2011	2010
The Netherlands	284	307
United Kingdom	13	6
Rest of Europe	37	38
North America	20	21
<b>TOTAL AT 31 DECEMBER</b>	<b>354</b>	<b>372</b>

## Liquidity risk

NIBC defines liquidity risk as the inability of the company to fund its assets and meet its obligations as they become due, at acceptable cost.

One of the cornerstones of NIBC's liquidity risk management framework is to maintain a comfortable liquidity position. The credit and liquidity crisis made liquidity risk management even more important. NIBC was able to maintain a sound liquidity position in the difficult times of the credit crisis due to the prudent and conservative liquidity and funding policy in the past, as well as by diversifying funding sources. Following the funding diversification of the past years, the major funding initiatives undertaken in 2011 were the further expansion of the online retail savings programme NIBC Direct (including the introduction in Belgium at the end of 2011) from EUR 4.2 billion to EUR 6.1 billion, as well as renewed RMBS and covered bond issuances. These initiatives ensured that NIBC was well prepared for the repayment of maturing government-guaranteed debt in December 2011 and February 2012. In addition, NIBC was able to maintain its liquidity buffers of highly liquid assets and collateralised funding capacity throughout 2011.

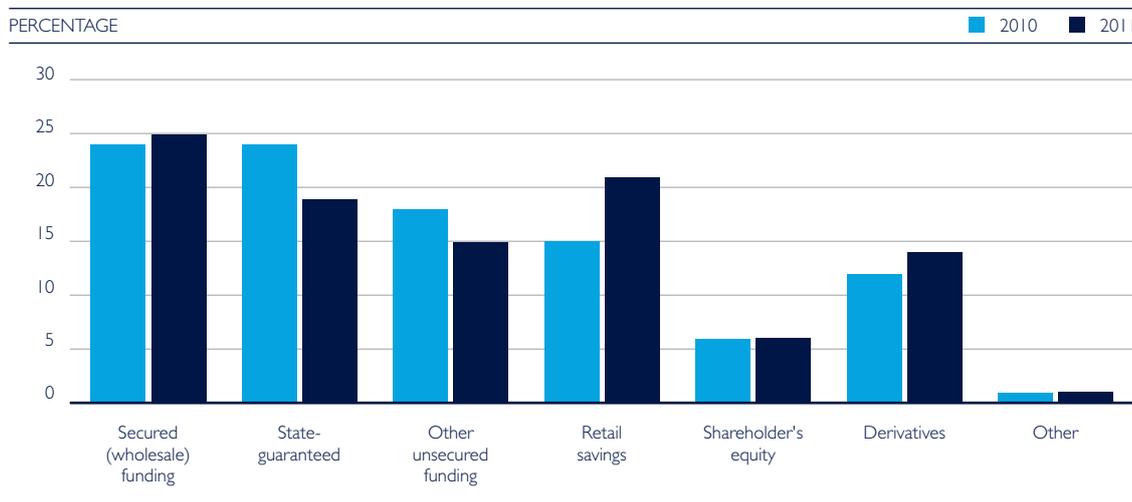
Based on projections prepared by the business units and reviewed by risk management, and the current asset and liability maturity profiles, a 12-month liquidity stress test is prepared and presented once every two weeks to the ALCO, in order to create continuous monitoring of the liquidity position. The stress test assumes no additional funding, continuation of business and potential outflow of cash due to collateral agreements. The outcome of the 12-months liquidity stress test is at a comfortable positive level and remains positive for a prolonged period.

More information about liquidity risk can be found in note 56 to the consolidated financial statements, as well as in NIBC's Pillar III report, published on NIBC's website.

### Funding

NIBC further diversified its funding base by the initiatives mentioned earlier. An overview of the Funding portfolio at 31 December 2011 and 31 December 2010 is shown in graph 4. In contrast to previous years, the funding overview is based upon total balance sheet amounts.

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



## Operational risk

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

To ensure appropriate responsibility is allocated for the management, reporting and escalation of operational risks, NIBC operates a three lines of defence model, which outlines principles for the roles, responsibilities and accountabilities for front-to-back operational risk management. As such, staff is responsible for adherence to the operational risk policy and operational risk management framework, which includes oversight of all operational risks specific to the business and reporting of operational risk events and losses.

The Operational Risk Management department monitors and manages operational risk at group level, develops policy and processes (such as the new product approval process) and provides methodology and tools. The tools utilised give an integrated view of the risk self-assessment, control identification, action planning, and event and loss registration. These tools support the constant process of evaluating and reducing operational risk, and planning mitigation measures.

## Capital adequacy

Capital adequacy of NIBC is managed at NIBC Holding level.

### Regulatory capital

The principal ratios for reviewing the capital adequacy of NIBC are the Basel II regulatory capital ratios: the Core Tier-1 ratio, the Tier-1 ratio and the BIS ratio.

As in previous years, at 31 December 2011, NIBC had excellent regulatory ratios. The Core Tier-1 ratio stood at 12.8% (2010: 12.4%); the Tier-1 ratio at 15.2% (2010: 14.0%); and the BIS ratio at 16.3% (2010: 15.2%), well above the capital requirements imposed by the DNB, which require a minimum Tier-1 ratio of 4% and a minimum BIS ratio of 8%. The main driver for the higher levels of these ratios compared to 2010 was the decrease in *Risk Weighted Assets (RWA)*. This decrease is mainly driven by the reduction in the size of the Residential Mortgage portfolio and the Debt Investments portfolio, which offset the increase in the size of the Corporate Loan portfolio. Furthermore, the Corporate Loan portfolio experienced a decreasing trend in its RWA despite its nominal growth, due to increased security packages and recovery expectations and, as such, improved LGD parameters.

Table 5 shows the summary of capital ratios and RWA for NIBC.

### 5 NIBC capital ratios, Basel II

IN %	31 December 2011	31 December 2010
<b>CAPITAL RATIOS</b>		
Core Tier-1 ratio	12.8	12.4
Tier-1 ratio	15.2	14.0
BIS ratio	16.3	15.2
<hr/>		
IN EUR MILLIONS	31 December 2011	31 December 2010
<b>RISK WEIGHTED ASSETS</b>		
Credit risk	10,628	11,801
Market risk	244	244
Operational risk	507	313
<b>TOTAL RWA</b>	<b>11,379</b>	<b>12,358</b>

## Economic capital

In addition to regulatory capital, NIBC also calculates *economic capital (EC)*. This is the amount of capital that NIBC needs as a buffer against potential losses from business activities, based upon its own assessment of risks. It differs from Basel II regulatory capital, as NIBC sometimes assesses the specific risk characteristics of its business activities in a different way from the general regulatory method. At NIBC, EC is based on a one-year risk horizon with a 99.95% confidence level. This confidence level means that there is a probability of 0.05% that losses in a period of one year will be larger than the allocated EC.

During 2011, the EC remained more or less stable and ranged between EUR 1.2 billion and EUR 1.3 billion. In general, the effect of reduced portfolios was offset by increased volatility in the markets.

Note 57 to the consolidated financial statements provides more information on capital management. Furthermore, the Pillar III report, published on NIBC's website, provides more details on regulatory capital and EC.

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# Consolidated income statement

## for the year ended 31 December

IN EUR MILLIONS	NOTE	2011	2010
Interest and similar income		692	610
Interest expense and similar charges		527	470
<b>NET INTEREST INCOME</b>	2	<b>165</b>	<b>140</b>
Fee and commission income		36	30
Fee and commission expense		3	1
<b>NET FEE AND COMMISSION INCOME</b>	3	<b>33</b>	<b>29</b>
Dividend income	4	5	10
Net trading income	5	51	111
Gains less losses from financial assets	6	48	45
Share in result of associates	27	2	4
Other operating income	7	64	76
<b>OPERATING INCOME</b>		<b>368</b>	<b>415</b>
Personnel expenses and share-based payments	8	130	142
Other operating expenses	9	81	73
Depreciation and amortisation	10	19	19
<b>OPERATING EXPENSES</b>		<b>230</b>	<b>234</b>
Impairments of financial assets	11	46	89
<b>TOTAL EXPENSES</b>		<b>276</b>	<b>323</b>
<b>PROFIT BEFORE TAX</b>		<b>92</b>	<b>92</b>
Tax	12	7	11
<b>PROFIT AFTER TAX</b>		<b>85</b>	<b>81</b>
Result attributable to non-controlling interests	13	(1)	4
<b>NET PROFIT ATTRIBUTABLE TO PARENT SHAREHOLDERS</b>		<b>86</b>	<b>77</b>

# Consolidated statement of comprehensive income

## for the year ended 31 December

IN EUR MILLIONS	2011			2010		
	Before tax	Tax charge/ (credit)	After tax	Before tax	Tax charge/ (credit)	After tax
<b>PROFIT FOR THE YEAR</b>	<b>92</b>	<b>7</b>	<b>85</b>	<b>92</b>	<b>11</b>	<b>81</b>
<b>OTHER COMPREHENSIVE INCOME</b>						
Net result on hedging instruments	28	6	22	42	15	27
Revaluation loans and receivables	14	3	11	18	5	13
Revaluation equity investments	1	1	-	3	2	1
Revaluation debt investments	(25)	(6)	(19)	(3)	1	(4)
Revaluation property, plant and equipment	(13)	(3)	(10)	-	-	-
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>5</b>	<b>1</b>	<b>4</b>	<b>60</b>	<b>23</b>	<b>37</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>97</b>	<b>8</b>	<b>89</b>	<b>152</b>	<b>34</b>	<b>118</b>
<b>TOTAL COMPREHENSIVE INCOME</b>						
<b>ATTRIBUTABLE TO</b>						
Parent shareholders	98	8	90	148	34	114
Non-controlling interests	(1)	-	(1)	4	-	4
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>97</b>	<b>8</b>	<b>89</b>	<b>152</b>	<b>34</b>	<b>118</b>

# Consolidated balance sheet

## at 31 December

IN EUR MILLIONS	NOTE	2011	2010
<b>Assets</b>			
<b>FINANCIAL ASSETS AT AMORTISED COST</b>			
Cash and balances with central banks	14	2.430	1.314
Due from other banks	15	2.127	1.703
Loans and receivables			
Loans	16	6.866	6.368
Debt investments	17	556	625
Securitised loans	18	613	614
<b>FINANCIAL ASSETS AT AVAILABLE FOR SALE</b>			
Equity investments	19	66	72
Debt investments	20	887	1.190
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)</b>			
Loans	21	998	1.074
Residential mortgages own book	22	3.185	4.429
Securitised residential mortgages	23	5.560	5.338
Debt investments	24	241	640
Equity investments (including investments in associates)	25	259	269
Derivative financial assets held for trading	26	3.655	3.107
Derivative financial assets used for hedging	26	292	360
<b>OTHER</b>			
Investments in associates (equity method)	27	29	31
Intangible assets	28	172	242
Property, plant and equipment	29	51	101
Investment property	30	27	26
Other assets	32	170	105
Deferred tax	33	73	82
<b>TOTAL ASSETS</b>		<b>28.257</b>	<b>27.690</b>

IN EUR MILLIONS	NOTE	2011	2010
<b>Liabilities</b>			
<b>FINANCIAL LIABILITIES AT AMORTISED COST</b>			
Due to other banks	34	1.268	1.354
Deposits from customers	35	6.398	4.567
Own debt securities in issue	36	7.096	8.209
Debt securities in issue related to securitised mortgages	37	5.416	5.562
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)</b>			
Own debt securities in issue	38	41	46
Debt securities in issue structured	39	1.733	2.120
Derivative financial liabilities held for trading	26	3.961	3.319
Derivative financial liabilities used for hedging	26	34	48
<b>OTHER FINANCIAL LIABILITIES</b>			
Other liabilities	40	150	215
Current tax	31	1	2
Employee benefits	41	5	5
<b>SUBORDINATED LIABILITIES</b>			
Amortised cost	42	85	119
Fair value through profit or loss	43	296	369
<b>TOTAL LIABILITIES</b>		<b>26.484</b>	<b>25.935</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	44	1.408	1.408
Other reserves	44	612	608
Retained earnings		(305)	(338)
Net profit attributable to parent shareholders		86	77
(Interim) dividend paid		(29)	(22)
<b>TOTAL PARENT SHAREHOLDERS' EQUITY</b>		<b>1.772</b>	<b>1.733</b>
Non-controlling interests		1	22
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1.773</b>	<b>1.755</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>28.257</b>	<b>27.690</b>

# Consolidated statement of changes in shareholders' equity

IN EUR MILLIONS	Attributable to parent shareholders				Total	Non-controlling interests	Total shareholders' equity
	Share capital	Other reserves <sup>1</sup>	Retained earnings	Net result			
<b>BALANCE AT 1 JANUARY 2010</b>	<b>1,407</b>	<b>569</b>	<b>(323)</b>	<b>(22)</b>	<b>1,631</b>	<b>19</b>	<b>1,650</b>
Transfer of net profit 2009 to retained earnings	-	-	22	22	-	-	-
Total comprehensive income for the year ended 31 December 2010	-	37	-	77	114	4	118
Capital contribution of third parties in a subsidiary controlled by NIBC Holding	-	-	-	-	-	-	-
Proceeds from shares issued	1	-	-	-	1	-	6
Treasury shares purchased by STAK	-	-	(1)	-	(1)	-	(1)
Release liability NIBC choice	-	2	-	-	2	-	2
NIBC Choice expense	-	-	3	-	3	-	3
Dividend paid <sup>2</sup>	-	-	-	(22)	(22)	-	(22)
Net investment hedge foreign entities	-	-	6	-	6	-	6
Other movements	-	-	(1)	-	(1)	(1)	(2)
<b>BALANCE AT 31 DECEMBER 2010</b>	<b>1,408</b>	<b>608</b>	<b>(338)</b>	<b>55</b>	<b>1,733</b>	<b>22</b>	<b>1,755</b>

IN EUR MILLIONS	Attributable to parent shareholders				Total	Non-controlling interests	Total shareholders' equity
	Share capital	Other reserves <sup>1</sup>	Retained earnings	Net result			
<b>BALANCE AT 1 JANUARY 2011</b>	<b>1,408</b>	<b>608</b>	<b>(338)</b>	<b>55</b>	<b>1,733</b>	<b>22</b>	<b>1,755</b>
Transfer of net profit 2010 to retained earnings	-	-	55	(55)	-	-	-
Total comprehensive income for the year ended 31 December 2011	-	4	-	86	90	(1)	89
Divestment of third party interests in a subsidiary formerly controlled by NIBC Holding	-	-	-	-	-	(20)	(20)
Proceeds from shares issued	-	-	-	-	-	-	-
Treasury shares purchased by STAK	-	-	-	-	-	-	-
Release liability NIBC choice	-	-	-	-	-	-	-
NIBC Choice expense	-	-	-	-	-	-	-
Dividend paid <sup>2</sup>	-	-	(22)	(29)	(51)	-	(51)
Net investment hedge foreign entities	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-
<b>BALANCE AT 31 DECEMBER 2011</b>	<b>1,408</b>	<b>612</b>	<b>(305)</b>	<b>57</b>	<b>1,772</b>	<b>1</b>	<b>1,773</b>

1. Other reserves include share premium, hedging reserve and revaluation reserves.

2. Ordinary (interim) dividend paid in 2011 and 2010 to equity holders.

# Consolidated statement of cash flows

## for the year ended 31 December

IN EUR MILLIONS	NOTE	2011	2010
<b>OPERATING ACTIVITIES</b>			
Net profit for the year		86	77
<b>ADJUSTMENTS FOR NON-CASH ITEMS</b>			
Depreciation, amortisation and impairment losses	10/11	65	108
Changes in employee benefits	41	-	-
Gains less losses from financial assets	6	(48)	(45)
Share in result of associates	27	(2)	(4)
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES</b>			
Derivative financial instruments	26	163	(222)
Operating assets		898	326
Operating liabilities (including Deposits from customers)		1,533	(497)
Dividends received from associates	27	-	5
<b>CASH FLOWS FROM OPERATING ACTIVITIES <sup>1</sup></b>		<b>2,695</b>	<b>(252)</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from the sale of property, plant and equipment	29/30	38	1
Acquisition of property, plant and equipment	29/30	(12)	(12)
Disposal of subsidiaries, associates and joint ventures	27/28	64	3
Acquisition of associates and joint ventures		(1)	(90)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>89</b>	<b>(98)</b>
<b>FINANCING ACTIVITIES</b>			
Net decrease in own debt securities in issue	36/38	(1,118)	(666)
Net decrease in subordinated liabilities	42/43	(107)	(13)
Net decrease in debt securities in issue structured	39	(387)	(333)
Proceeds from issued shares		-	1
Dividend paid		(51)	(22)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(1,663)</b>	<b>(1,033)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>1,121</b>	<b>(1,383)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<b>2,009</b>	<b>3,392</b>
Net increase/(decrease) in cash and cash equivalents		1,121	(1,383)
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>3,130</b>	<b>2,009</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS:</b>			
Cash and balances with central banks	14	2,430	1,314
Due from other banks (maturity three months or less)	15	700	695
		<b>3,130</b>	<b>2,009</b>
<b>SUPPLEMENTARY DISCLOSURE OF OPERATING CASH FLOW INFORMATION:</b>			
Interest paid		481	481
Interest received		672	592

1. The cash flows from operating activities included an amount of EUR 1 million of taxes (2010: EUR 12 million of taxes).

# Accounting policies

## Authorisation of consolidated financial statements

The consolidated financial statements of *NIBC Holding N.V. (NIBC Holding)* for the year ended 31 December 2011 were authorised for issue by the Managing Board of NIBC on 6 March 2012. NIBC Holding together with its subsidiaries (NIBC Holding or the group), is incorporated and domiciled in the Netherlands. The principal activities of NIBC Holding are described in the *Our Clients* section of this Annual Report.

## 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 considered necessary comparative figures have been adjusted to conform to changes in presentation in the current year.

### Statement of compliance

NIBC Holding's consolidated financial statements have been prepared in accordance with the *International Financial Reporting Standards (IFRS)* as adopted by the *European Union (EU)* and with Title 9 of Book 2 of the Netherlands Civil Code.

### Basis of preparation

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. All figures are rounded to the nearest EUR million, except when otherwise indicated.

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 NIBC Holding'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 section.

### Standards, amendments and interpretations effective in 2011

The following new or revised standards and interpretations and amendments to standards and interpretations became effective in 2011:

- Amendment to *International Accounting Standards (IAS)* 24 'Related Party Transactions';
- *International Financial Reporting Interpretations Committee (IFRIC)* 19 'Extinguishing financial liabilities with equity instruments';
- Amendment to IAS 32 'Financial Instruments: Presentation';
- Amendment to IFRIC 14 'Prepayments of a Minimum Funding Requirement';
- Amendments to IFRS 1 'Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters'; and
- 2010 Annual Improvements to IFRS.

There are no IFRSs and IFRIC interpretations that are effective for the first time for the financial year beginning 1 January 2011 that have a material impact on the group.

### Standards, amendments and interpretations to existing standards that are not yet effective and have not been early-adopted by NIBC Holding

There are no new or revised standards, amendments and interpretations issued by the IASB and endorsed by the EU, which become effective for NIBC Holding as of 2012.

## Basis of consolidation

The consolidated financial statements are comprised of the financial statements of NIBC Holding and its subsidiaries as at and for the years ended 31 December 2011 and 2010.

## Subsidiaries

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

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recognised as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is

accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

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. The accounting policies of subsidiaries (including SPEs that NIBC Holding consolidates) have been changed where necessary to ensure consistency with the policies adopted by NIBC Holding.

## Transactions with non-controlling interests

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases of non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured at its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

If the interest in an associate is reduced but significant influence is retained, only a proportionate share of amounts previously recognised in other comprehensive income are reclassified to the income statement, where appropriate.

## 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 Holding 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 venture capital organisation (as that term is used in IAS 31) within NIBC Holding, the group designates upon initial recognition all newly acquired investments in such 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 Holding has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Except as otherwise described below, investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

With effect from 1 January 2007, all newly acquired investments in associates held by the venture capital organisation (as that term is used in IAS 28) within the NIBC Holding 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 other comprehensive income is recognised in other comprehensive income. 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 Holding'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 Holding.

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

## Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Managing Board of NIBC Holding. For details of NIBC Holding's operating segment reference is made to note 1.

## 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

EUR, the functional currency and presentation currency of NIBC Holding.

## 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 (other comprehensive income net of tax) 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 other comprehensive income.

Foreign exchange translation differences on non-monetary assets and liabilities that are stated at fair value through profit or 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 revaluation reserve in other comprehensive income.

## 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 weighted 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); and
- All resulting exchange differences are recognised as a separate component of other comprehensive income.

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 Holding becomes a party to the contractual provisions that comprise the financial instrument.

NIBC Holding 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 Holding 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; or
- When NIBC Holding 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; or

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

If NIBC Holding has transferred its contractual 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 Holding'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 Holding could be required to repay.

When 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 Holding's continuing involvement is the amount of the transferred asset that NIBC Holding 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 Holding'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 derecognition 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.

## Classification of financial instruments

Financial assets are classified as:

- Loans and receivables at amortised cost;
- Available for sale financial instruments; or

- Financial instruments at fair value through profit or loss and held for trading, including derivative instruments that are not designated for cash flow hedge accounting relationships.

Financial liabilities are classified as:

- Financial instruments at amortised cost; or
- Financial instruments at fair value through profit or loss, including derivative instruments that are not designated for cash flow hedge accounting relationships.

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, except for the financial assets reclassified in 2008, is determined upon initial recognition.

### Financial assets - reclassification

In accordance with the amendment to IAS 39: 'Reclassifications of Financial Assets', NIBC Holding may reclassify certain non-derivative financial assets held for trading to either the loans and receivables or available for sale categories. The amendment also allows for the transfer of certain non-derivative financial assets from available for sale to loans and receivables.

NIBC Holding is allowed to reclassify certain financial assets out of the held for trading category if they are no longer held for the purpose of selling or repurchasing them in the near term.

The amendment distinguishes between those financial assets which would be eligible for classification as loans and receivables and those which would not. The former are those instruments which have fixed or determinable payments, are not quoted in an active market and contain no features that could cause the holder not to recover substantially all of its initial investment, except through credit deterioration.

Financial assets that are not eligible for classification as loans and receivables may be transferred from held for trading to available for sale only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term.

Financial assets that would now meet the criteria to be classified as loans and receivables may be

transferred from held for trading or available for sale to loans and receivables if the entity has the intention and ability to hold them for the foreseeable future.

Reclassifications are recorded at the fair value of the financial asset as of the reclassification date. The fair value at the date of reclassification becomes the new cost or amortised cost as applicable. Gains or losses due to changes in the fair value of the financial asset recognised in the income statement prior to reclassification date shall not be reversed. Effective interest rates for financial assets reclassified to the loans and receivables category are determined at the reclassification date as the discount rate applicable to amortise the fair value back to expected future cash flows at that date. Subsequent increases in estimated future cash flows will result in a prospective adjustment to the effective interest rate applied.

For financial assets reclassified from available for sale to loans and receivables, previous changes in fair value that have been recognised in the revaluation reserve within other comprehensive income are amortised to the income statement over the remaining life of the asset using the effective interest rate method. If such assets are subsequently determined to be impaired, the balance of losses previously recognised in other comprehensive income are released to the income statement and, if necessary, additional impairment losses are recorded in the income statement to the extent they exceed the remaining (available for sale) revaluation reserve in equity (other comprehensive income).

### Reclassification of financial assets (as of 1 July 2008)

As of 1 July 2008, the effective date of the amendments to IAS 39 and IFRS 7, the following financial assets were reclassified:

- Loans and receivables: loans and receivables, except for those that were designated at fair value through profit or loss, were reclassified out of the available for sale category to loans and receivables at amortised cost; and
- Debt investments:
  - US Structured Credits were reclassified out of the held for trading category to loans and receivables at amortised cost to the extent the assets meet the definition of loans and receivables;
  - EU Structured Credits originated after 1 July 2007 were reclassified out of the available for sale category to loans and receivables at amortised cost to the extent the assets meet the definition of loans and receivables;
  - EU Corporate Credits and EU Structured Credits originated before 1 July 2007 were reclassified out of the held for trading category to loans and receivables at amortised cost to the extent the assets meet the definition of loans and receivables; and
  - EU *Collateralised Debt Obligation (CDO)* equity was reclassified out of the held for trading category to the available for sale category. Any subsequent change in fair value from the fair value at the date of reclassification will be recorded in the (available for sale) revaluation reserve unless it is determined to be impaired or until the instrument is derecognised.

The amendments to IFRS 7 regarding reclassifications require disclosure of the impact of the reclassification of each category of financial assets on the financial position and performance of NIBC Holding.

### Changes to the classification of financial assets (in 2007)

In 2007, NIBC Holding 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 were 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 in classification is to align with market practice;
- Debt investments (assets): with effect from 1 July 2007, newly originated assets in the EU structured credits books were classified as available for sale. Assets acquired before 1 July 2007 were classified as held for trading. The reason for this change in classification is to align with 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 venture capital organisation (as that term is used in IAS 28 and IAS 31) have been 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 proportionally consolidated. The reason for this change in classification is to align with market practice; and
- Equity investments: equity investments acquired before 1 January 2007 held in the Investment portfolio of the venture capital organisation 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 venture capital organisation are designated upon initial recognition as financial assets at fair value through profit or loss. The reason for this change in classification is to align with market practice.

### Changes to the classification of financial liabilities (in 2007)

In 2007, a change was made to the classification of certain financial liabilities (debt securities in issue) upon origination. 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 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 offset the gains and/or losses on the derivative instrument that is also included in the income statement.

## Financial instruments at fair value through profit or loss

This category has two subcategories: financial

instruments held for trading and financial instruments designated upon initial recognition at fair value through profit or loss.

### 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 Holding 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 Holding at fair value through profit or loss are: Residential mortgage loans (own book and securitised), certain Debt Investment portfolios, Equity investments (including investments in associates and joint ventures held by our venture capital organisation); 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 on the groups of financial instruments is reported to management on that basis. Under this criterion,

the main classes of financial instruments designated by NIBC Holding at fair value through profit or loss are: Equity investments (originated after 1 January 2007), Commercial real estate loans (originated before 1 July 2007), Leveraged loan warehouses, Secondary loan trading; and Distressed asset trading. NIBC Holding 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; and

- 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 classes of financial instruments designated by NIBC Holding at fair value through profit or loss are: Debt securities in issue structured and 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, either as net trading income or as gains less losses from financial assets. Interest is recorded in interest income using the effective interest rate method, while dividend income is recorded in dividend income when NIBC Holding's right to receive payment is established.

## Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The main classes of financial instruments designated at available for sale assets at 31 December 2011 include:

- Equity investments;
- Certain debt investments that do not meet the definition of loans and receivables; and
- EU equity tranche notes.

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 other comprehensive income until the financial instrument is derecognised or impaired. When available for sale investments are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the income statement as net trading income or as gains less losses from financial assets (including 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 Holding's right to receive payment is established.

## Fair value estimation

IFRS 7 requires for financial instruments that are measured at fair value in the balance sheet disclosure of each class of financial assets and liabilities within a three-level hierarchy, referring to the respective basis of fair value measurement as follows:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- Inputs that are not based on observable market data (unobservable inputs) (level 3).

## Determination of fair value of financial instruments

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 Holding determines fair value either by reference to quoted market prices or dealer price quotations without adjustment for transaction costs for those financial instruments that are currently traded in an active market. The fair value measurement is based upon the bid price for financial assets and the ask price for financial liabilities. These financial instruments are reported as level 1 in the fair value hierarchy.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

The fair value of financial instruments not quoted in an active market is determined using appropriate valuation techniques. These valuation techniques are applied using, where possible, relevant market-observable inputs (level 2) or unobservable inputs (level 3). Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market-observable prices exist, option pricing models, credit models and other relevant models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation technique based on NIBC Holding's best estimate of the most appropriate assumptions and that has been calibrated against actual market transactions. Outcomes are adjusted to reflect the spread for bid and ask prices, to reflect costs to close out positions, where necessary for counterparty credit and liquidity spread, and for any other limitations in the technique. Profit or loss calculated upon initial recognition (day one profit or loss), is deferred unless the calculation is based on market-observable inputs, in which case it is

immediately recognised. Otherwise, day one profit or loss is recognised over the life of the instrument, when the inputs become observable or upon derecognition of the instrument (see also recognition of day one profit or loss).

The level within the fair value hierarchy at which an instrument measured at fair value is categorised, is determined on the basis of the lowest level input that is significant to the measurement of fair value in its entirety. NIBC Holding has a documented policy with respect to its approach to determining the significance of unobservable inputs on its fair value measurements of instruments and that policy is applied consistently.

An analysis of the fair values of financial instruments and further details as to how they are measured are provided in note 45.

## Loans and receivables at amortised cost

Loans and receivables at amortised cost are non-derivative financial assets with fixed or determinable payments that are (upon recognition) not quoted in an active market, other than: (a) those that NIBC Holding intends to sell immediately or in the short-term, which are classified as held for trading; (b) those that NIBC Holding upon initial recognition designates at fair value through profit or loss; (c) those that NIBC Holding upon initial recognition designates at available for sale; and (d) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

An interest acquired in a pool of assets that are not loans and receivables (for example an interest in a mutual fund or similar fund) is not a loan or receivable.

The main classes of loans and receivables at amortised cost at 31 December 2011 include corporate lending (excluding commercial real estate and leverage loan warehouses, secondary loan trading and distressed asset trading) and investments in the EU Corporate Credits and EU Structured Credits portfolio that were reclassified in 2008.

Loans and receivables are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method (including interest accruals less provision for impairment).

## Financial liabilities

With the exception of those financial liabilities designated 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 (including interest accruals) with the periodic amortisation recorded in the income statement.

The main classes of financial liabilities at amortised cost include amounts due to other banks, deposits from corporate and retail customers, own debt securities in issue under the European Medium Term Note programme, Covered Bonds and State Guaranteed Funding programme and debt securities in issue related to securitised mortgages. The main classes of financial liabilities designated at fair value through profit or loss include debt securities in issue structured that consist of notes issued with embedded derivatives and derivative financial liabilities held for trading and used for hedging.

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

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

Subordinated liabilities are recognised initially at fair value net of transaction costs incurred. Subordinated liabilities without embedded derivatives are subsequently measured at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement over the period

of the financial liability 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 or loss.

## Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for disclosure purposes of those financial instruments which are not recorded at fair value in the financial statements.

### Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate fair value. This assumption is also applied to demand deposits from customers and customer savings with a specific maturity.

### Fixed rate financial instruments

The fair values of fixed-rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and on credit spreads. For other variable-rate instruments, an adjustment is also made to reflect the change in required credit spread since initial recognition.

The fair values of NIBC's financial instruments that are not carried at fair value in the balance sheet are disclosed under the respective notes of the related balance sheet item.

## Recognition of day one profit or loss

The best evidence of fair value at initial recognition is the transaction price (that is, 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 (that is, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

NIBC Holding 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 or 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 (CSA)* 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 the case of a CSA 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 at net realisable value (the net realisable value is management's best estimate (the determination method of the value differs per asset class)). Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

## Derivative financial instruments and hedging

NIBC Holding uses derivative financial instruments both for trading and hedging purposes. NIBC Holding uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks and to credit 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 Holding classifies them as either (i) a fair value

hedge of interest rate risk ('portfolio fair value hedges'); (ii) a fair value hedge of interest rate risk and foreign exchange rate risk ('micro fair value hedges') (iii) a cash flow hedge of the variability of highly probable cash flows ('cash flow hedges'); or (iv) 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, NIBC Holding 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 Holding documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. NIBC Holding 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.

NIBC Holding 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; or
- It voluntarily decides to discontinue the hedge relationship.

### Fair value hedge

NIBC Holding 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 statement

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 Holding 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 or as amortised cost assets), to portfolios of plain vanilla fixed interest rate funding (liabilities classified as amortised cost) and retail deposits.

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 scheduled 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 Holding 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 Holding applies micro fair value hedge accounting to the interest rate risk and/or the foreign exchange risk arising from debt investments at available for sale 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 next period if expected to be highly effective prospectively.

### 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 and/or corporate loans at amortised cost with floating interest rates. As interest rates fluctuate, the future cash flows on these instruments also fluctuate. NIBC Holding 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 other comprehensive income 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 other comprehensive income are recycled to the income statement in the periods in which the hedged item will affect the income statement. 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 other comprehensive income at that time remains in other comprehensive income 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 other comprehensive income 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 other comprehensive income net of tax; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in other comprehensive income net of tax are included in the income statement when the foreign operation is sold.

### Hedge effectiveness testing

To qualify for hedge accounting, NIBC Holding 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% percent 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 investments 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.

## 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 or other deposits as appropriate.

*Securities purchased under agreements to resell* (**Reverse repos**) are recorded as loans and advances 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 reporting 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 and net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The estimated period between a loss event occurring and its identification is determined by management for each identified portfolio

(Corporate Loans, EU Corporate Credits and EU Structured Credits). The average period used is three months for the different Corporate Loan portfolios. 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 that 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 under impairments of financial assets.

## Financial assets classified as available for sale

The group assesses, at each reporting 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 other comprehensive income and recognised in the income statement under gains less losses from financial assets (including equity investments).

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; and
- 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 purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (*Cash-Generating Units - CGUs*). 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

Where possible, NIBC seeks to restructure loans rather than to take possession of collateral. This may involve extending payment terms and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms, and the loan is no longer considered past due. Management reviews renegotiated loans on an ongoing basis to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

## 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 or more frequently when there are indications that impairments may have occurred 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 CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

### Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences

acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of five years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years.

### Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship.

### Impairment intangible assets

At each reporting date, NIBC Holding 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 impairment – non-financial assets).

## Tangible assets

### Property (land and buildings), plant and equipment

Land and buildings comprise factories and offices (land and buildings) and are measured at fair value (revaluation model). 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. Buildings in own use are valued at market value on an unlet or let basis. If arm's length lease agreements have been concluded between NIBC group companies, the building is recognised at its value as a let property. 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. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost

includes expenditure that is directly attributable to the acquisition of the items.

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 the group and 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.

Increases in the carrying amount arising from 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 other comprehensive income; all other decreases are charged to the income statement. Each year, the difference between depreciation based on the revalued 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.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

■ Buildings	30 - 50 years
■ Machinery	4 - 10 years
■ Furniture, fittings and equipment	3 - 10 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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.

## 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.

## Cash and cash equivalents

For the purpose of the statement of cash flows, 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.

## Other assets

### Trade receivables related to consolidated non-financial companies

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less a provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group is not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor

will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the 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 within other operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the income statement.

## Provisions

Provisions for restructuring costs and legal claims are recognised when:

- The group has a present legal or constructive obligation as a result of past events;
- It is more likely than not that an outflow of resources will be required to settle the obligation; and
- The amount has been reliably estimated.

The group does not recognise provisions for projected future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be remote.

Provisions are measured at the present value of the expected required expenditure to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Contingent liabilities, if applicable, are not recognised in the financial statements but are disclosed, unless they are remote.

## Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## Employee benefits

### Pension benefits

NIBC Holding and its subsidiaries have various pension arrangements in accordance with the local conditions and practices in the countries in which they operate. NIBC Holding 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 Holding 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 Holding has no legal or constructive obligations to pay further defined 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 is not a defined contribution plan. Typically, defined benefit plans define 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 the income statement 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.

### Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. NIBC Holding recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

### Share-based compensation

NIBC Holding operates both equity-settled and cash-settled share-based compensation plans.

#### Equity-settled transactions

The group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (shares or options) of the group. The fair value of the employee services received in exchange for the grant of the shares or options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares or options granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions;
- Excluding the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of shares or options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, NIBC Holding revises its estimates of the number of shares or options that are expected to vest based on the non-marketing vesting conditions. NIBC Holding recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied. Similarly, awards of equity instruments with non-vesting conditions are treated as vesting if all vesting conditions that are not market conditions are met, irrespective of whether the non-vesting conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised in personnel expenses is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either NIBC Holding or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

#### Cash-settled transactions

For the cash-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of share-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. The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

### 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 Holding 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 comprise 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 (other comprehensive income) in which case it is recognised in shareholders' equity (other comprehensive income).

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 Holding intends to settle on a net basis and a legal right of offset exists.

Deferred income tax is provided 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 Holding'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 and tax losses carried forward and, in relation to

acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

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 neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the difference will not reverse in the foreseeable future.

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 other comprehensive income, is also credited or charged directly to other comprehensive income 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 as a liability 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 NIBC Holding 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 reissued, 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 Holding'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.

## Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the group and when specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

### 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 interest 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 subsequently recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Any increase in estimated future cash flows of financial assets reclassified to loans and receivables at amortised cost on 1 July 2008 will result in a prospective adjustment to the effective interest rates.

### 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 NIBC 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. Commissions 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 wealth management, 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.

### Dividend income

Dividends are recognised in the income statement when NIBC Holding right to receive payment is established.

### Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities measured at fair value through profit or loss as well as realised gains and losses on financial assets and financial liabilities excluding those presented under gains less losses from financial assets. Net trading income includes related foreign exchange gains and losses.

### Gains less losses from financial assets

Realised gains or losses from debt investments and equity investments as available for sale previously recognised in other comprehensive income, and gains or losses from associates and equity investments at fair value through profit or loss and impairment losses on equity investments are recognised in the income statement as gains less losses from financial assets.

### Other operating income

Income less cost of sales from consolidated non-financial companies is presented under other operating income.

### Sales of services by consolidated non-financial companies

The group sells temporary employment services. Revenue from temporary employment services is generally recognised at the contractual rates.

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 Holding 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.

## Statement of cash flows

The statement of cash flows, based on the indirect method of calculation, gives details of the source of cash and cash equivalents that 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, plant and

# Critical accounting estimates and judgements

NIBC Holding 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.

Estimates and judgements are principally made in the following areas:

- Estimated impairment of goodwill;
- Fair value of certain financial instruments;
- Impairment of corporate loans;
- Impairment of debt investments classified as amortised cost;
- Impairment of debt investments classified as available for sale;
- Impairment of equity investments classified as available for sale;
- Securitisations and special-purpose entities;
- Pension benefits; and
- Income taxes.

## Estimated impairment of goodwill

### Related to NIBC

NIBC Holding tests whether its goodwill is impaired on an annual basis in accordance with its accounting policies.

