NIBC

NIBC ANNUAL REPORT
2012

ENTERPRISING PEOPLE ALWAYS FIRST TO ACT

Table of contents

At a Glance

WHO WE ARE

NIBC Bank N.V. (**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 clients, we offer straightforward, transparent products.

Our clients are our top priority. By understanding their needs and putting our know-how to work, we build long-term relationships. 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 a combination of advice, financing and co-investment activities. We have expert sector knowledge in Food, Agri & Retail; Commercial Real Estate; Industries & Manufacturing; Infrastructure & Renewables; Oil & Gas Services; Shipping & Intermodal; and Technology, Media & Services. For every transaction, we put together a hand-picked, cross-discipline Corporate Banking team that tailors NIBC's services to the individual client.

Our Consumer Banking activities include residential mortgages and online retail saving deposits 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: to be the bank of choice for decisive financial moments.

OUR 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.

This client focus and social commitment is the heart of our corporate responsibility. Everything we do is in the service of our clients. In order to serve them to the best of our abilities, we need to be financially healthy. That knowledge is why our long-standing strategic financial priorities are sustainable profitability, strong solvency and ample 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.

We aim to be transparent and constantly engage with all our different stakeholders. Engagement takes place in different forms, from ongoing dialogue to direct feedback requests. We take feedback seriously, as the support of our various stakeholders is necessary for our long-term success. Visit our website for an overview of stakeholder engagement.

The NIBC Code of Conduct sets the framework for how we carefully balance the diverse interests of our stakeholders. 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. Visit our website for more information on our Code of Conduct.

OUR CLIENTS

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. 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.

In Corporate Banking, we focus on helping our clients navigate complex issues to achieve their strategic ambitions. In Consumer Banking, we offer no-nonsense, transparent retail products such as online savings accounts, brokerage activities and mortgage lending.

OUR PEOPLE

The success of NIBC depends largely on the quality of our people. People are our most important asset, giving our clients optimal advice and support and sharing the same entrepreneurial spirit. We aim to be an attractive employer that strives for diversity and selects, retains and develops the best people.

OUR CORPORATE RESPONSIBILITY

Our client focus and fundamental social commitment to supporting entrepreneurs are at the heart of our corporate responsibility. Our sustainability efforts are also geared toward managing risks as we work with our clients to create a sustainable value chain.

We measure our performance not only by financial achievements, but also by our economic, social and environmental contribution. We have defined three areas of attention 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; and
3. People: to respect human rights as a responsibility towards our employees and people in the world around us.

This 2012 Annual Report meets the GRI level B+ (self-declared) criteria. This year we also received external assurance on our key corporate responsibility figures.

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 or click on the links throughout this report.

Letter from the CEO

Looking back on 2012, I am proud of how NIBC performed and what we achieved despite the persistent challenges of eurozone crisis and global economic weakness, not to mention factors such as the Dutch political and budget uncertainty. Some calm returned to markets after the summer, but this is still a nervous market and business environment.

NIBC realised a net profit of EUR 73 million (2011: EUR 68 million) and *NIBC Holding N.V.* (**NIBC Holding**) a net profit of EUR 102 million (2011: EUR 86 million) in 2012. Our Corporate Banking business continued to close good transactions. Consumer Banking further increased retail savings, including in Belgium, where it launched NIBC Direct in December 2011 as a third market alongside the Netherlands and Germany.

NIBC has always had a fundamental social purpose. We were established to finance entrepreneurs who helped rebuild the Netherlands after World War Two. To this day, our client focus and social commitment are the heart of our corporate responsibility.

When your clients drive everything you do, their satisfaction is paramount. So I am deeply gratified by the positive client feedback we received last year, both informally and through the *Net Promoter Score* (**NPS**) survey.

To serve clients the best you can, you need to be financially healthy. This requires sustainable profitability, strong solvency and ample liquidity – strategic priorities on which NIBC again made good progress last year.

We strengthened and diversified our funding position further in 2012. We issued two unsecured bonds – clear testament to market faith in NIBC – and a residential mortgage-backed securitisation. We also increased our retail deposits gathered through NIBC Direct. Our already strong solvency further improved, with capital ratios more than fulfilling Basel III requirements. We opted to pre-pay part of our remaining government-guaranteed bonds.

We used our strong capital and liquidity position to continue strengthening our franchise, serving our clients in support of their business ambitions. Our two-pillar structure of Corporate Banking and Consumer Banking enhanced our focus on the specific needs of our client groups.

As well as financial health, you need committed employees if you are to satisfy your clients. I am delighted that for the third year running, our annual employee survey demonstrated very high engagement among NIBC staff. Overall engagement was 85%, putting NIBC ahead of other global financial services organisations and on a par with other high-performing organisations around the world.

As a bank, we recognise our responsibility to all our stakeholders, including clients, employees, investors and the community. Corporate responsibility is increasingly woven into the fabric of everything we do. It matters most in our core business, where we focus on serving our clients while consistently applying regulatory, ethical, environmental and social standards to clients and transactions. As part of our corporate citizenship initiatives last year, NIBC bankers visited local primary schools to teach children about money management, while employees from our Technology & Operations department did voluntary work with children, elderly and handicapped people in and around The Hague. On the environmental front, we continued to be a carbon-neutral organisation.

In 2013, we will continue to do all in our power to serve our clients, sharpening our sector focus and expertise so we can offer them even better tailor-made products and services. At the same time, we

Jeroen Drost

Kees van Dijkhuizen

Rob ten Heggeler

Petra van Hoeken

will control costs, ensure strong capital and liquidity, meet ever-increasing regulatory requirements and reduce our non-core activities, just as we did in 2012.

External factors such as the eurozone situation, low economic growth, budget cuts in the Netherlands and weak consumer and business confidence have not disappeared. Yet there are some positive macroeconomic signs as we enter this year.

I am confident that NIBC's client-focused model, financial health and engaged staff stand us in excellent stead for 2013 and the years beyond.

On behalf of the Managing Board,

The Hague, 5 March 2013

Jeroen Drost
Chief Executive Officer,
Chairman of the Managing Board

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.

This client focus and social commitment is the heart of our corporate responsibility. Everything we do is in the service of our clients. In order to serve them to the best of our abilities, we need to be financially healthy. That knowledge is why our long-standing strategic financial priorities are sustainable profitability, strong solvency and ample liquidity.

To fulfil these priorities, we need to work within the parameters set by financial stakeholders such as the *Dutch Central Bank* (**DNB**), our shareholders and the rating agencies. At a Strategy Day attended by the Managing Board and Supervisory Board in 2012, we mapped out the diverse requirements of these stakeholders. Reconciling these demands and interests is integral to how we operate.

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.

In Corporate Banking, we focus on helping our clients navigate complex issues to achieve their strategic ambitions. Our relatively modest size enables sector and product specialists to work 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 expand our 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.

SUSTAINABLE PROFITABILITY

Our aim is to be profitable in a sustainable manner, which is a multi-year process. Sustainable profitability is crucial to all our stakeholders. In order to serve our clients and create shareholder and stakeholder value, we aim to deliver the optimal balance between risk and return and we focus relentlessly on controlling costs. NIBC's risk management approach ensures responsible banking, in line with regulatory requirements and ethical, environmental, social and other sustainability standards.

Our performance is measured not only by financial achievements, but also by our economic, 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; and
3. People: 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.

FUNDING AND SOLVENCY

In order to serve our clients well, we need a solid funding position. 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 obtained forms of funding such as online retail savings products via NIBC Direct, covered bonds, securitisations and senior unsecured debt. Achieving and maintaining a rating appropriate to our position in the banking world is part of our long-term sustainable funding policy.

Review of 2012

In terms of general economic, financial and business conditions, 2012 began in the same challenging way that 2011 ended. The first half of the year was difficult as the eurozone crisis flared. But financial markets stabilised after European Central Bank action in the summer, and we saw some fragile calm return.

Against this volatile backdrop, NIBC performed strongly. NIBC ended 2012 with a net profit of EUR 73 million compared to EUR 68 million the previous year. NIBC Holding posted net profit of EUR 102 million versus 2011's EUR 86 million.

Our high-quality portfolio proved robust – a notable achievement given the difficulties many cyclical sectors are experiencing in this economic climate. Our consumer banking activities enjoyed another excellent year.

Income statement

IN EUR MILLIONS	2012	2011
Net interest income	127	172
Net fee and commission income	18	36
Dividend income	8	5
Net trading income	94	18
Gains less losses from financial assets	27	50
Share in result of associates	(1)	1
Other operating income		
OPERATING INCOME	**272**	**282**
Personnel expenses	(89)	(99)
Other operating expenses	(52)	(65)
Depreciation and amortisation	(6)	(6)
OPERATING EXPENSES	**(146)**	**(170)**
Impairments of financial assets	(45)	(44)
TOTAL EXPENSES	**(192)**	**(213)**
PROFIT BEFORE TAX	**80**	**69**
Tax	(7)	(1)
PROFIT AFTER TAX	**73**	**68**
Result attributable to non-controlling interests		
NET PROFIT ATTRIBUTABLE TO PARENT SHAREHOLDER	**73**	**68**

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.

CLIENT FOCUS

Last year saw us further balance the businesses that form our two-pillar organisation: Corporate Banking and Consumer Banking. Both sides performed robustly, although uncertainty over the economic outlook took an undeniable toll. Business confidence declined – depressing demand for new corporate credit facilities – as did consumer confidence.

Consumer banking activities matured and grew further in 2012, with NIBC Direct savings increasing 26% to EUR 7.7 billion by end 2012. NIBC Direct Belgium enjoyed a highly successful first year after its launch in December 2011. Our retail activities in the Netherlands and Germany also developed well, with savings volumes in those countries continuing to grow.

On the corporate side, we supported clients with advisory, financing and investment transactions across core regions and sectors. We were able to close innovative deals across all our sectors and disciplines.

We continued to reap the benefits of the adjusted organisational set-up we implemented at the beginning of 2012. All our Corporate Banking activities are now integrated into client-focused groups of sector specialists. This sector-based approach promotes better dialogue and sharing of industry expertise across the bank, which clearly benefits our corporate clients.

Feedback from our clients, both directly and in NPS surveys, was positive, recognising our role in supporting them in these difficult economic times – both in the Netherlands and abroad. Our offices in the United Kingdom, Belgium, Germany and Singapore again delivered vital contributions to our overall performance in 2012.

Our Corporate Loan portfolio (both drawn and undrawn) decreased by EUR 660 million to EUR 8.8 billion at end 2012. Although origination of new loans was at a healthy level, it was more than offset by pre-payments and repayments as our clients deleveraged their balance sheets in response to market conditions. NIBC's Residential Mortgage portfolio (both own book and securitised) decreased from EUR 8.7 billion to EUR 8.2 billion, reflecting our decision to better balance our Corporate Loan and Residential Mortgages portfolios.

The slight decrease in these portfolios was fully offset by an increase in the average portfolio spread. It therefore had little impact on net interest income. Net interest income declined, mainly driven by the funding costs of our high level of liquidity in 2012, which is being built up to repay the remaining balance of state-guaranteed funding in the coming two years. In the second half of 2012, we succeeded in lowering these costs by repurchasing EUR 0.5 billion of our state-guaranteed funding. In addition, funding costs are temporarily higher as the interest rates paid on our savings follow the significantly lower Euribor (Euro Interbank Offered Rate) market rates in 2012 with a time lag. Our net interest income increased in the second half of the year compared to the first half and we expect this to continue in 2013.

Between 2011 and 2012, our fee income fell as corporate clients postponed strategic transactions. The second half of 2012 saw an improvement compared to the first half.

Our trading line increased significantly. This was primarily due to our residential mortgage book, for which we use fair value accounting. Unrealised losses from the past now return as unrealised profit gains, as a result of declining spreads in the *Residential Mortgage-backed Securities* (**RMBS**) market.