The recoverable amount of CGUs related to NIBC is determined based on a value-in-use calculation that is the higher of value in use and fair value less costs to sell. This calculation uses after-tax cash flow projections based on financial forecasts approved by the Managing Board covering a four-year period (2012 - 2015). Cash flows beyond the four-year period are extrapolated using an estimated growth rate.

The key assumptions used in the value-in-use calculation are as follows:

IN %	2011	2010
Growth rate	3.0	3.0
After tax discount rate	11.1	9.9
Tax rate	25.0	25.5

Management determines budgeted results based upon past performance and its expectations of market developments. The discount rate used is after tax and reflects specific risks relating to the operations of the group of CGUs.

The rate used to discount the future cash flows of a group of CGUs can have a significant effect on its 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.

For the operating segment NIBC no goodwill impairment was recognised by NIBC Holding in 2011.

If the estimated after-tax discount rate applied to the discounted cash flow for the CGUs had been 1% higher than management's estimates (12.1% instead of 11.1%) no goodwill impairment charge would have recognised by NIBC Holding for operating segment NIBC in 2011.

Management judgement is also required in estimating the future cash flows of a group of 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 group of CGUs have declined and/or that its discount rate has increased, the effect is to reduce the group of CGUs estimated recoverable amount. If this results in an estimated recoverable amount that is lower than the carrying value of the group of CGUs, a charge for impairment of goodwill will be recognised, thereby reducing by a corresponding amount NIBC's profit before tax for the year.

If the budgeted profit after tax of the group of CGUs used in the value-in-use calculation had been 5% lower than management's estimates at 31 December 2011, no goodwill impairment charge would have been recognised by NIBC Holding in 2011.

### Related to consolidated non-financial companies

NIBC Holding tests whether its goodwill is impaired on an annual basis in accordance with its accounting policies.

The recoverable amount of CGUs related to consolidated non-financial companies is determined based on value-in-use a calculation, that is the higher of value in use and fair value less costs to sell. This calculation uses pre-tax cash flow projections based on financial budgets approved by the Managing Boards of the acquired companies covering a three - year period (2012 - 2014). Cash flows beyond the three year period are extrapolated using an estimated perpetual growth rate.

The key assumptions used in the value-in-use calculation are as follows:

IN %	2011	2010
Perpetual growth rate	0.0	0.0 - 2.5
Pre-tax discount rate	8.8	12.1 - 12.2

Management determines budgeted results based upon past performance and its expectations of market developments. The discount rate (weighted average cost of capital) used is pre-tax and reflects specific risks relating to the operations of the group of CGUs.

NIBC has not recognised a goodwill impairment charge for the consolidated non-financial companies recognised a balance sheet date 31

December 2011. The goodwill related to the non-financial companies of the subsidiary are evaluated prior to disposal and there was no impairment. For further details reference is made to note 48.

When this exercise demonstrates that the expected cash flows of a group of CGUs have declined or that their discount rate has increased, the effect is to reduce the estimated recoverable amount. If this results in an estimated recoverable amount that is lower than the carrying value of the group of CGUs, a charge for impairment of goodwill will be recognised, thereby reducing by a corresponding amount NIBC Holding's profit before tax for the year.

The rate used to discount the future cash flows of the group of CGUs can have a significant effect on the group of CGUs' 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 discounted cash flows for the group of CGUs had been 1% higher than management's estimates (9.8% instead of 8.8%), NIBC Holding would not have recognised a goodwill impairment charge. Management judgement is also required in estimating the future cash flows of the group of 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.

If the budgeted profit before tax of the group of CGUs used in the value-in-use calculation had been 5% lower than management's estimates at 31 December 2011, NIBC Holding would not have recognised a goodwill impairment charge in respect of its controlled non-financial companies as at 31 December 2011.

## Fair value of certain financial instruments

The fair value of financial instruments is determined based on quoted market prices in an active market or, where no active market exists, by using valuation techniques. In cases where valuation techniques are used, the fair values are estimated from market observable data, where available, or by using models. Where market-observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those who prepared them. All models are reviewed prior to use and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent possible, models use only observable data; however, areas such as applicable credit spreads (both own credit spread and counterparty credit spreads), volatilities and correlations may require management to estimate inputs.

Changes in assumptions about these factors could affect the reported fair value of financial instruments. For the identification of assumptions used in the determination of fair value of financial instruments and for estimated sensitivity information for level 3 financial instruments, except for own liabilities designated at fair value through profit or loss reference is made to note 45.

### Own liabilities designated at fair value through profit or loss

At 31 December 2011, the fair value of these liabilities was estimated to be EUR 2,070 million (2010: EUR 2,535 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: Own debt securities;
- Financial liabilities at fair value through profit or loss: Debt securities in issue structured; and
- Financial liabilities at fair value through profit or loss: Subordinated liabilities.

The credit spread used to revalue these liabilities was based to the extent possible on the observable issuance spread movements of new primary

unsecured debt issuances by financial institutions. Bearing in mind the market inactivity, both for cash and synthetic NIBC funding and protection, these observations are combined with data for both cash and synthetic indices indicators such as Itraxx indices and credit curve developments. The resulting overall market view supports the reasonableness of the range in which the applied credit spread falls.

The valuation of all the above classes of financial liabilities designated 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 the fair value of these own financial liabilities at 31 December 2011 by EUR 13.4 million (31 December 2010: EUR 13.3 million).

### Valuation corporate derivatives (credit value adjustment)

*Credit Valuation Adjustments (CVAs)* are incorporated into derivative valuations to reflect the risk of default of the counterparty. In essence, CVA represents an estimate of the discounted expected loss on an *Over the Counter (OTC)* derivative during the lifetime of a contract. It is applied to all OTC derivative contracts, except those that benefit from a strong collateral agreement where cash collateral is regularly exchanged, mitigating credit risk. In practice, this means that CVAs are only applied to OTC derivative contracts that generate credit risk on corporate (i.e. non-financial) counterparties.

In line with market practice, the CVA of a derivative contract is calculated at the counterparty level as the sum of the present value of the expected loss estimated over the lifetime of all outstanding OTC derivative contracts that generate credit risk. This requires the application of *Probability of Default (PD)* and *Loss Given Default (LGD)* estimates to the *Expected Exposure (EE)* profile. The EE profile estimate takes into account the amortisation of the notional amounts and the passage of time to maturity. PD and LGD estimates are based on internal *Counterparty Credit Rating (CCR)* and LGD ratings due to the absence of a credit market for most of NIBC's corporate counterparties.

The CVA is sensitive to changes in credit quality of the counterparties, as well as to changes in interest rates affecting current exposure. Based on the

current composition of the portfolio, the CVA, in general, reduces when interest rates rise.

### Fair value of financial assets within the venture capital organisation

The group estimates the fair value of its venture capital assets using valuation models, and it applies the valuation principles set forth by the International Private Equity and Venture Capital Valuation Guidelines to the extent that these are consistent with IAS 39.

On 31 December 2011, the fair value of this portfolio was estimated to be EUR 325 million (2010: EUR 341 million). This portfolio is reported as equity investments (including investments in associates) at fair value through profit or loss (2011: EUR 259 million; 2010: EUR 269 million) and as equity investments at available for sale (2011: EUR 66 million; 2010: EUR 72 million).

For the determination of the fair value of equity investments and for estimated sensitivity to key assumptions in the valuation, reference is made to note 45.

## Impairment of corporate loans

NIBC Holding assesses whether there is an indication of impairment of corporate loans classified as loans and receivables at amortised cost on an individual basis on at least a quarterly basis. NIBC Holding 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 the determination of expected future cash flows and their timing and the market value of collateral. Furthermore, NIBC Holding's judgements change with time as new information becomes available, or as recovery strategies evolve, resulting in frequent revisions to individual impairments, on a case-by-case basis. NIBC 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 2011, for each of NIBC Holding's impaired corporate loans, the net present value of the estimated cash flows had been 5% lower or higher than estimated, NIBC Holding would have recognised an additional impairment loss or gain of EUR 10.8 million (2010: EUR 10.0 million).

## Impairment of debt investments classified as amortised cost

NIBC Holding assesses whether there is an indication of impairment on debt investments classified as amortised cost on an individual basis on at least a quarterly basis. NIBC Holding considers a range of factors that have a bearing on the expected future cash flows that it expects to receive from the debt investment including rating downgrades and delinquencies and/or defaults in the underlying asset pools. Adjustments are also made to reflect such elements as deteriorating liquidity and increased refinancing risk.

If, as at 31 December 2011, for each of NIBC Holding's impaired debt investments, the net present value of the estimated cash flows had been 5% lower or higher than estimated, NIBC Holding would have recognised an additional impairment loss or gain of EUR 0.7 million (2010: EUR 0.4 million).

## Impairment of debt investments classified as available for sale

NIBC Holding assesses whether there is an indication of impairment on debt investments classified as available for sale on an individual basis on at least a quarterly basis. This requires similar judgement as applied to debt investments at amortised cost.

The level of the impairment loss that NIBC Holding recognises in the consolidated income statement is equivalent to the cumulative loss that had been recognised directly in the revaluation reserve of

other comprehensive income plus any additional impairment loss (if applicable). If, as at 31 December 2011, for each of NIBC Holding's impaired debt investments, the fair value had been 5% lower or higher, NIBC Holding would have recognised an additional impairment loss or gain of EUR 0.4 million (2010: EUR 0.2 million).

## Impairment of equity investments classified as available for sale

NIBC Holding determines an impairment loss on the available for sale equity investments held in the investment portfolio of the venture capital organisation within the operating segment Merchant Banking when there has been a significant or prolonged decline in fair value below original cost. NIBC Holding 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 are held by NIBC Holding, 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 Holding recognises in the consolidated income statement is the cumulative loss that had been recognised directly in the revaluation reserve of other comprehensive income. If NIBC Holding had deemed all of the declines in fair value of equity investments below cost as 'significant' or 'prolonged', the effect would have been a EUR 2.2 million (2010: EUR 4.7 million) reduction in the profit before tax (gains less losses from financial assets) in 2011.

## Securitisations and special purpose entities

NIBC Holding establishes 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 Holding does not consolidate SPEs that it does not control.

The determination of whether NIBC Holding exercises control over a SPE requires NIBC Holding 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 Holding has to consolidate a 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; and
- The activities of the SPE are being conducted on NIBC Holding's behalf according to NIBC Holding's specific business needs so that it obtains the benefits from the SPEs operations.

The evaluation mentioned above is necessarily subjective.

Were 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 total assets of EUR 6.4 billion (2010: EUR 6.7 billion) and the net effect on the income statement in both 2011 and 2010 would be insignificant.

## De-recognition of assets and recognition of continuous involvement

NIBC Holding executed transactions under its *Commercial Mortgage-Backed Securities (CMBS)* programme. The purpose of this programme is to offer NIBC Holding's real estate clients access to the capital markets. NIBC Holding established SPEs for the commercial backed securities programme. All loans transferred to the SPEs are collateralised by commercial real estate properties. The SPEs obtain funding from the capital markets by issuing CMBS notes. The commercial real estate loans, included in the CMBS programme, were originated by NIBC

Holding or by other banks prior to the securitisation.

The total amount of commercial loans originated by NIBC prior to the securitisation and that were subsequently transferred to these SPEs amounts to EUR 1,288 million. The notional amount at 31 December 2011 was EUR 1,161 million (2010: EUR 1,171 million). The loans that continued to be recognised to the extent of NIBC Holding's continuing involvement amounted to EUR 680 million at 31 December 2011 (2010: EUR 681 million). The reason for recognising 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 613 million (2010: EUR 614 million) securitised loans valued at amortised cost and an amount of EUR 469 million (2010: EUR 469 million) in debt securities in issue related to securitised mortgages, EUR 65 million (2010: EUR 65 million) in loans at fair value through profit and loss with a corresponding amount in debt securities in issue related to securitised mortgages and EUR 5 million (2010: EUR 5 million) in debt investments 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 (or 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 41.

Were the discount rate used to differ by 10% from management's estimates, the carrying amount of pension obligations would be an estimated EUR 18.0 million (2010: EUR 16.6 million) lower or EUR 19.9 million (2010: EUR 19.2 million) higher. The service cost would be EUR 0.8 million (2010: EUR 0.7 million) lower or EUR 0.9 million (2010: EUR 0.8 million) higher.

## Income taxes

Deferred tax assets are included only if it is probable that taxable profits will be realized in the near future against which these temporary differences can be offset. When determining future taxable profits, estimates are used since these are subject to uncertainty.



# Notes

## to the consolidated financial statements

### I Segment report

The segment information has been prepared in accordance with IFRS 8, operating segments, which defines requirements for the disclosure of financial information about an entity's operating segments. IFRS 8 requires operating segments to be identified on the basis of internal management reports on components of the entity that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segment and to assess segment performance.

The Managing Board is the group's chief operating decision-maker. Based on the information reported to the chief operating decision-maker for the allocation of resources and performance of the business, NIBC Holding as a whole was identified as a single operating segment in the second half of 2011. The previous two existing operating segments, Specialised Finance and Merchant Banking, have therefore been converted into one operating segment. Since goodwill is allocated principally to groups of cash generating units mostly on the segment level, management reallocated goodwill relating to the former operating segments Specialised Finance and Merchant Banking to the new single operating segment. For further details reference is made to note 28.

The segment information presented in 2010 has been restated to reflect the above mentioned change in operating segments in 2011.

Segment information is presented in these consolidated financial statements on the same basis as used for internal management reporting within NIBC Holding. Internal management reporting within NIBC Holding is based on IFRS. Segment reporting under IFRS 8 requires a presentation of the segment results based on management reporting methods and a reconciliation between the results of the operating segments and the consolidated financial statements.

The following table presents the results of the single operating segment, being NIBC Holding including a reconciliation to the consolidated results under IFRS for the years ended 31 December 2011 and 31 December 2010. The result of operating segment NIBC Holding contains the results of the bank and the other activities of NIBC Holding.

IN EUR MILLIONS	Internal management report operating segment NIBC Holding <sup>1</sup>		Consolidation effects <sup>2</sup>		Total (consolidated financial statements)	
	2011	2010	2011	2010	2011	2010
Net interest income	172	150	(7)	(10)	165	140
Net fee and commission income	33	29	-	-	33	29
Dividend income	5	10	-	-	5	10
Net trading income	50	110	1	1	51	111
Gains less losses from financial assets	50	50	(2)	(6)	48	45
Share in result of associates	2	4	-	-	2	4
Other operating income	-	-	64	76	64	76
<b>OPERATING INCOME</b>	<b>312</b>	<b>354</b>	<b>56</b>	<b>61</b>	<b>369</b>	<b>415</b>
<b>OPERATING EXPENSES</b>	<b>173</b>	<b>176</b>	<b>57</b>	<b>58</b>	<b>230</b>	<b>234</b>
Impairments of financial assets	46	89	-	-	46	89
<b>TOTAL EXPENSES</b>	<b>219</b>	<b>264</b>	<b>57</b>	<b>58</b>	<b>276</b>	<b>323</b>
<b>PROFIT BEFORE TAX</b>	<b>93</b>	<b>90</b>	<b>(1)</b>	<b>3</b>	<b>93</b>	<b>92</b>
Tax	7	9	-	3	7	11
<b>PROFIT AFTER TAX</b>	<b>86</b>	<b>81</b>	<b>(1)</b>	<b>-</b>	<b>85</b>	<b>81</b>
Result attributable to non-controlling interests	-	3	(1)	1	(1)	4
<b>NET PROFIT ATTRIBUTABLE TO PARENT SHAREHOLDERS</b>	<b>86</b>	<b>78</b>	<b>-</b>	<b>-</b>	<b>86</b>	<b>77</b>
Average allocated economic capital	1,438	1,400	-	-	1,438	1,400
Average unallocated capital	(48)	(28)	-	-	(48)	(28)
Segment assets	28,127	27,491	130	200	28,257	27,690
Segment liabilities	26,392	25,733	93	202	26,484	25,935
Capital expenditure	8	4	1	9	10	13
Share in result of associates based on the equity method	-	4	-	-	-	4
Investments in associates based on the equity method	29	31	-	-	29	31

1. Small differences are possible in the table due to rounding.

2. Concerning controlled non-financial companies included in the consolidation.

The items displayed under 'consolidation effects' refer to the non-financial entities over which NIBC Holding has control. IFRS requires NIBC Holding to consolidate these entities. The internal management report differs from this, as the investments in these entities are non-strategic and the activities of these entities are non-financial. Therefore, in the income statement of NIBC Holding, only NIBC Holding's share in the net result of these entities is included in the line-item 'gains less losses from financial assets'. Subsequently, under 'consolidation effects' this is eliminated and replaced by the figures of these entities used in the consolidated financial statements.

NIBC Holding generated 80% of its revenues in the Netherlands (2010: 79%) and 20% abroad (2010: 21%).

## 2 Net interest income

IN EUR MILLIONS	2011	2010
<b>INTEREST AND SIMILAR INCOME</b>		
Interest income from assets designated at fair value through profit or loss	299	270
Interest income from other assets	393	340
	<b>692</b>	<b>610</b>
<b>INTEREST EXPENSE AND SIMILAR CHARGES</b>		
Interest expense from liabilities designated at fair value through profit or loss	25	47
Interest expense from other liabilities	502	423
	<b>527</b>	<b>470</b>
	<b>165</b>	<b>140</b>

For the year ended 31 December 2011, interest income includes accrued interest on impaired financial assets of EUR 3 million (2010: EUR 3 million).

For the year ended 31 December 2011, interest expense related to deposits from customers amounts to EUR 207 million (2010: EUR 167 million).

Interest income from debt and other fixed income instruments designated at held for trading or designated at fair value through profit or loss is recognised in interest and similar income at the effective interest rate.

Interest income from financial assets reclassified in 2008 following the IAS 39 amendments, both after reclassification and before reclassification (assuming the reclassifications in 2008 had not been made), is displayed in the following table. The difference between the figure before and the figure after reclassification reflects the amortisation of discounts and premiums on financial assets reclassified from held for trading or available for sale.

IN EUR MILLIONS	For the period ended 31 December			
	2011		2010	
	After reclassification	Before reclassification	After reclassification	Before reclassification
Interest income	105	93	121	108

## 3 Net fee and commission income

IN EUR MILLIONS	2011	2010
<b>FEE AND COMMISSION INCOME</b>		
Agency and underwriting fees	6	4
Investment management fees	19	13
Other	11	13
	<b>36</b>	<b>30</b>
<b>FEE AND COMMISSION EXPENSE</b>		
Other non-interest related	3	1
	<b>33</b>	<b>29</b>

## 4 Dividend income

IN EUR MILLIONS	2011	2010
Equity investments (available for sale)	5	10
	<b>5</b>	<b>10</b>

## 5 Net trading income

IN EUR MILLIONS	2011	2010
Assets and liabilities designated at fair value through profit or loss (including related derivatives)	(5)	44
Assets and liabilities held for trading	40	58
Other net trading income	16	9
	<b>51</b>	<b>111</b>

Net trading income includes a foreign exchange loss of EUR 6 million (2010: nil).

Net trading income on financial assets reclassified in 2008 following the IAS 39 amendments, both after reclassification and before reclassification (assuming the reclassification in 2008 had not been made) is displayed in the following table:

IN EUR MILLIONS	For the period ended 31 December			
	2011		2010	
	After reclassification	Before reclassification	After reclassification	Before reclassification
Net trading income	9	(11)	4	115

## 6 Gains less losses from financial assets

IN EUR MILLIONS	2011	2010
<b>EQUITY INVESTMENTS</b>		
<b>GAINS LESS LOSSES FROM EQUITY INVESTMENTS (AVAILABLE FOR SALE)</b>		
Net gain/(losses) on disposal	7	4
Net revaluation gain/(losses) transferred from equity on disposal	1	(1)
Impairment losses equity investments	(1)	(2)
<b>INVESTMENTS IN ASSOCIATES (EQUITY METHOD)</b>		
Impairment losses investments in associates	-	(1)
Gains less losses from associates (fair value through profit or loss)	31	36
Gains less losses from other equity investments (fair value through profit or loss)	8	8
	<b>46</b>	<b>44</b>
<b>DEBT INVESTMENTS</b>		
Gains less losses from debt investments (available for sale)	2	1
	<b>2</b>	<b>1</b>
	<b>48</b>	<b>45</b>

Impairment losses relating to debt investments (available for sale) are presented under impairments of financial assets (see note 11).

## 7 Other operating income

IN EUR MILLIONS	2011	2010
Real estate rental income	-	-
Net revenue of non-financial companies included in the consolidation	64	76
	<b>64</b>	<b>76</b>
<b>NET REVENUE OF NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION CAN BE CATEGORISED AS FOLLOWS:</b>		
Net sales	311	240
Cost of sales	(247)	(164)
	<b>64</b>	<b>76</b>

Other operating income relating to non-financial companies also includes the net revenue of the non-financial companies which have been deconsolidated since 20 September 2011 (see note 48).

## 8 Personnel expenses and share-based payments

IN EUR MILLIONS	2011	2010
Salaries	64	60
Variable compensation	18	34
<b>PENSION AND OTHER POST-RETIREMENT CHARGES:</b>		
Defined benefit plan	6	6
Defined contribution plan	3	3
Other post-retirement charges/(releases)	-	(1)
Other social security charges	7	7
Other staff expenses	2	2
Staff cost of non-financial companies included in the consolidation	30	31
	<b>130</b>	<b>142</b>

The increase in salaries in 2011 is explained in part by an average increase in wage levels (in accordance with the Collective Labour Agreements) and higher expenses related to temporary staff.

The decrease in variable compensation is mainly explained by lower performance related fees (carried interest) and a lower level of expenses related to share-based payment plans from previous years.

The number of *Full-Time Equivalents* (FTEs) (excluding the non-financial companies included in the consolidation) decreased from 685 at 31 December 2010 to 664 at 31 December 2011. The number of FTEs employed outside of the Netherlands decreased from 139 at 31 December 2010 to 130 at 31 December 2011, mainly due to the discontinuation of our New York office.

At 31 December 2011, 106 FTEs (2010: 726 FTEs) were employed at the non-financial companies included in the consolidation, none of whom are working outside of the Netherlands (2010: 482 FTEs). The decrease is mainly due to the deconsolidation of the non-financial companies of NIBC Merchant Banking Fund IB of which NIBC lost control on 20 September 2011 (see note 48).

Information on the pension charge is included in employee benefits (see note 41).

Information on the remuneration of the members of the Statutory Board and Supervisory Board can be found in note 53.

## Remuneration of Statutory Board and Supervisory Board

### Key management personnel compensation (Statutory Board)

IN EUR	2011	2010
<b>THE BREAKDOWN OF THE TOTAL REMUNERATION OF THE STATUTORY BOARD IS AS FOLLOWS<sup>1</sup>:</b>		
Cash compensation (base salary)	2,294,698	2,300,000
Short-term incentive compensation (cash bonus)	-	-
Short-term incentive compensation (deferred cash bonus)	-	-
Short-term incentive compensation (phantom share units)	-	-
Vesting of prior years short-term deferred share awards compensation	108,480	167,210
Vesting of prior years long-term deferred share awards compensation	408,333	383,334
Vesting of 2009 one-off co-investment related deferred share awards compensation	945,947	1,283,233
Forfeiture of unvested share awards <sup>2</sup>	(352,863)	-
Pension costs	393,722	403,649
Other remuneration elements	373,111	466,879
	<b>4,171,428</b>	<b>5,004,305</b>

- In addition to the above, personnel expenses in the income statement also include expenses relating to the vesting of the Statutory Board's sign-on and retention awards, which were rescinded after 31 December 2008. The additional amount for 2011 is nil (2010: EUR 0.7 million). In accordance with NIBC's accounting policies for share-based compensation, this amount has been credited to other reserves.
- The forfeiture relates fully to non-vested long-term deferred compensation granted to Mr. Jan Sijbrand in 2011 and previous years. Mr. Jan Sijbrand stepped down as member of the Statutory Board on 30 June 2011 and employment ended at the same date.

The total number of options on NIBC Holding *Common Depositary Receipts (CDRs)* held by the Statutory Board amounted to 242,056 (vested) and 25,000 (unvested) as at 31 December 2011 (2010: 217,056 (vested) and 50,000 (unvested)). As at 31 December 2011, members of the Statutory Board held 273,581 CDRs (2010: 281,974), 2,316 *Restricted Depositary Receipts (RDRs)* (2010: 15,545), 81,083 *Conditional Common Depositary Receipts (CCDRs)* (2010: 45,948) and 217,045 *Conditional Restricted Depositary Receipts (CRDRs)* (2010: 249,986).

### Key management personnel compensation (Supervisory Board)

IN EUR	2011	2010
<b>TOTAL REMUNERATION OF THE SUPERVISORY BOARD IS AS FOLLOWS:</b>		
Annual fixed fees, committee fees	664,000	529,040
	<b>664,000</b>	<b>529,040</b>

### Components of variable compensation - NIBC Choice

NIBC Choice is NIBC Holding's share-based and deferred compensation plan and governs all variable compensation components in the form of equity, equity-related and deferred cash compensation. In addition to this, variable compensation can consist 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.

### Depositary receipts

The *Depositary Receipts (DRs)*, consisting of CDRs and RDRs, are issued by *Stichting Administratiekantoor NIBC Holding* (the **Foundation**) in accordance with its relevant conditions of administration (administratievoorwaarden).

The Foundation issues a DR for each ordinary share it holds in NIBC Holding. 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 the ordinary shares.

Under the conditions of administration, the holders of DRs have pre-emption rights similar to other shareholders of NIBC Holding, subject to the Foundation having been given pre-emption 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.

RDRs cannot be transferred, and are subject to specific vesting rules. Up to 1 January 2008, they were subject to five-year vesting with one-fifth vesting on 1 of January of each year. In 2008, the vesting schedule was changed to three-year vesting, with one-third vesting each year on 1 January, to better align with vesting practices in other financial institutions. Additionally, RDRs are subject to certain limitations, including the forfeiture of the RDR in the case of termination of employment, or in the case of certain corporate events, such as restructurings. On every vesting date, the applicable tranche of RDRs converts automatically into CDRs if the vesting conditions are met.

In 2011, no new RDRs were granted by NIBC Holding. Instead, the 2010 short-term deferred compensation was delivered in the form of a deferred cash bonus and Restricted Phantom Share Units, both subject to three-year vesting, the first such vesting to occur on 1 January 2012.

In 2009, Statutory Board members made a combined personal investment of EUR 1.7 million (184,000 NIBC CDRs at a price of EUR 9.25). In relation to that co-investment the Statutory Board members were granted 184,000 matching shares (CRDRs) on a net after-tax basis representing a 1:1 match. Furthermore, the Statutory Board members are entitled to earn additional performance shares (CRDRs). The number of performance shares contained in this one-off variable compensation is in principle uncapped, but the Supervisory Board has the discretion to adjust the ultimate number in the case of unfair or unintended effects. For determining the number of performance shares, a specific formula will be applied by the Supervisory Board upon a change of control. Therefore the conditions attached to the performance shares are recognised as vesting conditions.

The matching shares were awarded in 2009 to the Statutory Board with an underlying fair value of EUR 9.25, which was determined by the Supervisory Board, based on an agreed price-to-book ratio observed in the market at grant date based on net asset value. The number of performance shares will be calculated upon a change of control or any other liquidity event as a percentage of the number of matching shares that represents one year's net base salary at the time of grant, using a pre-agreed formula.

The terms and conditions applicable to these CRDRs are in line with those applicable to the 2008 RDRs, except for the calculation of the fair value at grant date, the vesting period and certain performance conditions. The CRDRs (matching shares) which were awarded to the Statutory Board members in 2009 in relation to their co-investment in NIBC are subject to four-year vesting with one-quarter vesting each year, for the first time on 1 January 2010 and will become fully unconditional and vest immediately upon change of control of NIBC Holding. The conditional performance shares will vest immediately upon a change of control or any other liquidity event.

The company has the discretion to offer new members of the Statutory Board the opportunity to participate in this co-investment programme under the same conditions. This offer was made to Ms. Petra van Hoeken when she joined the Statutory Board on 23 December 2011 and was accepted by her in January 2012.

On 30 June 2011, Mr. Jan Sijbrand, *Chief Risk Officer (CFO)*, stepped down from the Statutory Board. Given his subsequent position in the board of De Nederlandsche Bank N.V. it was mutually decided, in consultation with the Supervisory Board, to discontinue his co-investment. The buy back was executed

against the original acquisition price, although the fair value on 30 June 2011 was higher. Mr. Jan Sijbrand irrevocably waived all other vested and non-vested CRDRs he was entitled to.

In 2009, a new *Long-Term Incentive* plan (**LTI**) was introduced for the Statutory Board members and selected senior management. The LTI is forward-looking and will be granted annually. Its main aim is to provide an incentive to achieve a balanced mix of pre-agreed long-term financial and non-financial performance conditions. The LTI is subject to three-year cliff vesting and an additional retention period of two years and will be delivered in the form of CRDRs but, at the discretion of the Supervisory Board, may be delivered in another form. On every vesting date, the applicable tranche of CRDRs converts automatically into CCDRs if the vesting conditions are met.

### Phantom Share Units

In 2010, a new equity-linked reward instrument was introduced as part of the *Short-Term Incentive* (**STI**) plan for the Statutory Board members and selected senior management. The short-term compensation in share related awards consists of *Phantom Share Units* (**PSUs**) and/or *Restricted Phantom Share Units* (**RPSUs**). RPSUs awards are subject to a three-year vesting with one-third vesting each year. All PSUs, whether vested or restricted are subject to a five-year retention period as measured from the date of grant. The RPSU and PSU have similar characteristics to the CRDR used for the LTI, such as eligibility for dividend and a value which is tied to variations in the net asset value of NIBC Holding. This short-term compensation can be converted into cash immediately after the retention period and therefore is recognised as cash-settled.

### Stock Options

NIBC Choice also comprises an employee Option Plan which allowed NIBC Holding to grant options to members of its Statutory 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 and other employees. NIBC may decide to grant further options under the current Option Plan.

Each option gives the option holder the right to be issued one CDR. The options are only exercisable by the option holder. 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 and the options granted in 2005 and 2006 have a seven-year exercise period with a possibility for a three-year extension in the case a liquidity event has not yet taken place before the end of the seven-year period, provided that such a 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 the 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 Holding'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. Any dividends payable are deducted from the exercise price of an option. The exercise price at the date of grant for options granted in 2006 on or after 31 March 2006 ranged from EUR 19.81 in April 2006 to EUR 20.67 in September 2006. In June 2008, as part of the one-off retention package, 1,492,900 options with a four-year exercise period

were granted to selected senior executives and other staff subject to the rules of the existing Option Plan. The exercise price of these options was determined at EUR 9.06. Any dividends payable are deducted from the exercise price of an option. The Statutory 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 Statutory 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.

In 2011, no new options were granted to employees.

### Carried interest

With respect to some key investment professionals, separate performance-related reward arrangements ('carried interest') are agreed upon. These reward arrangements are related partly to the employment of the investment professionals and partly to their own investments in the specific funds. All related expenses are recognised under personnel expenses in the income statement. The actual payment of carried interest, if any, to the investment professionals is subject to specific conditions.

## Stock option and share plans

### Options

As at year-end 2011, 3,038,879 (2010: 3,607,268) options on CDRs of NIBC Holding were in issue, with a weighted average remaining vesting period of nil years (2010: 0.2 years). Of this total position, 2,468,179 options were vested at 31 December 2011. A requirement for vesting at the vesting date is that the holder is still employed by NIBC Holding or one of its group companies. The weighted average exercise period of the options was 1.0 years (2010: 2.0 years). All options in issue as at 31 December 2011 and as at 31 December 2010 were equity-settled instruments.

	Options outstanding (in numbers)		Weighted average exercise price (in EUR)	
	2011	2010	2011	2010
<b>CHANGES IN OPTION RIGHTS OUTSTANDING:</b>				
<b>BALANCE AT 1 JANUARY</b>	<b>3,607,268</b>	<b>3,883,983</b>	<b>13.22</b>	<b>13.39</b>
Granted	-	-	-	-
Exercised	(185,850)	-	8.56	-
Forfeited	(382,539)	(276,715)	13.43	13.50
Expired	-	-	-	-
<b>BALANCE AT 31 DECEMBER</b>	<b>3,038,879</b>	<b>3,607,268</b>	<b>13.06</b>	<b>13.22</b>
<b>OF WHICH VESTED AT 31 DECEMBER</b>	<b>2,468,179</b>	<b>2,257,868</b>	-	-

The average fair value per option at grant date amounted EUR 5.36<sup>1</sup>.

In 2011, 185,850 options were exercised into CDRs. All option holders opted for the cash-less exercise. As a consequence, the holder converted his options into fewer CDRs than he would otherwise be entitled to, while not having to pay the exercise price. Conversion of 68,900 exercised options was pending at year end.

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 of long-term options of peer-banks, an exercise period of seven years, an exercise price of EUR 18.25, a fair market 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 77% of the options outstanding at the end of 2011 (2010: 63%). 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 market value of the underlying CDR.

No new options were granted in 2007, 2009, 2010 or 2011. For the options granted in 2008, the fair value was calculated using an implied volatility of 45%, based on the implied volatility of long-term options of peer-banks, an exercise period of 4 years, an exercise price of EUR 9.06, a fair market value of the underlying CDR of EUR 9.06, a risk-free rate of return of 4.25% and expected dividend pay-outs of nil.

### Common Depositary Receipts

As at year end 2011, 2,993,187 (2010: 2,749,722) CDRs were in issue to employees. Of the position as at year end 2011, 10,465 CDRs (0.3%) are considered cash-settled (2010: 10,500 and 0.3%); the remaining 99.7% was considered equity-settled. In the case an employee has the right to demand cash settlement against their fair value, the CDRs are considered cash-settled (as opposed to equity-settled).

	Depositary receipt awards (in numbers)		Fair value at balance sheet date (in EUR)	
	2011	2010	2011	2010
<b>CHANGES IN COMMON DEPOSITARY RECEIPTS:</b>				
<b>BALANCE AT 1 JANUARY</b>	<b>2,749,722</b>	<b>2,484,235</b>	-	-
Granted	-	-	-	-
Investments from own funds	-	-	-	-
Exercised (options)	16,327	-	-	-
Vesting of RDRs	249,748	265,487	-	-
CDRs repaid	(22,610)	-	-	-
<b>BALANCE AT 31 DECEMBER</b>	<b>2,993,187</b>	<b>2,749,722</b>	<b>8.70</b>	<b>9.56</b>
<b>OF WHICH RELATES TO INVESTMENT FROM OWN FUNDS AT 31 DECEMBER</b>	<b>1,280,112</b>	<b>1,301,734</b>	-	-

### Restricted Depositary Receipts

As at year-end 2011, 49,090 (2010: 303,623) RDRs had been issued to employees, with a weighted average remaining vesting period of 0 years (2010: 0.18 years). A requirement for vesting at the vesting date is that the holder is still employed by NIBC or one of its group companies. Of the position as at year-end 2011, no RDRs were considered cash-settled (2010: nil), but all RDRs were considered equity-settled.

	Depositary receipt awards (in numbers)		Weighted average fair value at grant date (in EUR)	
	2011	2010	2011	2010
<b>CHANGES IN RESTRICTED DEPOSITARY RECEIPTS:</b>				
<b>BALANCE AT 1 JANUARY</b>	<b>303,623</b>	<b>587,455</b>	<b>13.65</b>	<b>13.07</b>
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(4,785)	(18,345)	19.68	13.40
Vested into CDRs	(249,748)	(265,487)	12.39	12.38
Expired	-	-	-	-
<b>BALANCE AT 31 DECEMBER</b>	<b>49,090</b>	<b>303,623</b>	<b>19.49</b>	<b>13.65</b>

### Conditional Common Depositary Receipts

As at year-end 2011, 81,083 (2010: 45,948) CCDRs were in issue to Statutory Board members. Of the position as at year-end 2011, no CCDRs were considered cash-settled (2010: nil), but all CCDRs were considered equity-settled.

	Conditional Common Depository receipt awards (in numbers)		Weighted average fair value at grant date (in EUR)	
	2011	2010	2011	2010
<b>CHANGES IN CONDITIONAL COMMON DEPOSITARY RECEIPTS:</b>				
<b>BALANCE AT 1 JANUARY</b>	<b>45,948</b>	-	-	-
Vesting of one-off matching shares (CRDRs) awarded in 2009 on investment from own funds	45,947	45,948	9.25	9.25
Vesting of one-off performance shares (CRDRs) awarded in 2009	-	-	-	-
Forfeited	(10,812)	-	9.25	-
<b>BALANCE AT 31 DECEMBER</b>	<b>81,083</b>	<b>45,948</b>	<b>9.25</b>	<b>9.25</b>

### Conditional Restricted Depository Receipts

At year-end 2011, 81,081 (2010: 137,838) CRDRs were in issue to Statutory Board members related to their personal co-investment in 2009 in NIBC Holding CDRs, with a weighted average remaining vesting period of 1.0 year (2010: 2.0 years). These CRDRs are subject to four-year vesting with one-quarter vesting each year on 1 January, for the first time on 1 January 2010 provided that the holder is still employed by NIBC prior to the vesting date. These CRDRs will become fully unconditional and vest immediately upon change of control of NIBC Holding. The number of performance shares is dependent on certain performance targets, and will be calculated upon a change of control event as a percentage of the number of matching shares that represents one year's net base salary at the time of grant.

For reporting purposes, the number of performance shares for the combined Statutory Board is estimated at 62,818 CRDRs, based on NIBC's current long-term forecast. Depending on the assumptions applied, this number can vary over time. The conditional performance shares will vest immediately upon a change of control of NIBC Holding. Of the position as at year-end 2011, no CRDRs were considered cash-settled (2010: nil), but all CRDRs were considered equity-settled.

At year-end 2011, 73,146 (2010: 59,674) CRDRs were in issue to Statutory Board members related to the LTI scheme for the performance years 2009, 2010 and 2011, with a weighted average remaining vesting period of 1.0 year (2010: 1.5 years).

For the LTI 2009 of in total 24,648 CRDRs, the three-year cliff vesting period ended 1 January 2012. The Supervisory Board reviewed the agreed long-term financial and non-financial performance conditions and concluded that all criteria were met, consequently all LTI 2009 CRDRs had fully vested at 1 January 2012.

	Conditional Restricted Depository receipt awards (in numbers)		Weighted average fair value at grant date (in EUR)	
	2011	2010	2011	2010
<b>CHANGES IN CONDITIONAL RESTRICTED DEPOSITARY RECEIPTS:</b>				
<b>BALANCE AT 1 JANUARY</b>	<b>289,418</b>	<b>251,314</b>	<b>9.25</b>	<b>9.25</b>
One-off matching shares (CRDRs) awarded in 2009 on investment from own funds	-	-	-	-
One-off performance shares (CRDRs) re-estimated 2011/awarded in 2009	19,470	14,783	9.25	9.25
Conditional restricted depository receipts awarded based on LTI scheme in 2011/2010	64,651	69,269	9.56	9.25
Forfeited	(44,663)	-	9.31	-
Vested into conditional CDRs	(45,947)	(45,948)	9.25	9.25
<b>BALANCE AT 31 DECEMBER</b>	<b>282,929</b>	<b>289,418</b>	<b>9.31</b>	<b>9.25</b>

The fair market value per CRDR is calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expected dividends. The fair value at balance sheet date was EUR 8.70.

## Phantom Share Units

As at year end 2011, 211,420 (2010: 91,383) PSUs had been issued to employees. The total outstanding position is considered cash-settled.

	Phantom Share Units (in numbers)		Weighted average fair value at grant date (in EUR)	
	2011	2010	2011	2010
<b>CHANGES IN PHANTOM SHARE UNITS:</b>				
<b>BALANCE AT 1 JANUARY</b>	<b>91,383</b>	-	<b>9.56</b>	-
Granted	120,037	91,383	8.75	9.56
Exercised	-	-	-	-
Forfeited	-	-	-	-
<b>BALANCE AT 31 DECEMBER</b>	<b>211,420</b>	<b>91,383</b>	<b>9.10</b>	<b>9.56</b>

The fair market value per PSU is calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expected dividends. The fair value at balance sheet date was EUR 8.70.

## Restricted Phantom Share Units

As at year end 2011, 231,576 (2010: 101,904) RPSUs were issued to employees. The total outstanding position is considered cash-settled.

	Restricted Phantom Share Units (in numbers)		Weighted average fair value at grant date (in EUR)	
	2011	2010	2011	2010
<b>CHANGES IN RESTRICTED PHANTOM SHARE UNITS:</b>				
<b>BALANCE AT 1 JANUARY</b>	<b>101,904</b>	-	<b>9.56</b>	-
Granted	137,308	101,904	8.70	9.56
Exercised	-	-	-	-
Forfeited	(7,636)	-	9.56	-
<b>BALANCE AT 31 DECEMBER</b>	<b>231,576</b>	<b>101,904</b>	<b>9.05</b>	<b>9.56</b>

The fair market value per RPSU is calculated based on price-to-book ratios observed in the market at grant date based on net asset value, without taking into account expected dividends. The fair value at balance sheet date was EUR 8.70.

With respect to all instruments relating to NIBC Choice (CDRs, RDRs, CRDRs, options and deferred cash), an amount of EUR 4 million was expensed through personnel expenses in 2011 (2010: EUR 11 million), of which EUR 2 million (2010: EUR 4 million) refers to cash-settled instruments (deferred cash and vested PSUs) and EUR 2 million (2010: EUR 5 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 balance sheet date, their fair value 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 5 million (2010: EUR 5 million). With respect to the equity-settled instruments (CDRs, RDRs, CRDRs and options), the amount expensed during the vesting period through the income statement is based on the number of instruments granted outstanding 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.

In the current account position with NIBC Holding, an amount of EUR 34 million receivable is included (2010: EUR 34 million) relating to NIBC Choice. This is a result of recharges from NIBC Holding to its subsidiaries with respect to NIBC Choice (equity-settled instruments). The recharge is recognised for upon vesting of the granted equity settled NIBC Choice instruments. In view of IFRS 2, NIBC has a receivable in the current account position with NIBC Holding for the capital contribution of EUR 51 million (2010: EUR 51 million) in relation to the share-based payments programme granted by NIBC Holding.

## 9 Other operating expenses

IN EUR MILLIONS	2011	2010
Other operating expenses	64	57
Other operating expenses of non-financial companies included in the consolidation	15	14
Fees of the external auditor	2	2
	<b>81</b>	<b>73</b>
<b>FEES OF THE EXTERNAL AUDITOR CAN BE CATEGORISED AS FOLLOWS:</b>		
Audit of financial statements	2	2
Other audit-related activities	-	-
Other non-audit related activities	-	-
Fiscal services	-	-
	<b>2</b>	<b>2</b>

The fees listed above relate to the procedures applied to NIBC Holding and its consolidated group entities by accounting firms and external auditors as referred to in Section 1(1) of the Dutch Accounting Firms Oversight Act (Dutch acronym: Wta), as well as by the Dutch and the foreign-based accounting firms, including their tax services and advisory groups.

## 10 Depreciation and amortisation

IN EUR MILLIONS	2011	2010
Property, plant and equipment	6	6
Property, plant and equipment of non-financial companies included in the consolidation	4	6
Intangible assets	9	7
	<b>19</b>	<b>19</b>
<b>AMORTISATION OF INTANGIBLE ASSETS CAN BE CATEGORISED AS FOLLOWS:</b>		
Trademarks and licenses	4	3
Customer relationships	3	3
Other intangibles	2	1
	<b>9</b>	<b>7</b>

The amortisation of intangible assets relates to the non-financial companies included in the consolidation.

## 11 Impairments of financial assets

IN EUR MILLIONS	2011	2010
<b>IMPAIRMENTS</b>		
Loans classified at amortised cost	67	90
Debt investments classified at amortised cost	15	19
Debt investments classified at available for sale	-	-
	<b>82</b>	<b>109</b>
<b>REVERSALS OF IMPAIRMENTS</b>		
Loans classified at amortised cost	(19)	(15)
Debt investments classified at amortised cost	(7)	(2)
Debt investments classified at available for sale	(5)	(2)
	<b>(31)</b>	<b>(19)</b>
Other	(5)	(1)
	<b>46</b>	<b>89</b>

Further details on accrued interest income on impaired financial assets can be found in note 2.

Impairments of financial assets reclassified in 2008 following the IAS 39 amendments, both after reclassification and before reclassification (assuming the reclassification in 2008 had not been made) is displayed in the following table (negative amounts represent losses):

IN EUR MILLIONS	For the period ended 31 December			
	2011		2010	
	After reclassification	Before reclassification	After reclassification	Before reclassification
Impairments of financial assets	(7)	(6)	(62)	(48)

## 12 Tax

IN EUR MILLIONS	2011	2010
Current tax	21	(13)
Deferred tax	(14)	24
	<b>7</b>	<b>11</b>

Further information on deferred tax is presented in note 33. The actual tax charge on NIBC Holding's result before tax differs from the theoretical amount that would arise using the basic tax rate, as follows:

IN EUR MILLIONS	2011	2010
<b>TAX DIFFERENCES CAN BE ANALYSED AS FOLLOWS:</b>		
<b>PROFIT BEFORE TAX</b>	<b>92</b>	<b>92</b>
Tax calculated at the nominal Dutch corporate tax rate of 25.0% (2010: 25.5%)	23	23
Effect of different tax rates in other countries	-	2
Impact of income not subject to tax	(13)	(12)
Impact of expenses not deductible for tax purposes	(1)	2
Result final tax assessment previous years	(2)	(4)
	<b>7</b>	<b>11</b>
<b>EFFECTIVE TAX RATE</b>	<b>7.6%</b>	<b>12.4%</b>

The impact of income not subject to tax mainly relates to income from equity investments and investments in associates, in which NIBC Holding has a stake of more than 5%, being income that is tax exempt under Dutch tax law.

The current tax expense/(income) related to non-financial companies included in the consolidation is nil (2010: EUR 2 million income).

NIBC Holding N.V. is the parent company of NIBC Bank N.V., NIBC Investments N.V. and NIBC Investment Management N.V., which are all part of the same fiscal entity.

### 13 Result attributable to non-controlling interests

IN EUR MILLIONS	2011	2010
Result attributable to non-controlling interests	(1)	4
	(1)	4

The non-controlling interests reflect third-party participations in investment funds (formerly) controlled by NIBC Holding and in non-financial companies (formerly) included in the consolidation controlled by NIBC Holding.

### 14 Cash and balances with central banks (amortised cost)

IN EUR MILLIONS	2011	2010
Cash and balances with central banks	2,430	1,314
	2,430	1,314

The amounts included in cash and balances with central banks are available on demand.

Cash and balances with central banks includes an overnight deposit of EUR 2,270 million, due from the Dutch Central Bank (*De Nederlandsche Bank, DNB*) (2010: EUR 750 million, due from the Dutch Government).

Balances held with central banks are interest bearing.

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.

## 15 Due from other banks (amortised cost)

IN EUR MILLIONS	2011	2010
Current accounts	626	657
Deposits with other banks	1,501	1,046
	<b>2,127</b>	<b>1,703</b>
<b>DUE FROM OTHER BANKS CAN BE CATEGORISED AS FOLLOWS:</b>		
Receivable on demand	626	657
Cash collateral placements posted under CSA agreements	1,398	953
Not receivable on demand	103	93
	<b>2,127</b>	<b>1,703</b>
<b>THE LEGAL MATURITY ANALYSIS OF DUE FROM OTHER BANKS NOT RECEIVABLE ON DEMAND IS ANALYSED AS FOLLOWS:</b>		
Three months or less	74	38
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	25	51
Longer than five years	4	4
	<b>103</b>	<b>93</b>

There are no subordinated loans outstanding due from other banks in 2011 and 2010.

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.

No impairments were recorded in 2011 and 2010 on the amounts due from other banks at amortised cost.

An amount of EUR 1,398 million (2010: EUR 953 million) related to cash collateral given to third parties and was not freely available to NIBC Holding.

NIBC Holding transacted several reverse repurchase transactions with third parties. The related disclosures are included in repurchase and resale agreements (see note 46).

## 16 Loans (amortised cost)

IN EUR MILLIONS	2011	2010
Loans to corporate entities	6,828	6,314
Guaranteed by public authorities	38	54
	<b>6,866</b>	<b>6,368</b>
<b>THE LEGAL MATURITY ANALYSIS OF LOANS IS ANALYSED AS FOLLOWS:</b>		
Three months or less	482	695
Longer than three months but not longer than one year	487	525
Longer than one year but not longer than five years	3,094	2,949
Longer than five years	2,803	2,199
	<b>6,866</b>	<b>6,368</b>
<b>THE MOVEMENT IN IMPAIRMENT LOSSES ON LOANS MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>153</b>	<b>144</b>
Additional allowances	67	90
Write-offs	(71)	(67)
Amounts released	(19)	(15)
Unwinding of discount adjustment	(3)	(3)
Other (including exchange differences)	3	4
<b>BALANCE AT 31 DECEMBER</b>	<b>130</b>	<b>153</b>

On 1 July 2008 following the IAS 39 amendments, an amount of EUR 79 million of the impairments related to the available for sale loans was reclassified to the loans category at amortised cost. The corresponding total amount of loans in the available for sale category net of impairments has been reclassified to the loans category at amortised cost as at 1 July 2008. The cumulative impairments at 31 December 2011, related to the available for sale loans reclassified to the loans category at amortised cost on 1 July 2008, amounted to EUR 86 million (2010: EUR 108 million).

If NIBC Holding had fair valued the loans classified at amortised cost using the valuation methodology applied to loans designated as available for sale as per 31 December 2011, then the carrying amount would have decreased at the balance sheet date by EUR 313 million (31 December 2010: EUR 198 million). This decrease would reflect both changes due to interest rates and credit spreads. NIBC Holding hedges its interest rate risk from these assets.

The maximum credit risk exposure including undrawn credit facilities arising on loans at amortised cost amounted to EUR 8,294 million (2010: EUR 8,044 million).

The total amount of subordinated loans in this item amounted to EUR 254 million in 2011 (2010: EUR 278 million).

As per 31 December 2011, EUR 38 million (2010: EUR 54 million) was guaranteed by the Dutch State.

The following table presents the fair value and carrying value of financial assets reclassified as of 1 July 2008 to loans at amortised cost:

IN EUR MILLIONS	Fair value on date of reclassification	Carrying value as per 31 December 2011	Fair value as per 31 December 2011
Loan portfolio reclassified from available for sale category	2,147	2,139	2,049

The effective interest rates on financial assets reclassified into loans at amortised cost as at the date of reclassification - 1 July 2008 - fell approximately into the following range:

IN %	Range
Loan portfolio reclassified from available for sale category	5 - 9

The following table contains estimates of undiscounted cash flows NIBC Holding expected to recover from the assets reclassified as at 1 July 2008, which were still on the balance sheet as per 31 December 2011:

IN EUR MILLIONS	Less than one year	Between one and two years	Between two and five years	More than five years	Total
Loan portfolio reclassified from available for sale category	587	394	1,560	-	2,541

As of the date of reclassification - 1 July 2008 -, NIBC Holding has recognised a total fair value loss in equity of EUR 12 million on assets reclassified.

## 17 Debt investments (amortised cost)

IN EUR MILLIONS	2011	2010
Debt investments	556	625
	<b>556</b>	<b>625</b>

All debt investments are listed and non-government (2010: EUR 624 million listed).

IN EUR MILLIONS	2011	2010
<b>THE LEGAL MATURITY ANALYSIS OF DEBT INVESTMENTS IS ANALYSED AS FOLLOWS:</b>		
Three months or less	1	-
Longer than three months but not longer than one year	-	1
Longer than one year but not longer than five years	110	33
Longer than five years	445	591
	<b>556</b>	<b>625</b>

**THE MOVEMENT IN DEBT INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:**

<b>BALANCE AT 1 JANUARY</b>	<b>625</b>	<b>673</b>
Additions	63	50
Disposals (sale and/or redemption)	(141)	(104)
Impairments	(8)	(17)
Exchange differences and amortisation	17	23
<b>BALANCE AT 31 DECEMBER</b>	<b>556</b>	<b>625</b>

**THE MOVEMENT IN IMPAIRMENT LOSSES ON DEBT INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:**

<b>BALANCE AT 1 JANUARY</b>	<b>88</b>	<b>95</b>
Additional allowances	15	19
Write-offs	(10)	(28)
Amounts released	(7)	(2)
Exchange differences	2	4
<b>BALANCE AT 31 DECEMBER</b>	<b>88</b>	<b>88</b>

If NIBC Holding had fair valued the debt investments classified as amortised cost using the valuation methodology applied to debt investments at held for trading or available for sale as per 31 December 2011, the carrying amount would have decreased at the balance sheet date by EUR 116 million (2010: EUR 76 million). This decrease would reflect both changes due to interest rates and credit spreads. NIBC Holding hedges its interest rate risk from these assets.

The following table presents the fair value and carrying value of financial assets reclassified as of 1 July 2008 to debt investments at amortised cost:

IN EUR MILLIONS	Fair value on date of reclassification	Carrying value as per 31 December 2011	Fair value as per 31 December 2011
<b>DEBT INVESTMENTS RECLASSIFIED FROM:</b>			
Held for trading category	539	387	279
Available for sale category	88	76	67

The effective interest rates on financial assets reclassified into debt investments at amortised cost as at the date of reclassification - 1 July 2008 - fell approximately into the following ranges:

IN %	Range
<b>DEBT INVESTMENTS RECLASSIFIED FROM:</b>	
Held for trading category (EU debt investments)	4 - 20
Held for trading category (US debt investments)	20
Available for sale category	5 - 8

The following table contains estimates of undiscounted cash flows NIBC expected to recover from the assets reclassified as at 1 July 2008, which were still on the balance sheet as per 31 December 2011:

IN EUR MILLIONS	Less than one year	Between one and two years	Between two and five years	More than five years	Total
<b>DEBT INVESTMENTS RECLASSIFIED FROM:</b>					
Held for trading category (EU debt investments)	24	34	214	402	674
Held for trading category (US debt investments)	-	-	27	148	175
Available for sale category	4	5	26	93	128

## 18 Securitised loans (amortised cost)

IN EUR MILLIONS	2011	2010
Loans to corporate entities	613	614
	<b>613</b>	<b>614</b>

### THE LEGAL MATURITY ANALYSIS OF THE SECURITISED LOANS IS ANALYSED AS FOLLOWS:

Three months or less	3	2
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	610	-
Longer than five years	-	612
	<b>613</b>	<b>614</b>

### THE MOVEMENT IN SECURITISED LOANS MAY BE SUMMARISED AS FOLLOWS:

<b>BALANCE AT 1 JANUARY</b>	<b>614</b>	<b>616</b>
Disposals (sale and/or redemption)	(1)	(2)
<b>BALANCE AT 31 DECEMBER</b>	<b>613</b>	<b>614</b>

If NIBC Holding had fair valued the securitised loans classified as amortised cost using the valuation methodology applied to loans designated as available for sale as per 31 December 2011, then the balance sheet amount would have decreased at the balance sheet date by EUR 53 million (2010: EUR 52 million). The fair value reflects movements due to both interest rate changes and credit spread changes. NIBC Holding hedges its interest rate risk from these assets.

The maximum credit risk exposure including undrawn credit facilities arising on securitised loans at amortised cost amounts to EUR 613 million (2010: EUR 614 million).

No impairments were recorded in 2011 and 2010 on securitised loans at amortised cost.

## 19 Equity investments (available for sale)

IN EUR MILLIONS	2011	2010
Equity investments	66	72
	<b>66</b>	<b>72</b>
<b>EQUITY INVESTMENTS CAN BE CATEGORISED AS FOLLOWS:</b>		
Unlisted	66	72
	<b>66</b>	<b>72</b>
<b>THE MOVEMENT IN EQUITY INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>72</b>	<b>94</b>
Additions	2	7
Disposals (sales and/or capital repayments)	(9)	(33)
Changes in fair value	1	3
Impairments	(1)	(2)
Exchange differences	1	3
<b>BALANCE AT 31 DECEMBER</b>	<b>66</b>	<b>72</b>
<b>THE MOVEMENT IN IMPAIRMENT LOSSES ON EQUITY INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>75</b>	<b>89</b>
Additional allowances	1	2
Write-offs	(9)	(19)
Exchange differences	2	3
<b>BALANCE AT 31 DECEMBER</b>	<b>69</b>	<b>75</b>

## 20 Debt investments (available for sale)

IN EUR MILLIONS	2011	2010
Debt investments	887	1,190
	<b>887</b>	<b>1,190</b>

### DEBT INVESTMENTS CAN BE CATEGORISED AS FOLLOWS:

Government	-	-
Government guaranteed	5	11
Other debt investments	882	1,179
	<b>887</b>	<b>1,190</b>

### DEBT INVESTMENTS CAN BE CATEGORISED AS FOLLOWS:

Listed	706	992
Unlisted	181	198
	<b>887</b>	<b>1,190</b>

### THE LEGAL MATURITY ANALYSIS OF DEBT INVESTMENTS IS ANALYSED AS FOLLOWS:

Three months or less	86	16
Longer than three months but not longer than one year	161	230
Longer than one year but not longer than five years	342	548
Longer than five years	298	396
	<b>887</b>	<b>1,190</b>

### THE MOVEMENT IN DEBT INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:

<b>BALANCE AT 1 JANUARY</b>	<b>1,190</b>	<b>714</b>
Additions	278	690
Disposals (sale and/or redemption)	(571)	(231)
Changes in fair value	(19)	15
Impairments	5	2
Exchange differences	4	-
<b>BALANCE AT 31 DECEMBER</b>	<b>887</b>	<b>1,190</b>

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC Holding hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated with results on financial derivatives.

IN EUR MILLIONS	2011	2010
<b>THE MOVEMENT IN IMPAIRMENT LOSSES ON DEBT INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>23</b>	<b>25</b>
Additional allowances	-	-
Amounts released	(5)	(2)
<b>BALANCE AT 31 DECEMBER</b>	<b>18</b>	<b>23</b>

The following table presents the fair value and carrying value of financial assets reclassified as of 1 July 2008 to debt investments at available for sale:

IN EUR MILLIONS	Fair value on date of reclassification	Carrying value as per 31 December 2011	Fair value as per 31 December 2011
Debt investments reclassified from held for trading category	28	8	8

The effective interest rates on financial assets reclassified into debt investments at available for sale as at the date of reclassification - 1 July 2008 - fell approximately into the following range:

IN %	Range
Debt investments reclassified from held for trading category	13 - 26

The following table contains estimates of undiscounted cash flows NIBC Holding expected to recover from the assets reclassified as at 1 July 2008, which were still on the balance sheet as per 31 December 2011:

IN EUR MILLIONS	Less than one year	Between one and two years	Between two and five years	More than five years	Total
Debt investments reclassified from held for trading category	7	6	24	24	61

## 21 Loans (designated at fair value through profit or loss)

IN EUR MILLIONS	2011	2010
Loans to corporate entities	998	1,074
	<b>998</b>	<b>1,074</b>

### THE LEGAL MATURITY ANALYSIS OF LOANS IS ANALYSED AS FOLLOWS:

Three months or less	5	3
Longer than three months but not longer than one year	17	32
Longer than one year but not longer than five years	808	573
Longer than five years	168	466
	<b>998</b>	<b>1,074</b>

### THE MOVEMENT IN LOANS MAY BE SUMMARISED AS FOLLOWS:

<b>BALANCE AT 1 JANUARY</b>	<b>1,074</b>	<b>1,103</b>
Additions	10	8
Disposals	(91)	(62)
Changes in fair value	(2)	16
Exchange differences	7	9
<b>BALANCE AT 31 DECEMBER</b>	<b>998</b>	<b>1,074</b>

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC Holding hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated with results on financial derivatives.

Interest income from loans is recognised in interest and similar income based on the effective interest rate. Fair value movements excluding interest are recognised in net trading income.

The portion of fair value changes in 2011 included in the balance sheet amount (designated at fair value through profit or loss) as at 31 December 2011 relating to the movement in credit spreads amounted to EUR 2 million credit (2010: EUR 16 million debit), being a reduction in the balance sheet carrying amount.

The maximum credit risk exposure including undrawn credit facilities amounted to EUR 717 million (2010: EUR 785 million).

## 22 Residential mortgages own book (designated at fair value through profit or loss)

IN EUR MILLIONS	2011	2010
Residential mortgages own book	3,185	4,429
	<b>3,185</b>	<b>4,429</b>

### THE LEGAL MATURITY ANALYSIS OF RESIDENTIAL MORTGAGES OWN BOOK IS ANALYSED AS FOLLOWS:

Three months or less	20	22
Longer than three months but not longer than one year	15	12
Longer than one year but not longer than five years	36	39
Longer than five years	3,114	4,356
	<b>3,185</b>	<b>4,429</b>

### THE MOVEMENT IN RESIDENTIAL MORTGAGES OWN BOOK MAY BE SUMMARISED AS FOLLOWS:

<b>BALANCE AT 1 JANUARY</b>	<b>4,429</b>	<b>5,817</b>
Additions (including transfers from consolidated SPEs)	27	977
Disposals (sale and/or redemption, including replenishment of consolidated SPEs)	(1,251)	(2,381)
Changes in fair value	(20)	16
<b>BALANCE AT 31 DECEMBER</b>	<b>3,185</b>	<b>4,429</b>

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC Holding hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated with results on financial derivatives.

Interest income from residential mortgages own book is recognised in interest and similar income based on the effective interest rate. Fair value movements excluding interest are recognised in net trading income.

The maximum credit exposure including committed but undrawn facilities was EUR 3,190 million (2010: EUR 4,438 million).

## 23 Securitised residential mortgages (designated at fair value through profit or loss)

IN EUR MILLIONS	2011	2010
Securitised residential mortgages	5,560	5,338
	<b>5,560</b>	<b>5,338</b>

### THE LEGAL MATURITY ANALYSIS OF SECURITISED RESIDENTIAL MORTGAGES IS ANALYSED AS FOLLOWS:

Three months or less	1	1
Longer than three months but not longer than one year	2	1
Longer than one year but not longer than five years	22	15
Longer than five years	5,535	5,321
	<b>5,560</b>	<b>5,338</b>

### THE MOVEMENT IN SECURITISED RESIDENTIAL MORTGAGES MAY BE SUMMARISED AS FOLLOWS:

<b>BALANCE AT 1 JANUARY</b>	<b>5,338</b>	<b>4,783</b>
Additions	750	1,847
Disposals (sale and/or redemption including transfers to own book)	(569)	(1,365)
Changes in fair value	41	73
<b>BALANCE AT 31 DECEMBER</b>	<b>5,560</b>	<b>5,338</b>

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC Holding hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated with results on financial derivatives.

Interest income from securitised residential mortgages is recognised in interest and similar income at the effective interest rate. Fair value movements (excluding interest) are recognised in net trading income.

At 31 December 2011, securitised residential mortgages in the amount of EUR 5,560 million (2010: EUR 5,338 million) were pledged as collateral for NIBC Holding's own liabilities (see note 49).

The maximum credit exposure was EUR 5,560 million (2010: EUR 5,338 million).

The portion of fair value changes in 2011 included in the balance sheet amount relating to the movement in credit spreads on residential mortgages own book (see note 22) and securitised residential mortgages amounted to EUR 131 million credit at 31 December 2011 (2010: EUR 22 million credit), being a reduction in the balance sheet carrying amount.

The aggregate difference yet to be recognised in the income statement between transaction prices at initial recognition and the fair value determined by a valuation model on both residential mortgages own book (see note 22) and securitised residential mortgages at 31 December 2011 amounted to a liability of EUR 26 million (2010: EUR 27 million).

Securitised residential mortgages are recognised on NIBC Holding's balance sheet based on the risks and rewards NIBC Holding retains in the SPEs issuing the mortgage-backed notes. Risks and rewards can be retained by NIBC Holding by retaining issued notes, providing overcollateralisation to the SPEs or implementing reserve accounts in the SPEs. At the balance sheet date, NIBC Holding retained EUR 600 million (2010: EUR 298 million) of notes issued by the SPEs, overcollateralisation provided to the SPEs amounted to EUR 21 million (2010: EUR 21 million) and reserve accounts amounted to EUR 15 million (2010: EUR 6 million).

## 24 Debt investments at fair value through profit or loss (including trading)

IN EUR MILLIONS	2011	2010
Held for trading	135	164
Designated at fair value through profit or loss <sup>1</sup>	106	476
	<b>241</b>	<b>640</b>

1. Including Enhanced investments.

All debt investments are non-government.

IN EUR MILLIONS	2011	2010
<b>DEBT INVESTMENTS HELD FOR TRADING CAN BE CATEGORISED AS FOLLOWS:</b>		
Listed	81	124
Unlisted	54	40
	<b>135</b>	<b>164</b>

<b>DEBT INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS CAN BE CATEGORISED AS FOLLOWS:</b>		
Listed	96	462
Unlisted	10	14
	<b>106</b>	<b>476</b>

<b>THE LEGAL MATURITY ANALYSIS OF DEBT INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS IS ANALYSED AS FOLLOWS:</b>		
Three months or less	-	17
Longer than three months but not longer than one year	30	58
Longer than one year but not longer than five years	68	267
Longer than five years	8	134
	<b>106</b>	<b>476</b>

<b>THE MOVEMENT IN DEBT INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>476</b>	<b>779</b>
Additions	8	138
Disposals (sale and/or redemption)	(368)	(448)
Changes in fair value	(10)	4
Exchange differences	-	3
<b>BALANCE AT 31 DECEMBER</b>	<b>106</b>	<b>476</b>

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC Holding hedges its interest rate risk from these assets, the movement due to interest rate changes is compensated with results on financial derivatives.

The portion of fair value changes in 2011 included in the balance sheet amount (designated at fair value through profit or loss) relating to the movement in credit spreads amounted to nil (2010: EUR 1 million debit, being a reduction in the balance sheet carrying amount).

Interest income from debt investments is recognised in interest and similar income at the effective interest rate until the date of reclassification. Fair value movements excluding interest have been recognised in net trading income.

## 25 Equity investments (investments in associates) (designated at fair value through profit or loss)

IN EUR MILLIONS	2011	2010
Investments in associates	238	255
Other equity investments	21	14
	<b>259</b>	<b>269</b>

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.

IN EUR MILLIONS	2011	2010
<b>THE MOVEMENT IN INVESTMENTS IN ASSOCIATES MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>255</b>	<b>211</b>
Additions	14	28
Disposals	(60)	(13)
Changes in fair value	29	29
	<b>238</b>	<b>255</b>

All of these investments in associates are unlisted instruments.

IN EUR MILLIONS	2011	2010
<b>THE MOVEMENT IN OTHER EQUITY INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>14</b>	<b>4</b>
Additions	11	1
Disposals	(10)	-
Changes in fair value	6	9
Exchange differences	-	-
<b>BALANCE AT 31 DECEMBER</b>	<b>21</b>	<b>14</b>

The other equity investments are unlisted (2010: EUR 13 million unlisted).

## 26 Derivative financial instruments

IN EUR MILLIONS	2011	2010
<b>DERIVATIVE FINANCIAL ASSETS</b>		
Derivative financial assets held for trading (trading portfolios)	2,966	2,400
Derivative financial assets held for trading (other portfolios)	689	707
Derivative financial assets used for hedging	292	360
	<b>3,947</b>	<b>3,467</b>
<b>DERIVATIVE FINANCIAL LIABILITIES</b>		
Derivative financial liabilities held for trading (trading portfolios)	3,543	2,954
Derivative financial liabilities held for trading (other portfolios)	418	365
Derivative financial liabilities used for hedging	34	48
	<b>3,995</b>	<b>3,367</b>

During 2011, NIBC enhanced the valuation of the majority interest rate derivatives, such that collateralised transactions are now discounted at the overnight swap curve. The negative financial impact of the change was approximately EUR 5.5 million on profit before tax.

## Derivative financial instruments – held for trading (trading portfolios) at 31 December 2011

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			
<b>INTEREST RATE DERIVATIVES</b>						
<b>OTC PRODUCTS:</b>						
Forward rate agreements	-	-	-	-	-	-
Interest rate swaps	11,493	9,233	56,376	77,102	2,898	3,464
Interest rate options (purchase)	55	207	534	796	8	-
Interest rate options (sale)	22	106	504	632	-	9
	<b>11,570</b>	<b>9,546</b>	<b>57,414</b>	<b>78,530</b>	<b>2,906</b>	<b>3,473</b>
<b>CURRENCY DERIVATIVES</b>						
<b>OTC PRODUCTS:</b>						
Currency/cross-currency swaps	-	705	4	709	56	59
	-	<b>705</b>	<b>4</b>	<b>709</b>	<b>56</b>	<b>59</b>
<b>OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)</b>						
<b>OTC PRODUCTS:</b>						
Other swaps	-	-	66	66	2	10
Other options (purchase)	-	-	42	42	2	-
Other options (sale)	-	-	42	42	-	1
	-	-	<b>150</b>	<b>150</b>	<b>4</b>	<b>11</b>
<b>TOTAL DERIVATIVES HELD FOR TRADING (trading portfolios)</b>	<b>11,570</b>	<b>10,251</b>	<b>57,568</b>	<b>79,389</b>	<b>2,966</b>	<b>3,543</b>

## Derivative financial instruments – held for trading (trading portfolios) at 31 December 2010

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			
<b>INTEREST RATE DERIVATIVES</b>						
<b>OTC PRODUCTS:</b>						
Forward rate agreements	35	-	-	35	-	-
Interest rate swaps	7,075	9,337	54,047	70,459	2,198	2,704
Interest rate options (purchase)	5	102	729	836	15	-
Interest rate options (sale)	-	31	656	687	-	11
	<b>7,115</b>	<b>9,470</b>	<b>55,432</b>	<b>72,017</b>	<b>2,213</b>	<b>2,715</b>
<b>CURRENCY DERIVATIVES</b>						
<b>OTC PRODUCTS:</b>						
Currency/cross-currency swaps	920	-	261	1,181	178	230
	<b>920</b>	-	<b>261</b>	<b>1,181</b>	<b>178</b>	<b>230</b>
<b>OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)</b>						
<b>OTC PRODUCTS:</b>						
Other swaps	166	96	10	272	5	5
Other options (purchase)	-	-	44	44	4	-
Other options (sale)	-	-	44	44	-	4
	<b>166</b>	<b>96</b>	<b>98</b>	<b>360</b>	<b>9</b>	<b>9</b>
<b>TOTAL DERIVATIVES HELD FOR TRADING (trading portfolios)</b>	<b>8,201</b>	<b>9,566</b>	<b>55,791</b>	<b>73,558</b>	<b>2,400</b>	<b>2,954</b>

## Derivative financial instruments - held for trading (other portfolios) at 31 December 2011

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			
<b>INTEREST RATE DERIVATIVES</b>						
<b>OTC PRODUCTS:</b>						
Interest rate swaps	1,713	1,058	13,073	15,844	435	367
	<b>1,713</b>	<b>1,058</b>	<b>13,073</b>	<b>15,844</b>	<b>435</b>	<b>367</b>
<b>CURRENCY DERIVATIVES</b>						
<b>OTC PRODUCTS:</b>						
Forward rate agreements	60	-	-	60	1	1
Interest currency rate swaps	525	469	880	1,874	226	3
Other currency contracts	895	-	-	895	-	29
	<b>1,480</b>	<b>469</b>	<b>880</b>	<b>2,829</b>	<b>227</b>	<b>33</b>
<b>OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)</b>						
<b>OTC PRODUCTS:</b>						
Credit default swaps (guarantees given)	-	-	50	50	1	1
Credit default swaps (guarantees received)	-	-	-	-	-	-
Other OTC products	14	10	4	28	26	17
	<b>14</b>	<b>10</b>	<b>54</b>	<b>78</b>	<b>27</b>	<b>18</b>
<b>TOTAL DERIVATIVES HELD FOR TRADING (other portfolios)</b>	<b>3,207</b>	<b>1,537</b>	<b>14,007</b>	<b>18,751</b>	<b>689</b>	<b>418</b>

## Derivative financial instruments - held for trading (other portfolios) at 31 December 2010

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			
<b>INTEREST RATE DERIVATIVES</b>						
<b>OTC PRODUCTS:</b>						
Interest rate swaps	395	3,561	13,471	17,427	373	334
	<b>395</b>	<b>3,561</b>	<b>13,471</b>	<b>17,427</b>	<b>373</b>	<b>334</b>
<b>CURRENCY DERIVATIVES</b>						
<b>OTC PRODUCTS:</b>						
Forward rate agreements	19	-	-	19	-	-
Interest currency rate swaps	31	39	2,164	2,234	320	1
Other currency contracts	738	-	-	738	4	-
	<b>788</b>	<b>39</b>	<b>2,164</b>	<b>2,991</b>	<b>324</b>	<b>1</b>
<b>OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)</b>						
<b>OTC PRODUCTS:</b>						
Credit default swaps (guarantees given)	-	34	87	121	1	8
Credit default swaps (guarantees received)	-	4	25	29	1	-
Other OTC products	17	-	-	17	8	22
	<b>17</b>	<b>38</b>	<b>112</b>	<b>167</b>	<b>10</b>	<b>30</b>
<b>TOTAL DERIVATIVES HELD FOR TRADING (other portfolios)</b>	<b>1,200</b>	<b>3,638</b>	<b>15,747</b>	<b>20,585</b>	<b>707</b>	<b>365</b>

## Derivative financial instruments - used for hedging at 31 December 2011

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			
<b>DERIVATIVES ACCOUNTED FOR AS FAIR VALUE</b>						
<b>HEDGES OF INTEREST RATE RISK</b>						
<b>OTC PRODUCTS:</b>						
Interest rate swaps	1,430	342	5,444	7,216	286	34
Interest currency rate swaps	-	-	27	27	6	-
	<b>1,430</b>	<b>342</b>	<b>5,471</b>	<b>7,243</b>	<b>292</b>	<b>34</b>
<b>DERIVATIVES ACCOUNTED FOR AS CASH FLOW</b>						
<b>HEDGES OF INTEREST RATE RISK</b>						
<b>OTC PRODUCTS:</b>						
Interest rate swaps	-	-	-	-	-	-
	-	-	-	-	-	-
<b>TOTAL DERIVATIVES USED FOR HEDGING</b>	<b>1,430</b>	<b>342</b>	<b>5,471</b>	<b>7,243</b>	<b>292</b>	<b>34</b>

## Derivative financial instruments - used for hedging at 31 December 2010

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			
<b>DERIVATIVES ACCOUNTED FOR AS FAIR VALUE</b>						
<b>HEDGES OF INTEREST RATE RISK</b>						
<b>OTC PRODUCTS:</b>						
Interest rate swaps	60	1,256	6,138	7,454	225	47
Interest currency rate swaps	8	26	26	60	10	-
	<b>68</b>	<b>1,282</b>	<b>6,164</b>	<b>7,514</b>	<b>235</b>	<b>47</b>
<b>DERIVATIVES ACCOUNTED FOR AS CASH FLOW</b>						
<b>HEDGES OF INTEREST RATE RISK</b>						
<b>OTC PRODUCTS:</b>						
Interest rate swaps	-	-	1,566	1,566	125	1
	-	-	1,566	1,566	125	1
<b>TOTAL DERIVATIVES USED FOR HEDGING</b>	<b>68</b>	<b>1,282</b>	<b>7,730</b>	<b>9,080</b>	<b>360</b>	<b>48</b>

### Fair value hedges of interest rate risk

The following table discloses the fair value of the swaps designated in fair value hedging relationships:

IN EUR MILLIONS		2011	2010
Fair value pay - fixed swaps (hedging assets)	assets	-	2
Fair value receive - fixed swaps (hedging assets)	liabilities	(34)	(38)
		<b>(34)</b>	<b>(36)</b>
Fair value pay - floating swaps (hedging liabilities)	assets	292	233
Fair value pay - floating swaps (hedging liabilities)	liabilities	-	(9)
		<b>292</b>	<b>224</b>

### Cash flow hedges of interest rate risk

The following table discloses the fair value of the swaps designated in cash flow hedging relationships:

IN EUR MILLIONS		2011	2010
Fair value receive - fixed swaps	assets	-	125
Fair value receive - fixed swaps	liabilities	-	-
		-	<b>125</b>
Fair value receive - floating swaps	assets	-	-
Fair value receive - floating swaps	liabilities	-	(1)
		-	<b>(1)</b>

### Sum of fair value and cash flow hedges of interest rate risk

IN EUR MILLIONS		2011	2010
Fair value pay swaps	assets	292	235
Fair value receive swaps	assets	-	125
		<b>292</b>	<b>360</b>
Fair value pay swaps	liabilities	(34)	(47)
Fair value receive swaps	liabilities	-	(1)
		<b>(34)</b>	<b>(48)</b>

The average remaining maturity (in which the related cash flows are expected to enter into the determination of profit or loss) is three years (2010: four years).