Our insight into market needs and demands was enhanced again in 2012 by advice from our Senior Board Advisors and Advisory Board. These boards' members – Dirk Boogmans, Arnoud Boot, Marcel Corstjens, Joost van der Does de Willebois, Menno de Jager, Ad Scheepbouwer, Koos Tesselaar, Pieter Verboom, Hein Verloop and Philippe de Vicq de Cumptich – are all senior professionals with strong track records, reputations and relevant networks. The Advisory Board meets regularly to discuss strategy, trends and/or special issues for the benefit of NIBC's clients. It met four times in 2012 and its members had much individual ad hoc contact with NIBC bankers during the year. Please see our website for more information.

For more on how client focus fits into our strategy, see the Strategy section.

SUSTAINABLE PROFITABILITY

Cost control

We further reduced our operating expenses to EUR 146 million in 2012 from EUR 170 million in 2011 as we maintained strict control. By lowering costs by 14%, we reduced our cost-to-income ratio from 60% at end-2011 to 54% at end 2012.

Personnel expenses decreased by 10% to EUR 89 million. The number of *full-time equivalents* (**FTEs**) fell from 664 to 627 in 2012. Other operating expenses declined by 20%.

This increased cost efficiency across the board demonstrates our ongoing commitment to reducing our cost base.

Engaged employees

Our third annual Employee Engagement Survey drew an extremely high 86% participation rate that matched that of 2011. The overall engagement score at NIBC remains high at 85% and was comparable to that of 2011 (86%).

We again outperformed the Financial Services Benchmark, with a level of engagement equivalent to other high-performance organisations. Outcomes improved particularly in the following areas: transparency and trust – effective functioning and communication by line managers; ethical standards – awareness of doing business in a socially responsible way and in line with NIBC's basic principles; and diversity – recognising and respecting differences such as gender, age and nationality.

Employees were also positive when asked whether sufficient action was taken in response to the findings of previous surveys.

Sustainability

Our total client focus and fundamental social commitment to supporting entrepreneurs are at the heart of our corporate responsibility. Our sustainability efforts are also geared toward managing risks as we work with our clients to create a sustainable value chain.

We continuously review our sustainability policies to ensure they reflect the latest changes and insights regarding corporate responsibility. In 2012, we updated the human rights section of our sustainability policies, triggered by changes in international standards, such as the UN Guiding Principles on Business and Human Rights, and stakeholder feedback. We also started embedding a risk-based sustainability framework, allowing our businesses to sharpen their focus on those sustainability risks that are most relevant and potentially have the highest impact, thus making our sustainability efforts more efficient.

NIBC continues to be a carbon-neutral organisation and is committed to reducing its carbon footprint. In 2012, we continued implementing our energy-saving programme. We completed the construction of a hot/cold storage facility at our premises in The Hague, which contributes to significant energy savings.

Taking our social responsibility, NIBC supports several local projects to encourage financial literacy among young people. We continued initiatives such as our debt prevention programme in The Hague last year, and dozens of NIBC employees facilitated guest lessons at local schools to encourage pupils to manage their finances responsibly.

FUNDING AND SOLVENCY

We strengthened and diversified our funding position further in 2012 and maintained strong liquidity and solvency. This was reflected in our decision to channel income from our activities into maintaining a robust cash position and repaying part of our government-guaranteed funding.

We issued a milestone EUR 300 million senior unsecured bond in May – our first unsecured transaction in five years and a clear sign of market faith in NIBC. We followed that in December with the issue of a Norwegian krone-denominated senior unsecured bond of NOK 500 million.

In the third quarter, we successfully issued a EUR 526.5 million residential mortgage-backed securitisation.

We repaid EUR 1.4 billion of government-guaranteed bonds and we bought back EUR 500 million of outstanding Government-backed debt securities in two tranches, in July and October 2012. We also extended a EUR 590 million secured funding transaction at an attractive rate. As part of this transaction, NIBC issued two privately-placed unsecured floating rate notes with notional values of EUR 200 million and EUR 300 million, both with a term of three years.

Funding also increased through our successful Consumer Banking operations. Retail savings in the Netherlands, Germany and Belgium via NIBC Direct increased to EUR 7.7 billion by year end, continuing NIBC Direct's powerful growth since launching four years ago.

Our strong liquidity position is illustrated by our Basel III Liquidity Coverage Ratio of 236% and our Net Stable Funding Ratio of 114%.

Maintaining a strong solvency position has also been a strategic priority in recent years. NIBC's core Tier-1 ratio was 15.3% (NIBC Holding: 14.1%) and our Tier-1 ratio was 18.1% (NIBC Holding: 16.9%) at end December 2012. This is clearly above the new Basel III capital requirements and the core Tier-1 ratio of 13.8% and Tier-1 ratio of 16.2% in 2011 (NIBC Holding core Tier-1 ratio: 12.8% and Tier-1 ratio: 15.2% in 2011). Our BIS ratio was 19.1% in 2012 compared to 17.5% in 2011.

Important external recognition came in November when rating agency Standard & Poor's revised its assessment of NIBC's capital position to 'strong' from 'adequate'. NIBC was the only Dutch bank to retain its current rating and outlook.

TARGETS AND PERFORMANCE IN 2012

The following table shows the targets the Managing Board set for 2012, and our performance against those targets.