## Hedging activities

### Portfolio fair value hedge of plain vanilla funding

According to NIBC Holding's Hedging Policy, NIBC Holding should not be exposed to interest rate risk from its fixed rate plain vanilla funding activities above certain limits prescribed by the *Asset & Liability Committee (ALCO)*. Consequently, NIBC Holding uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC Holding 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 2011 was EUR 24 million debit (2010: EUR 27 million debit). The losses on the hedging instruments were EUR 1 million (2010: loss of EUR 3 million). The gains on the hedged item attributable to the hedged risk were nil (2010: gain of EUR 3 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

### Portfolio fair value hedge of fixed rate retail deposits

According to NIBC Holding's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate retail deposit activities above certain limits prescribed by the ALCO. Consequently, NIBC Holding uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC Holding has defined a portfolio fair value hedge for the retail deposits with a contractual duration longer than two years and the 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 2011 was EUR 56 million debit (2010: debit of EUR 3 million). The gains on the hedging instruments were EUR 45 million (2010: loss of EUR 6 million). The loss on the hedged item attributable to the hedged risk were EUR 42 million (2010: gains of EUR 6 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

### Micro fair value hedge of plain vanilla funding

According to NIBC Holding's Hedging Policy, NIBC Holding should not be exposed to interest rate and foreign exchange risk from its fixed rate plain vanilla funding activities above certain limits prescribed by ALCO. Consequently, NIBC Holding uses cross-currency interest rate swaps to hedge the fair value interest rate risk and foreign exchange risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC Holding has defined a micro fair value hedge for 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 2011 was EUR 203 million debit (2010: EUR 180 million debit). The gains on the hedging instruments were EUR 17 million (2010: gain of EUR 123 million). The loss on the hedged item attributable to the hedged risk were EUR 8 million (2010: loss of EUR 109 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

### Portfolio fair value hedge of loans

According to NIBC Holding's Hedging Policy, NIBC Holding should not be exposed to interest rate risk from its corporate loan activities above certain limits as set by ALCO. Consequently, NIBC Holding uses interest rate swaps to hedge the fair value interest rate risk arising from these fixed rate loans. To mitigate any accounting mismatches, NIBC Holding has defined a portfolio fair value hedge for the fixed rate loan 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 hedge relationships at 31 December 2011 was EUR 14 million credit (2010: EUR 10 million credit). Losses on the hedging instruments were 2 million (2010: nil). The gains on the hedged item attributable to the hedged risk were EUR 3 million (2010: loss of EUR 1 million). Differences between the results recognised on the hedging instruments and hedged items can be explained by hedge ineffectiveness.

### Micro fair value hedge of the Liquidity portfolio debt investments

According to NIBC Holding's Hedging Policy, NIBC Holding should not be exposed to fair value interest rate risk from its fixed rate debt investments held in the Liquidity portfolios above certain limits prescribed by ALCO. Consequently, NIBC Holding uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate debt investments. To mitigate any accounting mismatches, NIBC Holding has defined a micro fair value hedge for fixed rate debt investments 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 2011 was EUR 10 million credit (2010: EUR 13 million credit). The gains on the hedging instruments were EUR 2 million (2010: gain of EUR 1 million). The losses on the hedged item attributable to the hedged risk were EUR 2 million (2010: loss of EUR 1 million).

### Cash flow hedges

NIBC Holding has classified a large part of its corporate loans as loans and receivable at amortised cost. Therefore, variability in the cash flows of the floating rate corporate loans is accounted for in future periods, when the coupons are recorded in the income statement on an amortised cost basis. Interest rate swaps are used to hedge the floating cash flows of its floating corporate loans. These swaps are reported at fair value through profit or loss. This accounting mismatch creates volatility in the income statement of NIBC Holding. Therefore NIBC Holding applies hedge accounting on these positions. Hedge accounting is applied to all swaps that are used to hedge the cash flow risk of the floating corporate loans by defining a macro cash flow hedge relationship with the floating corporate loans.

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 one, three and six 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 Holding 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 nil (2010: EUR 124 million debit) were designated in a cash flow hedge relationship. The cash flow on the hedged item will be reported in income over the next eight years. In 2011, the ineffectiveness recognised in the income statement that arose from cash flow hedges was a loss of EUR 1 million (2010: loss of EUR 1 million).

All macro cash flow hedge relationships ceased to exist during 2011 and therefore the related cumulative hedge adjustment as from that date are amortised over the remaining contractual maturity of the hedged item.

The amount that was recognised in equity during the year 2011 was EUR 28 million credit (2010: EUR 33 million credit). The amount that was removed from equity and included in the income statement in 2011 was a gain of EUR 11 million net of tax (2010: gain of EUR 1 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 203 million (2010: USD 193 million) was designated as a hedging instrument, and gave rise to currency loss for the year 2011 of EUR 5 million before tax (2010: gain of EUR 10 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 dividends were paid by foreign operations during the year 2011 (2010: nil), and there were no disposals of foreign operations that were included in the net investment hedge.

## 27 Investments in associates (equity method)

IN EUR MILLIONS	2011	2010
Investments in associates	29	31
	<b>29</b>	<b>31</b>

### THE MOVEMENT IN INVESTMENTS IN ASSOCIATES MAY BE SUMMARISED AS FOLLOWS:

<b>BALANCE AT 1 JANUARY</b>	<b>31</b>	<b>35</b>
Purchases and additional payments	1	1
Disposals	(3)	(3)
Share in result of associates	3	3
Dividend received	(3)	(4)
Impairments	-	(1)
<b>BALANCE AT 31 DECEMBER</b>	<b>29</b>	<b>31</b>

At the end of 2011 and 2010, 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.

There is no unrecognised share of losses of an associate, either for the period or cumulatively.

See note 52 for further details on the investments in associates.

IN EUR MILLIONS	2011	2010
<b>BALANCE AT 1 JANUARY</b>	<b>10</b>	<b>9</b>
Additional allowances	-	1
<b>BALANCE AT 31 DECEMBER</b>	<b>10</b>	<b>10</b>

## 28 Intangible assets

IN EUR MILLIONS	2011	2010
Intangible assets	172	242
	<b>172</b>	<b>242</b>

### INTANGIBLE ASSETS MAY BE SUMMARISED AS FOLLOWS:

Cost	469	385
Additions/acquired by business combinations	-	89
Disposal of a subsidiary	(61)	-
Accumulated amortisation	(236)	(232)
	<b>172</b>	<b>242</b>

### THE MOVEMENT IN INTANGIBLE ASSETS (GOODWILL) RELATED TO NIBC BANK N.V. MAY BE SUMMARISED AS FOLLOWS:

<b>BALANCE AT 1 JANUARY</b>	<b>121</b>	<b>121</b>
Impairment of goodwill	-	-
<b>BALANCE AT 31 DECEMBER</b>	<b>121</b>	<b>121</b>

As the value in use was higher than the carrying amount including goodwill for operating segment NIBC Bank no goodwill impairment charge was recognised in 2011 and 2010.

Goodwill is tested annually for impairment or more frequently when there are indications that impairments may have occurred by comparing the recoverable amount on operating segment level to which goodwill has been allocated with its carrying value.

IN EUR MILLIONS	2011	2010
<b>GOODWILL HAS BEEN ALLOCATED TO OPERATING SEGMENT AS FOLLOWS:</b>		
NIBC Bank	121	121
	<b>121</b>	<b>121</b>

IN EUR MILLIONS	Goodwill	Trademarks and licences	Customer relationships	Other intangibles	Total
<b>THE MOVEMENT IN INTANGIBLE ASSETS RELATED TO NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION MAY BE SUMMARISED AS FOLLOWS:</b>					
<b>BALANCE AT 1 JANUARY 2010</b>	<b>20</b>	<b>2</b>	<b>16</b>	<b>2</b>	<b>40</b>
Additions	-	-	-	-	-
Recognition following acquisition of business combinations (see note 48)	44	28	14	3	89
Amortisation	-	(3)	(3)	(1)	(7)
<b>BALANCE AT 31 DECEMBER 2010</b>	<b>64</b>	<b>27</b>	<b>27</b>	<b>4</b>	<b>122</b>

IN EUR MILLIONS	Goodwill	Trademarks and licences	Customer relationships	Other intangibles	Total
<b>THE MOVEMENT IN INTANGIBLE ASSETS RELATED TO NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION MAY BE SUMMARISED AS FOLLOWS:</b>					
<b>BALANCE AT 1 JANUARY 2011</b>	<b>64</b>	<b>27</b>	<b>27</b>	<b>4</b>	<b>122</b>
Additions	-	-	-	-	-
Derecognition following deconsolidation of non-financial companies (see note 48)	(32)	(15)	(14)	-	(61)
Amortisation	-	(4)	(3)	(2)	(9)
<b>BALANCE AT 31 DECEMBER 2011</b>	<b>32</b>	<b>8</b>	<b>10</b>	<b>2</b>	<b>52</b>

Amortisation of EUR 9 million (2010: EUR 7 million) was included in the depreciation and amortisation line of the income statement.

After derecognition in 2011, NIBC Holding recognised goodwill to an amount of EUR 32 million (2010: EUR 64 million) and other intangible assets to an amount of EUR 20 million (2010: EUR 58 million) on the acquisition of business combinations.

The remaining amortisation period for the categories trademarks and licences is two years and nine years for customer relationships.

Intangible assets pledged as security for liabilities were nil for both 2011 and 2010.

Goodwill acquired in business combinations is reviewed in the fourth quarter of the respective financial year for impairment, or more frequently when there are indications that impairments may have occurred, by comparing the recoverable amount of each CGU to which goodwill has been allocated with its carrying value.

IN EUR MILLIONS	2011	2010
<b>GOODWILL HAS BEEN ALLOCATED TO THE GROUP OF CASH GENERATING UNITS AS FOLLOWS:</b>		
Non-financial companies included in the consolidation	32	64
	<b>32</b>	<b>64</b>

No impairments were recorded in 2011 and 2010 relating to the consolidated non-financial companies included in the consolidation.

## 29 Property, plant and equipment

IN EUR MILLIONS	2011	2010
Land and buildings	46	56
Other fixed assets	4	6
	<b>50</b>	<b>62</b>
Land and buildings of non-financial companies included in the consolidation	-	7
Other fixed assets of non-financial companies included in the consolidation	1	32
	<b>1</b>	<b>39</b>
	<b>51</b>	<b>101</b>

### THE MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT MAY BE SUMMARISED AS FOLLOWS:

<b>BALANCE AT 1 JANUARY</b>	<b>101</b>	<b>101</b>
Additions	8	4
Additions non-financial companies included in the consolidation	2	3
Acquired in business combinations	-	5
Derecognition following deconsolidation of non-financial companies (see note 48)	(37)	-
Revaluation	(13)	-
Depreciation	(10)	(12)
<b>BALANCE AT 31 DECEMBER</b>	<b>51</b>	<b>101</b>

In 2011, EUR 3 million of the depreciation expenses related to non-financial companies included in the consolidation (2010: EUR 6 million).

IN EUR MILLIONS	2011	2010
<b>THE ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT CAN BE CATEGORISED AS FOLLOWS:</b>		
Land and buildings	41	39
Other fixed assets	10	10
	<b>51</b>	<b>49</b>
Land and buildings of non-financial companies included in the consolidation	-	-
Other fixed assets of non-financial companies included in the consolidation	3	22
	<b>3</b>	<b>22</b>
	<b>54</b>	<b>71</b>

NIBC Holding's land and buildings in own use were last revalued as of 31 December 2011 based on an external appraisal.

Buildings in use by NIBC Holding are insured for EUR 69 million (2010: EUR 92 million, including land and buildings of the non-financial companies). Other fixed assets are insured for EUR 39 million (2010: EUR 96 million). Other fixed assets of the non-financial companies included in the consolidation are insured for EUR 1 million (2010: EUR 62 million).

At 31 December 2011, no plant, property and equipment from the non-financial companies included in the consolidation were pledged as security for liabilities (2010: EUR 21 million).

In 2011, capital expenditure contracted for related to non-financial companies included in the consolidation was nil (2010: EUR 5 million). No amount was recognised in the carrying amount of property, plant and equipment in the course of construction at 31 December 2011 and 2010.

### 30 Investment property

IN EUR MILLIONS	2011	2010
Land and buildings	27	26
	<b>27</b>	<b>26</b>

In 2011, investment property is insured for EUR 13 million (2010: EUR 13 million).

IN EUR MILLIONS	2011	2010
<b>THE MOVEMENT IN INVESTMENT PROPERTY MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>26</b>	<b>28</b>
Additions resulting from acquisition	2	-
Disposals	(1)	(1)
Changes in fair value	-	(1)
<b>BALANCE AT 31 DECEMBER</b>	<b>27</b>	<b>26</b>

Investment property is stated at fair value. The fair value at 31 December 2011 is based upon various external appraisals, which were made in the fourth quarter of 2011. This balance sheet item also included acquired property of EUR 2 million (2010: nil) from work-out and restructuring activities related to residential mortgages.

Investment property from the non-financial companies included in the consolidation pledged as security for liabilities was EUR 25 million both for 2011 and 2010.

Rental income of EUR 2 million (2010: EUR 2 million) was recognised in the income statement.

### 31 Current tax

IN EUR MILLIONS	2011	2010
Current tax assets	1	2
	<b>1</b>	<b>2</b>

It is expected that the current tax balance will be settled within 12 months.

### 32 Other assets

IN EUR MILLIONS	2011	2010
Other accruals and receivables	119	28
Other assets related to non-financial companies included in the consolidation (see note 48)	50	76
Interest	1	1
	<b>170</b>	<b>105</b>

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.

Other assets related to non-financial companies included in the consolidation pledged as security for liabilities were EUR 48 million (2010: EUR 60 million).

IN EUR MILLIONS	2011	2010
<b>OTHER ASSETS RELATED TO NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION CAN BE CATEGORISED AS FOLLOWS:</b>		
Inventories (less provision for obsolescence)	-	14
Trade receivables (less provisions for doubtful debts)	50	62
	<b>50</b>	<b>76</b>

### 33 Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using a nominal tax rate of 25.0% (31 December 2010: 25.0%).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

IN EUR MILLIONS	2011	2010
Deferred tax assets	73	82
Deferred tax liabilities	-	-
	<b>73</b>	<b>82</b>

**THE AMOUNTS OF DEFERRED INCOME TAX ASSETS, WITHOUT TAKING INTO CONSIDERATION THE OFFSETTING OF BALANCES WITHIN THE SAME JURISDICTION, IS AS FOLLOWS:**

Loans (available for sale)	1	5
Debt investments (available for sale)	8	3
Tax losses carried forward	85	94
Temporary tax valuation difference	20	36
	<b>114</b>	<b>138</b>

THE AMOUNTS OF DEFERRED INCOME TAX LIABILITIES, WITHOUT TAKING INTO CONSIDERATION THE OFFSETTING OF BALANCES WITHIN THE SAME JURISDICTION, IS AS FOLLOWS:

Equity investments (available for sale)	2	10
Cash flow hedges	31	24
Property, plant and equipment	5	9
Temporary differences on loans and receivables as a result of internal securitisations	3	13
	<b>41</b>	<b>56</b>
	<b>73</b>	<b>82</b>

Temporary differences on loans and receivables arise as a result of internal securitisations relate to SPEs, which are consolidated in the financial statements, but not included in the fiscal unity of NIBC Holding.

IN EUR MILLIONS	2011	2010
<b>THE GROSS MOVEMENT ON THE DEFERRED INCOME TAX ACCOUNT MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>82</b>	<b>124</b>
<b>LOANS (REPORTED AS AVAILABLE FOR SALE):</b>		
Fair value remeasurement charged/(credited) to revaluation reserve	(4)	(4)
<b>DEBT INVESTMENTS (REPORTED AS AVAILABLE FOR SALE):</b>		
Fair value remeasurement charged/(credited) to revaluation reserve	6	(1)
<b>PROPERTY, PLANT AND EQUIPMENT (REPORTED AT FAIR VALUE):</b>		
Fair value remeasurement charged/(credited) to revaluation reserve	3	-
<b>EQUITY INVESTMENTS (REPORTED AS AVAILABLE SALE):</b>		
Fair value remeasurement charged/(credited) to revaluation reserve	8	(6)
<b>CASH FLOW HEDGES:</b>		
Fair value remeasurement charged/(credited) to hedging reserve	(7)	(10)
Temporary differences on loans and receivables as a result of internal securitisations	10	-
Tax losses carried forward	(25)	(21)
<b>BALANCE AT 31 DECEMBER</b>	<b>73</b>	<b>82</b>

The deferred tax asset is recognised to the extent that taxable profit will be available against which the temporary difference can be utilised.

### 34 Due to other banks (amortised cost)

IN EUR MILLIONS	2011	2010
Due to other banks	1,268	1,354
	<b>1,268</b>	<b>1,354</b>

DUE TO OTHER BANKS CAN BE CATEGORISED AS FOLLOWS:

Payable on demand	9	108
Not payable on demand	1,259	1,246
	<b>1,268</b>	<b>1,354</b>

THE LEGAL MATURITY ANALYSIS OF DUE TO OTHER BANKS NOT PAYABLE ON DEMAND IS ANALYSED AS FOLLOWS:

Three months or less	227	569
Longer than three months but not longer than one year	64	62
Longer than one year but not longer than five years	730	434
Longer than five years	238	181
	<b>1,259</b>	<b>1,246</b>

Interest is recognised in interest expense and similar charges on an effective interest basis.

NIBC Holding transacted several repurchase transactions with third parties. The related disclosures are included in repurchase and resale agreements (see note 46).

An amount of EUR 216 million (2010: EUR 159 million) related to cash collateral received from third parties.

### 35 Deposits from customers (amortised cost)

IN EUR MILLIONS	2011	2010
Deposits from customers	6,398	4,567
	<b>6,698</b>	<b>4,567</b>
<b>DEPOSITS FROM CUSTOMERS CAN BE CATEGORISED AS FOLLOWS:</b>		
On demand	3,603	2,506
Term deposits	2,795	2,061
	<b>6,398</b>	<b>4,567</b>
<b>THE LEGAL MATURITY ANALYSIS OF DEPOSITS FROM CUSTOMERS IS ANALYSED AS FOLLOWS:</b>		
Three months or less	3,820	2,799
Longer than three months but not longer than one year	763	532
Longer than one year but not longer than five years	1,303	917
Longer than five years	512	319
	<b>6,398</b>	<b>4,567</b>

Interest is recognised in interest expense and similar charges on an effective interest basis.

### 36 Own debt securities in issue (amortised cost)

IN EUR MILLIONS	2011	2010
Bonds and notes issued	7,096	8,209
	<b>7,096</b>	<b>8,209</b>
<b>THE LEGAL MATURITY ANALYSIS OF OWN DEBT SECURITIES IN ISSUE IS ANALYSED AS FOLLOWS:</b>		
Three months or less	2,373	8
Longer than three months but not longer than one year	62	1,417
Longer than one year but not longer than five years	4,588	6,636
Longer than five years	73	148
	<b>7,096</b>	<b>8,209</b>

The Dutch State has unconditionally and irrevocably guaranteed the due payment of all amounts of principal and interest due by NIBC for EUR 5,410 million (2010: EUR 6,846 million) of the issued notes according and subject to (i) the Rules governing the 2008 Dutch State's Credit Guarantee Scheme and (ii) the Guarantee Certificate issued under those Rules in respect of these notes. These Rules and that Guarantee Certificate are available at [www.dutchstate.nl](http://www.dutchstate.nl). In 2011 losses of EUR 6 millions were realised on the repurchase of own debt securities in issue at amortised cost (2010: gain of EUR 16 million).

### 37 Debt securities in issue related to securitised mortgages (amortised cost)

IN EUR MILLIONS	2011	2010
Bonds and notes issued	5,416	5,562
	<b>5,416</b>	<b>5,562</b>
<b>THE LEGAL MATURITY ANALYSIS OF DEBT SECURITIES IN ISSUE RELATED TO SECURITISED MORTGAGES IS ANALYSED AS FOLLOWS:</b>		
Three months or less	15	11
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	-	-
Longer than five years	5,401	5,551
	<b>5,416</b>	<b>5,562</b>

### 38 Own debt securities in issue (designated at fair value through profit or loss)

IN EUR MILLIONS	2011	2010
Bonds and notes issued	41	46
	<b>41</b>	<b>46</b>
<b>THE LEGAL MATURITY ANALYSIS OF OWN DEBT SECURITIES IN ISSUE IS ANALYSED AS FOLLOWS:</b>		
Three months or less	11	-
Longer than three months but not longer than one year	-	1
Longer than one year but not longer than five years	6	17
Longer than five years	24	28
	<b>41</b>	<b>46</b>

The fair value reflects movements due to both interest rate changes and credit spread changes. As NIBC Holding hedges its interest rate risk from these liabilities, the movement due to interest rate changes is compensated with results on financial derivatives.

The contractual amount of these liabilities to be repaid at maturity, including unpaid but accrued interest at the balance sheet date, amount to EUR 45 million at 31 December 2011 (2010: EUR 48 million).

The portion of fair value changes during 2011 attributable to the movement in credit spreads amounted to EUR 2 million debit, being a reduction in the carrying value (2010: nil).

### 39 Debt securities in issue structured (designated at fair value through profit or loss)

IN EUR MILLIONS	2011	2010
Bonds and notes issued	1,733	2,120
	<b>1,733</b>	<b>2,120</b>
<b>THE LEGAL MATURITY ANALYSIS OF DEBT SECURITIES IN ISSUE STRUCTURED IS ANALYSED AS FOLLOWS:</b>		
Three months or less	25	47
Longer than three months but not longer than one year	701	129
Longer than one year but not longer than five years	326	476
Longer than five years	681	1,468
	<b>1,733</b>	<b>2,120</b>

The fair value reflects movements due to both interest rate changes and credit spread changes. As NIBC Holding hedges its interest rate risk from these liabilities, the movement due to interest rate changes is compensated with results on financial derivatives.

The contractual amounts of these liabilities to be repaid at maturity, including unpaid but accrued interest at the balance sheet date, amounted to EUR 1,827 million at 31 December 2011 (2010: EUR 2,058 million).

The portion of fair value changes during 2011 attributable to the movement in credit spreads amounted to EUR 63 million debit, being a reduction of the carrying value (2010: EUR 19 million credit). In 2011, gains of EUR 6 million (2010: gains of EUR 4 million) were realised on the repurchase of liabilities with respect to this balance sheet item.

### 40 Other liabilities

IN EUR MILLIONS	2011	2010
Accruals	55	64
Payables	60	98
Other liabilities related to payables of the non-financial companies (see note 48)	35	53
	<b>150</b>	<b>215</b>

### 41 Employee benefits

IN EUR MILLIONS	2011	2010
Pension benefit obligations	1	1
Other post retirement obligations	-	-
Other employee benefits	3	3
Other employee benefits related to non-financial companies	1	1
	<b>5</b>	<b>5</b>

### Pension benefit obligations

NIBC operates a number of pension plans covering substantially all employees. The schemes are generally funded through payments to insurance companies, on the basis of contractually agreed tariff rates, or separate trustee-administered funds, determined by periodic actuarial calculations. NIBC has both defined benefit and defined contribution plans.

A defined benefit plan is a plan 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.

A defined contribution plan is a pension plan under which NIBC Holding each year pays a fixed percentage of the salaries of the members into the scheme. The size of the fund on retirement will be determined by how much was contributed to the scheme and the investment return achieved.

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 2011. 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. The assets of the funded plans are held independently of NIBC Holding's assets in separate trustee administered funds.

Accumulated 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.

For defined contribution plans, NIBC Holding pays contributions directly into the member's scheme. NIBC Holding 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.

IN EUR MILLIONS	2011	2010
<b>PENSION BENEFIT OBLIGATIONS CAN BE CATEGORISED AS FOLLOWS:</b>		
Present value of funded obligations	212	197
Fair value of plan assets	203	183
<b>DEFICIT FOR FUNDED PLANS</b>	<b>9</b>	<b>14</b>
Unrecognised actuarial gains/(losses)	(5)	(10)
Subordinated loan to trustee-administered fund <sup>1</sup>	(3)	(3)
	<b>1</b>	<b>1</b>
<b>THE MOVEMENT IN THE PRESENT VALUE OF FUNDED PENSION BENEFIT OBLIGATIONS MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>197</b>	<b>176</b>
Current service cost	6	5
Interest cost	9	9
Actuarial (gains)/losses on obligations	6	13
Benefits paid	(6)	(6)
<b>BALANCE AT 31 DECEMBER</b>	<b>212</b>	<b>197</b>
<b>THE MOVEMENT IN THE FAIR VALUE OF PLAN ASSETS MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>183</b>	<b>166</b>
Expected return on plan assets	8	9
Actuarial gains/(losses)	12	7
Employer contributions	6	7
Benefits paid	(6)	(6)
<b>BALANCE AT 31 DECEMBER</b>	<b>203</b>	<b>183</b>
<b>PLAN ASSETS COMPRISED</b>		
Equities	50	50
Bonds	156	136
Cash	-	-
Subordinated loan to trustee-administered fund <sup>1</sup>	(3)	(3)
	<b>203</b>	<b>183</b>

1. NIBC Holding has advanced a subordinated loan (interest charge: 0%) for an amount of EUR 3 million (2010: 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%.

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.

In 2011, the actual return on plan assets was EUR 20 million gain (2010: EUR 16 million gain).

IN EUR MILLIONS	2011	2010
<b>THE AMOUNTS RECOGNISED IN PERSONNEL EXPENSES IN THE INCOME STATEMENT WERE AS FOLLOWS:</b>		
Current service cost	6	5
Interest cost	9	9
Expected return on plan assets	(8)	(9)
Amortisation of net (gain)/losses	(1)	-
	<b>6</b>	<b>5</b>
<b>THE MOVEMENT IN THE LIABILITY RECOGNISED IN THE BALANCE SHEET MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>1</b>	<b>2</b>
Total expense – as above	6	5
Employer contributions	(6)	(6)
<b>BALANCE AT 31 DECEMBER</b>	<b>1</b>	<b>1</b>

IN %	2011	2010
<b>THE PRINCIPAL ACTUARIAL ASSUMPTIONS USED WERE AS FOLLOWS:</b>		
Discount rate	4.50	4.75
Expected return on plan assets	4.50	4.50
Future salary increases, excluding career developments	2.25	2.25
Future pension increases (price inflation)	2.00	2.00

For the mortality assumptions, NIBC Holding used the generation tables “AG Prognosetafel 2060” from the Actuarial Association, with a correction for salary category ‘High’.

The amounts for the current annual period and previous four annual periods for the pension benefit obligations are disclosed in the following table:

IN EUR MILLIONS	2011	2010	2009	2008	2007
<b>LIABILITY RECOGNISED IN BALANCE SHEET AT END OF YEAR</b>					
Present value of obligation	212	197	176	159	163
Fair value of plan assets	203	183	166	153	154
<b>DEFICIT/(SURPLUS)</b>	<b>9</b>	<b>14</b>	<b>10</b>	<b>6</b>	<b>9</b>
Unrecognised actuarial loss/(gain)	(5)	(10)	(5)	1	(1)
Subordinated loan to trustee-administered fund	(3)	(3)	(3)	(3)	(3)
Present value of unfunded obligation	-	-	-	-	1
Unrecognised past service cost	-	-	-	-	-
Unrecognised transition amount	-	-	-	-	-
Adjustment for limit on net asset	-	-	-	-	-
	<b>1</b>	<b>1</b>	<b>2</b>	<b>4</b>	<b>6</b>
<b>THE MOVEMENT IN THE OTHER EMPLOYEE BENEFITS RECOGNISED IN THE BALANCE SHEET MAY BE SUMMARISED AS FOLLOWS:</b>					
<b>BALANCE AT 1 JANUARY</b>	<b>3</b>	<b>3</b>			
Releases	-	-			
<b>BALANCE AT 31 DECEMBER</b>	<b>3</b>	<b>3</b>			

Other employee benefit obligations of EUR 3 million at 31 December 2011 were related to payments to be made in respect of other leave obligations (2010: EUR 3 million). These obligations are short-term in nature and therefore valued at nominal value. During 2011, EUR 1 million was related to other employee benefit obligations of the non-financial companies included in the consolidation (2010: EUR 1 million).

## 42 Subordinated liabilities - amortised cost

IN EUR MILLIONS	2011	2010
Subordinated loans qualifying as Tier-1 capital	48	76
Other subordinated loans	37	43
	<b>85</b>	<b>119</b>

THE LEGAL MATURITY ANALYSIS OF SUBORDINATED LIABILITIES IS ANALYSED AS FOLLOWS:

One year or less	-	-
Longer than one year but not longer than five years	25	25
Longer than five years but not longer than ten years	1	7
Longer than ten years	59	87
	<b>85</b>	<b>119</b>

All of the above loans are subordinated to the other liabilities of NIBC Holding. EUR 48 million (2010: EUR 76 million) qualifying as Tier-1 capital is subordinated to other subordinated loans. These securities are perpetual securities and may be redeemed by NIBC Holding at its option after ten years with the prior approval of the DNB. Interest expense of EUR 5 million was recognised on subordinated liabilities during the year 2011 (2010: EUR 6 million). In 2011, gains of EUR 12 million were realised on the repurchase of liabilities with respect to this balance sheet item (2010: gains of EUR 13 million).

## 43 Subordinated liabilities - designated at fair value through profit or loss

IN EUR MILLIONS	2011	2010
Subordinated loans qualifying as Tier-1 capital	138	197
Other subordinated loans	158	172
	<b>296</b>	<b>369</b>

THE LEGAL MATURITY ANALYSIS OF SUBORDINATED LIABILITIES IS ANALYSED AS FOLLOWS:

One year or less	-	-
Longer than one year but not longer than five years	39	23
Longer than five year but not longer than ten years	4	35
Longer than ten years	253	311
	<b>296</b>	<b>369</b>

The fair value reflects movements due to both interest rate changes and credit spread changes. As NIBC Holding hedges its interest rate risk from these liabilities, the movement due to interest rate changes is compensated with results on financial derivatives.

The contractual amounts of these liabilities to be repaid at maturity, including unpaid but accrued interest at the balance sheet date, amounted to EUR 437 million at 31 December 2011 (2010: EUR 458 million).

The portion of fair value changes during 2011 attributable to the movement in credit spreads amounted to EUR 49 million debit, being a reduction of the carrying value (2010: EUR 10 million credit, being an increase of the carrying value). All of the above loans are subordinated to the other liabilities of NIBC Holding. EUR 138 million (2010: EUR 197 million) qualifying as Tier-1 capital is subordinated to other subordinated loans. These securities are perpetual securities and may be redeemed by NIBC Holding at its option after ten years with the prior approval of the DNB. Interest expense of EUR 31 million was recognised on subordinated liabilities during the year 2011 (2010: EUR 18 million). In 2011, gains of EUR 3 million were realised on the repurchase of liabilities with respect to this balance sheet item (2010: gains of EUR 11 million).

### Fair value of liabilities

Debt securities in issue structured, own debt securities in issue designated at fair value through profit or loss and derivative financial liabilities are valued at fair value through profit or loss. All other liabilities are valued at amortised cost. For these other liabilities, except for own debt securities in issue and subordinated liabilities, the carrying value is considered to approximate the fair value because these liabilities are either short-term, have assets pledged as security against them or a combination of both.

The carrying value of own debt securities in issue at amortised cost amounted to EUR 7,096 million (2010: EUR 8,209 million), and the fair market value amounts to EUR 6,903 million (2010: EUR 8,110 million). The carrying value of subordinated liabilities classified at amortised cost amounted to EUR 85 million (2010: EUR 119 million), and the fair market value amounted to EUR 86 million (2010: EUR 123 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. The carrying value of debt securities in issue related to securitised mortgages classified at amortised cost amounted to EUR 5,416 million (2010: EUR 5,562 million), and the fair market value amounted to EUR 5,100 million (2010: EUR 5,318 million).

NIBC Holding has not had any defaults of principal, interest or redemption amounts during either 2011 or 2010 on its liabilities.

## 44 Shareholders' equity

The ultimate controlling company is New NIB Limited, a company incorporated in Ireland.

### Share capital

IN EUR MILLIONS	2011	2010
Paid-up capital	1,408	1,408
Proceeds from issued shares	-	-
	<b>1,408</b>	<b>1,408</b>

	2011	2010
<b>THE NUMBER OF AUTHORISED SHARES IS SPECIFIED AS FOLLOWS:</b>		
Number of authorised shares	500,000,000	500,000,000
Number of shares issued and fully paid	147,513,369	147,513,369
Par value per share	1.00	1.00

### RECONCILIATION OF NUMBER OF SHARES OUTSTANDING:

<b>BALANCE AT 1 JANUARY</b>	<b>147,513,369</b>	<b>147,177,739</b>
Shares issued	-	335,630
<b>BALANCE AT 31 DECEMBER</b>	<b>147,513,369</b>	<b>147,513,369</b>

Out of the total number of shares issued by NIBC Holding, 3,272,878 (2010: 3,272,878) shares are held by Stichting Administratiekantoor NIBC Holding in view of the share-based incentive scheme.

## Other reserves

IN EUR MILLIONS	2011	2010
<b>OTHER RESERVES ARE COMPRISED OF:</b>		
Share premium	535	535
Hedging reserve	89	67
Revaluation reserve - loans (available for sale)	(4)	(14)
Revaluation reserve - equity investments (available for sale)	8	8
Revaluation reserve - debt investments (available for sale)	(26)	(8)
Revaluation reserve - property, plant and equipment	13	23
Treasury shares	(58)	(58)
Other	55	55
	<b>612</b>	<b>608</b>

IN EUR MILLIONS	Share premium	Hedging reserve	Revaluation reserves	Treasury shares	Other	Total
<b>BALANCE AT 1 JANUARY 2010</b>	535	40	(1)	(58)	53	569
Net result on hedging instruments	-	27	-	-	-	27
Revaluation (net of tax)	-	-	10	-	-	10
<b>TOTAL RECOGNISED DIRECTLY THROUGH OTHER COMPREHENSIVE INCOME IN EQUITY</b>	-	27	10	-	-	37
Proceeds from shares issued	-	-	-	-	-	-
Treasury shares purchased by STAK	-	-	-	-	-	-
Release liability NIBC Choice	-	-	-	-	2	2
NIBC Choice expense	-	-	-	-	-	-
<b>BALANCE AT 31 DECEMBER 2010</b>	535	67	9	(58)	55	608

IN EUR MILLIONS	Share premium	Hedging reserve	Revaluation reserves	Treasury shares	Other	Total
<b>BALANCE AT 1 JANUARY 2011</b>	535	67	9	(58)	55	608
Net result on hedging instruments	-	22	-	-	-	22
Revaluation (net of tax)	-	-	(18)	-	-	(18)
<b>TOTAL RECOGNISED DIRECTLY THROUGH OTHER COMPREHENSIVE INCOME IN EQUITY</b>	-	22	(18)	-	-	4
Proceeds from shares issued	-	-	-	-	-	-
Treasury shares purchased by STAK	-	-	-	-	-	-
Release liability NIBC Choice	-	-	-	-	-	-
NIBC Choice expense	-	-	-	-	-	-
<b>BALANCE AT 31 DECEMBER 2011</b>	535	89	(9)	(58)	55	612

## Share premium

The proceeds from shares issues and options exercised received net of any directly attributable transaction costs reduced by the nominal value are credited to share premium.

## Hedging reserve

This reserve is comprised of the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge (net of tax) as well as the net investment hedge effect on foreign entities (net of tax).

## Revaluation reserve - equity investments (available for sale)

This reserve is comprised of changes in fair value of available for sale equity investments (net of tax).

## IAS 39

The impact of the application of amendments to IAS 39 on certain elements of shareholders' equity (revaluation reserves attributable to loans and receivables, debt investments and financial assets) can be explained as follows:

### Revaluation reserve - loans (available for sale)

In the period before reclassification (1 July 2008), NIBC Holding recognised in the revaluation reserve in equity a total fair value loss of EUR 12 million on financial assets reclassified out of the available for sale category into the loans and receivables category.

### Revaluation reserve - debt investments (available for sale)

In the period before reclassification (1 July 2008), NIBC Holding recognised in the revaluation reserve in equity a total fair value loss of EUR 5 million on financial assets reclassified out of the available for sale category into the loans and receivables category.

### Revaluation reserve financial assets reclassified into available for sale category

In 2011 and 2010, no transfers to impairment expense with a fair value loss were recognised in the revaluation reserve in shareholders' equity on financial assets reclassified out of trading into the available for sale category.

NIBC Holding chose to reclassify (1 July 2008) certain financial assets that were no longer held for the purpose of selling in the near term as permitted by the amendment to IAS 39 and IFRS 7. In NIBC Holding's judgement, the deterioration in the world's financial markets was an example of a rare circumstance applicable on the date of reclassification. Had NIBC Holding determined that the market conditions during 2008 did not represent a rare circumstance or that NIBC Holding did not have the intention and ability to hold the financial assets for the foreseeable future or until maturity, and had NIBC Holding therefore not reclassified the financial assets, a net of tax loss of EUR 23 million (2010: gain of EUR 84 million) would have been recognised in the income statement and an incremental net of tax gain of EUR 5 million (2010: gain of EUR 131 million) would have been recognised in the revaluation reserve in equity in 2011 due changes fair value.

For all reclassifications, the reason for applying the amendment to IAS 39 and IFRS 7 is alignment to best market practice. For more details, see notes 2, 5, 11, 16, 17 and 20.

## Revaluation reserve - property, plant and equipment

This reserve comprises changes in fair value of land and buildings (net of tax).

## Treasury shares

Where NIBC Holding 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.

## 45 Fair value of financial instruments

IFRS 7 requires specific disclosures for financial instruments that are measured at fair value in the balance sheet. The disclosure of each class of financial assets and liabilities within a three-level hierarchy, referring to the respective basis of fair value measurement is as follows:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- Inputs that are not based on observable market data (unobservable inputs) (level 3).

For an explanation of the fair value measurement hierarchy, reference is made to the accounting policies section on fair value estimation.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 within the fair value hierarchy based on the degree to which the fair value is observable:

### Fair value of financial instruments at 31 December 2011

IN EUR MILLIONS	Level 1	Level 2	Level 3	2011
<b>FINANCIAL ASSETS AVAILABLE FOR SALE</b>				
Equity investments				
Unlisted	-	-	66	66
Debt investments	-	879	8	887
	-	<b>879</b>	<b>74</b>	<b>953</b>
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)</b>				
Loans	-	998	-	998
Residential mortgages own book	-	3,185	-	3,185
Securitised residential mortgages	-	5,560	-	5,560
Debt investments	-	200	41	241
Equity investments (including investments in associates)	-	-	259	259
Derivative financial assets held for trading	-	3,655	-	3,655
Derivative financial assets used for hedging	-	292	-	292
	-	<b>13,890</b>	<b>300</b>	<b>14,190</b>
	-	<b>14,769</b>	<b>374</b>	<b>15,143</b>

IN EUR MILLIONS	Level 1	Level 2	Level 3	2011
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)</b>				
Own debt securities in issue	-	41	-	41
Debt securities in issue structured	-	1,733	-	1,733
Derivative financial liabilities held for trading	-	3,961	-	3,961
Derivative financial liabilities used for hedging	-	34	-	34
Subordinated liabilities	-	296	-	296
	-	<b>6,065</b>	-	<b>6,065</b>

## Fair value of financial instruments at 31 December 2010

IN EUR MILLIONS	Level 1	Level 2	Level 3	2010
<b>FINANCIAL ASSETS AVAILABLE FOR SALE</b>				
Equity investments				
Unlisted	-	-	72	72
Debt investments	-	1,187	3	1,190
	-	1,187	75	1,262
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)</b>				
Loans	-	1,074	-	1,074
Residential mortgages own book	-	4,429	-	4,429
Securitised residential mortgages	-	5,338	-	5,338
Debt investments	-	612	28	640
Equity investments (including investments in associates)	1	-	268	269
Derivative financial assets held for trading	-	3,107	-	3,107
Derivative financial assets used for hedging	-	360	-	360
	1	14,920	296	15,217
	1	16,107	371	16,479

IN EUR MILLIONS	Level 1	Level 2	Level 3	2010
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)</b>				
Own debt securities in issue	-	46	-	46
Debt securities in issue structured	-	2,120	-	2,120
Derivative financial liabilities held for trading	-	3,319	-	3,319
Derivative financial liabilities used for hedging	-	48	-	48
Subordinated liabilities	-	369	-	369
	-	5,902	-	5,902

## Financial instruments are recorded at fair value

The following is a description of the determination of fair value for financial instruments that are recorded at fair value using either quoted prices or valuation techniques. These incorporate NIBC Holding's interpretation of valuation assumptions that a market participant would consider when valuing the instruments.

### Financial assets available for sale

#### Equity investments (unlisted) - level 3

The fair value of investments in equity funds is determined based on the net asset value reported by the managers of these funds. These net asset values are analysed for reasonableness, so as to ascertain that the reported net asset value has been appropriately derived using proper fair value principles as part of a robust process. To approximate the fair value at the reporting date, the net asset value is adjusted, where appropriate, for factors such as subsequent capital contributions and fund distributions, movements in exchange rate and subsequent changes in the fair value of the underlying investee companies, where these are known to NIBC Holding.

The fair value of equity investments is established by applying capitalisation multiples to maintainable earnings. Maintainable earnings are estimated based on the normalised last twelve months' *Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)*. Capitalisation multiples are derived from the enterprise value and the normalised last twelve months EBITDA at the acquisition date. On each reporting date, the capitalisation multiple of each equity investment is compared against those derived from the

publicly available enterprise value and earnings information of traded peers, where these can be identified. Peer capitalisation multiples are normalised for factors such as differences in regional and economic environment, time lags in earnings information and one-off gains and losses.

The resulting enterprise value is adjusted for net debt, non-controlling interests, illiquidity and management incentive plans to arrive at the fair value of the equity.

#### Debt investments - level 2

For the determination of fair value at 31 December 2011, NIBC Holding incorporated market-observable prices (including broker quotes), interest rates and credit spreads derived from market-verifiable data. NIBC Holding has determined fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

#### Debt investments - level 3

For the level 3 debt investments, NIBC Holding uses valuation models that apply discounted cash flow analysis that incorporates both observable and unobservable data. Observable inputs include interest rates and collateral values; unobservable inputs include assumptions regarding credit spreads and market liquidity discounts.

### Financial assets fair value through profit or loss

#### Loans - level 2

These assets are marked-to-market by applying market bid quotes observed on the secondary market. The quotes received from other banks or brokers and applied in the marked-to-market process are calibrated to actual market trades where observed.

In certain instances, a discounted cash flow model is used based on various assumptions including market interest rates, market credit spread levels and assumptions regarding market liquidity, where relevant. Additional pricing reference points have been obtained by collecting spreads using primary transactions that are comparable with the relevant loans.

#### Residential mortgages (own book and securitised) - level 2

The fair value of residential mortgages (both those NIBC Holding holds in its own warehouse and those NIBC Holding has securitised) is determined by using a valuation model developed by NIBC Holding. To calculate the fair value, NIBC Holding discounts expected cash flows (after expected prepayments) to present value using inter-bank zero-coupon rates, adjusted for a spread that takes into account the credit spread risk of the mortgages and uncertainty relating to prepayment estimates.

On the basis of the available data on *Residential Mortgage-Backed Securities (RMBS)* spreads and offered mortgage rates, NIBC Holding concluded that in 2011 the use of offered mortgage rates provides the most appropriate market observed estimate of the spread applicable at the balance sheet date. The underlying assumption underpinning the valuations is that professional market parties interested in building exposures in the residential mortgage market would be indifferent between originating the loans themselves and acquiring existing portfolios.

The offered mortgage rate is determined by collecting mortgage rates from other professional lenders sorted by product, loan-to-value class and the fixed rate period. The discount spread is derived by comparing the mortgage offer rate to the market interest rates taking into account the upfront mortgage offering costs embedded in the mortgage offered rate.

The sensitivity analysis carried out on the prepayment rates used in the valuation model of the residential mortgages showed that the variability in these rates does not have a significant impact on the total value of the Residential Mortgage portfolio.

### Debt investments - level 2

For the determination of fair value at 31 December 2011, NIBC Holding incorporated market-observable prices (including broker quotes), interest rates and credit spreads derived from market-observable data. NIBC Holding has determined fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

### Debt investments - level 3

For the level 3 debt investments NIBC Holding uses valuation models that apply discounted cash flow analysis that incorporates both observable and unobservable data. Observable inputs include interest rates and collateral values; unobservable inputs include assumptions regarding credit spreads and market liquidity discounts.

### Equity investments (including investments in associates) - level 3

For the valuation method, reference is made to the section on equity investments (unlisted) at available for sale.

### Derivatives financial assets and liabilities (held for trading and used for hedging) - level 2

Derivative products valued using a valuation technique with market-observable inputs are mainly interest rate swaps, currency swaps, credit default swaps and foreign exchange contracts. The most frequently applied valuation techniques include swap models using present value calculations. The models incorporate various inputs including foreign exchange rates, credit spread levels and interest rate curves. Credit derivative valuation models also require input as to the estimated probability of default and recovery value.

There were no transfers between the levels during 2011 and 2010.

## Financial liabilities at fair value through profit or loss (including trading)

### Own liabilities designated at fair value through profit or loss - level 2

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:

- Own debt securities in issue (financial liabilities at fair value through profit or loss);
- Debt securities in issue structured (financial liabilities at fair value through profit or loss); and
- Subordinated liabilities (financial liabilities at fair value through profit or loss).

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 valuation models developed by a third party employing Monte Carlo simulation, lattice valuations or closed formulas, depending on the type of embedded derivative. These models use market-observable inputs (e.g. interest rates, equity prices) for valuation of these structures.

For each class of own financial 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 Holding issued funding.

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets and liabilities which are recorded at fair value:

IN EUR MILLIONS	At 1 January 2010	Total gains/ (losses) recorded in the income statement	Total gains/ (losses) recorded in equity	Purchases	Settle- ments	Sales	Transfers from level 1 and level 2	At 31 December 2010
<b>AVAILABLE FOR SALE</b>								
<b>FINANCIAL ASSETS</b>								
Equity investments (unlisted)	85	1	5	7	-	(26)	-	72
Debt investments	1	2	-	-	-	-	-	3
<b>FINANCIAL ASSETS AT FAIR VALUE</b>								
<b>THROUGH PROFIT OR LOSS</b>								
<b>(INCLUDING TRADING)</b>								
Debt investments	4	3	-	22	-	(1)	-	28
Equity investments (including investments in associates)	215	46	-	28	-	(21)	-	268
	<b>305</b>	<b>52</b>	<b>5</b>	<b>57</b>	<b>-</b>	<b>(48)</b>	<b>-</b>	<b>371</b>

IN EUR MILLIONS	At 1 January 2011	Total gains/ (losses) recorded in the income statement	Total gains/ (losses) recorded in equity	Purchases	Settle- ments	Sales	Transfers from level 1 and level 2	At 31 December 2011
<b>AVAILABLE FOR SALE</b>								
<b>FINANCIAL ASSETS</b>								
Equity investments (unlisted)	72	7	1	2	-	(16)	-	66
Debt investments	3	5	-	-	-	-	-	8
<b>FINANCIAL ASSETS AT FAIR VALUE</b>								
<b>THROUGH PROFIT OR LOSS</b>								
<b>(INCLUDING TRADING)</b>								
Debt investments	28	3-	-	36	(8)	(18)	-	41
Equity investments (including investments in associates)	268	39	-	25	-	(73)	-	259
	<b>371</b>	<b>54</b>	<b>1</b>	<b>63</b>	<b>(8)</b>	<b>(107)</b>	<b>-</b>	<b>374</b>

The total impact on level 3 financial instruments included in the income statement for the period were:

IN EUR MILLIONS	Realised gains	Unrealised gains	2011
Total gains/(losses) included in the income statement	16	38	54

IN EUR MILLIONS	Realised gains	Unrealised gains	2010
Total gains/(losses) included in the income statement	5	47	52

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument:

IN EUR MILLIONS	For the period ended 31 December			
	2011		2010	
	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
<b>AVAILABLE FOR SALE FINANCIAL ASSETS</b>				
Equity investments (unlisted)	66	3	72	-
Debt investments	8	1	3	1
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)</b>				
Debt investments	41	1	28	1
Equity investments (including investments in associates)	259	13	268	24

In order to determine the reasonably possible alternative assumptions, NIBC Holding adjusted key unobservable valuation technique inputs as follows:

- For equity investments, the material unobservable input parameters such as capitalisation multiple, that are applied to the maintainable earnings to determine fair value; and
- For the debt investments, NIBC Holding adjusted the weighted average calculated model price by 100 basis points as a reasonably possible alternative outcome. The primary unobservable input in the calculated model price is the applicable credit spread.

## 46 Repurchase and resale agreements

NIBC Holding transacted several repurchase transactions with third parties, in which notes amounting to a notional of EUR 385 million (with a fair value at 31 December 2011 of EUR 448 million) were transferred from NIBC Holding to third parties at 31 December 2011 in exchange for EUR 416 million in deposit at 31 December 2011 for periods ranging from six months up to four years.

NIBC Holding transacted several reverse repurchase transactions with third parties, in which notes amounting to a notional of EUR 50 million (with a fair value at 31 December 2011 of EUR 49 million) were transferred to NIBC Holding from third parties at 31 December 2011 in exchange for EUR 43 million in deposit at 31 December 2011 for periods ranging from overnight up to two years.

NIBC Holding conducts these transactions under terms agreed Global Master Repurchase Agreements.

## 47 Commitments and contingent assets and liabilities

At any time, NIBC Holding 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 relating 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 at fair value through profit or loss.

NIBC Holding 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 residential mortgage commitments of EUR 4 million at 31 December 2011 (2010: EUR 8 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.

IN EUR MILLIONS	2011	2010
<b>CONTRACT AMOUNT</b>		
Committed facilities with respect to corporate loan financing (including investment management loans)	1,428	1,713
Capital commitments with respect to equity investments	67	71
Guarantees granted	104	285
Irrevocable letters of credit	4	70
	<b>1,603</b>	<b>2,139</b>

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 Holding's policies for collateral for loans are set out in note 54.

#### Legal proceedings

There were a number of legal proceedings outstanding against NIBC Holding at 31 December 2011. No provision has been made, as legal advice indicates that it is unlikely that any significant loss will arise.

## 48 Business combinations

### Disposal of subsidiaries (non-financial companies)

Via its subsidiary NIBC Principal Investments Equity B.V. NIBC Holding indirectly owned approximately 89% of NIBC Merchant Banking Fund IB (consisting of NIBC MBF Equity IB B.V. and its subsidiaries including non-financial companies included in the consolidation of NIBC Holding until 20 September 2011). On 20 September 2011, NIBC disposed of 25% of its 89% interest in NIBC Merchant Banking Fund IB for an amount of EUR 66.3 million. Due to this transaction NIBC lost control of this subsidiary. In the new situation, NIBC Holding has no majority voting power and the minority shareholders are able to participate in significant financial and operating decisions that could be made in the ordinary course of business.

NIBC Holding has deconsolidated NIBC Merchant Banking Fund IB and accounts for the remaining 66.3% non-controlling investment as an associate at fair value through profit or loss, a loan and receivable at amortized cost and a carry receivable. At the disposal date, the fair value of the retained non-controlling investment was estimated to be EUR 214.9 million. The carrying value of the identifiable net assets was EUR 209.8 million.

The deconsolidation of NIBC Merchant Banking Fund IB led to the derecognition of total intangible assets

of EUR 58.9 million, including EUR 35.6 million goodwill related to previously acquired non-financial companies in this subsidiary. NIBC Principal Investments Equity B.V. tested the goodwill (related to the non-financial companies) of this subsidiary prior to disposal and there was no impairment.

The gain recognised on the re-measurement of the retained 66.3% non-controlling investment in NIBC Merchant Banking Fund IB amounted to EUR 7.2 million. The loss on the interest sold amounted to EUR 1.7 million.

The net gain of EUR 5.5 million on the interest sold and the retained non-controlling investment was recognised in the income statement. An amount of EUR 4.4 million was recognised under Gains less losses of financial assets, and an amount of EUR 1.1 million was recognised under Fee and commission income.

As a consequence of the deconsolidation of NIBC Merchant Banking Fund IB, the non-financial companies of NIBC Merchant Banking Fund IB were deconsolidated by NIBC as from 20 September 2011.

## Business combinations in the year ended 31 December 2011 and 31 December 2010

There were no new business combinations in the year ended 31 December 2011.

The purchase price allocation processes relating to the acquisitions of Olympia Nederland Holding N.V. and Cyclomedia Technology B.V. in 2010 were completed in the first half of 2011. The identifiable net assets arrived at for these acquisitions was EUR 5 million lower than provisionally recognised in the financial statements 2010, due to higher fair value of other liabilities assumed. Consequently, the goodwill arising on these business combinations is EUR 5 million higher than presented in the financial statements 2010. Therefore, the 2010 comparative figures (balance sheet 31 December 2010) have been adjusted to increase the fair value of other liabilities at the acquisition date by EUR 5 million, offset by an increase of intangible assets (goodwill) of EUR 5 million. The carrying value of intangible assets at 31 December 2010 of EUR 117 million increases by EUR 5 million to EUR 122 million (goodwill acquired in business combinations increases by EUR 5 million from EUR 59 million to EUR 64 million).

At 31 December 2011, NIBC has the obligation to sell a minority stake (less than 10%) in Olympia Nederland Holding B.V. to a third party. No material gain or loss is expected on this disposal.

## 49 Assets transferred or pledged as security

IN EUR MILLIONS	2011	2010
<b>ASSETS HAVE BEEN PLEDGED AS SECURITY IN RESPECT OF THE FOLLOWING LIABILITIES AND CONTINGENT LIABILITIES:</b>		
<b>LIABILITIES</b>		
Due to other banks / Own debt securities in issue	1,627	1,231
Debt securities in issue related to securitised loans and mortgages	5,416	5,562
Derivative financial liabilities	1,398	953
	<b>8,441</b>	<b>7,746</b>
<b>DETAILS OF THE CARRYING AMOUNTS OF ASSETS PLEDGED AS COLLATERAL ARE AS FOLLOWS:</b>		
<b>ASSETS PLEDGED</b>		
Debt investments / Residential mortgages own book	2,142	2,042
Securitised loans and mortgages	6,173	5,952
Cash collateral (due from other banks)	1,398	953
	<b>9,713</b>	<b>8,947</b>

As part of NIBC Holding's funding and credit risk mitigation activities, the cash flows of selected financial

assets are transferred or pledged to third parties. Furthermore, NIBC Holding pledges assets as collateral for derivative transactions. Substantially all financial assets included in these transactions are residential mortgages, other loan portfolios, debt investments and cash collateral. The extent of NIBC Holding's continuing involvement in these financial assets varies by transaction.

With respect to assets utilised as collateral, the total portfolio eligible for use to collateralise funding amounted to EUR 4.9 billion (2010: EUR 6.5 billion), including assets already utilised as collateral.

As of 31 December 2011, the excess cash liquidity of NIBC Holding was EUR 2.3 billion (2010: EUR 1.3 billion), consisting of EUR 2.3 billion (2010: EUR 0.5 billion) cash placed with the DNB and EUR nil (2010: EUR 0.8 billion) placed overnight with the Dutch Government.

## 50 Assets under management

NIBC Holding provides collateral management services, whereby it holds and manages assets or invests funds received in various financial instruments on behalf of customers. NIBC Holding receives fee income for providing these services. Assets under management are not recognised in the consolidated balance sheet. NIBC Holding is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2011, total assets held and managed by NIBC Holding on behalf of customers were EUR 4,348 million (2010: EUR 6,377 million).

## 51 Related party transactions

### Transactions related to employees

All transactions with employees are reported in the tables in note 53 Remuneration of Statutory Board members and Supervisory Board members.

### Transactions related to associates

As at 31 December 2011, NIBC Holding had EUR 59 million of loans advanced to its associates (2010: EUR 111 million). In addition to interest income on these loans, NIBC Holding earned no fees from these associates in 2011 and 2010.

In June 2007, NIBC Holding launched the NIBC European Infrastructure Fund I, (which was NIBC's first third-party equity fund) with a final close in August 2008. Total commitments to the fund amount to EUR 347 million, of which EUR 247 million is committed by four third-party investors and EUR 100 million by NIBC Holding. The fund invests in infrastructure projects mainly in Western Europe. NIBC Holding realised a profit from its investment in the fund in 2011 of EUR 1 million (2010: loss EUR 2 million) and earned fees of EUR 4 million (2010: EUR 4 million). In NIBC Holding's financial statements, this fund is classified as an associate at fair value through profit or loss.

In September 2008, NIBC launched the NIBC European CMBS Opportunity Fund. Of the total committed fund size of EUR 64 million, EUR 49 million is committed by third-party investors and EUR 15 million by NIBC Holding. The fund invests in structured commercial real estate in Western Europe. NIBC's income from this fund in 2011 was EUR 1 million (2010: EUR 3 million), which included fee income of EUR nil million (2010: EUR 1 million). In NIBC Holding's financial statements, this fund is classified as an associate at fair value through profit of loss.

In 2011, NIBC Holding paid fees relating to the servicing of its online retail savings programme NIBC

Direct to Welke Beheer B.V. of EUR 3 million (2010: EUR 2 million). NIBC Holding's equity stake in Welke Beheer B.V. is 15%. In NIBC Holding's financial statements, this entity is classified as an associate (equity method), as NIBC Holding still has significant influence.

## Transactions involving NIBC Holding's shareholders

Significant related party transactions executed in 2011 and 2010 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 Holding. The management fee and the profits interest otherwise payable by limited partners in such fund were waived with respect to the investment by NIBC Holding. In addition, NIBC Holding will receive a portion of (i) the profits interest payable to an affiliate of J.C. Flowers & Co. by investors in Flowers Fund II, and (ii) 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 Holding. During both 2011 and 2010, NIBC Holding's commitment was fully drawn. In 2011, NIBC Holding earned fees of EUR nil million (2010: EUR 1 million) relating to this transaction.

In June 2009, NIBC Holding made a commitment of USD 10 million to 'Flowers Fund III' an investment fund managed by an affiliate of J.C. Flowers & Co. At 31 December 2011, the remaining undrawn commitment in this facility is USD 7 million.

### Loan from NIBC Holding to the Pension Fund

At the balance sheet date, NIBC Holding had advanced a subordinated loan (interest charge: 0%) for an amount of EUR 3 million (2010: 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%.

## 52 Principal subsidiaries, joint ventures and associates

	IN %	Country
<b>SUBSIDIARIES OF NIBC HOLDING N.V.</b>		
NIBC Bank Ltd	100	The Netherlands
NIBC Venture Capital N.V.	100	The Netherlands
NIBC Credit Management Inc.	100	U.S.A.
NIBC Investment Management N.V.	100	The Netherlands
NIBC Investments N.V.	100	The Netherlands
<b>SUBSIDIARIES OF NIBC BANK N.V.</b>		
NIBC Bank Ltd	100	Singapore
Parnib Holding N.V.	100	The Netherlands
Counting House B.V.	100	The Netherlands
B.V. NIBC Mortgage-Backed Assets	100	The Netherlands
NIBC Principal Investments B.V.	100	The Netherlands
Olympia Nederland Holding B.V.	100	The Netherlands



	IN %	Country	IN EUR MILLIONS			
			Assets	Liabilities	Operating income	Net result
<b>ASSOCIATES (NET ASSET VALUE)</b>						
PE express I B.V.	37.5	The Netherlands	13	1	3	1
PE express II B.V.	37.5	The Netherlands	14	-	3	1
PE express III B.V.	35.0	The Netherlands	18	1	3	1
PE express IV B.V.	35.0	The Netherlands	19	-	4	1
<b>ASSOCIATES (DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS)</b>						
	20 - 50	The Netherlands	744	235	126	9

In view of the control exercised by the government over the policy of NIBC Holding's wholly-owned associate De Nederlandse Participatie Maatschappij voor de Nederlandse Antillen N.V., this company has not been treated as a subsidiary.

The list of participating interests and companies under which statements of liability have been issued, has been filed at the Chamber of Commerce in The Hague.

## 53 Remuneration of the Statutory Board members and Supervisory Board members

### Remuneration of the Statutory Board members

The Supervisory Board reviewed the 2011 remuneration policy and agreed a new remuneration policy for 2012 and beyond, taking into account relevant regulations, most notably (i) the Dutch Corporate Governance Code of 10 December 2008, (ii) the Dutch Banking Code of 9 September 2009 and (iii) Guidelines on Remuneration Policies and Practices of the *Committee of European Banking Supervisors (CEBS)* of 10 December 2011 and (iv) the DNB Principles for Sound Remuneration Policies Wft 2011 of 16 December 2010.

#### Regular annual remuneration

On 30 June 2011 Mr. Sijbrand (former CRO) stepped down as Statutory Board member and subsequently left NIBC. Ms. van Hoeken joined NIBC on 23 December 2011 and was appointed as a Statutory Board member (CRO) on 23 December 2011. In the year under review, the average number of members of the Statutory Board appointed under the articles of association was 4.5 (2010: 5.0). For the total regular annual remuneration costs (including pension costs) for members and former members of the Statutory Board, appointed under the articles of association reference is made to note 8 Personnel expenses and share-based payments.

#### Base salary and short-term incentive compensation (cash bonus)

The short-term compensation awards in cash of current and former members of the Statutory Board consist of base salary and short-term cash bonus.

The STI consists of a cash bonus (included in table 1) and a deferred cash bonus (included in table 2) and a compensation in PSUs (included in table 3) and/or RPSUs and is subject to the achievement of short-term (annual) performance targets. Based on an objective assessment of the Managing Board's performance, the *Remuneration and Nominating Committee (RNC)* believed that short-term variable compensation for the performance year 2011 would have been warranted. However, given the ongoing debate about remuneration in financial services firms in general, and in view of the proposed legislation, for the fourth consecutive year, no short-term variable compensation was awarded to any Managing Board members for the performance year 2011.

Table 1

IN EUR	2011	2010
<b>THE BREAKDOWN OF THE AMOUNTS OF COMPENSATION AWARDS IN CASH PER MEMBER AND FORMER MEMBER OF THE STATUTORY BOARD IS AS FOLLOWS:</b>		
<b>MR. JEROEN DROST, CHIEF EXECUTIVE OFFICER, CHAIRMAN</b>		
Base salary	741,667	700,000
Short-term incentive compensation (cash bonus)	-	-
<b>TOTAL CASH COMPENSATION</b>	<b>741,667</b>	<b>700,000</b>
<b>MR. KEES VAN DIJKHUIZEN, CHIEF FINANCIAL OFFICER, VICE-CHAIRMAN</b>		
Base salary	441,667	400,000
Short-term incentive compensation (cash bonus)	-	-
<b>TOTAL CASH COMPENSATION</b>	<b>441,667</b>	<b>400,000</b>
<b>MR. ROB TEN HEGGELER, MEMBER</b>		
Base salary	441,667	400,000
Short-term incentive compensation (cash bonus)	-	-
<b>TOTAL CASH COMPENSATION</b>	<b>441,667</b>	<b>400,000</b>
<b>MR. JEROEN VAN HESSEN, MEMBER</b>		
Base salary	441,667	400,000
Short-term incentive compensation (cash bonus)	-	-
<b>TOTAL CASH COMPENSATION</b>	<b>441,667</b>	<b>400,000</b>
<b>MS. PETRA VAN HOEKEN, CHIEF RISK OFFICER, MEMBER <sup>1</sup></b>		
Base salary	11,363	-
Short-term incentive compensation (cash bonus)	-	-
<b>TOTAL CASH COMPENSATION</b>	<b>11,363</b>	<b>-</b>
<b>MR. JAN SIJBRAND, FORMER MEMBER <sup>2</sup></b>		
Base salary	216,667	400,000
Short-term incentive compensation (cash bonus)	-	-
	<b>216,667</b>	<b>400,000</b>

1. Joined NIBC and appointed as a member of the Statutory Board on 23 December 2011.

2. Mr. Jan Sijbrand, former CRO, stepped down as a member of the Statutory Board on 30 June 2011 and employment ended with effect from the same date. Base salary payment 2011 relates to the period up to the end of employment.

### Short-term incentive compensation (deferred cash bonus)

The deferred cash bonus part of the STI is subject to three-year vesting, with one third vesting each year and is eligible for interest equal to the one-year NIBC Direct deposit rate.

Table 2

IN EUR	2011	2010
<b>THE BREAKDOWN OF THE AMOUNTS OF DEFERRED SHORT-TERM INCENTIVE COMPENSATION AWARDS IN CASH PER MEMBER AND FORMER MEMBER OF THE STATUTORY BOARD IS AS FOLLOWS:</b>		
Mr. Jeroen Drost	-	-
Mr. Kees van Dijkhuizen	-	-
Mr. Rob ten Heggeler	-	-
Mr. Jeroen van Hessen	-	-
Ms. Petra van Hoeken	-	-
Mr. Jan Sijbrand	-	-

### Short-term incentive compensation (Phantom Share Units)

The short-term compensation in share-related awards of members of the Statutory Board consists of PSUs and RPSUs. RPSU awards are subject to a three-year vesting, with one third vesting each year. All PSUs awarded to the Statutory Board, whether vested or restricted are subject to a five-year retention period effective from the date of grant. This short-term compensation can be converted into cash immediately after the retention period and therefore is recognised as cash-settled.

The RPSU and PSU have similar characteristics as the CRDR used for the LTI, such as eligibility for dividend and a value which is tied to variations in the net asset value of NIBC Holding.

Table 3

	2011	2010
<b>THE BREAKDOWN OF THE AMOUNTS OF SHORT-TERM COMPENSATION SHARE-RELATED AWARDS (PHANTOM SHARE UNITS) PER MEMBER AND FORMER MEMBER OF THE STATUTORY BOARD IS AS FOLLOWS:</b>		
<b>MR. JEROEN DROST</b>		
Number of phantom share units	-	-
Fair value of short-term incentive at date of grant (in EUR)	-	-
<b>MR. KEES VAN DIJKHUIZEN</b>		
Number of phantom share units	-	-
Fair value of short-term incentive at date of grant (in EUR)	-	-
<b>MR. ROB TEN HEGGELER</b>		
Number of phantom share units	-	-
Fair value of short-term incentive at date of grant (in EUR)	-	-
<b>MR. JEROEN VAN HESSEN</b>		
Number of phantom share units	-	-
Fair value of short-term incentive at date of grant (in EUR)	-	-
<b>MS. PETRA VAN HOEKEN</b>		
Number of phantom share units	-	-
Fair value of short-term incentive at date of grant (in EUR)	-	-
<b>MR. JAN SIJBRAND</b>		
Number of phantom share units	-	-
Fair value of short-term incentive at date of grant (in EUR)	-	-

### Other remuneration elements

The other remuneration elements of the Statutory Board members consist of car and other expense allowances, mortgage subsidy, dividend compensation on conditionally granted share rewards, expenses related to moving from international offices and other emoluments.

Table 4

IN EUR	2011	2010
<b>THE BREAKDOWN OF THE AMOUNTS OF OTHER REMUNERATION ELEMENTS PER MEMBER AND FORMER MEMBER OF THE STATUTORY BOARD IS AS FOLLOWS:</b>		
Mr. Jeroen Drost	140,906	76,929
Mr. Kees van Dijkhuizen	66,850	52,344
Mr. Rob ten Heggeler	67,040	81,163
Mr. Jeroen van Hessen	76,184	228,375
Ms. Petra van Hoeken	683	-
Mr. Jan Sijbrand	21,448	28,068

### Long-term incentive compensation (Conditional Restricted Depositary Receipts)

The remuneration policy also includes annual variable LTI compensation. Each member of the Statutory Board is entitled to an annual long-term incentive grant with a value of 25% of base salary at grant, in the form of CRDRs. This grant is subject to three-year cliff vesting and the realisation of certain financial and non-financial performance targets. The LTI 2011 was granted in February 2011 and relates to future performance only.

Table 5

	2011	2010
<b>THE LONG-TERM INCENTIVE AWARDS PER MEMBER AND FORMER MEMBER OF THE STATUTORY BOARD ARE AS FOLLOWS <sup>1</sup>:</b>		
<b>MR. JEROEN DROST</b>		
Number of conditional restricted depositary receipts	8,787	9,081
Fair value of long-term incentive at date of grant (in EUR)	84,000	84,000
<b>MR. KEES VAN DIJKHUIZEN</b>		
Number of conditional restricted depositary receipts	5,021	5,189
Fair value of long-term incentive at date of grant (in EUR)	48,000	48,000
<b>MR. ROB TEN HEGGELER</b>		
Number of conditional restricted depositary receipts	5,021	5,189
Fair value of long-term incentive at date of grant (in EUR)	48,000	48,000
<b>MR. JEROEN VAN HESSEN</b>		
Number of conditional restricted depositary receipts	5,021	5,189
Fair value of long-term incentive at date of grant (in EUR)	48,000	48,000
<b>MS. PETRA VAN HOEKEN</b>		
Number of conditional restricted depositary receipts	-	-
Fair value of long-term incentive at date of grant (in EUR)	-	-
<b>MR. JAN SIJBRAND</b>		
Number of conditional restricted depositary receipts	-	5,189
Fair value of long-term incentive at date of grant (in EUR)	-	48,000

1. The above-mentioned numbers and amounts are presented on an after tax basis at the date of grant.

### Pension costs

Table 6

IN EUR	2011	2010
<b>THE AMOUNTS OF PENSION COSTS PER MEMBER AND FORMER MEMBER OF THE STATUTORY BOARD ARE AS FOLLOWS:</b>		
Mr. Jeroen Drost	111,024	106,182
Mr. Kees van Dijkhuizen	94,542	88,394
Mr. Rob ten Heggeler	68,950	59,172
Mr. Jeroen van Hessen	83,469	85,716
Ms. Petra van Hoeken	1,744	-
Mr. Jan Sijbrand	33,993	64,185

As at 31 December 2011 and 31 December 2010, no loans, advance payments or guarantees had been granted to Statutory Board members.

## Remuneration of the Supervisory Board members

The remuneration of the Supervisory Board members relates to their position within NIBC Holding and NIBC.

Table 7

IN EUR	2011	2010
<b>MEMBERS</b>		
Mr. W.M. van den Goorbergh <sup>1/2</sup>	96,500	88,165
Mr. D.R. Morgan <sup>3</sup>	86,500	56,000
Mr. A.A.G. Bergen <sup>1/4</sup>	66,500	39,917
Mr. M.J. Christner <sup>1/5</sup>	40,000	-
Mr. C.H. van Dalen	55,000	55,000
Mr. N.W. Hoek	50,000	50,000
Mr. A. de Jong	51,500	45,750
Sir M.C. McCarthy <sup>1/6</sup>	51,500	-
Ms. S.A. Rocker <sup>1</sup>	50,000	50,000
Mr. D.K.M. Rümker <sup>1</sup>	66,500	59,000
Mr. A.H.A. Veenhof	50,000	45,000
Mr. J.H.M. Lindenbergh <sup>1/7</sup>	-	40,208

- In line with Dutch tax regulations, an increase of 19% VAT is payable on the total remuneration payable to the relevant Supervisory Board member.
- Mr. W.M. van den Goorbergh was appointed Chairman of the Supervisory Board on 23 August 2010.
- Mr. D.R. Morgan was appointed member on 17 May 2010 and was appointed Vice-Chairman of the Supervisory Board on 23 August 2010.
- Mr. A.A.G. Bergen was appointed member on 17 May 2010.
- Mr. M.J. Christner's nomination was approved in the Extraordinary Meeting of Shareholders on 20 October 2010 and he formally became a member as per 14 January 2011.
- Sir M.C. McCarthy's nomination was approved in the Extraordinary Meeting of Shareholders on 20 October 2010 and he formally became a member as per 14 January 2011.
- Mr. J.H.M. Lindenbergh stepped down as Chairman of the Supervisory Board on 18 May 2010.

The remuneration amounts of the Supervisory Board members consist of annual fixed fees and committee fees. As at 31 December 2011 and 31 December 2010, no loans, advance payments or guarantees had been granted to Supervisory Board members.

## Depositary receipts

### Common Depositary Receipts

The following tables show the holdings by members of the Statutory Board:

NUMBER OF COMMON DEPOSITARY RECEIPTS (GRANTED)	2011	2010
Mr. Kees van Dijkhuizen	12,454	8,853
Mr. Jeroen van Hessen	58,264	48,636

NUMBER OF COMMON DEPOSITARY RECEIPTS (INVESTMENT FROM OWN FUNDS)	2011	2010
Mr. Jeroen Drost	75,676	75,676
Mr. Kees van Dijkhuizen	42,433	42,433
Mr. Rob ten Heggeler	43,244	43,244
Mr. Jeroen van Hessen	41,510	41,510
Ms. Petra van Hoeken	-	-
Mr. Jan Sijbrand	-	21,622

On 30 June 2011, Mr. Jan Sijbrand, CRO, stepped down from the Statutory Board. Given his subsequent position in the board of the DNB it was mutually decided, in consultation with the Supervisory Board, to discontinue his co-investment. The buy back was executed against the original acquisition price, although the fair value on 30 June 2011 was higher. Mr. Sijbrand irrevocably waived all other vested and non-vested CRDRs he was entitled to.

### Restricted Depositary Receipts

The following table shows the holdings by members of the Statutory Board:

NUMBER OF RESTRICTED DEPOSITARY RECEIPTS	2011	2010
Mr. Kees van Dijkhuizen	609	4,210
Mr. Jeroen van Hessen	1,707	11,335

### Conditional Common Depositary Receipts

The following table shows the holdings by members of the Statutory Board:

NUMBER OF CONDITIONAL COMMON DEPOSITARY RECEIPTS (VESTED ONE-OFF MATCHING SHARES)	2011	2010
Mr. Jeroen Drost	37,838	18,919
Mr. Kees van Dijkhuizen	16,217	8,109
Mr. Rob ten Heggeler	21,622	10,811
Mr. Jeroen van Hessen	5,406	2,703
Ms. Petra van Hoeken	-	-
Mr. Jan Sijbrand	-	5,406

### Conditional Restricted Depositary Receipts (LTI)

The following table shows the holdings by members of the Statutory Board:

NUMBER OF CONDITIONAL RESTRICTED DEPOSITARY RECEIPTS (LTI)	2011	2010
Mr. Jeroen Drost	26,949	18,162
Mr. Kees van Dijkhuizen	15,399	10,378
Mr. Rob ten Heggeler	15,399	10,378
Mr. Jeroen van Hessen	15,399	10,378
Ms. Petra van Hoeken	-	-
Mr. Jan Sijbrand	-	10,378

For the LTI 2009 of in total 24,648 CRDRs, the three year cliff vesting period ended 1 January 2012.

The Supervisory Board reviewed the agreed long-term financial and non-financial performance conditions and concluded that all criteria were met, consequently all LTI 2009 CRDRs had fully vested at 1 January 2012.

## Conditional Restricted Depositary Receipts

### One-off co-investment

As a result of personal investments by the Statutory Board members in 2009 matching shares were granted to the Statutory Board members in 2009, in the form of CRDRs with an after-tax value equal to the value of the personal investment made. In addition to the matching shares, the Statutory Board members can earn performance shares (CRDRs), subject to a service condition (continued employment) and the realisation of predetermined performance conditions. For the number of CRDRs reference is made to the following tables.

The following table shows the holdings by members of the Statutory Board:

NUMBER OF CONDITIONAL RESTRICTED DEPOSITARY RECEIPTS (ONE-OFF MATCHING SHARES)	2011	2010
Mr. Jeroen Drost	37,838	56,757
Mr. Kees van Dijkhuizen	16,216	24,324
Mr. Rob ten Heggeler	21,622	32,433
Mr. Jeroen van Hessen	5,405	8,108
Ms. Petra van Hoeken	-	-
Mr. Jan Sijbrand	-	16,216

The matching shares are subject to four-year vesting with one quarter vesting each year, the first such vesting having occurred on 1 January 2010, but they will immediately vest upon a change of control of NIBC Holding, in which case they (i) will become fully unconditional and (ii) be legally transferred.