Targets	Performance
Client focus Targets	
Strengthen proposition among client target groups: use NPS and NIBC Direct surveys to assess client perceptions and take appropriate action.	Corporate campaign very well received. Brand awareness increased from 60% to 67% in 2012 and brand preference rose from 49% to 59%. An increased number of clients were asked for feedback. Good NPS scores (12%) at Corporate Banking. NPS at Consumer Banking above peer bank average. Feedback used to further improve client processes.
Further balance Corporate Banking and Consumer Banking activities.	Diversification of Corporate Loan portfolio increased by rebalancing exposures to the various sectors. Improved alignment of the size of the Residential Mortgage portfolio to that of the Corporate Loan portfolio.
Sustainability in client business: continue screening 100% of clients for environmental and social risks while further developing and embedding a risk-based sustainability framework.	Environmental and social risk assessments fully embedded in our client transaction process. Risk-based approach to sustainability assessments developed in cooperation with stakeholders. This approach will be implemented in Q1 2013. Policies updated to ensure they meet the latest international standards on human rights and labour standards.
Sustainable profitability	
Bring cost-to-income ratio below 50%.	Strict cost control maintained to bring cost-to-income ratio down to 54% from 2011's 60% - the right trend but not yet on target.
Maintain tight credit risk control and keep impairment level of loans and debt investments below 40 basis points.	Impairment level of loans and debt investments was 27 basis points, so below 40 basis points throughout 2012.
Exceed global financial sector benchmark for employee engagement.	Employee engagement again exceeded this benchmark, at 85% in 2012 - in line with high-performing organisations.
Diversity: increase number of women in senior management positions, with goal to increase this to 30% in 2015.	Figures improved compared to 2011. In 2012, 16% of our Managing Board members and Managing Directors were women (2011: 14%). At Director level 7% were women (2011: 5%).
Aim to realise all the above targets with close attention to the needs of all stakeholders.	Dialogue with stakeholders further intensified. Feedback from clients, employees, shareholders, rating agencies and NGOs was used to realise our targets while maintaining their long-term support.
Act as responsible social citizen and encourage employees to undertake or participate in our social citizenship activities.	We expanded our project in The Hague, where NIBC volunteers teach high school children about avoiding debt, to five schools. Employees from the Technology & Operations department did voluntary work with children, elderly and handicapped people. Employees volunteered at a children's organisation in Frankfurt and supported starting entrepreneurs in The Hague. NIBC joined 'Bank voor de Klas', a national initiative to teach primary school children about financial matters.
Further reduce NIBC's energy use (aiming for 25% saving on our energy use as of 2014 compared to 2009) and use green power from the Netherlands for our Dutch office.	Implementation of our energy savings programme continued. We completed construction of a hot/cold storage facility at our offices in The Hague, which reduced gas use by around 22% in 2012. We switched to electricity that is 100% derived from Dutch wind energy for our office in the Netherlands.
Funding and solvency	
Keep NIBC Holding core Tier-1 ratio above 10%.	Strong core Tier-1 ratio of 14.1% at end 2012 at Holding level.
Keep leverage ratio (debt/equity) below 15%.	Leverage ratio ended 2012 at 13.2% at Holding level.
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%.	Retail savings increased strongly and year ended with Basel III Liquidity Coverage ratio of 236% and Net Stable Funding Ratio of 114%.
Maintain strong liquidity position.	NIBC's liquidity profile remains strong. Liquidity position improved in 2012 by further reducing our Legacy Debt Investment portfolios, increasing retail savings from EUR 6.1 billion to EUR 7.7 billion and attracting EUR 0.9 billion in funding through two senior unsecured transactions and a securitisation transaction.

Our Clients

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. For more on our strategic commitment to client focus, see the Strategy section.

As our retail activities have grown, we have progressed from our previous 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.

CORPORATE BANKING CLIENTS

Our Corporate Banking activities cover advice, financing (including derivatives and structuring) and co-investments. We have expert sector knowledge in Food, Agri & Retail; Commercial Real Estate; 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 clients' evolving needs.

The uncertain economic climate and volatile market conditions made clients more hesitant about doing deals in 2012, which resulted in transactions taking longer to complete. Our clients turned to NIBC more frequently as a sparring partner and required us to be even more innovative in our structuring solutions.

Of our sectors, Commercial Real Estate and Shipping & Intermodal were the ones where the economic circumstances had the most impact. Non-food retail also felt some pressure from the crisis. Food, Agri & Retail did well, as did Oil & Gas Services. Other sectors were stable during the year.

The volume of mergers and acquisitions declined across the whole market, sapping the demand for acquisition finance. The economic crisis has also spurred many clients to optimise working capital further, reducing their need for financing.

Nevertheless, as in previous years, 2012 saw us close interesting deals for our Corporate Banking clients across all our sectors and disciplines. NIBC's sector knowledge and liquidity position meant we could assist our clients with financing, expert advisory, balance sheet and non-balance sheet services.

The market challenges also created new opportunities. For example, growing numbers of institutional investors wish to invest directly in infrastructure projects and we are increasingly playing an intermediary structuring role. As an example, for the new military museum in Soesterberg, a major PPI project, we advised construction company Heijmans and participated in the financing for the building phase.

We expect more such private placement transactions in coming years as Basel III capital requirements affect banks' lending powers and institutional investors seek yields higher than those on government bonds. We are well positioned to play advisory and structuring roles, and have invested in staff to boost our capabilities here. Last year, we held a seminar for institutional investors and clients to discuss this increasingly important area.

Our other sector-focused client events included a retail industry seminar, at which mainly CEOs, CFOs and investors from the food and non-food retail sector in the Benelux and Germany attended a presentation given by Rajiv Lal, professor of retailing at Harvard Business School. We also held an automotive sector gathering and an event for Dutch and German publishers around the Frankfurter Buchmesse (Frankfurt Book Fair).

For our NPS measurement, introduced in 2011, we sent out surveys to around 350 clients and received feedback from some 45%. The outcomes were very positive. According to a study by Boer & Croon and the University of Groningen, we had an NPS score of 12%. We built on the outcomes of the 2011 NPS survey, which showed our speed and sector knowledge were particularly appreciated by respondents. In 2012, we made improvements to accelerate our client transaction process further. In keeping with our shift from a product-centred to a client-centred organisation, we increased the number of client calls and contact moments in 2012. We also introduced a more client-focused client relationship management system.

We further developed the 'ABC' sales programme we originally implemented in 2011. We added a new training module, focusing on deal management – functioning of deal teams, interaction, speed and efficiency. All Corporate Banking employees will receive this training, as will support departments involved in transactions.

We closed 2012 with a well-filled pipeline of corporate transactions. However, the current difficult markets mean it takes longer to close deals, and we are increasingly seeing clients being cautious with transactions such as refinancings or acquisitions.

Sustainable corporate client relationships

Our Risk Management framework guides our efforts to build sustainable relationships with our corporate clients and ensures that they meet NIBC's regulatory, ethical and sustainability standards.

Before we enter into a client relationship, we make sure we thoroughly understand the client and its business activities. Part of this customer due diligence is using a risk-based approach to understand how the company and its processes are organised. We assess the organisational set-up of the company and any other parties involved that may affect our direct client relationship, such as a charterer of our client's vessel.

Also part of the framework are our sustainability policies. These provide guidance on managing environmental and social risks in the business sectors in which we operate. In 2012, we started embedding a risk-based sustainability framework. This means we identify the relevant sustainability risks for each client or transaction before assessing how sustainability risks are managed and mitigated, rather than subjecting all clients to the same sustainability screening. This approach makes our sustainability efforts more efficient and enables more in-depth analyses of our clients' sustainability performance.

We added a supplement to our sustainability policy containing updated human rights and labour standards. This addition was prompted by changes in international standards such as the UN Guiding Principles on Business and Human Rights ('Ruggie Principles') and feedback from stakeholders, including the Dutch chapter of Amnesty International.

The majority of our client activities take place in countries where human rights are widely protected and respected. However, through their supply chain or subsidiaries, they may have human rights impacts. NIBC expects clients to understand and manage the potential human rights effects of their activities. This is reflected in our policies.

We initiated stakeholder dialogue with clients in the real estate sector, hosting a seminar on environmentally-sound construction in cooperation with the Dutch Green Building Council. As part of this initiative, NIBC signed the Dutch Green Building Council financial sector covenant committing several financial institutions to exploring how financiers can contribute to making the real estate sector 'greener'.

As a signatory to the *Equator Principles* (**EP**), NIBC applies EP for all project financing transactions. In 2012, 16 transactions were closed in line with EP. We also closely monitored the update of the EP and its impact on us. This new version is expected to come into effect in 2013. For the full EP report, please see our website.

All new Corporate Banking clients and transactions were assessed in line with the standards set out in our client acceptance policy, which includes our sustainability policy and sector policies. Where relevant, NIBC discusses environmental and social issues with new clients. In 2012, there were 14 transactions that required an intensified risk assessment. Risk was related to issues such as labour conditions, gambling and the environmental impact of offshore oil and gas activities. In three cases, NIBC decided to refrain from a transaction. The remaining transactions went ahead, subject to continued monitoring of the client's sustainability performance.

As a complement to our bankers' strong sector expertise, employees are trained to understand regulatory requirements, compliance and sustainability issues and NIBC's approach to these issues. In 2012, 35 new employees in the Netherlands, Belgium and Germany followed our Sustainability Training programme, which familiarised them with our sustainability policy framework and approach. Forty commercial employees received sector-specific sustainability training, focusing on sustainability trends, human rights, climate change, biodiversity and additional sector-specific issues. In addition, employees were trained in customer due diligence on a regular basis and in different settings. Many on-the-job training, courses were given, and 115 employees participated in group courses. Following developments in the commercial real estate sector, training was given to understand integrity-related issues within the sector, specifically aimed at all staff active in Commercial Real Estate.

CONSUMER BANKING CLIENTS

Our Consumer Banking activities continued to grow strongly in 2012. Our NIBC Direct label attracted more clients in the Netherlands and Germany, and NIBC Direct rapidly gained a serious footprint in Belgium after launching there in December 2011.

The year was not without its challenges, foremost among them the substantial fall in Euribor (Euro Interbank Offered Rate). The market grew more competitive as increasing numbers of banks entered the retail market in search of consumer savings to boost funding, and online savings banks expanded into other European countries.

NIBC Direct

Under the brand name NIBC Direct, we provide online retail savings to clients in the Netherlands, Germany and Belgium. As demand for transparency and simplicity increases, our consumer clients are drawn by our 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, and whether they are new or existing clients.

As a 'do-it-yourself' (execution-only) concept, NIBC Direct perfectly fits NIBC's profile as both an entrepreneurial bank and a bank for entrepreneurial consumers.

NIBC Direct, launched in 2008, experienced strong growth again in 2012 as increasing numbers of consumers placed their trust in us. Since its launch, NIBC Direct has attracted almost 350,000 clients. The total value of Dutch, German and Belgian savings with NIBC Direct rose from EUR 6.1 billion at end 2011 to EUR 7.7 billion at end 2012. Some 45% of the volume is placed in term deposits with maturities of up to 10 years.

NIBC Direct expanded its operations into Belgium at the end of 2011. The addition of a third country opened up a large new market with a great tradition in saving, bringing attractive new opportunities, as well as further diversifying NIBC's funding mix. The concept has proved a great success in Belgium, and Belgian savings with NIBC Direct totalled more than EUR 600 million at end 2012.

NIBC Direct has offered brokerage activities in Germany since summer 2011, in order to further broaden client relationships and to reposition us from a pure savings focus towards an online-focused retail bank. This extra service allows NIBC Direct clients to keep their savings and financial investments in one place. Via the NIBC Direct platform, clients can invest, on an execution-only basis, in various shares, bonds, investment funds and index trackers.

We regularly seek feedback from our clients, for example in a survey conducted each year by an independent research bureau. Clients receive a detailed questionnaire covering a wide range of topics, including our call centres. Last year's survey showed customer satisfaction with NIBC Direct was above average, and that overall satisfaction was high despite dissatisfaction with the decline in interest rates. To stay connected, we also invited a number of clients to discuss several business and/or client-related topics, such as our sustainability policy.

We were proud to win several awards for NIBC Direct last year. In Germany, NIBC Direct won seven awards in total – two for brokerage and five for savings. Our savings accounts were pronounced the best by the most important consumer group in Germany – Stiftung Warentest/Finanztest – and the financial magazine €uro. Leading German TV news channel n-tv, €uro magazine and top best-buy table FMH-Finanzberatung recognised the NIBC Direct custody account.

NIBC Direct Netherlands again scored highly for its customer-centric savings policy in a survey by Dutch regulator *Authority for the Financial Markets* (**AFM**). NIBC Direct Belgium won the award for best savings product three times in 2012.

Residential mortgages

In 2012, unemployment increased, house prices fell and the Dutch government decided to reform the mortgage market. The combination of these three factors increased the perceived risk attached to Dutch mortgages. Competition in the Dutch mortgage market was therefore limited last year and origination occurred at attractive margins.

House prices have declined for four years and are currently around 16% below peak levels of 2008. This has resulted in higher losses in our mortgage portfolio. Although the losses relating to residential mortgage loans have increased, they are still low as a percentage of the overall portfolio. The trend in arrears and default levels continues to rise, but these are still low in comparison with other housing markets.