The following table shows the holdings by members of the Statutory Board:

NUMBER OF CONDITIONAL RESTRICTED DEPOSITARY RECEIPTS (PERFORMANCE SHARES)	2011	2010
Mr. Jeroen Drost	23,143	15,970
Mr. Kees van Dijkhuizen	13,225	9,126
Mr. Rob ten Heggeler	13,225	9,126
Mr. Jeroen van Hessen	13,225	9,126
Ms. Petra van Hoeken	-	-
Mr. Jan Sijbrand	-	9,126

The performance shares will only vest upon a change of control of NIBC Holding and the attainment of an annual compounded hurdle rate. The number of performance shares that vest is based on a predetermined formula, however the Supervisory Board has the discretion to adjust the number of performance shares that will vest in the case of unfair or unintended effects.

The number of performance shares is estimated and can vary over time depending on the assumptions applied.

## Options

Information on the options outstanding and the movements during the financial year of options held by members of the Statutory Board as at 31 December 2011:

NUMBER OF VESTED OPTIONS	Outstanding as at 31 December 2010	Transferred from unvested options in 2011	Forfeited in 2011	Outstanding as at 31 December 2011	Average Exercise price	Average fair value option at grant date	Expiry date
Mr. Kees van Dijkhuizen	60,000	-	-	60,000	14.65	6.00	2012
Mr. Jeroen van Hessen	157,056	25,000	-	182,056	13.81	5.68	2012

NUMBER OF UNVESTED OPTIONS	Outstanding as at 31 December 2010	Transferred from unvested options in 2011	Forfeited in 2011	Outstanding as at 31 December 2011	Average Exercise price	Average fair value option at grant date	Expiry date
Mr. Jeroen van Hessen	50,000	25,000	-	25,000	8.56	3.65	2012

At the expiry date of the options (14 December 2012), the maturity of the vested options can be extended once with three years.

## 54 Credit risk

NIBC defines credit risk as the current or potential threat to its earnings and capital as a result of a counterparty's failure to make required debt or financial payments on a timely basis or to comply with other conditions of an obligation or agreement, including the possibility of restrictions on or impediments to the transfer of payments from abroad.

At NIBC, almost every activity is related to credit risk, which is present in many portfolios. The following portfolios that contain credit risk are distinguished:

- Corporate loans;
- Investment Management loans;
- Residential mortgages;
- Debt investments;
- Cash management; and
- Derivatives.

The Debt Investments portfolio is further subdivided into:

- Debt from financial institutions and corporate entities; and
- Securitisations.

The exposure amounts shown in table 54-1 are broadly aligned with the regulatory capital view of Basel II capital calculations (except for derivatives, for which only the positive replacement values are shown, without netting and without any potential future exposure add-on). More specifically, table 54-1 shows the maximum credit risk exposures, without taking collateral or any other credit risk reduction into consideration. The credit risk analysis includes all financial assets subject to credit risk. Non-credit obligations and equity are not included. Off-balance sheet exposures are included where relevant (e.g. loan commitments and guarantees to corporate entities, Investment Management loan commitments).

The numbers in table 54-1 are not directly comparable to the numbers on the balance sheet.

Corporate loans and Investment Management loans are recognised on the balance sheet under loans and securitised loans. The main difference is that the numbers stated in table 54-1 also incorporate the off-balance sheet commitments.

Residential mortgages are recognised on the balance sheet under residential mortgages own book and securitised residential mortgages.

Debt investments are recognised on the balance sheet under debt investments. The maximum credit risk exposure of debt investments is lower than the total of debt investments on the balance sheet due to two opposite effects. On the one hand, risk figures include off-balance sheet exposures, which, on the other hand, are more than compensated by the partial offsetting of a risk exposure with a liability with the same counterparty.

The cash management exposure should be compared to cash and balances with central banks and due from other banks on the balance sheet. The major difference is caused by cash from collateral postings due to credit risk in derivatives not being included in the risk figures.

Credit risk in derivatives should be compared to derivative financial assets held for trading and hedging on the balance sheet. The main difference comes from the exclusion of a swap from the maximum credit risk exposures due to its risk offsetting nature.

## 54-1 Credit risk exposure breakdown per portfolio

IN EUR MILLIONS	31 December 2011	31 December 2010
Corporate loans	9,879	9,674
Investment Management loans	232	205
Residential mortgages	8,745	9,767
<b>DEBT INVESTMENTS PORTFOLIO</b>		
Debt from financial institutions and corporate entities	707	1,365
Securitisations	832	1,074
<b>SUBTOTAL DEBT INVESTMENTS PORTFOLIO</b>	<b>1,539</b>	<b>2,439</b>
<b>CASH MANAGEMENT</b>		
Cash	3,030	1,958
Repo	21	3
<b>SUBTOTAL CASH MANAGEMENT</b>	<b>3,051</b>	<b>1,961</b>
Derivatives <sup>1</sup>	3,880	3,318

1. Positive replacement values.

## Corporate loans

### Credit ratings and credit approval process

All individual credit and transaction proposals are approved in the *Transaction Committee (TC)*. Proposals, credit reviews and amendments of smaller scale can be approved by the *Credit Risk Assessment* department (**CRA**), for corporate counterparties, or the *Financial Markets Credit Risk* department (**FMCR**), for non-corporate counterparties. All approvals of individual credit proposals are granted only after CRA/FMCR has made a credit risk assessment and has analysed proposals by taking into consideration, among others, aggregate limits set per country, per industry segment, and per individual counterparty. The total One Obligor Exposure and Related Exposure are also taken into account.

NIBC employs an internally developed methodology for quantifying the credit quality of its Corporate Loan portfolio. In line with Basel II regulations, the methodology consists of two elements: a *counterparty credit rating (CCR)* that reflects the *probability of default (PD)* of the borrower, and an anticipated loss element that expresses the potential loss in the event of default (*loss given default, LGD*), which takes into account the presence of collateral. Both parameters are determined by internally developed Basel II *Advanced Internal Ratings Based (AIRB)* models. The Basel II AIRB approach for NIBC's exposure classes has been adopted by NIBC and approved by NIBC's regulatory authority, the Dutch central bank (*De Nederlandsche Bank, DNB*), since 1 January 2008, and is periodically assessed by the DNB to ensure that minimum requirements are met.

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

All counterparties and, subsequently, all facilities, are reviewed at least once a year. CCRs and LGDs are independently validated by the CRA department. In terms of CCR, the credit quality is concentrated in the 5 and 6 categories in NIBC's internal rating scale (BB and B categories respectively in external rating agencies' scales). The fact that NIBC's corporate loan exposures are concentrated in sub-investment grade CCRs is counterbalanced by the fact that almost all loans have some form of collateralisation. Loans can be collateralised by mortgages on real estate and vessels, by (lease) receivables, pledges on machinery and equipment, or by third-party guarantees and other similar agreements. As a result, NIBC's LGDs are

concentrated in those LGD categories that correspond to recoveries in the range of 80% and 90%, which are relatively high for the banking industry.

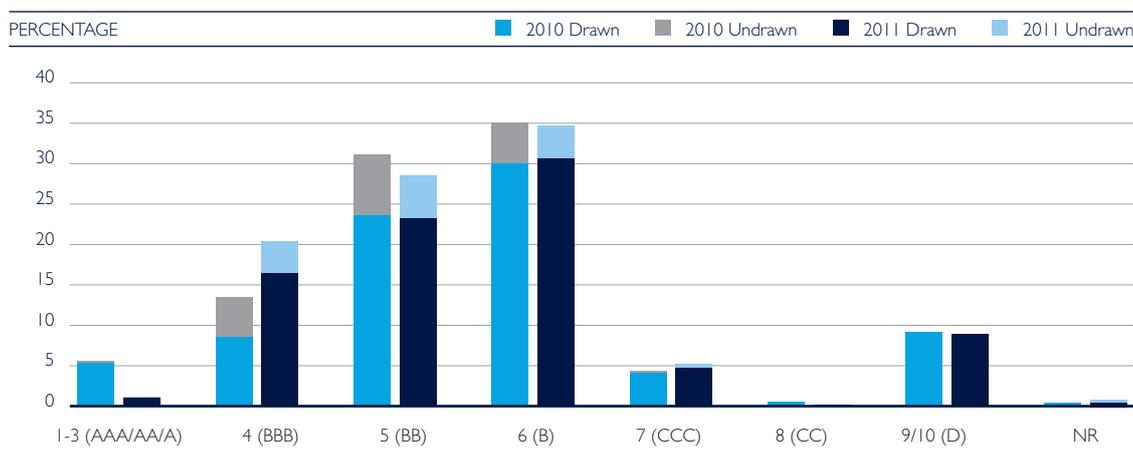
The internal CCRs and LGDs are benchmarked periodically with the scales of external rating agencies. In 2011, NIBC performed a benchmark of its LGD scale; the majority of NIBC's LGD estimates were well aligned with the estimates of the external party.

A third element that is also assessed internally is the *exposure at default (EAD)*. It is defined as the amount that is expected to be outstanding at the moment that a counterparty defaults. Counterparties typically tend to utilise their credit lines more intensively when approaching default, which implies that the amount outstanding at default is expected to be higher than the current outstanding amount.

The PDs, LGDs and EADs that are calculated through NIBC's internal models are used for the calculation of *expected loss (EL)* and Basel II/Pillar I *regulatory capital (RC)*. Internal ratings enable an objective comparison of the credit risk of different types of assets, making them an essential tool for the commercial and risk management departments to determine whether a transaction fits NIBC's strategy and portfolio, as well as to determine the appropriate pricing. *Economic capital (EC)*, *risk-adjusted return on capital (RAROC)* and stress testing are additional areas which make use of the above-mentioned parameters, although the values and methodologies for both EC and stress testing differ from those employed in Pillar I. PDs, LGDs and EADs are also used in the Basel II solvency report to the regulator.

Graph 54-2 shows the distribution of drawn and undrawn corporate loan exposures per CCR. The numbers on the horizontal axis refer to NIBC's internal rating scale, whereas the letters inside the parentheses refer to the equivalent rating scale of Standard & Poor's. **NR** stands for *not rateable*, which was a negligible portion (0.6% of corporate loans at 31 December 2011; 0.4% of corporate loans at 31 December 2010). NR is assigned to entities to which NIBC's corporate rating tools were not applicable at the time of rating.

#### 54-2 Drawn and undrawn corporate loan exposure per CCR



Tables 54-3 and 54-4 show a breakdown in percentages of the Corporate Loan portfolio by region and industry sector, at year-end 2011 and 2010. The commercial real estate figures include an amount of EUR 613 million in securitised loans. This concerns the Mesdag Delta securitisation; NIBC has retained notes amounting to EUR 144 million, whereas EUR 469 million has been sold. Furthermore, the industry sector Financial Services includes a collateralised loan of EUR 400 million (the collateral is a pool of prime Dutch residential mortgages) to an investment-grade financial institution.

In order to align its internal reporting with international reporting standards, NIBC uses the industry classification called *The Statistical Classification of Economic Activities in the European Community* (in French: *Nomenclature Statistique des Activités Économiques dans la Communauté Européenne*), commonly

referred to as **NACE**, which is an EU industry standard classification system. This industry classification distinguishes 11 industry sectors. The 'Overview of mapping NACE codes with NIBC reporting sectors' on NIBC's website contains a detailed breakdown of the NACE codes that are allocated to NIBC's exposure.

More specifically, the sector infrastructure contains all the infrastructure and renewables projects, regardless of whether these are roads, railways, energy plants, schools or hospitals. The sector contains 21% of NIBC's Corporate Loan portfolio at 31 December 2011 (31 December 2010: 20%).

The sector Oil & Gas contains activities related to the oil & gas industry, e.g. financing of oil rigs and platforms. It contains 10% of NIBC's Corporate Loan portfolio at 31 December 2011 (31 December 2010: 9%).

The Services sector combines transportation services, healthcare services and other private services. The sector TMT stands for Telecommunication, Media and Technology and incorporates all service-related companies in these areas. Both sectors combined comprised 7% of NIBC's Corporate Loan portfolio at 31 December 2011 (31 December 2010: 6%).

All sectors remained relatively stable compared to 2010 and no substantial fluctuations in their size were noted.

The geographical distribution of corporate loans in 2011 was also quite similar to that in 2010. In line with the trend observed in 2010, the relative weight of the Netherlands and the UK further diminished slightly, mainly in favour of Germany, one of the core growth markets of NIBC.

#### 54-3 Corporate loan exposure per industry sector and region, 31 December 2011

IN %	Commer- cial Real Estate	Infra- structure	Shipping	Financial Services	Oil & Gas	Services	Wholesale/ Retail/ Leisure	Manu- facturing	TMT	Agriculture & Food	Other	TOTAL	TOTAL (in EUR millions)
The Netherlands	14	3	1	7	1	3	3	2	1	1	0	36	3,530
Germany	8	3	0	2	0	1	1	1	0	0	0	18	1,752
United Kingdom	0	13	0	0	1	1	1	0	0	0	0	16	1,615
Rest of Europe	0	2	4	0	3	0	0	1	0	0	0	12	1,159
Asia/Pacific	0	0	8	0	2	0	0	0	0	0	0	9	923
North America	0	0	2	0	2	0	0	0	0	0	0	5	493
Other	0	0	2	0	2	0	0	0	0	0	0	4	407
<b>TOTAL</b>	<b>23</b>	<b>21</b>	<b>17</b>	<b>10</b>	<b>10</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>100</b>	<b>9,879</b>
<b>TOTAL (IN EUR MILLIONS)</b>	<b>2,243</b>	<b>2,112</b>	<b>1,718</b>	<b>1,009</b>	<b>965</b>	<b>530</b>	<b>529</b>	<b>468</b>	<b>183</b>	<b>123</b>	<b>0</b>		<b>9,879</b>

Small differences are possible in the table due to rounding.

#### 54-4 Corporate loan exposure per industry sector and region, 31 December 2010

IN %	Commer- cial Real Estate	Infra- structure	Shipping	Financial Services	Oil & Gas	Services	Wholesale/ Retail/ Leisure	Manu- facturing	TMT	Agriculture & Food	Other	TOTAL	TOTAL (in EUR millions)
The Netherlands	16	2	1	6	0	2	5	2	1	2	0	37	3,622
Germany	8	2	0	3	0	1	1	1	0	0	0	17	1,624
United Kingdom	0	13	1	0	1	1	1	0	0	0	0	17	1,658
Rest of Europe	1	2	4	0	3	0	1	1	0	0	0	12	1,169
Asia/Pacific	0	0	7	0	3	0	0	0	0	0	0	9	890
North America	0	0	2	0	1	0	0	0	0	0	0	4	360
Other	0	0	2	0	2	0	0	0	0	0	0	4	351
<b>TOTAL</b>	<b>25</b>	<b>20</b>	<b>16</b>	<b>9</b>	<b>9</b>	<b>4</b>	<b>7</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>100</b>	<b>9,674</b>
<b>TOTAL (IN EUR MILLIONS)</b>	<b>2,436</b>	<b>1,933</b>	<b>1,540</b>	<b>864</b>	<b>846</b>	<b>422</b>	<b>696</b>	<b>530</b>	<b>163</b>	<b>224</b>	<b>20</b>		<b>9,674</b>

Small differences are possible in the table due to rounding.

## Country risk

Country risk is potentially an important cause of increased counterparty default risk since a large number of individual debtors could default at the same time. Although country risk was one of the main risks present in the economy throughout 2011, mainly due to the Euro zone sovereign debt crisis, NIBC did not experience any increased counterparty defaults in 2011 from this risk.

NIBC's policy is to minimise country risk by monitoring the following elements:

- Gross country exposure: As a rule, NIBC allocates exposure to the country in which the borrower's cash flows are generated. Gross country exposure is defined as the aggregate maximum exposure (both drawn and undrawn) to all borrowers or guarantors in a given country. NIBC also monitors future gross country exposure, in case e.g. assets are contractually relocated to another country in the future;
- Net country exposure: Net country exposure is the gross country exposure modified to take into account the value of certain moveable assets, such as vessels, rigs, *floating production, storage & offloading (FPSO)* units and (lease) receivables that secure loans to borrowers in a given country, besides corporate guarantees. After applying a valuation formula, the fair market value of such collateral is deducted facility by facility from the gross exposure under all lending facilities in a given country, in order to generate the net country exposure; and
- Country limits: A country limit system is maintained to manage country risks by net country exposure for certain countries. In general, NIBC does not apply a country limit to the member countries of the *Organisation for Economic Co-operation and Development (OECD)*. Some notable exceptions to this include Greece, Ireland, Italy, Spain and Portugal, to which specific limits apply. For other non-OECD countries, an assessment is made to advise the TC regarding the size of a country limit.

## Collateral and LGD

An important element in NIBC's credit approval process is the assessment of collateral. Almost all loans, derivative exposures and guarantees have some form of collateralisation. Loans and derivatives can be collateralised by mortgages on real estate and vessels, by (lease) receivables or pledges on machinery and equipments, or by third-party guarantees and other similar agreements. A loan or derivative exposure is deemed to be collateralised, fully or partly, if such assets are legally pledged in support of the loan and the derivative exposure.

In general, NIBC requests collateral to protect its interests. NIBC ascribes value to collateral accepted for loans and guarantees, based on the condition that the collateral is sufficiently liquid, that documentation is effective and that enforcing NIBC's legal rights to the collateral will be successful. The type and quantity of the collateral depends on the type of transaction, the counterparty and the risks involved. The most significant types of collateral securing the loan and derivatives portfolios are tangible assets, such as real estate, vessels, rigs, FPSO units and equipment.

NIBC initially values collateral based on fair market value when structuring the transaction, and evaluates the collateral and its value annually or semi-annually during the lifetime of the loan. NIBC typically seeks confirmation from independent third-party experts that its interests are legally enforceable. Exposures in the shipping and oil & gas sectors are secured by moveable assets such as vessels and drilling vessels. The Commercial Real Estate portfolio is primarily collateralised by mortgages on financed properties. Collateral value is estimated by using third-party appraisers, whenever possible, or valuation techniques based on common market practice. For example, loan-to-value ratios are regularly tested and vessels are appraised semi-annually by external parties. Other commercial exposures are, to a large extent, collateralised by assets such as inventory, debtors, and third-party credit protection (e.g. guarantees).

It is impracticable for NIBC to estimate the re-measurement of the total fair market value of collateral. NIBC, therefore, does not disclose this fair market value. Furthermore, NIBC recognises that the fair market values of collateral in a diverse portfolio may not present a correct indication of the recovery prospects. Some asset types are more liquid than others and may thus require a smaller haircut in the case of a quick sale. In addition, different asset types can be subject to very different asset price volatilities.

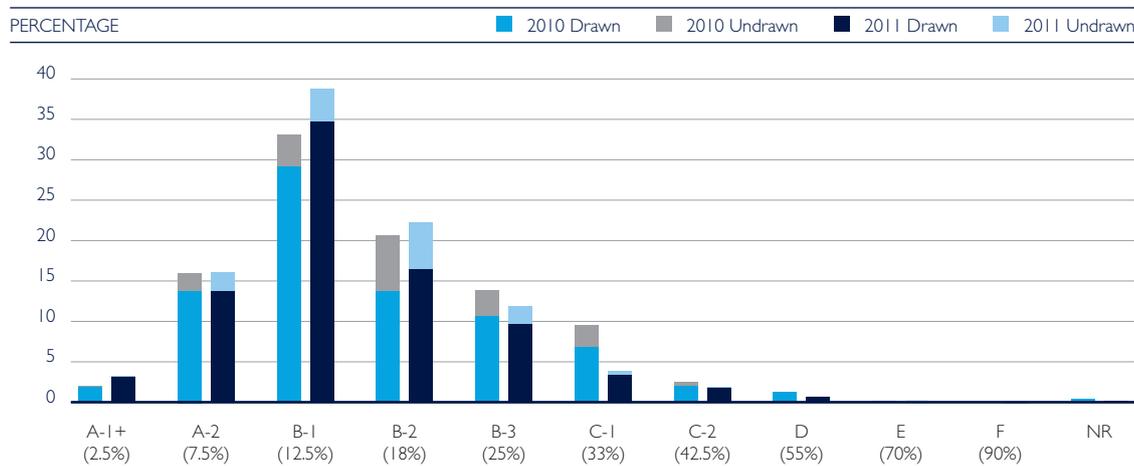
NIBC has chosen to disclose the distribution of drawn and undrawn corporate loan exposures per internal LGD rating, as shown in graph 54-5. Note that the corporate loan exposures of graph 54-5 refer to non-defaulted exposures, given that the LGD is a measure of anticipated loss from the facilities of a non-defaulted counterparty. Once a counterparty enters default, then the impairment amount is a more meaningful measure of the loss. Tables 54-9 and 54-10 provide more information on impairment amounts.

LGD ratings are facility-specific. An LGD rating reflects the loss that can be expected on a facility in a downward scenario, if a counterparty defaults. NIBC's internal LGD scale consists of 7 grades (A-F) and 10 notches, each of which represents a different degree of recovery prospects and loss expectations. In graph 54-5, the letters on the horizontal axis refer to NIBC's LGD grades and notches, whereas the numbers inside the parentheses refer to the loss percentage assigned to each LGD rating. **NR** stands for *not rateable*, which was a negligible portion (0.3% of corporate loans at 31 December 2011; 0.4% of corporate loans at 31 December 2010). NR is assigned to entities to which NIBC's corporate rating tools were not applicable at the time of rating.

The LGD methodology is based on a combination of qualitative and quantitative rating indicators that include, among others, the assessment of the realisable collateral value, guarantees, the seniority of the loan, the applicable jurisdiction, and the quality of the counterparty's assets. Once the various LGD drivers have been assessed, the final LGD rating is based upon expert judgement.

The assessment of the available collateral for a facility is the basis for NIBC's LGD analysis. In determining the realisable collateral value, which is based upon recent appraisals, NIBC applies a number of haircuts on the collateral's fair market value. These haircuts are mainly driven by the type of collateral, how liquid it is, the business cycle of the industry, the work-out costs and the costs for forced collateral sales.

#### 54-5 Drawn and undrawn non-defaulted corporate loan exposure per LGD rating



## Amounts in arrear

Amounts in arrear are reported to the TC every two months. Payments may be in arrear for various reasons. However, late payments that are not yet received are not automatically assumed to be uncollectible.

An overview of the amounts in arrear of all corporate loan exposures is provided in tables 54-6 and 54-7. The exposure amounts refer to drawn and undrawn amounts of those facilities with an arrear, whereas the outstanding amounts refer to the drawn amounts only. The amounts in arrear are the actual amounts past due at 31 December 2011 and 31 December 2010 respectively. The column labelled 'Impairment Amount' includes on-balance sheet impairment amounts only (31 December 2011: 111 million; 31 December 2010: EUR 128 million). The inclusion of *Incurred but not Reported (IBNR)* impairment amounts on the line with no payments in arrear brings the total impairment amount for 2011 to EUR 115 million (2010: 131 million). Tables 54-9 and 54-10 provide more information on impairment amounts.

### 54-6 Corporate loan amounts in arrear, 31 December 2011

IN EUR MILLIONS	Exposure		Outstanding		Amount in arrear		Impairment Amount
	TOTAL	% of Exposure	TOTAL	% of On-Balance	TOTAL	% of On-Balance	
<b>AGE OF PAYMENT IN ARREAR</b>							
1 - 5 days	19	0.2%	12	0.1%	1	0.0%	0
6 - 30 days	17	0.2%	17	0.2%	10	0.1%	0
31 - 60 days	15	0.2%	15	0.2%	0	0.0%	6
61 - 90 days	76	0.7%	76	0.9%	1	0.0%	5
<b>SUBTOTAL LESS THAN 90 DAYS</b>	<b>127</b>	<b>1.3%</b>	<b>120</b>	<b>1.4%</b>	<b>12</b>	<b>0.1%</b>	<b>11</b>
Over 90 days	473	4.8%	455	5.4%	91	1.1%	31
No payment in arrear	9,279	93.9%	7,871	93.2%	0	0.0%	73
<b>TOTAL</b>	<b>9,879</b>	<b>100%</b>	<b>8,446</b>	<b>100%</b>	<b>103</b>	<b>1.2%</b>	<b>115</b>

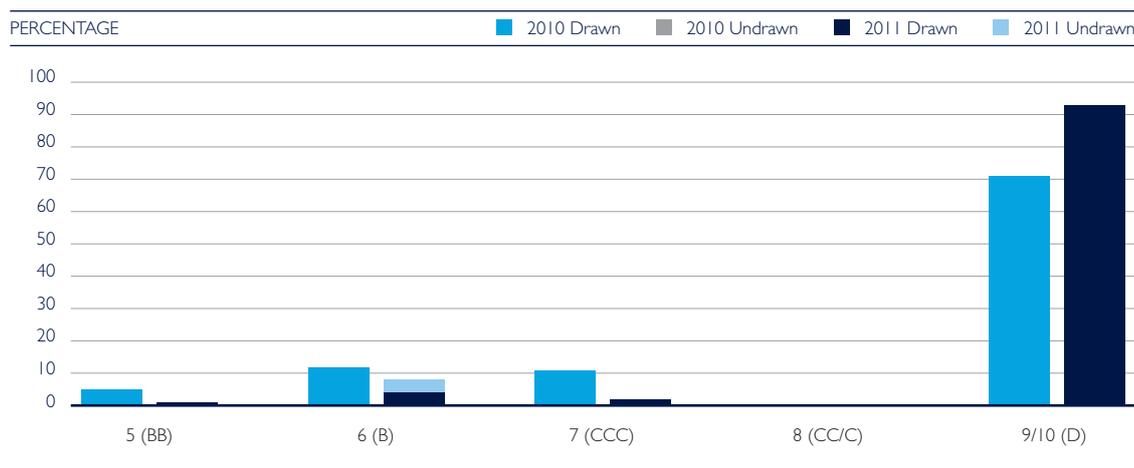
### 54-7 Corporate loan amounts in arrear, 31 December 2010

IN EUR MILLIONS	Exposure		Outstanding		Amount in arrear		Impairment Amount
	TOTAL	% of Exposure	TOTAL	% of On-Balance	TOTAL	% of On-Balance	
<b>AGE OF PAYMENT IN ARREAR</b>							
1 - 5 days	194	2.0%	189	2.4%	31	0.4%	25
6 - 30 days	10	0.1%	10	0.1%	0	0.0%	0
31 - 60 days	17	0.2%	17	0.2%	0	0.0%	1
61 - 90 days	19	0.2%	19	0.3%	1	0.0%	0
<b>SUBTOTAL LESS THAN 90 DAYS</b>	<b>240</b>	<b>2.5%</b>	<b>235</b>	<b>3.0%</b>	<b>32</b>	<b>0.4%</b>	<b>26</b>
Over 90 days	426	4.4%	426	5.4%	31	0.4%	15
No payment in arrear	9,008	93.1%	7,264	91.6%	0	0.0%	90
<b>TOTAL</b>	<b>9,674</b>	<b>100%</b>	<b>7,925</b>	<b>100%</b>	<b>63</b>	<b>0.8%</b>	<b>131</b>

NIBC applies a threshold for determining whether a loan carries an insignificant amount in arrear. If the amount in arrear on facility level is lower than EUR 25 thousand per facility and the age of the payment in arrear is below 30 days and the counterparty is not defaulted, then the amount in arrear is considered insignificant; the exposure is therefore regarded as not having an amount in arrear. If amounts in arrear fall below the threshold, the exposure is placed on the 'no payment in arrear' line of tables 54-6 and 54-7. The application of this threshold does not influence the total amount in arrear, which amounted to EUR 103 million at 31 December 2011 (December 2010: EUR 63 million). For both years, the total amount in arrear that is considered insignificant is below EUR 80 thousand.

Graph 54-8 shows the rating distribution of the exposure amounts (expressed as the sum of drawn and undrawn amounts) of all loans with an amount in arrear. The total exposure amount at 31 December 2011 is EUR 600 million (2010: EUR 666 million) and the total drawn amount at 31 December 2011 is EUR 575 million (2010: EUR 661 million). The numbers on the horizontal axis refer to NIBC's internal rating scale, whereas the letters inside the parentheses refer to the equivalent rating scale of Standard & Poor's. The outstanding amount of EUR 473 million that appears at 31 December 2011 as having an amount of EUR 91 million in arrear for above 90 days is collateralised by a granular multi-family residential real estate pool in Germany; the arrears are due to ongoing discussions regarding refinancing.

#### 54-8 Distribution of drawn and undrawn amounts with an amount in arrear per rating category



### Impairment amounts

Credit officers and CRA monitor the quality of counterparties in the Corporate Loan portfolio on a regular basis. On a quarterly basis, the entire portfolio is assessed for impairment. All existing impairments are reviewed as well.

NIBC calculates an impairment amount by taking certain factors into account, in particular the available collateral securing the loan and the corporate derivative exposure, if present. The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future losses that have not been incurred). If collateral is present, then the present value of the future cash flows reflects the foreclosure of collateral. More information on the way impairments are calculated is included in the section Accounting Policies.

NIBC considers a default occurring at a counterparty level, whereas an impairment amount is taken at the facility level. When a default occurs (in line with the Basel II definition<sup>1</sup>) then the entire exposure and outstanding amount of the borrower are classified as defaulted. If, however, an impairment amount is taken against a facility, only the outstanding amount of that particular facility is classified as impaired.

Tables 54-9 and 54-10 show an overview of impairments at 31 December 2011 and 31 December 2010, subdivided in regions and industry sectors, respectively. The column labelled 'Exposure' includes both drawn and undrawn amounts, and the column labelled 'Impairment Amount' refers to the drawn amounts of impaired facilities.

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

## 54-9 Impairment per region

IN EUR MILLIONS	31 December 2011				31 December 2010			
	Exposure	Impaired Exposure	Impairment Amount	Write-offs	Exposure	Impaired Exposure	Impairment Amount	Write-offs
The Netherlands	3,530	199	48	64	3,622	267	97	9
Germany	1,752	17	7	2	1,624	25	16	11
United Kingdom	1,615	74	30	0	1,658	37	15	19
Rest of Europe	1,159	33	13	0	1,169	0	0	0
Asia/Pacific	923	0	0	5	890	0	0	0
North America	493	14	13	0	360	0	0	8
Other	407	0	0	0	351	0	0	0
IBNR Corporate Loans			4				3	
<b>TOTAL</b>	<b>9,879</b>	<b>337</b>	<b>115</b>	<b>71</b>	<b>9,674</b>	<b>329</b>	<b>131</b>	<b>47</b>

## 54-10 Impairment per industry sector

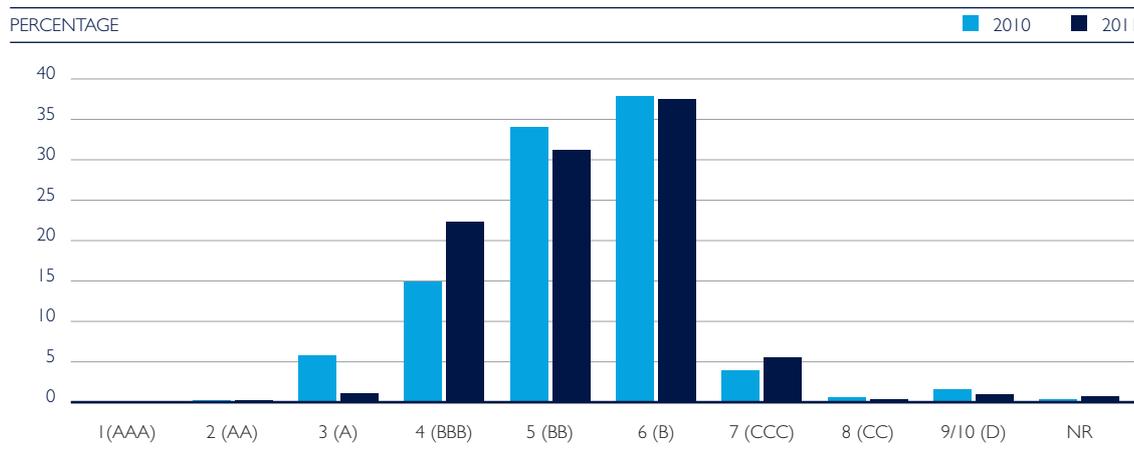
IN EUR MILLIONS	31 December 2011				31 December 2010			
	Exposure	Impaired Exposure	Impairment Amount	Write-offs	Exposure	Impaired Exposure	Impairment Amount	Write-offs
Commercial Real Estate	2,243	154	28	0	2,436	149	27	0
Infrastructure	2,112	7	4	0	1,933	7	3	0
Shipping	1,718	37	22	5	1,540	3	0	0
Financial Services	1,009	34	9	36	864	74	39	0
Oil & Gas	965	0	0	0	846	0	0	0
Services	530	66	32	0	422	43	23	31
Wholesale/Retail/								
Leisure	529	3	1	24	696	36	24	0
Manufacturing	468	10	7	6	530	16	12	16
TMT	183	26	9	0	163	0	0	0
Agriculture & Food	123	0	0	0	224	1	0	0
Other	0	0	0	0	20	0	0	0
IBNR Corporate Loans			4				3	
<b>TOTAL</b>	<b>9,879</b>	<b>337</b>	<b>115</b>	<b>71</b>	<b>9,674</b>	<b>329</b>	<b>131</b>	<b>47</b>

## Corporate loans without impairments and amounts in arrear

At 31 December 2011, the size of the corporate loan exposure that carried neither impairments nor amounts in arrear equalled EUR 9,022 million (2010: EUR 8,735 million).

Graph 54-11 shows the distribution of exposure amounts without impairments and amounts in arrear, at 31 December 2011 and 31 December 2010. NR stands for *not rateable*, which represents a negligible part of the portfolio (31 December 2011: 0.7% of all loans without impairments and amounts in arrear; 31 December 2010: 0.4%). Furthermore, a small portion of this portfolio segment (0.9% at 31 December 2011; 1.7% at 31 December 2010) carried a default rating of either 9 or 10. No impairment amounts have been taken on these exposures, as NIBC does not expect any losses but full repayment due to e.g. over-collateralisation or seniority in the capital structure. Furthermore, despite their defaulted status, these exposures showed no amounts in arrear.

#### 54-11 Distribution of exposure amount without impairments and amounts in arrear per rating category



## Investment Management loans

IM loans are originated and monitored separately from the Corporate Loan portfolio. IM loans are typically unsecured, subordinated loans that may contain equity characteristics such as attached warrants or conversion features. As such, IM loans typically carry a higher risk profile than corporate loans, which is compensated by higher expected returns. Examples of these loans include mezzanine loans, convertible loans and shareholder loans.

The IM loan investments can be divided into indirect investments and direct investments. Indirect investments are investments made through *funds set up and managed by NIBC (NIBC Funds)* that are controlled by NIBC and thus consolidated into the financial statements of NIBC. Direct investments are all other investments.

Direct investments are approved by the *Investment Committee (IC)* of NIBC. Indirect investments are approved by the investment committees of the NIBC Funds, subject to the investment guidelines stipulated in the fund agreements between the manager of the NIBC Fund and the investors.

Investment officers monitor the quality of counterparties in the portfolio on a regular basis. On a quarterly basis, the entire IM Loan portfolio is assessed for impairment. All existing impairments are reviewed as well. Impairments of indirect investments are determined by the manager of the NIBC Fund. All impairments are reviewed and approved by the IC.

In 2011, Avedon Capital Partners, which incorporated the activities of NIBC Capital Partners, spun off NIBC. Avedon Capital partners will manage the newly launched fund NIBC Growth Capital Fund II and the equity funds NIBC Merchant Banking Fund IA and IB. Avedon Capital Partners is fully independent of NIBC, in line with market requirements for governance of third-party funds.

The total size of the IM Loan portfolio at 31 December 2011 was EUR 232 million (2010: EUR 205 million), of which 93% was drawn (2010: 91%). In line with the special nature of the asset class, the IM loans typically carry riskier internal CCRs and often a higher LGD than corporate loans. At 31 December 2011, the weighted average counterparty credit rating of IM loans assets had improved by one notch to a rating 6 (2010: 6-) in NIBC's internal rating scale (equivalent to B in 2011 and B- in 2010 in external rating agencies' scales).

Tables 54-12 and 54-13 show a breakdown of IM loans per region and industry sector, respectively, at 31 December 2011 and 31 December 2010.

#### 54-12 Breakdown of IM Loans per region

IN EUR MILLIONS	31 December 2011		31 December 2010	
	Exposure	%	Exposure	%
The Netherlands	173	74%	114	56%
United Kingdom	55	24%	55	27%
Germany	0	0%	34	16%
Rest of Europe	4	2%	2	1%
<b>TOTAL</b>	<b>232</b>	<b>100%</b>	<b>205</b>	<b>100%</b>

#### 54-13 Breakdown of IM Loans per industry sector

IN EUR MILLIONS	31 December 2011		31 December 2010	
	Exposure	%	Exposure	%
Wholesale/Retail/Leisure	106	46%	48	23%
Financial Services	45	19%	0	0%
Commercial Real Estate	21	9%	19	9%
Services	3	1%	5	2%
Manufacturing	2	1%	71	35%
Other	55	24%	62	30%
<b>TOTAL</b>	<b>232</b>	<b>100%</b>	<b>205</b>	<b>100%</b>

#### Amounts in arrear

NIBC applies a threshold for determining whether a loan carries an insignificant amount in arrear. The criteria for this threshold are the same as for corporate loans. If amounts in arrear fall below the threshold, then they are considered insignificant and are therefore excluded. The application of the threshold does not influence the total amounts in arrear for either 2011 or 2010. For 2011, no amount in arrear falls below the threshold. For 2010, the total amount in arrear that was considered insignificant was below EUR 7 thousand.