In order to control the credit risk in the Dutch Residential Mortgage portfolio, NIBC has established standardised procedures to manage all loan amounts in arrears and everything is managed in-house to ensure a high level of service for our clients.

NIBC's Residential Mortgages portfolio, which is of very high quality, declined from EUR 8.7 billion to EUR 8.2 billion in 2012. We are confident that the mortgage market will recover in 2013.

Our People

The success of NIBC depends largely on the quality of our people. Our focus on people is part of our strategic commitment to sustainable profitability. We respect human rights as a responsibility towards our employees and those in the world around us. People are our most important asset, giving our clients optimal advice and support and sharing the same entrepreneurial spirit. We aim to be an attractive employer that strives for diversity and selects, retains and develops the best people. For more details, see the Strategy section and our Targets and Performance in 2012.

HR FOCUS AREAS IN 2012

Our human resources strategy enables the bank's sustainable growth by supporting our people to deliver their best possible performance. We use feedback from staff to identify and prioritise our activities in areas such as employee engagement, promoting diversity, developing talent, health and safety and sustainable remuneration.

A great deal of attention was paid to remuneration in 2012 as we implemented various guidelines and requirements. The DNB confirmed our successful implementation of these measures. We also focused on ways to enhance efficiency and contributed significantly to reducing bureaucracy by simplifying systems and processes.

EMPLOYEE ENGAGEMENT

Overall engagement at NIBC remains high at 85% (2011: 86%). This is ahead of other financial institutions and in line with high-performing organisations. In addition, 86% of our employees participated in the 2012 survey – the same response rate as in 2011.

Maintaining such high levels of engagement and participation in these challenging economic times shows how much employees appreciate the value we attach to their opinions. From the Managing Board down, we take the outcome of the annual survey seriously and draft action plans to implement suggestions and address employee feedback.

Action plans relating to the 2012 survey are in the process of being drawn up, and will be implemented in early 2013.

PROMOTING DIVERSITY

NIBC strives to be both an attractive employer and a banking partner of choice for our clients. That is why we put great effort into creating a stimulating work environment for people from all backgrounds, whose diversity reflects that of our international clients. We aim to have 30% of senior management positions filled by women by 2015.

In May 2012, we signed the 'Talent to the Top' Charter, a code with clear agreements regarding the realisation of gender diversity at the top and sub-top management levels. By signing the Charter, NIBC has gained access to tools, knowledge and resources to support us in our strategy of embedding gender diversity throughout our organisation.

In 2012, 16% of our Managing Board members and our Managing Directors were women (2011: 14%). At Director level 7% were women (2011: 5%). These percentages improved compared to 2011. The target of balanced gender distribution of at least 30% for the Supervisory Board and Managing Board is now embedded in the Dutch Act on Management and Supervision. At end 2012, 20% of our Managing Board and 10% of our Supervisory Board were women.

We adjusted our recruitment and selection criteria to further ensure there is no bias against candidates based on gender, age or nationality. This applies to both external hires and internal promotions. As a result, we saw more diversity among candidates in the second half of the year.

Work-life balance was another area we addressed to make NIBC an even more attractive employer. Following a successful pilot project in 2011, we rolled out a new flexible way of working across the bank in 2012. This allows employees to choose when and where they want to work. The outcomes of the engagement survey show staff are positive about the new way of working, which allows them to better combine their professional and personal lives.

TALENT DEVELOPMENT

Developing our people was a key focus area during 2012, and we offered a number of training courses to enhance business skills and personal development.

Based on the outcome of our 2011 Employee Engagement Survey, we organised a seven-day advanced corporate credit training course from Fitch. This was attended by 15 bankers from our offices in The Hague, London and Frankfurt.

We developed a programme, initially for Corporate Banking, that enhances the dynamics between deal team members and helps team captains to be more accountable and decisive. The programme was designed by HR in close cooperation with the business. Around 35 bankers attended the pilot course in two sessions in 2012. The workshops will be rolled out to more participants in 2013. In addition to Corporate Banking, the programme will also be rolled out to other parts of the organisation, enhancing and integrating cooperation between the client-facing and support staff in deal teams.

Customised training for staff in the business units continued, with 63% of employees using our web-based training platform My Learning Plaza during the year.

The Analyst Programme was attended by 16 young bankers in 2012 (2011:18) to develop their banking and general skills. The content is adjusted every year to reflect our business and operating environment. We will extensively evaluate the current programme before the 2013 programme begins in June.

HEALTH AND SAFETY

A healthy workforce makes good long-term business sense. As part of our health and safety policy, we offer preventative measures such as flu inoculations for staff, which 66 people took up (2011: 97) and voluntary health checks that 244 employees made use of in 2012 (2010: 239). Absenteeism remained low at an average of 2.1% (2011: 2.7%).

Getting the work-life balance right and helping employees manage stress remains an important topic for us and we continued to provide information and raise awareness about ways to deal with stress.

End of 2012, we introduced a more efficient way to report illness and recovery. Rather than duplicating and re-entering data, line managers can now enter absences and subsequent return to work straight into the system themselves.

SUSTAINABLE REMUNERATION

NIBC's Remuneration Policy for all staff is sustainable, balanced and in line with our chosen strategy and risk appetite. We use a mix of fixed salary and variable compensation for all staff.

In 2012, we put into action the processes we drew up in 2011 to ensure our sustainable Remuneration Policy meets the requirements of the Dutch and European banking authorities. It was the first year all the systems and processes were in place and the DNB confirmed NIBC meets the latest remuneration standards. In 2013, we expect changes to reflect further restraints on executive compensation in the Netherlands. For more information on remuneration, please refer to the Remuneration Report.

EMPLOYEES' COUNCIL

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

Besides its regular meetings, the EC periodically meets with the *Chief Financial Officer* (**CFO**) to stay abreast of financial developments. Twice a year, it meets members of the Supervisory Board. All meetings are held in a spirit of constructive cooperation and open dialogue.

In 2012, the EC's composition changed as three members stood down and were succeeded by three colleagues representing Consumer Banking, Treasury and Legal. With these changes, the EC continues to be well balanced and a good reflection of the NIBC organisation.

The EC advised last year on matters such as approval of the 2012 remuneration policy, the new staff manual, the company fitness scheme and holiday arrangements of Managing Directors and Directors. It also advised on the reappointment of Jeroen Drost as *Chief Executive Officer* (**CEO**).

In 2013, the EC will be following issues such as the 2013 remuneration policy, pension changes, a social protocol and staff development.

EMPLOYMENT

We ended 2012 with 627 FTEs (2011:664). Of these, 20% (126 FTEs) work at our international offices.

Women make up 27.7% of our total workforce, which is in line with 2011.

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's social citizenship projects have a local focus and an educational theme related to children and youth. Most of the educational themes of our programmes are financial, as that is where our expertise lies. We encourage our employees to allocate time to the social projects we support. We also support charitable projects our employees initiate or support, by matching either funds they raise, or time they spend when engaging in these activities.

In 2012, we again expanded the debt prevention project we launched in cooperation with the city of The Hague in 2009. This project, which has been joined by other local financial institutions over the years, aims to educate young people in managing their finances responsibly. In 2012, 45 volunteers from NIBC and its partners FMO, Nederlandse Waterschapsbank, ASN and BNG facilitated guest lessons for approximately 350 students at five secondary schools in The Hague, up from 240 students at three schools in 2011.

Supporting the Dutch Banking Association's 'Week of Money' initiative, NIBC employees taught pupils at their children's primary school or at schools near our office in The Hague to make them aware of the value and function of money. Our employees facilitated 36 lessons at local primary schools. Nine staff members of our Frankfurt office spent a full day as volunteers at the premises of SOS Children's Village outside Frankfurt, helping this child support organisation by painting playground equipment, doing gardening work and other chores the organisation lacked the time or resources to do.

Environmental responsibility

NIBC is a carbon-neutral organisation and committed to reducing its carbon footprint. As part of our energy savings plan launched a few years ago, the construction of a hot/cold storage facility at our Hague premises was completed in 2012. Together with the renovation of our offices – completed in 2011 – to make them more energy-efficient, and other energy-saving measures, we aim to achieve a 25% saving on our energy use by end-2013 compared to 2009.

All electricity used at our offices in The Hague, Frankfurt, Brussels and London is green energy. As per 1 January 2012, we switched to electricity that derived entirely from Dutch wind energy for our office in the Netherlands.

To reduce the carbon footprint of our lease car fleet, which comprises 96 vehicles, NIBC encourages employees to choose low-emission cars. Following changes to Dutch fiscal regulations aimed at promoting the use of cars with low CO_2 emissions, we limited the selection of lease cars to the three 'greenest' categories of car under this regulation, starting on 1 July 2012.

We ran a pilot project to promote the use of electric cars, allowing employees to test-drive different types of electric cars. Seven employees who entered a new lease contract in 2012 chose an electric car lease contract. We aim to continue promoting the use of electric and other environmentally-sound means of transport in 2013 and beyond.

Risk Overview

The economic headwinds that persisted into 2012 continued to affect the financial sector. Markets remained volatile, businesses and consumer confidence stayed weak and regulatory pressure increased.

We enhanced our forward-looking, proactive attitude and structured disciplined approach to managing risk. We reviewed our risk and control framework to ensure that in the changing environment, risk appetite, culture and behaviour as well as accountability for risk remain clear to everyone in the bank. We explicitly identified and communicated the boundaries within which we can continue to operate successfully, sustain profitability and improve our rating and client satisfaction.

We ran several scenarios in order to promptly identify their potential impact on NIBC and take corrective measures in advance where feasible and desirable. These scenarios included a eurozone break-up, rating downgrades of financial institutions, and further pressure on the housing and real estate markets in the Netherlands. The annual DNB stress test was also performed again in June. We continued de-risking our balance sheet by successfully restructuring certain distressed assets, selling more volatile debt and securitisation investments and reducing concentration in our Corporate Loan book. In November, NIBC was the only Dutch bank to retain its current Standard & Poor's rating and outlook – showing the impact of assessing risks thoroughly and then taking resolute action.

In light of the changing stakeholder and economic environment, Risk Management further enhanced collaboration with the Consumer and Corporate Banking strategic business units, teams in the Corporate Center and our international offices to ensure understanding, proactive management and control of their key risks. Special attention was paid to further developing a stronger risk culture and behaviour to underpin NIBC's strategic goals. We developed additional management information and tools to improve insight for our decision-makers into key credit, market and operational risks. Here are some examples of our actions and their outcomes:

- Excellent cooperation between Commercial Real Estate and Risk Management helped us restore some distressed real estate assets to a healthier state;
- Liquidity risk was very well controlled by Treasury and the ALM team;
- Business continuity and information security policies were strengthened to reduce the risk of incidents;
- Our *New Product Approval Process* (**NPAP**) was re-tailored to better meet regulatory, customer and efficiency needs;
- Together with the Finance department, we developed a robust recovery and resolution plan that meets new DNB requirements; and
- Risk feedback was incorporated into the annual individual performance review process.

Last year, we again increased our capital base while strengthening and diversifying our funding position. We were again able to obtain unsecured wholesale funding in addition to the gradually growing depositor. Liquidity remained key and was strong throughout the year. Interest rate risk management was further enhanced in view of the low interest rate environment and our changed funding model. Implementation of Basel III and similar regulations of the DNB are encouraging financial institutions to attract more capital and further strengthen liquidity.

As our Consumer Banking activities grow, we enjoy the trust of an increasing number of clients. We are keenly aware of our duty of care, these clients' needs for smooth, efficient, effective and transparent handling, and the importance of managing reputational risks.

We are building NIBC's strength and value while supporting the economies and communities in which we operate. We attach great value to compliance with local and international laws and regulations – both the letter and the spirit – and to corporate responsibility. This is integral to our client-focused model: by ensuring our clients thrive, so does NIBC. We wish to work with clients who meet our ethical, environmental, social and other sustainability standards and to fulfil our duty of care to all our clients.

For 2013, our structured, disciplined and proactive approach to risk management will stand us in good stead to address an environment that remains fragile – although there are glimmers of hope on the macroeconomic front as we enter the year.