#### 54-14 IM loan amounts in arrear, 31 December 2011

IN EUR MILLIONS	Exposure		Outstanding		Amount in arrear		Impairment Amount
	TOTAL	% of Exposure	TOTAL	% of On-Balance	TOTAL	% of On-Balance	
<b>AGE OF PAYMENT IN ARREAR</b>							
1- 5 days	2	0.9%	2	0.9%	1	0.3%	0
Over 90 days	7	3.1%	7	3.3%	7	3.5%	6
No payment in arrear	223	96.0%	207	95.8%	0	0.0%	9
<b>TOTAL</b>	<b>232</b>	<b>100%</b>	<b>216</b>	<b>100%</b>	<b>8</b>	<b>3.8%</b>	<b>15</b>

#### 54-15 IM loan amounts in arrear, 31 December 2010

IN EUR MILLIONS	Exposure		Outstanding		Amount in arrear		Impairment Amount
	TOTAL	% of Exposure	TOTAL	% of On-Balance	TOTAL	% of On-Balance	
<b>AGE OF PAYMENT IN ARREAR</b>							
Over 90 days	8	3.9%	7	3.7%	7	3.7%	7
No payment in arrear	197	96.1%	180	96.3%	0	0.0%	14
<b>TOTAL</b>	<b>205</b>	<b>100%</b>	<b>187</b>	<b>100%</b>	<b>7</b>	<b>3.7%</b>	<b>22</b>

## Impairment amounts

At 31 December 2011, impairment amounts on IM loans amounted to EUR 15 million (2010: EUR 22 million). Table 54-16 shows the breakdown of impairments and write-offs in industry sectors at 31 December 2011 and 31 December 2010. The column labelled 'Exposure' includes both drawn and undrawn amounts, and the column labelled 'Impairment Amount' refers to the drawn amounts of impaired facilities. All impairments and write-offs were in the Netherlands.

### 54-16 Impairment per industry sector

IN EUR MILLIONS	31 December 2011				31 December 2010			
	Exposure	Impaired Exposure	Impairment Amount	Write-offs	Exposure	Impaired Exposure	Impairment Amount	Write-offs
Wholesale/Retail/Leisure	106	5	5	0	49	6	6	18
Financial Services	45	0	0	0	0	0	0	0
Commercial Real Estate	21	11	10	0	19	8	8	0
Services	3	0	0	0	4	0	0	0
TMT	0	0	0	0	0	0	0	2
Manufacturing	2	0	0	0	71	8	8	0
Other	55	0	0	0	62	0	0	0
<b>TOTAL</b>	<b>232</b>	<b>16</b>	<b>15</b>	<b>0</b>	<b>205</b>	<b>22</b>	<b>22</b>	<b>20</b>

At 31 December 2011, the size of the IM loan exposure that carried neither impairments nor past-due amounts equalled EUR 214 million (2010: EUR 182 million). The weighted average CCR on this portion of the IM loan portfolio has improved by one notch to a rating 6 in NIBC's internal rating scale (B in external rating agencies' scales). In 2010, the weighted average CCR was 6- in NIBC's internal rating scale (B- in external rating agencies' scales).

## Residential mortgages

At 31 December 2011, the composition of the Residential Mortgage portfolio (EUR 8,745 million) was as shown in Table 54-17:

### 54-17 Breakdown of Residential Mortgage portfolio

IN EUR MILLIONS	31 December 2011	31 December 2010
Dutch Own Book portfolio	2,759	3,907
Dutch Securitised portfolio	5,560	5,338
German Own Book portfolio	426	522
<b>TOTAL</b>	<b>8,745</b>	<b>9,767</b>

### Dutch Residential Mortgage portfolio

The Dutch Residential Mortgage portfolio contains loans that have been originated by business partners (insurance companies, mortgage chains and service providers) on the basis of prescribed underwriting criteria. The servicing and administration of the mortgage portfolio is outsourced to third-party servicers. At 31 December 2011, 28% of the Residential Mortgage portfolio (31 December 2010: 28%) has a *Dutch government guarantee (NHG guarantee)* in accordance with the general terms and conditions set by the *Stichting Waarborgfonds Eigen Woningen (WEW, Social Housing Guarantee Fund)*.

A large part of the Dutch Residential Mortgage portfolio has been securitised. In most cases, NIBC has retained junior notes and other positions related to these securitisation programmes. These securitisation programmes are consolidated on NIBC's balance sheet. The notional amount of the retained positions at 31 December 2011 was EUR 600 million (31 December 2010: EUR 298 million). The increase in

consolidated securitisation exposure is the result of retained positions in NIBC's newly issued securitisation and repurchases of its own securitisations.

### Risk governance

In order to control the credit risk in the origination of residential mortgages, an acceptance policy framework has been formulated to screen residential mortgage applications. Acceptance depends on the following underwriting criteria:

- Conformity with the Code of Conduct on Mortgage Credits of the Dutch Bankers' Association;
- A check of an applicant's credit history with the Dutch National Credit Register (*Bureau Krediet Registratie (BKR)*), a central credit agency used by financial institutions in the Netherlands, which records five years of financial commitments and negative credit events;
- Mortgage loans are secured by first-ranking mortgage rights;
- Properties are occupied by the owner;
- Other criteria, such as type of property, maximum *Loan-to-Market Value (LtMV)*, maximum *Loan-to-Income (LTI)*; and
- Underwriting criteria for mortgages with an NHG guarantee are set in accordance with the general terms and conditions set by the 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.

In 2011, the code of conduct was revised. The main changes in the underwriting criteria were:

- Maximum 50% of the market value of the property is interest-only; and
- Maximum loan amount is equal to 106% of the market value of the property.

### Management of loans in arrear

In order to control the credit risk of the Dutch Residential Mortgage portfolio, NIBC has established standardised procedures to manage all loan amounts in arrear. To further improve results, all amounts in arrear are managed in-house. This ensures a dedicated team focused on minimising losses. The Arrears Management team is also responsible for collecting remaining debts, managing fraud cases and visiting clients and properties that serve as collateral.

When amounts in arrear occur, the borrower receives four letters in the first month and is contacted four times by phone. Depending on the outcome of these contacts, a customer-specific approach is used per borrower. The Arrears Management team has to submit all loans in default to the Arrears Management Committee, for further approval by management. The Arrears Management Committee contains members from Risk Management, Operations, Consumer Banking and the Arrears Management team. NIBC bids for properties it has foreclosed at auctions to ensure the proceeds are at arm's length and periodically buys these properties. This is performed through a subsidiary of NIBC; Vredezicht 102 B.V.

Table 54-18 shows the arrears overview of the total Dutch Residential mortgage portfolio at 31 December 2011 and 31 December 2010. Loans carrying an amount in arrear at 31 December 2011 had slightly reduced compared to year-end 2010.

#### 54-18 Arrears overview, Dutch Residential Mortgage portfolio

IN %	31 December 2011	31 December 2010
No payment in arrear	97.5	97.2
0-30 days	1.4	1.7
31-60 days	0.4	0.4
61-90 days	0.2	0.2
Over 90 days	0.5	0.5
<b>TOTAL</b>	<b>100</b>	<b>100</b>
<b>TOTAL (IN EUR MILLION)</b>	<b>8,319</b>	<b>9,245</b>

## Risk measurement

Since 1 January 2008, NIBC's rating methodology for residential mortgages has received approval from the DNB to use the AIRB approach for calculating solvency requirements and reporting to the DNB. The calculation of PD, LGD and EAD is performed by an internally developed Basel II AIRB model, which has been in use since 2006. This AIRB model is periodically assessed by the DNB to ensure that minimum requirements are met.

The PD estimates are dependent on a variety of factors, of which the key factors are debt-to-income and loan-to-value ratios. Minor factors that play a role in the PD estimates are several other mortgage loan characteristics, borrower characteristics and payment performance information. The PD scale is based on a continuous scale ranging from 0 - 100%.

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

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

Table 54-19 shows the PD distribution of the Dutch Residential Mortgage portfolio at 31 December 2011 and 31 December 2010. A PD of 100% means that a borrower is more than 90 days in arrears. Mortgages without amounts in arrear all carry PDs below 2%.

### 54-19 PD allocation of Dutch residential mortgages

IN %	Own book Dutch mortgages		Securitised Dutch mortgages	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
PROBABILITY OF DEFAULT				
<= 1%	96.4	93.2	97.6	97.6
1-2%	0.6	2.8	0.1	0.1
2-5%	0.9	0.9	1.0	1.2
5-99%	1.4	1.6	0.9	0.9
100%	0.7	0.9	0.4	0.2
Not rated	0.0	0.6	0.0	0.0
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>TOTAL (IN EUR MILLION)</b>	<b>2,759</b>	<b>3,907</b>	<b>5,560</b>	<b>5,338</b>

## Risk mitigation and collateral management

Credit losses are mitigated in a number of ways:

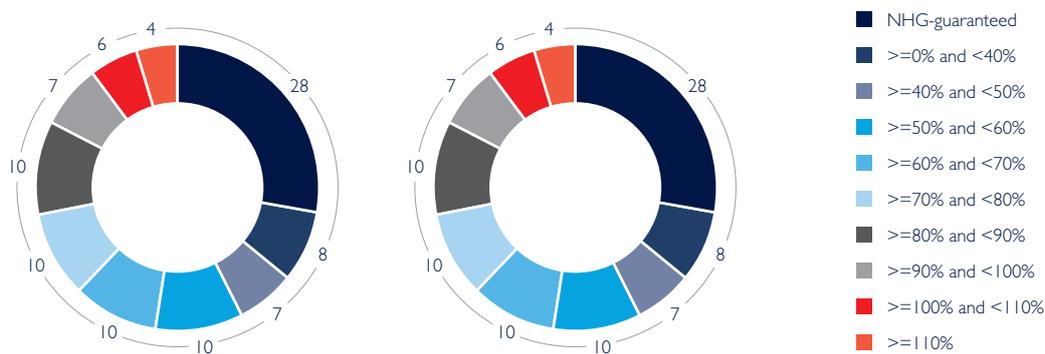
- The underlying property is pledged as collateral;
- 23% of the Dutch Own Book portfolio and 30% of the Securitized portfolio are covered by the NHG programme; and
- For the part of the Dutch portfolio that has been securitized, credit losses higher than the retained positions are attributable to investors in the securitisation programmes.

For the portfolio not covered by the NHG programme, the underlying property is the primary collateral for any mortgage loan granted, though savings and investment deposits may also serve as additional collateral.

An indicator for potential losses, taking into account indexation of house prices and seasoning, is achieved by calculating the *Loan-to-Indexed-Market-Value (LtIMV)*. The indexation is made by using the Kadaster index, which is based on market observables. The Kadaster (national property register) is a public government register of real estate and their vested rights (e.g. ownership and mortgages). This register contains transaction data as well as CBS (Statistics Netherlands) data, which are used to construct a pricing index. Graphs 54-20 and 54-21 show a breakdown of the LtIMV for the total Dutch Residential Mortgage portfolio at 31 December 2011 and 31 December 2010. LtIMV for all categories remained stable between the two years. Only 10% of the total portfolio has an LtIMV above 100%. For the remainder of the portfolio, the indexed collateral value is less than or equal to the nominal loan balance outstanding.

#### 54-20/21 Loan-to-indexed-market-value of Dutch Residential Mortgage portfolio

PERCENTAGE



31 December 2010 (EUR 8,319 million)

31 December 2011 (EUR 9,245 million)

#### German Residential Mortgage portfolio

The German Residential Mortgage portfolio amounted to EUR 426 million at 31 December 2011 (31 December 2010: EUR 522 million). The majority of this portfolio was acquired from third parties via two portfolio purchases. The purchased portfolios contain highly seasoned loans with low LtMV. Due to data protection regulations, the German Residential Mortgage portfolio is divided into so-called 'consent' and 'non-consent' borrowers, depending on whether the borrower has agreed to disclose his personal data. The servicing and administration of the 'consent' portfolio of German Residential Mortgages is fully in-sourced, including arrears management, while the 'non-consent' portfolio is outsourced to third-party servicers; foreclosure management is fully outsourced to the latter.

The German Residential Mortgage portfolio was characterised in 2011 as an exit portfolio, therefore no new originations took place during the year.

In order to manage the credit risk of the German Residential Mortgage portfolio, NIBC has established standardised procedures to manage all loan amounts in arrear. The arrear process starts directly by means of countered direct debits, i.e. when a direct withdrawal from the borrower's account fails. The Arrears Management team contacts the customer to get insight into the reason for being in arrear. They claim the outstanding amount by a letter sent every two weeks. In case of private insolvency or payment in arrear beyond 90 days, responsibility is taken over by the special servicer.

Table 54-22 shows an overview of the payments in arrear at 31 December 2011 and 31 December 2010 for the German Residential Mortgage portfolio. It is market practice in Germany to start the foreclosure procedure after being more than six months in arrear (180 days) and the foreclosure procedure takes, on average, around two years. Special Servicing Cancelled Loans are loans for which the contract has been legally terminated by the lender and are being handled by the Special Servicer. At 31 December 2011, only 29 loans had been transferred to special servicing, from a total portfolio of approximately 4,000 mortgages.

## 54-22 Arrears overview, German Residential Mortgage portfolio

IN %	31 December 2011	31 December 2010
No payment in arrear	93.6	92.9
0-30 days	1.5	2.5
31-60 days	0.7	0.7
61-90 days	0.5	0.6
Over 90 days	0.6	0.6
Special Servicing Cancelled Loans	3.1	2.7
<b>TOTAL</b>	<b>100</b>	<b>100</b>
<b>TOTAL (IN EUR MILLION)</b>	<b>426</b>	<b>522</b>

As is the case in the Netherlands, the underlying property is the primary collateral for any mortgage loan granted. The majority of mortgage loans in Germany contain an annuity debt profile, leading to a lower outstanding balance during the lifetime of the loan.

## Debt investments

NIBC defines the credit risk contained in the Debt Investments portfolio as issuer risk, which is the credit risk of losing the principal amount on products like bonds. Issuer risk is calculated based on the book value. This portfolio does not contain any sovereign risk exposures.

### Risk monitoring and measurement

The risk is controlled by setting single issuer limits and, in some cases, programme limits. All single issuer limits are approved by the TC or by delegated authority to *Financial Markets Credit Risk* and *Market Risk (FMCR and MR)* departments.

Apart from the single issuer limits, risk is also monitored by assessing credit spread risk. Both sensitivity analysis (basis point values) and value-at-risk numbers are used. Note 55 on Market Risk contains more information on these variables.

In the remainder of this section, the exposure has been divided into the following two sub-portfolios:

- Debt from financial institutions and corporate entities; and
- Securitisations.

#### Debt from financial institutions and corporate entities

NIBC invests in debt (bonds), issued by financial institutions and corporate entities. The portfolio did not contain any CDS exposures at 31 December 2011, unlike at 31 December 2010. The size of this sub-portfolio reduced in the course of 2011 by 48%, from EUR 1,365 million at 31 December 2010 to EUR 707 million at 31 December 2011. This reduction is mainly due to regular repayments, as well as active sale of assets.

The breakdown of exposures between ratings and counterparty types in table 54-24 has been slightly adjusted compared to the 2010 Annual Report, in order to accurately reflect Basel II definitions. As a result, EUR 60 million of exposure to financial institutions has been reclassified under corporate entities. The amount of EUR 707 million at 31 December 2011 represents the maximum credit risk exposure, without taking into account the presence of any collateral that could be possessed in case of default. From the total exposure, 23% (2010: 14%) were covered bonds. The remaining 77% (2010: 86%) was senior unsecured debt.

#### 54-23 Debt from financial institutions and corporate entities, 31 December 2011 (no CDS present)

IN EUR MILLIONS	AAA	AA	A	BBB	BB	≤ B	NR	Total
Financial institutions	72	113	383	42	0	0	6	616
Corporate entities	0	0	68	11	0	0	12	91
<b>TOTAL</b>	<b>72</b>	<b>113</b>	<b>451</b>	<b>53</b>	<b>0</b>	<b>0</b>	<b>18</b>	<b>707</b>

#### 54-24 Debt from financial institutions and corporate entities, 31 December 2010 (including CDS)

IN EUR MILLIONS	AAA	AA	A	BBB	BB	≤ B	NR	Total
Financial institutions	500	294	437	23	10	0	3	1,267
Corporate entities	0	0	70	16	0	0	12	98
<b>TOTAL</b>	<b>500</b>	<b>294</b>	<b>507</b>	<b>39</b>	<b>10</b>	<b>0</b>	<b>15</b>	<b>1,365</b>

At both 31 December 2011 and 31 December 2010, the portfolio of debt from financial institutions and corporate entities carried no impairments and exhibited no amounts in arrear.

#### Securitisations

NIBC has been an active participant of the securitisation market in the past decade, both as an originator of and as investor in securitisations. In 2007, NIBC's perspective on the securitisation market changed and a policy of active de-risking was implemented for both the Western European and North American portfolios. As part of this policy, the complete North American *Residential Mortgage-Backed Securities (RMBS)* portfolio was closed and the remaining North American exposures (*Commercial Mortgage-Backed Securities (CMBS)* and *Commercial Real Estate – Collateralised Debt Obligation (CRE-CDO)*) were transferred from NIBC Bank to NIBC Holding. The Western European portfolio was also significantly reduced in size but remained within NIBC Bank.

Tables 54-25 and 54-26 present an overview of NIBC's total securitisation exposure resulting from its activities as an originator of and investor in securitisations. The exposure relating to NIBC's activities as an originator can be split into exposures related to consolidated and non-consolidated securitisations. If a securitisation programme is consolidated on NIBC's balance sheet, the exposure to the collateral is excluded from the securitisation exposure and included in the total exposures presented in note 54 on credit risk in the corporate loans or residential mortgages sections. NIBC's total exposure as an originator to consolidated securitisations equalled EUR 744 million at 31 December 2011 compared to EUR 344 million at 31 December 2010. The increase in consolidated securitisation exposure is the result of retained positions in NIBC's newly issued securitisation and repurchases of its own securitisations.

NIBC's total securitisation exposure (investor and non-consolidated originator) decreased to EUR 832 million at 31 December 2011 from EUR 1,074 million at 31 December 2010, mainly due to regular repayments, as well as active sale of assets. NIBC distinguishes two Securitisation sub-portfolios: the portfolio of Western European & Own Securitisations and the Liquidity Investments portfolio.

The portfolio of Investments in Western European & Own Securitisations contains NIBC's investor securitisations in Western Europe as well as all investments in NIBC's own non-consolidated securitisations. The latter include transactions in which NIBC invested at the time of origination and investments in NIBC's North Westerly *Collateralised Loan Obligation (CLO)* programme. All investments in NIBC's own securitisations are subject to approval from the FMCR and MR departments, as well as the Finance department. The total amount of the portfolio of Investments in Western European & Own Securitisations decreased to EUR 530 million at 31 December 2011 from EUR 663 million at 31 December 2010. In comparison to the 2010 Annual Report, in which the portfolio of investments in Western

European securitisations was shown separately from the portfolio of investments in own securitisations, this year these two portfolios have been combined in tables 54-25 and 54-26.

The Liquidity Investments portfolio was set up to invest part of NIBC's excess liquidity in the securitisation market. Investments are limited to AAA-rated RMBS transactions backed by Dutch collateral, and are eligible to be pledged as collateral with the *European Central Bank (ECB)*. Apart from the strict mandate, each investment is pre-approved by both the FMCR and MR departments. Exposure in this portfolio decreased to EUR 175 million at 31 December 2011 from EUR 289 million at 31 December 2010.

In the North American portfolio, exposure slightly increased to EUR 127 million at 31 December 2011, compared to EUR 122 million at 31 December 2010.

#### 54-25 Exposure to securitised products, 31 December 2011

BOOK VALUE, IN EUR MILLIONS	AAA	AA	A	BBB	BB	<BB	Total
EU - ABS	0	1	4	0	0	3	7
EU - CDO	2	29	60	29	28	30	178
EU - CMBS	29	31	30	16	28	12	147
EU - RMBS	18	47	38	40	7	50	198
<b>TOTAL WESTERN EUROPEAN &amp; OWN SECURITISATIONS</b>	<b>49</b>	<b>109</b>	<b>131</b>	<b>85</b>	<b>63</b>	<b>94</b>	<b>530</b>
NL - RMBS AAA	175	0	0	0	0	0	175
<b>TOTAL SECURITISED TREASURY LIQUIDITY INVESTMENTS</b>	<b>175</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>175</b>
US - CDO	3	6	4	6	15	7	41
US - CMBS	0	0	0	9	0	1	9
US - CRE-CDO	0	2	1	11	8	30	51
US - RMBS	0	8	3	3	4	7	26
<b>TOTAL US SECURITISATIONS</b>	<b>4</b>	<b>16</b>	<b>8</b>	<b>28</b>	<b>27</b>	<b>44</b>	<b>127</b>
<b>TOTAL SECURITISATION EXPOSURE</b>	<b>228</b>	<b>125</b>	<b>139</b>	<b>113</b>	<b>89</b>	<b>138</b>	<b>832</b>

Small differences are possible in the table due to rounding.

#### 54-26 Exposure to securitised products, 31 December 2010

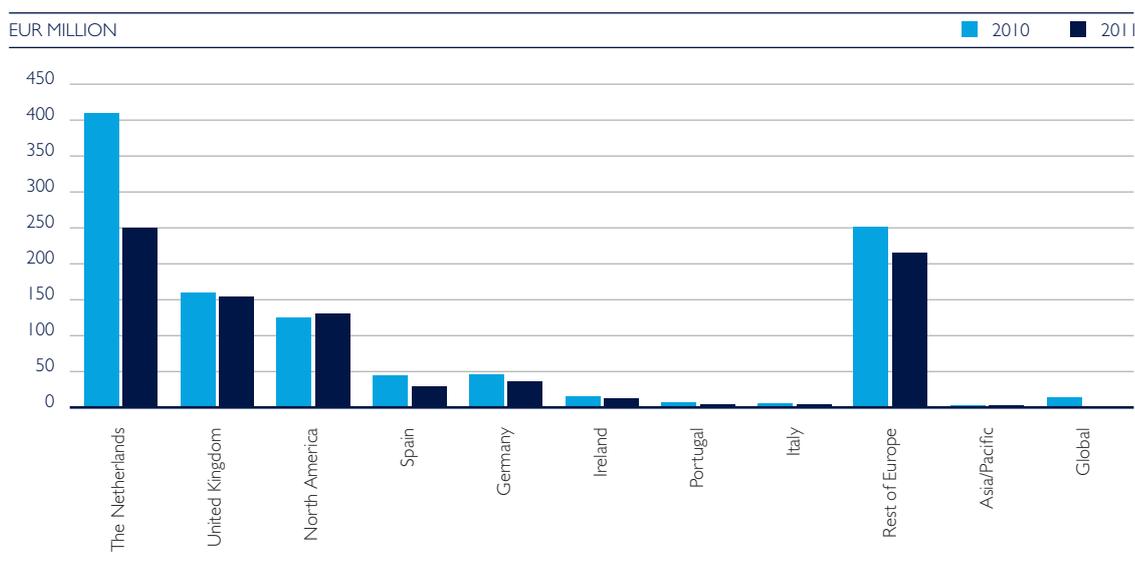
BOOK VALUE, IN EUR MILLIONS	AAA	AA	A	BBB	BB	<BB	Total
EU - ABS	9	3	3	0	1	1	17
EU - CDO	0	11	99	47	28	25	210
EU - CMBS	64	28	39	15	22	7	176
EU - RMBS	58	33	43	57	15	53	260
<b>TOTAL WESTERN EUROPEAN &amp; OWN SECURITISATIONS</b>	<b>132</b>	<b>76</b>	<b>183</b>	<b>119</b>	<b>67</b>	<b>86</b>	<b>663</b>
NL - RMBS AAA	289	0	0	0	0	0	289
<b>TOTAL SECURITISED TREASURY LIQUIDITY INVESTMENTS</b>	<b>289</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>289</b>
US - CDO	0	11	5	12	0	0	29
US - CMBS	0	4	3	8	0	1	15
US - CRE-CDO	0	2	6	11	7	36	62
US - RMBS	1	7	0	6	2	1	16
<b>TOTAL US SECURITISATIONS</b>	<b>1</b>	<b>24</b>	<b>14</b>	<b>36</b>	<b>9</b>	<b>39</b>	<b>122</b>
<b>TOTAL SECURITISATION EXPOSURE</b>	<b>421</b>	<b>100</b>	<b>197</b>	<b>155</b>	<b>75</b>	<b>125</b>	<b>1,074</b>

Small differences are possible in the table due to rounding.

### Geographic distribution of securitisations

Graph 55-27 presents the distribution of the Securitisation portfolio by geographic region, at 31 December 2011 and 31 December 2010. NIBC allocates exposure to a region based on the geographic location in which the cash flows are generated. The geographic distribution illustrates that the majority of these assets is located in Western Europe, mainly in the Netherlands and the United Kingdom. The chart further shows that NIBC's exposure in Spain, Portugal, Italy and Ireland is limited, and had decreased to EUR 55 million at 31 December 2011 from EUR 66 million at 31 December 2010. Approximately 80% of this exposure is still investment grade and/or senior-most exposure. NIBC had no exposure in Greece at both 31 December 2011 and 2010.

#### 54-27 Distribution of securitisations per region, 31 December 2011 (EUR 832 million) and 31 December 2010 (EUR 1,074 million)



### Impairments on securitisations

The majority of the Securitisation portfolio is reported at amortised cost or available for sale for accounting purposes, and the respective assets are subject to a quarterly impairment analysis. Total impairments decreased by EUR 5 million to EUR 106 million at 31 December 2011.

Total impairments for the Western European portfolio remained stable at EUR 39 million at 31 December 2011. Total impairments for the North American portfolio decreased by EUR 5 million to EUR 67 million.

### Securitisations without impairments

Table 54-28 shows the rating breakdown of securitisation exposures that did not carry an impairment amount at 31 December 2011.

#### 54-28 Distribution of securitisation exposure without impairments per rating category, 31 December 2011

BOOK VALUE, IN EUR MILLIONS	AAA	AA	A	BBB	BB	≤ B	Total
Western European & Own Securitisations and Liquidity							
Investments	223	108	132	85	63	82	693
US Securitisations	4	16	8	28	25	37	118
<b>TOTAL SECURITISATION EXPOSURE</b>	<b>227</b>	<b>124</b>	<b>140</b>	<b>113</b>	<b>88</b>	<b>119</b>	<b>811</b>

## Cash management

NIBC is exposed to credit risk as a result of cash management activities. In 2011, NIBC's risk management framework for cash management continued its conservative attitude that took into account the vulnerable financial markets and concern about various financial entities.

### Risk monitoring and measurement

NIBC places its excess cash with the DNB/Dutch State Treasury Agency and a selected number of investment-grade financial institutions. For the approved financial institutions, a monitoring process is in place within the FMCR department. Cash management exposures are typically unsecured; repo transactions are collateralised.

### Correspondent banking and third-party account providers

Apart from the exposure in cash management, NIBC holds foreign currency accounts at correspondent banks and also utilises third-party account providers for internal securitisations.

### Exposures

As shown in table 54-29, at 31 December 2011 NIBC's Treasury department had placed EUR 2,430 million with the DNB, and EUR 600 million with financial institutions. Of this amount, EUR 549 million was placed at third-party account providers, of which EUR 65 million relates to securitisation-related liquidity facilities. This increase in NIBC's cash balance is intended to cover the expiring state-guaranteed funding in February 2012.

#### 54-29 Cash, 31 December 2011

IN EUR MILLIONS	AAA	AA	A	BBB ≥	Total
DNB	2,430	0	0	0	2,430
Financial institutions	17	122	461	0	600
<b>TOTAL</b>	<b>2,447</b>	<b>122</b>	<b>461</b>	<b>0</b>	<b>3,030</b>

#### 54-30 Cash, 31 December 2010

IN EUR MILLIONS	AAA	AA	A	BBB ≥	Total
DNB	1,397	0	0	0	1,397
Financial institutions	1	194	366	0	561
<b>TOTAL</b>	<b>1,398</b>	<b>194</b>	<b>366</b>	<b>0</b>	<b>1,958</b>

Cash management exposure is recognised on the balance sheet under cash and balances with central banks and due from other banks. EUR 1,352 million cash collateral has been excluded from the cash management exposure, as this amount is restricted cash that relates to derivatives with a negative fair value and can be netted with these negative exposures. Cash accounts of *Special Purpose Vehicles (SPV)* are also excluded, as these amounts are not at risk for NIBC.

Next to the cash exposures shown in tables 55-29 and 55-30, at 31 December 2011 NIBC's Treasury department had also placed EUR 21 million with a double-A rated financial institution by means of reverse repo transactions against receipt of collateral. Reverse repo transactions amounted to EUR 3 million at 31 December 2010 and they were placed with a double-A rated financial institution.

At both 31 December 2011 and 31 December 2010, this portfolio carried no impairments and no amounts in arrear.

## Derivatives

Credit risk in derivatives is the risk of having to replace the counterparty in derivative contracts. NIBC's credit risk in derivatives can be split into exposures to financial institutions and corporate entities. NIBC's policy is to minimise this risk. Therefore, NIBC only enters into *Over The Counter (OTC)* contracts with financial institutions that are investment grade or with corporate entities where the exposure is secured by some form of collateral.

### Risk monitoring and measurement

Credit risk in derivatives is based on the marked-to-market value and add-on of the derivative. The add-on reflects a potential future change in marked-to-market value during the remaining lifetime of the derivative contract. For financial institutions, separate limits for credit risk are in place, based on the external rating and the maturity. For corporate clients, NIBC enters into a derivative transaction as part of its overall relationship with the client. The credit approval process for these derivatives is closely linked with the credit approval process of the loan.

Limit-setting proposals for both financial institutions and corporate counterparties are reviewed in the TC. For financial institutions, collateral postings under a *Credit Support Annex (CSA)* is taken into account. For corporate counterparties, both the loan and the derivative are treated as a single package whereby the derivative often benefits from the security/collateral supporting the loan exposure.

### Exposures

Tables 54-31 and 54-32 show NIBC's exposures from credit risk in derivatives allocated by the rating class of the underlying counterparty, at 31 December 2011 and 31 December 2010. The exposure shown is the sum of the positive marked-to-market value of derivative contracts excluding the effect of netting and collateral exchange, with the exception of certain swaps which have been excluded at 31 December 2011 due to their risk off-setting nature.

The exposure in the derivative portfolio grew by 17% between 31 December 2010 and 31 December 2011, mainly due to lower interest rates that increase the marked-to-market value of derivatives. As a result of the negative economic environment in the financial services industry, a rating migration was observed in 2011 for financial institutions from the triple-A and double-A rating categories towards the single-A rating category.

#### 54-31 Derivative exposure excluding netting and collateral, 31 December 2011

IN EUR MILLIONS	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total
Financial institutions	0	204	2,816	6	0	0	0	0	0	0	3,026
Corporate entities	0	0	0	247	291	189	36	0	88	3	855
<b>TOTAL</b>	<b>0</b>	<b>204</b>	<b>2,816</b>	<b>253</b>	<b>291</b>	<b>189</b>	<b>36</b>	<b>0</b>	<b>88</b>	<b>3</b>	<b>3,880</b>

Small differences are possible in the table due to rounding.

#### 54-32 Derivative exposure excluding netting and collateral, 31 December 2010

IN EUR MILLIONS	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total
Financial institutions	51	2,018	638	0	0	0	0	0	0	1	2,708
Corporate entities	0	0	19	115	173	165	21	12	104	1	610
<b>TOTAL</b>	<b>51</b>	<b>2,018</b>	<b>657</b>	<b>115</b>	<b>173</b>	<b>165</b>	<b>21</b>	<b>12</b>	<b>104</b>	<b>2</b>	<b>3,318</b>

### Collateral

To the extent possible, NIBC attempts to limit credit risk from derivatives. Therefore, NIBC enters into bilateral collateral agreements with financial institutions to mitigate credit risk in OTC derivatives by

means of CSAs. Positive marked-to-market values can be netted with negative marked-to-market values and the remaining exposure is mitigated through bilateral collateral settlements. Accepted collateral is mainly cash collateral, which is usually exchanged on a daily basis. The primary counterparties in these CSAs are large international banks with ratings of A or higher. NIBC generally carries out daily cash collateral exchange to account for changes in the market value of the contracts included in the CSA.

The terms and conditions of these CSAs are in line with general International Swaps and Derivatives Association credit support documents. The collateral from CSAs significantly decreases the credit exposure on derivatives, as presented in table 54-33 at 31 December 2011 and in table 54-34 at December 2010.

#### 54-33 Derivative exposure including netting and collateral, 31 December 2011

IN EUR MILLIONS	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total
Financial institutions	0	47	59	6	0	0	0	0	0	0	112
Corporate entities	0	0	0	247	293	186	36	0	88	3	853
<b>TOTAL</b>	<b>0</b>	<b>47</b>	<b>59</b>	<b>253</b>	<b>293</b>	<b>186</b>	<b>36</b>	<b>0</b>	<b>88</b>	<b>3</b>	<b>965</b>

#### 54-34 Derivative exposure including netting and collateral, 31 December 2010

IN EUR MILLIONS	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total
Financial institutions	25	119	44	0	0	0	0	0	0	0	188
Corporate entities	0	0	10	115	172	163	21	12	104	1	598
<b>TOTAL</b>	<b>25</b>	<b>119</b>	<b>54</b>	<b>115</b>	<b>172</b>	<b>163</b>	<b>21</b>	<b>12</b>	<b>104</b>	<b>1</b>	<b>786</b>

### Valuation of corporate derivatives (credit value adjustment)

*Credit Value Adjustments (CVA)* are incorporated into derivative valuations to reflect the risk of default of the counterparty. In essence, CVA represents an estimate of the discounted expected loss on an OTC derivative during the lifetime of a contract. It is applied to all OTC derivative contracts, except for those that benefit from a strong collateral agreement where cash collateral is regularly exchanged, mitigating credit risk. In practice, this means that CVA is only applied to OTC derivative contracts that generate credit risk on corporate (i.e. non-financial) counterparties.

In line with market practice, the CVA of a derivative contract is calculated at the counterparty level as the sum of the present value of the expected loss estimated over the lifetime of all outstanding OTC derivative contracts that generate credit risk. This requires the application of PD and LGD estimates to the *Expected Exposure (EE)* profile. The EE profile estimate takes into account repayments of notional amounts and the passage of time to maturity. PD and LGD estimates are based on internal CCR and LGD ratings due to the absence of a credit market for most of NIBC's corporate counterparties.

The CVA is sensitive to changes in credit quality of the counterparties as well as to changes in interest rates affecting current exposure. Based on the current composition of the portfolio, the CVA, in general, reduces when interest rates rise.

### Amounts in arrear

NIBC applies a threshold for determining whether a derivative carries an insignificant amount in arrear. The criteria for this threshold are the same as for corporate loans and are explained in the relevant section. If amounts in arrear fall below the threshold, they are considered insignificant and are therefore excluded. The application of the threshold does not influence the total amounts in arrear for either 2011 or 2010. For both years, the total amount in arrear that is considered insignificant is below EUR 100 thousand.

Table 54-35 shows an overview of the amounts in arrear for the corporate derivatives at 31 December 2011 and 2010, as well as the exposures (marked-to-market values) that these arrears refer to. There were no amounts in arrear for derivatives with financial institutions. As shown in Table 54-35, a marked-to-market exposure of EUR 40 million carried an amount in arrear of EUR 12 million. Approximately 85% of this exposure was assigned a default rating (D). The remainder of the marked-to-market exposure carrying an amount in arrear was evenly distributed over the rating categories BB, B and CCC.

#### 54-35 Arrears overview, corporate derivative exposure

IN EUR MILLIONS	2011		2010	
	Exposure (MtM) <sup>1</sup>	Amount in arrear	Exposure (MtM) <sup>1</sup>	Amount in arrear
AGE OF PAYMENT IN ARREAR				
1 - 5 days	3	1	12	1
6 - 30 days	0	0	0	0
31 - 60 days	2	0	0	0
61 - 90 days	18	1	0	0
<b>SUBTOTAL LESS THAN 90 DAYS</b>	<b>23</b>	<b>2</b>	<b>12</b>	<b>1</b>
Over 90 days	17	10	9	5
No payment in arrear	815	0	589	0
<b>TOTAL</b>	<b>855</b>	<b>12</b>	<b>610</b>	<b>6</b>

1. MtM: Marked-to-Market value.

## 55 Market risk

NIBC defines market risk as the current and prospective threat to its earnings and capital as a result of movements in market prices. Market risk, therefore, includes price risk, interest rate risk and foreign exchange risk, both within and outside the Trading book. For fixed-income products, market risk also includes credit spread risk, which is the risk due to movements of underlying credit curves. The predominant market risk drivers for NIBC are interest rate risk and credit spread risk.

### Risk monitoring and measurement

Interest *Basis Point Value* (BPV), credit BPV, interest *Value at Risk* (VaR), credit VaR and total VaR measures are calculated on a daily basis for the major currencies and reviewed by the Market Risk department:

- Interest and credit BPV measure the sensitivity of the market value for a change of one basis point in each time bucket of the interest rate and credit spread, respectively. BPV as displayed in the tables below represents the sensitivity of the market value for a one-basis-point parallel upward shift of the underlying curve. A negative amount represents a loss, a positive amount represents a gain;
- The interest VaR, credit spread VaR and total VaR measure the threshold value, which daily marked-to-market losses with a confidence level of 99% will not exceed, based upon four years of historical data for weekly changes in interest rates, credit spreads and both simultaneously. For the Trading portfolio, additional VaR scenarios based upon daily historical market data are used, both for limit-setting as well as for the calculation of the capital requirement. VaR as displayed in the tables below is always represented as a positive number, indicating a potential loss; and
- As future market price developments may differ from those that are contained by the four-year history, the risk analysis is complemented by a wide set of scenarios, including scenarios intended as stress testing and vulnerability identification, both based on historical events and on possible future events.

Limits are set on all the indicators (BPV and VaR, interest, credit and total). The limits and utilisation are reported to the ALCO once every two weeks. Any significant breach of market risk limits is reported to the *Chief Risk Officer* (CRO) on a daily basis. The income statement for the Trading portfolio is also monitored daily.

## Exposures

### Interest rate risk in the Trading portfolio

At the beginning of 2011, the books that have a trading book market risk treatment from a regulatory perspective consisted effectively of interest rate risk trading. The relatively low level of the VaR in 2010 increased half-way 2011 and then fell again. Noting the current volatility in the markets, the VaR limit was reduced at stood at EUR 2.25 million at year-end 2011.

#### 55-1 Key risk statistics of the Trading portfolio

IN EUR THOUSANDS	2011		2010	
	Interest rate BPV	Interest rate VaR	Interest rate BPV	Interest rate VaR
Max <sup>1</sup>	202	3,321	(126)	1,769
Average	(2)	1,358	(63)	706
Min <sup>2</sup>	0	451	27	219
<b>YEAR-END</b>	<b>(41)</b>	<b>628</b>	<b>(69)</b>	<b>1,210</b>

1. Max: value farthest from zero.

2. Min: value closest to zero.

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

### Interest rate risk in the Mismatch portfolio

NIBC concentrates the strategic interest rate risk position of NIBC in the Mismatch portfolio. This portfolio exclusively contains swap positions with which a view on future interest rate developments is taken. During 2011, both EUR and USD mismatch positions were offset with opposite transactions (i.e. they were effectively closed), thus significantly reducing NIBC's market risk position.

#### 55-2 Key risk statistics of the USD Mismatch portfolio

IN EUR THOUSANDS	2011		2010	
	Interest rate BPV	Interest rate VaR	Interest rate BPV	Interest rate VaR
Max <sup>1</sup>	(253)	5,081	(293)	6,340
Average	(195)	3,937	(266)	5,445
Min <sup>2</sup>	(20)	372	(230)	4,467
<b>YEAR-END</b>	<b>(20)</b>	<b>375</b>	<b>(239)</b>	<b>4,925</b>

1. Max: value farthest from zero.

2. Min: value closest to zero.

#### 55-3 Key risk statistics of the EUR Mismatch portfolio

IN EUR THOUSANDS	2011		2010	
	Interest rate BPV	Interest rate VaR	Interest rate BPV	Interest rate VaR
Max <sup>1</sup>	(425)	5,704	(534)	6,446
Average	(278)	3,468	(495)	5,391
Min <sup>2</sup>	(13)	156	(415)	5,179
<b>YEAR-END</b>	<b>(13)</b>	<b>156</b>	<b>(417)</b>	<b>5,569</b>

1. Max: value farthest from zero.

2. Min: value closest to zero.



## Interest rate risk in other portfolios

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

- Corporate Treasury Book;
- Debt Investments portfolio; and
- Residential Mortgage portfolio.

The Corporate Treasury Book contains the funding activities of NIBC and the Corporate and Investment Management loan portfolios. The interest rate risk in the Debt Investments portfolio appears mainly in the Securitisations portfolio. The interest rate risk in the Residential Mortgage portfolio is hedged within small facilitating limits.

Tables 55-4 and 55-5 give in EUR the interest rate sensitivity for the EUR, the USD and the GBP in the trading, mismatch and banking books at year-end 2011 and 2010. For the other currencies, the interest rate risk is minimal. The most significant change is the reduced interest rate risk in the mismatch positions.

### 55-4 Interest rate statistics, 31 December 2011

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

### 55-5 Interest rate statistics, 31 December 2010

IN EUR THOUSANDS	BPV			Total
	Trading	Mismatch	Banking	
EUR	(8)	(412)	182	(238)
USD	(61)	(244)	(50)	(355)
GBP	0	0	5	5
Other	0	0	6	6
<b>TOTAL</b>	<b>(69)</b>	<b>(656)</b>	<b>143</b>	<b>(582)</b>

## Currency risk

Apart from some investments by NIBC in funds managed by NIBC, all of NIBC's positions in foreign currencies, including those of subsidiaries, are hedged by either funding these investments in the appropriate foreign currency or by hedging the exposures using cross-currency swaps or foreign exchange contracts. The most relevant exposures in foreign currencies for NIBC are USD, GBP and JPY. As a result of this policy, NIBC does not actively maintain open currency positions other than translation exposures arising from future income in foreign currencies. The Finance department determines on a monthly basis NIBC's currency positions and reports to Risk Management. When currency positions exceed NIBC's small facilitating foreign currency exposure limits for that currency, NIBC reduces its positions by FX spot or FX forward transactions. The total open foreign currency position, by nominal amount, is generally around EUR 25 million, in accordance with historical figures over the last few years.

## 56 Liquidity risk

NIBC Holding defines liquidity risk as the inability of NIBC to fund its assets and meet its obligations as they become due, at acceptable cost.

Maintaining a sound liquidity and funding profile is one of NIBC Holding's most important risk management objectives. NIBC Holding analyses its funding profile by mapping all assets and liabilities into time buckets that correspond to their maturities. Based on projections prepared by the business units and reviewed by Risk Management, and the current asset and liability maturity profiles, a liquidity stress test is prepared and presented once every two weeks to the ALCO, in order to create continuous monitoring of the liquidity position.

### Assumptions

This stress scenario assumes a world-wide liquidity shortage in which no new market funding can be attracted by NIBC Holding. Furthermore, it is assumed that assets cannot be sold, but that they can only be made liquid by making them eligible for collateralised and ECB funding. In addition, the following assumptions are made:

- In order to maintain NIBC Holding's business franchise, it is assumed that new asset production continues at a level where the current books are maintained constant;
- Conservative assumptions for prepayments, callable funding and collateral cash outflows (payments from CSAs) are made; and
- A conservative liquidity buffer is maintained for intraday payments; and

The projection of NIBC Holding's liquidity in this way is necessarily a subjective process and requires management to make assumptions about, for example, the fair value of eligible collateral and potential outflow of cash collateral placed by NIBC Holding with derivative counterparties.

In the light of these projections, NIBC Holding is confident that sufficient liquidity is available for it to meet maturing obligations over the next 12 months.

### Maturity calendar of consolidated balance sheet

The following tables present the cash flows payable by NIBC Holding in respect of non-derivative financial liabilities and assets relevant for liquidity risk by the remaining contractual maturities at 31 December. The amounts disclosed in the tables for the non-derivative financial liabilities are contractual undiscounted cash flows. Financial liabilities at fair value through profit or loss are therefore restated to nominal amounts. The estimated interest cash flows related to the liabilities are reported on a separate line item. The financial assets relevant for managing liquidity risk are based upon the fair value (discounted cash flows) for those assets which are classified at fair value through profit and loss or available for sale.

The differences between the table and the stress scenario are caused mainly by the following items that are included in the stress scenario analysis but not in the maturity calendar of the consolidated balance sheet:

- New asset production;
- Collateralised funding capacity of internal securitisations and individual bonds; and
- Conservative assumptions with respect to possible cash outflows (e.g. CSA collateral, callable funding).

## Liquidity maturity calendar at 31 December 2011

IN EUR MILLIONS	Not dated	Payable on demand	Due within three months	Due between three and twelve months	Due between one and five years	Due after five years	Total
<b>LIABILITIES (undiscounted cash flows)</b>							
<b>FINANCIAL LIABILITIES AT AMORTISED COST</b>							
Due to other banks	-	9	227	64	730	238	1,268
Deposits from customers	-	3,603	217	763	1,303	512	6,398
Own debt securities in issue	-	-	2,373	62	4,588	73	7,096
Debt securities in issue related to securitised mortgages	-	-	15	-	-	5,401	5,416
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)</b>							
Own debt securities in issue	-	-	11	-	6	26	43
Debt securities in issue structured	-	-	24	82	339	1,369	1,814
<b>OTHER FINANCIAL LIABILITIES</b>							
Other liabilities	-	-	-	150	-	-	150
Current tax	-	-	-	1	-	-	1
Deferred tax	-	-	-	-	-	-	-
Employee benefits	-	-	-	-	1	4	5
<b>SUBORDINATED LIABILITIES</b>							
Amortised cost	-	-	-	-	25	60	85
Fair value through profit or loss	-	-	-	-	37	388	425
<b>TOTAL LIABILITIES (excluding derivatives)</b>	<b>-</b>	<b>3,612</b>	<b>2,867</b>	<b>1,122</b>	<b>7,029</b>	<b>8,071</b>	<b>22,701</b>
Estimated contractual interest cash flows	-	-	101	274	907	1,080	2,362
<b>TOTAL LIABILITIES (excluding derivatives, including estimated contractual interest rate cash flows)</b>	<b>-</b>	<b>3,612</b>	<b>2,968</b>	<b>1,396</b>	<b>7,936</b>	<b>9,151</b>	<b>25,063</b>
<b>TOTAL ASSETS RELEVANT FOR MANAGING LIQUIDITY RISK AT FAIR VALUE (excluding derivatives and interest cash flows)</b>							
	1,965	3,056	672	882	5,115	12,375	24,065

## Liquidity maturity calendar at 31 December 2010

IN EUR MILLIONS	Not dated	Payable on demand	Due within three months	Due between three and twelve months	Due between one and five years	Due after five years	Total
<b>LIABILITIES (undiscounted cash flows)</b>							
<b>FINANCIAL LIABILITIES AT AMORTISED COST</b>							
Due to other banks	-	108	569	62	434	181	1,354
Deposits from customers	-	2,506	293	532	917	319	4,567
Own debt securities in issue	-	-	8	1,417	6,636	148	8,209
Debt securities in issue related to securitised mortgages	-	-	11	-	-	5,551	5,562
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)</b>							
Own debt securities in issue	-	-	-	1	17	30	48
Debt securities in issue structured	-	-	47	123	478	1,418	2,066
<b>OTHER FINANCIAL LIABILITIES</b>							
Other liabilities	-	-	-	215	-	-	215
Current tax	-	-	-	2	-	-	2
Deferred tax	-	-	-	-	-	-	-
Employee benefits	-	-	-	-	1	4	5
<b>SUBORDINATED LIABILITIES</b>							
Amortised cost	-	-	-	-	25	94	119
Fair value through profit or loss	-	-	-	-	20	413	433
<b>TOTAL LIABILITIES (excluding derivatives)</b>	<b>-</b>	<b>2,614</b>	<b>928</b>	<b>2,352</b>	<b>8,528</b>	<b>8,158</b>	<b>22,580</b>
Estimated contractual interest cash flows	-	-	108	291	1,218	1,717	3,334
<b>TOTAL LIABILITIES (excluding derivatives, including estimated contractual interest rate cash flows)</b>	<b>-</b>	<b>2,614</b>	<b>1,036</b>	<b>2,643</b>	<b>9,746</b>	<b>9,875</b>	<b>25,914</b>
<b>TOTAL ASSETS RELEVANT FOR MANAGING LIQUIDITY RISK AT FAIR VALUE (excluding derivatives and interest cash flows)</b>							
	<b>1,616</b>	<b>1,971</b>	<b>796</b>	<b>966</b>	<b>4,476</b>	<b>14,079</b>	<b>23,904</b>

## Liquidity maturity of calendar derivatives

The following tables present the derivative financial instruments that will be settled on a net basis into relevant maturity classes based on the contractual maturity date at 31 December 2011 and 2010. The amounts disclosed in the tables are the contractual undiscounted cash flows.

### Derivatives at 31 December 2011

IN EUR MILLIONS	Less than three months	Between three months and one year	One to five years	Five years or more	Total
<b>DERIVATIVES HELD FOR TRADING</b>					
<i>Interest rate derivatives (net settled)</i>					
Inflow	912	2,041	4,551	2,194	9,698
Outflow	(822)	(2,022)	(4,570)	(1,495)	(8,909)
<i>Credit derivatives</i>					
Inflow	1	1	3	1	6
Outflow	-	-	(1)	-	(1)
<b>DERIVATIVES USED FOR HEDGING</b>					
<i>FX forward (gross settled)</i>					
Inflow	963	33	-	-	996
Outflow	(996)	(33)	-	-	(1,029)
<i>Interest rate derivatives (net settled)</i>					
Inflow	18	72	289	49	428
Outflow	(21)	(85)	(301)	(65)	(472)
<b>TOTAL INFLOW</b>	<b>1,894</b>	<b>2,147</b>	<b>4,843</b>	<b>2,244</b>	<b>11,128</b>
<b>TOTAL OUTFLOW</b>	<b>(1,839)</b>	<b>(2,140)</b>	<b>(4,872)</b>	<b>(1,560)</b>	<b>(10,411)</b>

### Derivatives at 31 December 2010

IN EUR MILLIONS	Less than three months	Between three months and one year	One to five years	Five years or more	Total
<b>DERIVATIVES HELD FOR TRADING</b>					
<i>Interest rate derivatives (net settled)</i>					
Inflow	1,276	833	4,037	2,760	8,906
Outflow	(1,323)	(917)	(4,267)	(2,372)	(8,879)
<i>Credit derivatives</i>					
Inflow	1	3	7	-	11
Outflow	-	(2)	(2)	-	(4)
<b>DERIVATIVES USED FOR HEDGING</b>					
<i>FX forward (gross settled)</i>					
Inflow	942	11	-	-	953
Outflow	(940)	(11)	(1)	-	(952)
<i>Interest rate derivatives (net settled)</i>					
Inflow	64	208	2,179	133	2,584
Outflow	(37)	(155)	(1,911)	(144)	(2,247)
<b>TOTAL INFLOW</b>	<b>2,283</b>	<b>1,055</b>	<b>6,223</b>	<b>2,893</b>	<b>12,454</b>
<b>TOTAL OUTFLOW</b>	<b>(2,300)</b>	<b>(1,085)</b>	<b>(6,181)</b>	<b>(2,516)</b>	<b>(12,082)</b>

## Off-balance sheet liquidity maturity calendar

The following table shows the contractual maturity of NIBC's contingent liabilities and commitments.

Each undrawn loan or capital commitment is included in the time band containing the earliest date it can be drawn down.

For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

### Off-balance sheet liquidity maturity calendar at 31 December 2011

IN EUR MILLIONS	Less than three months	Between three months and one year	One to five years	Five years or more	Total
<b>CONTRACT AMOUNT</b>					
Committed facilities with respect to corporate loan financing	1,428	-	-	-	1,428
Capital commitments	67	-	-	-	67
Guarantees granted	104	-	-	-	104
Irrevocable letters of credit	4	-	-	-	4
	<b>1,603</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,603</b>

### Off-balance sheet liquidity maturity calendar at 31 December 2010

IN EUR MILLIONS	Less than three months	Between three months and one year	One to five years	Five years or more	Total
<b>CONTRACT AMOUNT</b>					
Committed facilities with respect to corporate loan financing	1,713	-	-	-	1,713
Capital commitments	71	-	-	-	71
Guarantees granted	285	-	-	-	285
Irrevocable letters of credit	70	-	-	-	70
	<b>2,139</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,139</b>

## 57 Capital management

### Overview

It is NIBC policy to maintain a strong capital base, to meet regulatory capital requirements at all times and to support the development of its business by allocating capital efficiently. Allocation of capital to the business is based on the EC-approach. EC is the amount of capital that NIBC allocates as a buffer against potential losses from business activities, based upon its assessment of risks. The EC that NIBC allocates to each business is based on the assessment of risk of its activities. It differs from Basel II regulatory capital, as in certain cases NIBC assesses the specific risk characteristics of its business activities in a different way than the regulatory method. The total regulatory capital however, in combination with a minimum benchmark Tier-1 ratio, does form a limit to the maximum amount of EC that can be allocated to the business.

Comparing the risk-based EC of each business to its profit delivers a RAROC for each business. EC and RAROC are key tools in NIBC capital allocation and usage process, assisting in allocating shareholders' equity as efficiently as possible, based on expectations of both risk and return. Usage of EC is assessed once every two weeks in the ALCO. The ALCO resets the maximum allocation level of EC to and within each business, taking into account business expectations, NIBC desired risk profile and the regulatory requirements.

## Methodology

NIBC Holding uses the business model of each activity as the basis for determining the EC approach. If the business model of an activity is trading, distribution or investing for a limited period, a market risk approach based upon VaR and scaled to a one-year horizon is used to calculate the EC usage. A business model based on 'buy-to-hold' or investing to maturity leads to a credit risk approach being applied, based upon estimations of PD and LGD. Add-ons for operational risk and country risk are also calculated. Furthermore, NIBC Holding allocates EC for business risk, reputation risk and model risk on a group-wide level.

The EC approach differs from the regulatory approach in which only the trading books are assigned a market risk approach. In the regulatory framework, activities that are not trading but have a business model based on distribution or investment for a limited period are often assigned a credit risk approach, following Basel II regulations or regulatory industry practice, whereas in the EC framework NIBC Holding applies a market risk approach similar to that of the trading activities. Risks and EC are monitored accordingly.

The main differences between the EC capital and regulatory framework come from the Residential Mortgage portfolio, the Securitisation portfolio and NIBC Holding's interest rate mismatch position. EC is determined by a market risk approach for these activities, which follows from their business model. The regulatory approach is either a credit risk approach (residential mortgages and securitisations) or is not part of Basel II Pillar I at all (mismatch position).

## Capital allocation

NIBC Holding allocates EC to all its business activities in the form of limits set by the ALCO, and calculates the amount of EC usage of each business based on the risk of its activities:

- For the Corporate Loan portfolio, NIBC Holding calculates EC usage by means of a credit risk approach largely based upon the Basel II regulatory capital formula and an add-on for concentration risk;
- For the Debt Investments and Trading portfolios, Residential Mortgage portfolio and the interest rate mismatch position, NIBC Holding uses a market risk approach to determine EC usage. EC usage for these portfolios is calculated using VaR, calculated with four years of historical data and scaled to a one-year horizon; and
- For the Investment Management portfolios, NIBC Holding calculates EC usage for IM loans by applying a credit approach based upon the Basel II regulatory capital formula. NIBC Holding uses fixed percentages for the equity investments.

## Basel II regulatory capital

The objective of Basel II is to improve the capital adequacy of the banking industry by making it more responsive to risk. Basel II is structured on three pillars:

- Pillar I describes the capital adequacy requirements for three risk types; credit risk, market risk and operational risk;
- Pillar II describes the additional *supervisory review process (SREP)*, where regulators analyse the *internal capital adequacy assessment process (ICAAP)* of the individual banks. Since the end of 2011, DNB also analyses the *internal liquidity adequacy assessment process (ILAAP)*; and
- In Pillar III the required risk reporting standards are displayed, supporting additional market discipline in the international capital markets.

Under Basel II and subject to approval from the regulator, banks have the option to choose between various approaches, each with a different level of sophistication in risk management, ranging from 'standardised' to 'advanced'.

For credit risk, NIBC Holding has adopted the AIRB approach as further specified in Basel II for its corporate and retail exposure classes, and is in the process of including institutions. NIBC Holding started

using the AIRB approach at 1 January 2008. A small residue of exposures is measured on the standardised approach.

For market risk, NIBC Holding has adopted an internal model VaR approach.

For measuring operational risk, NIBC Holding has adopted the standardised approach.

The basis for Pillar II is NIBC Holding's ICAAP, which is NIBC Holding's self-assessment of risks not captured by Pillar I.

Pillar III is related to market discipline and complements the operation of Pillars I and II aiming to make banks more transparent. NIBC Holding publishes its Pillar III disclosures on its website.

The following table displays the composition of regulatory capital at 31 December 2011 and 31 December 2010. NIBC Holding complies with DNB's Basel II capital requirements, which formally require a minimum Tier-1 ratio of 4% and a BIS ratio of 8%.

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

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

## 58 Subsequent events

There are no subsequent events.

## 59 Profit appropriation

The profit appropriation is included in the section Other information.



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# Company income statement

for the year ended 31 December

IN EUR MILLIONS	2011	2010
Results of participating interests after tax	96	66
Other results after tax	(10)	11
<b>NET PROFIT FOR THE YEAR</b>	<b>86</b>	<b>77</b>

# Company balance sheet

before profit appropriation, at 31 December

IN EUR MILLIONS	NOTE	2011	2010
<b>Assets</b>			
Due from other banks	1	68	50
Loans and advances	2	176	166
Investments in controlled entities	3	1,884	1,828
Intangible assets	4	121	121
Deferred tax	6	90	116
<b>TOTAL ASSETS</b>		<b>2,339</b>	<b>2,281</b>
<b>Liabilities</b>			
Deposits from banks	7	561	539
Current tax	5	4	7
<b>TOTAL LIABILITIES</b>		<b>565</b>	<b>546</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share capital		148	148
Other reserves	8	2,192	2,188
Retained earnings		(623)	(656)
Net result allocated to parent shareholders		86	77
Dividend paid		(29)	(22)
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>1,774</b>	<b>1,735</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>2,339</b>	<b>2,281</b>

# 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. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

The company 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 applies the provisions in Section 362, paragraph 8, Title 9, 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 financial statements are presented in euros rounded to the nearest million. The euro is the functional and presentation currency of NIBC. Under Section 402 of Title 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.

## 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 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 unsecured 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, NIBC recognises a provision up to the extent of its obligation.

# Notes

## to the consolidated financial statements

### 1 Due from other banks

IN EUR MILLIONS	2011	2010
NIBC Bank N.V.	68	50
Other banks	-	-
	<b>68</b>	<b>50</b>

All receivables are from group companies.

### 2 Loans and advances

IN EUR MILLIONS	2011	2010
Loans and advances	176	166
	<b>176</b>	<b>166</b>

Loans and advances consist of receivables from group companies amounted to EUR 176 million (2010: EUR 166 million).

In 2010, the loan to NIBC Investments N.V. was converted to equity for the amount of EUR 500 million.

### 3 Investments in controlled entities

IN EUR MILLIONS	2011	2010
<b>THE MOVEMENT IN INVESTMENTS IN CONTROLLED ENTITIES MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>1,828</b>	<b>1,234</b>
Capital contribution share-based payments	-	6
Capital contribution in controlled entities	-	500
Movement in revaluation and hedging reserve	5	36
Results of controlled entities	96	66
Dividend received	(44)	(22)
Net investment hedge foreign entities	(1)	6
Other movements	-	2
<b>BALANCE AT 31 DECEMBER</b>	<b>1,884</b>	<b>1,828</b>

The direct subsidiaries are NIBC Bank N.V., NIBC Investment Management N.V., NIBC Investments N.V. and Stichting Administratiekantoor NIBC Holding (the Foundation).

In 2010, the loan to NIBC Investments N.V. was converted to equity for the amount of EUR 500 million.

## 4 Intangible assets

IN EUR MILLIONS	2011	2010
Intangible assets	121	121
	<b>121</b>	<b>121</b>
<b>THE MOVEMENT IN INTANGIBLE ASSETS MAY BE SUMMARISED AS FOLLOWS:</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>121</b>	<b>121</b>
Additions	-	-
<b>BALANCE AT 31 DECEMBER</b>	<b>121</b>	<b>121</b>

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 in 2011 and 2010.

## 5 Current tax

IN EUR MILLIONS	2011	2010
Tax liabilities	4	7

It is expected that the total tax position will be settled within 12 months.

## 6 Deferred tax

IN EUR MILLIONS	2011	2010
Tax losses carried forward	90	116
	<b>90</b>	<b>116</b>

The deferred tax asset is recognised to the extent that taxable profit will be available against which the temporary difference can be utilised.

Deferred tax is calculated on all temporary differences under the liability method using a nominal tax rate of 25.0% (31 December 2010: 25.0%).

## 7 Deposits from banks

IN EUR MILLIONS	2011	2010
NIBC Bank N.V.	561	539
	<b>561</b>	<b>539</b>
<b>THE LEGAL MATURITY ANALYSIS OF DEPOSITS FROM BANKS IS ANALYSED AS FOLLOWS:</b>		
Three months or less	-	-
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	-	-
Longer than five years	561	539
	<b>561</b>	<b>539</b>

## 8 Shareholder's equity

### Share Capital

The authorised capital amounts to EUR 500 million and is divided into 500,000,000 shares, each of EUR 1 nominal value.

IN EUR MILLIONS	2011	2010
Paid-up capital	148	148
	<b>148</b>	<b>148</b>

### Other reserves

IN EUR MILLIONS	2011	2010
<b>OTHER RESERVES ARE COMPRISED OF:</b>		
Share premium	2,289	2,289
Hedging reserve - cash flow hedges	31	9
Revaluation reserve - loans (available for sale)	(57)	(67)
Revaluation reserve - equity investments (available for sale)	(51)	(51)
Revaluation reserve - debt securities (available for sale)	(26)	(8)
Revaluation reserve - property, plant and equipment	6	16
	<b>2,192</b>	<b>2,188</b>

IN EUR MILLIONS	Share premium	Hedging reserve	Revaluation reserve	Total
<b>BALANCE AT 1 JANUARY 2010</b>	<b>2,289</b>	<b>(17)</b>	<b>(120)</b>	<b>2,152</b>
Net result on hedging instruments	-	26	-	26
Revaluation (net of tax)	-	-	10	10
<b>TOTAL RECOGNISED DIRECTLY THROUGH OTHER COMPREHENSIVE INCOME IN EQUITY</b>	<b>-</b>	<b>26</b>	<b>10</b>	<b>36</b>
Proceeds from shares issued	-	-	-	-
<b>BALANCE AT 31 DECEMBER 2010</b>	<b>2,289</b>	<b>9</b>	<b>(110)</b>	<b>2,188</b>

IN EUR MILLIONS	Share premium	Hedging reserve	Revaluation reserve	Total
<b>BALANCE AT 1 JANUARY 2011</b>	<b>2,289</b>	<b>(9)</b>	<b>(110)</b>	<b>2,188</b>
Net result on hedging instruments	-	22	-	22
Revaluation (net of tax)	-	-	(18)	(18)
<b>TOTAL RECOGNISED DIRECTLY THROUGH OTHER COMPREHENSIVE INCOME IN EQUITY</b>	<b>-</b>	<b>22</b>	<b>(18)</b>	<b>4</b>
Proceeds from shares issued	-	-	-	-
<b>BALANCE AT 31 DECEMBER 2011</b>	<b>2,289</b>	<b>31</b>	<b>(128)</b>	<b>2,192</b>

Details of the shareholders' equity can be found in note 44 of the consolidated financial statements.

Out of the total number of shares issued by NIBC Holding, 3,272,878 (2010: 3,272,878) shares are held by Stichting Administratiekantoor NIBC Holding in view of the share-based incentive scheme.

The difference of EUR 2 million (2010: EUR 2 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 2011, retained earnings and net profit attributable to the parent shareholder includes unrealised fair value changes on residential mortgages (own book and securitised), on certain non-listed trading assets, on derivatives related to residential mortgages (own book and securitised) and to these non-listed trading assets, on associates designated at fair value through profit or loss and on liabilities designated at fair value through profit or loss. With respect to unrealised fair value gains arising on these instruments, a legal reserve has been established of EUR 306 million (2010: EUR 269 million), that is included in other reserves. At the balance sheet date, for associates accounted for based on net equity method, no further legal reserve has been established for both 2011 and 2010. At the balance sheet date the legal reserve for currency translation differences are nil for both 2011 and 2010.

Including the revaluation reserves displayed in note 44 of the consolidated financial statements, total legal reserves at 31 December 2011 amount to EUR 312 million (2010: EUR 285 million).

## 9 Remuneration of the Statutory Board members and Supervisory Board members

For the remuneration of the Statutory Board and Supervisory Board see note 8 and 53 of the consolidated financial statements.

As at 31 December 2011 and 31 December 2010, no loans, advance payments or guarantees have been provided to Statutory Board and Supervisory Board members.

## 10 Related parties

Details of related party transactions can be found in note 51 of the consolidated financial statements.

For services provided to NIBC Bank N.V. income earned in the year 2011 amounted to nil (2010: nil).

## 11 Employee information

During the year 2011, the average number of employees calculated on a full time equivalent basis was nil (2010: nil).

## 12 Commitments not shown in the balance sheet

No guarantees within the meaning of Section 403, Title 9, Book 2 of the Netherlands Civil Code have been given on behalf of NIBC Bank N.V.

The Dutch State has unconditionally and irrevocably guaranteed the due payment of all amounts of principal and interest due by NIBC for EUR 5,410 million (2010: EUR 6,846 million) of the issued notes according and subject to (i) the Rules governing the 2008 Dutch State's Credit Guarantee Scheme and (ii) the Guarantee Certificate issued under those Rules in respect of these notes. These Rules and that Guarantee Certificate are available at [www.dutchstate.nl](http://www.dutchstate.nl)

## 13 Financial risk management

Please refer to note 54 to 57 of the consolidated financial statements for NIBC Holding's risk management policies.

## 14 Profit appropriation

The profit appropriation is included in Other information.

**The Hague, 6 March 2012**

### Managing Board

Jeroen Drost, *Chairman, Chief Executive Officer*

Kees van Dijkhuizen, *Vice-Chairman, Chief Financial Officer*

Rob ten Heggeler, *Member*

Jeroen van Hessen, *Member*

Petra van Hoeken, *Chief Risk Officer*

### Supervisory Board

Mr. W.M. van den Goorbergh, *Chairman*

Mr. D.R. Morgan, *Vice-Chairman*

Mr. A.A.G. Bergen

Mr. M.J. Christner

Mr. C.H. van Dalen

Mr. N.W. Hoek

Mr. A. de Jong

Sir Cullum McCarthy

Ms. S.A. Rocker

Mr. D.K.M. Rümker

Mr. A.H.A. Veenhof



# Other Information

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## ***Independent auditor's report***

To: the General Meeting of Shareholders of NIBC Holding N.V.

### ***Report on the financial statements***

We have audited the accompanying financial statements 2011 as set out on pages 42 to 187 of NIBC Holding N.V., The Hague. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2011, the consolidated income statement, the statement of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2011, the company income statement for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

### ***Managing Board's responsibility***

The Managing Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report of the Managing Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Managing Board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

---

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T: +31 (0) 88 792 00 20, F: +31 (0) 88 792 96 40, [www.pwc.nl](http://www.pwc.nl)*

'PwC' is the brand under which PricewaterhouseCoopers Accountants N.V. (Chamber of Commerce 34180285), PricewaterhouseCoopers Belastingadviseurs N.V. (Chamber of Commerce 34180284), PricewaterhouseCoopers Advisory N.V. (Chamber of Commerce 34180287), PricewaterhouseCoopers Professional Services B.V. (Chamber of Commerce 51414406), PricewaterhouseCoopers B.V. (Chamber of Commerce 34180289) and other companies operate and provide services. These services are governed by General Terms and Conditions ('algemene voorwaarden'), which include provisions regarding our liability. Purchases by these companies are governed by General Terms and Conditions of Purchase ('algemene inkoopvoorwaarden'). At [www.pwc.nl](http://www.pwc.nl) more detailed information on these companies is available, including these General Terms and Conditions and the General Terms and Conditions of Purchase, which have also been filed at the Amsterdam Chamber of Commerce.

***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 2011, 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 Dutch 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 2011, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

***Report on other legal requirements***

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Report of the Managing Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the Report of the Managing Board, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Amsterdam, 6 March 2012  
PricewaterhouseCoopers Accountants N.V.

Original signed by R.E.H.M. van Adrichem RA

## Profit appropriation

### List of Principal Participating Interests of NIBC

NIBC Bank N.V., The Hague	100%
NIBC Principal Investments B.V., The Hague	100%
NIBC Principal Investments B.V., The Hague	100%

### Profit appropriation

IN EUR MILLIONS	2011
Result available for shareholder's distribution	86
	<b>86</b>

IN EUR MILLIONS	2011
Interim dividend paid 2011	29
Proposed final dividend 2011	22
Transferred to retained earnings	35
	<b>86</b>

### Subsequent events

There are no subsequent events.

## Contact information

Our website, [www.nibc.com](http://www.nibc.com), offers a wide range of information about NIBC, financial information, corporate information, corporate calendar, press releases and sustainability information. The information on the website is available in English, Dutch and German. Financial information (annual reports, full-year and half-year results releases and trading updates) is available in English.

To receive press releases and other NIBC news, please subscribe to our e-mail service by sending an e-mail to [info@nibc.com](mailto:info@nibc.com).

### Questions and Remarks

We invite all stakeholders to ask their questions and share their remarks.

- General questions and remarks can be addressed to Corporate Communications, telephone +31 70 342 56 25 / e-mail [info@nibc.com](mailto:info@nibc.com).
- Questions and remarks related to bond investments can be addressed to Debt Investor Relations, telephone +31 70 342 98 36 / e-mail [info@nibc.com](mailto:info@nibc.com).
- Questions and remarks related to CSR can be addressed to the CSR department, e-mail [csr@nibc.com](mailto:csr@nibc.com).
- Questions and remarks related to NIBC Direct can be addressed to [info@nibcdirect.com](mailto:info@nibcdirect.com).

## Principal Subsidiaries and Offices

### The Netherlands

**NIBC Bank N.V. / NIBC Holding N.V.**

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Telephone + 44 207 375 77 77  
Fax + 44 207 588 64 83

## Key figures

	2011	2010	2009
<b>CONSOLIDATED BALANCE SHEET</b>			
Shareholders' equity (EUR millions)	1,773	1,755	1,650
Group capital base (EUR millions)	2,154	2,243	2,151
Loans to customers	8,477	8,056	7,772
Residential mortgages	8,745	9,767	10,600
Balance sheet total	28,257	27,690	28,935
<b>CONSOLIDATED INCOME STATEMENT</b>			
Operating income (EUR millions)	312	354	305
Operating expenses (EUR millions)	173	176	162
Net profit attributable to parent shareholder (EUR millions)	86	78	(22)
<b>SOLVENCY INFORMATION</b>			
Risk weighted assets (EUR billions)	11,4	12,4	11,2
Core Tier-I ratio	12.8%	-	-
Tier-I ratio	15.2%	14.0%	15.5%
BIS ratio	16.3%	15.2%	17.7%
Leverage ratio (debt/equity)	14,9	14,8	16,5
<b>EARNINGS RATIOS</b>			
Return on tangible equity	4.9%	4.4%	(1.3%)
Cost-to-income ratio	55%	50%	53%
Dividend payout ratio	59%	57%	0%
<b>OTHER INFORMATION</b>			
Assets under management for third parties (EUR billions)	4.3	6.4	7.3
Number of FTEs end of year	664	685	660

## Abbreviations

ACC	Audit and Compliance Committee	FMCR/RP&R	Financial Markets Credit Risk and Risk
AFM	Autoriteit Financiële Markten (Netherlands Authority for the Financial Markets)	Foundation	Policy & Reporting department Stichting Administratiekantoor NIBC Holding
AIRB	Advanced Internal Ratings Based	FPSO	Floating production, storage & offloading
ALCO	Asset & Liability Committee	FTEs	Full-time equivalents
ALM/MR	Asset & Liability Management and Market Risk department	IBNR	Incurred but not Reported
BPV	Basis Point Value	IC	Investment Committee
CCDRs	Conditional Common Depository Receipts	ICAAP	Internal capital adequacy assessment process
CCR	Counterparty credit rating	IM Loans	Investments Management Loans
CDO	Collateralised Debt Obligation	IFRIC	International Financial Reporting Interpretations Committee
CDRs	Common Depository Receipts	IFRS	International Financial Reporting Standards
CDS	Credit Default Swaps	ILAAP	Internal liquidity adequacy assessment process
CEBS	Committee of European Banking Supervisors Guidelines on Remuneration Policies and Practices	LGD	Loss given default
CEO	Chief Executive Officer	LTI	Long-term incentive compensation
CFO	Chief Financial Officer	Lti	Loan-to-Income
CGUs	Cash-generating units	LTiMV	Loan-to-Indexed-Market-Value
CLO	Collateralised Loan Obligation	LTV	Loan-to-Market Value
CMBS	Commercial Mortgage-Backed Securities	MtM	Marked-to-Market
Council	Employees' Council	NACE	Statistical Classification of Economic Activities in the European Community
CRA/DA	Credit Risk Assessment and Distressed Assets department	NHG Guarantee	Dutch government mortgage guarantee
CRE-CDO	Commercial Real Estate - Collateralised Debt Obligation	NIBC	NIBC Bank N.V.
CRO	Chief Risk Officer	NIBC Funds	Funds set up and managed by NIBC
CSA	Credit Support Annexes	NIBC Holding	NIBC Holding N.V.
CSR	Corporate Social Responsibility	NPS	Net Promoter Score
CVA	Credit Valuation Adjustment	NR	Not rateable
DNB	De Nederlandsche Bank (Dutch central bank)	OECD	Organisation for Economic Co- operation and Development
DNB Principles	Dutch Central Bank Principles on Controlled Remuneration Policies	ORM	Operational Risk Management department
DRs	Depository Receipts	OTC	Over The Counter
EAD	Exposure at Default	PD	Probability of default
EBA	European Banking Authority	PSUs	Phantom Share Units
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation	RAROC	Risk-adjusted return on capital
EC	Economic Capital	RC	Regulatory Capital
ECB	European Central Bank	RDRs	Restricted Depository Receipts
ECC	Engagement and Compliance Committee	Repos	Securities sold subject to repurchase agreements
EE	Expected Exposure	Reverse repos	Securities purchased under agreements to resell
EL	Expected Loss	RMBS	Residential Mortgage-Backed Securities
EP	Equator Principles	RMCM	Risk Management Committee
EU	European Union	RNC	Remuneration and Nominating Committee

RPC	Risk Policy Committee
RPSUs	Restricted Phantom Share Units
RWA	Risk Weighted Assets
SPE	Special Purpose Entities
SPV	Special Purpose Vehicles
SREP	Supervisory Review Process
STI	Short-term incentive compensation
TC	Transaction Committee
VaR	Value at Risk
WEW	Stichting Waarborgfonds Eigen Woningen (Social Housing Guarantee Fund)

# Annual Report 2011

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## Disclaimer

### Presentation of information

This annual report (Annual Report) of NIBC Holding N.V. (NIBC Holding) is prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU).

### Cautionary statement regarding forward-looking statements

Certain statements in this Annual Report are not historical facts and are 'forward-looking' statements that relate to, among other things, NIBC Holding's business, result of operation, financial condition, plans, objectives, goals, strategies, future events, future revenues and/or performance, capital expenditures, financing needs, plans or intentions, as well as assumptions thereof. These statements are based on NIBC Holding's current view with respect to future events and financial performance. Words such as 'believe', 'anticipate', 'estimate', 'expect', 'intend', 'predict', 'project', 'could', 'may', 'will', 'plan' and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve uncertainties and are subject to certain risks, including, but not limited to (i) general economic conditions, in particular in NIBC Holding's core and niche markets, (ii) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness (iii) performance of financial markets, including developing markets, (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, including taxes (x) changes in policies of governments and/or regulatory authorities, (xi) the results of our strategy and investment policies and objectives and (xii) the risks and uncertainties as addressed in this Annual Report, the occurrence of which could cause NIBC Holding's actual results and/or performance to differ from those predicted in such forward-looking statements and from past results. The forward-looking statements speak only as of the date hereof. NIBC Holding does not undertake any obligation to update or revise forward-looking statements contained in the Annual Report, whether as a result of new information, future events or otherwise. Neither do NIBC Holding nor any of its directors, officers, employees make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

The forward-looking statements speak only as of the date hereof. NIBC Holding does not undertake any obligation to update or revise forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise. Neither do NIBC Holding nor any of its directors, officers, employees make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.