More detailed information on Risk Management is included in the risk management chapter and notes 54-57 to the consolidated financial statements in this Annual Report.

Outlook and Targets 2013

There are glimmers of hope on the macroeconomic front as we enter 2013, but the environment remains fragile. Caution and prudence remain the watchwords.

Until some economic stability returns to peripheral European countries, markets will remain nervous. An expected rise in inflation will affect the kind of business NIBC does: it could have a positive effect on real estate, for example. We expect the private placement market to increase in importance as investors seek better returns than those they currently receive on state debt.

One of the biggest challenges for 2013 remains the weak confidence among companies and consumers. Low business confidence means existing or prospective clients are delaying major investments or transactions, which are the moments at which they turn to NIBC. For a robust pick-up, market confidence needs to return.

NIBC enters this year with a strong capital and liquidity position, which we will use prudently to serve existing and new clients. Our well-filled Corporate Banking pipeline and growing Consumer Banking business give us confidence for 2013 and beyond.

TARGETS 2013

Client focus

- Continue to rebalance the Corporate Loan and Residential Mortgage portfolios;
- Optimise the composition of the Corporate Loan portfolio;
- Maintain a positive NPS for Corporate Banking and high customer satisfaction with NIBC Direct, and thus remain in the top quartiles within the financial sector; and
- Assist our corporate and investor clients with non-bank financing, such as private placements.

Sustainable profitability

- Reduce cost-to-income ratio to below 50%;
- Maintain tight credit risk control and keep impairment level of total Loan portfolio below 40 basis points;
- Increase return on equity compared to previous years;
- Continue to exceed global financial sector benchmark for employee engagement;
- Increase number of women in senior management positions, with mid-term goal to increase this to 30% in 2015;
- Keep up-to-date with sustainability and regulatory developments;
- Act as responsible social citizen and encourage at least 10% of employees to undertake or participate in social citizenship activities; and
- Reduce NIBC's energy use, reducing our energy use by 25% as of end-2013 compared to 2009.

Funding and solvency

- Keep core Tier-1 ratio at Holding level above 12% and realise an S&P *Risk-Adjusted Capital* (**RAC**) ratio above 10%;
- Maintain strong liquidity position by keeping Basel Liquidity Coverage ratio and Net Stable Funding Ratio above 100%;
- Keep leverage ratio (debt/equity) below 15; and
- Continue funding diversification by further increasing retail savings and examining opportunities for securitisation, covered bonds and/or an unsecured bond.

SWOT Analysis

The following table sets out our assessment of our strengths, weaknesses, opportunities and threats.

Strengths	Weaknesses
Clear strategic choice for 100% client-focused business	Exposure to cyclical sectors
Expert, highly engaged staff	Credit rating
High client satisfaction	
Strong capital and liquidity	

Opportunities	Threats
Global economic recovery	Weakness in geographies or sectors to which we are exposed
Increased client confidence in home markets	Low level of confidence in financial institutions
Recovery of Dutch mortgage market	Continued low interest rate environment

The Hague, 5 March 2013
Managing Board

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

Report of the Supervisory Board

External circumstances remained tough in 2012, with low economic growth, volatile markets, sectors such as real estate under pressure and the mortgage market among the factors that made conditions difficult. Against this backdrop, NIBC performed strongly as it continued to service entrepreneurial clients in the business and retail banking markets.

In recent years, the bank has gradually yet tirelessly streamlined its structure and sharpened its focus around twin pillars of Corporate Banking and Consumer Banking. The Supervisory Board was gratified by the further balancing of the Corporate Banking and Consumer Banking businesses in 2012. Retail savings operation NIBC Direct continued to grow in the Netherlands and Germany and enjoyed a highly successful debut year in Belgium. Despite a challenging year for the business world, NIBC bankers continued to employ their expertise and flexibility to produce innovative solutions for their corporate clients.

The Supervisory Board highly appreciates how the Managing Board and the entire staff of NIBC worked every day last year to take the bank further along its strategic path. Their admirable commitment and competence remain indispensable in enabling the bank to perform well in such challenging conditions.

As of 31 December 2012, the Supervisory Board of NIBC Bank was composed of ten members, who are also members of the Supervisory Board of NIBC Holding (see table). Sir Callum McCarthy resigned as member of the Supervisory Board, effective 1 September 2012. Mr. J.C. Flowers was appointed as member of the Supervisory Board by the Extraordinary General Meeting of Shareholders on 29 October 2012, following the approval of this appointment by the DNB on 2 October 2012. Mr. Rümker resigned as member of the Supervisory Board as per 31 December 2012.

Six of the ten Supervisory Board members meet the independence criteria contained in the Dutch Corporate Governance Code. For a detailed explanation of this 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

COMPOSITION OF THE SUPERVISORY BOARD

NAME	Year of birth	Nationality	Member since	End of term	Committee Memberships[1]
Mr. W.M. van den Goorbergh (Chairman)	1948	Dutch	2005	2014	ACC, RNC, RPC, RPTC
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
Mr. J.C. Flowers	1957	American	2012	2016	-
Mr. N.W. Hoek	1956	Dutch	2005	2013	ACC, RNC
Mr. A. de Jong	1954	Dutch	2005	2015	RPC
Ms. S.A. Rocker	1954	American	2009	2013	RNC
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 Transactions Committee.

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.

The Dutch Act on Management and Supervision came into force on 1 January 2013. Following the introduction of this law, we are monitoring the number of supervisory functions performed by our Supervisory Board members. When Supervisory Board members are appointed or reappointed, compliance with this new law will be checked.

COMPOSITION OF THE MANAGING BOARD

NAME	Year of birth	Nationality	Member since	End of term [1]
Mr. J.P. Drost (Chairman, CEO)	1961	Dutch	2008	2016
Mr. C. van Dijkhuizen (Vice-Chairman, CFO)	1955	Dutch	2005	2014
Mr. R.H.L. ten Heggeler (CCO)	1963	Dutch	2009	2013
Ms. P.C. van Hoeken (CRO)	1961	Dutch	2011	2015

1. 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 2012, the Managing Board of NIBC Bank was composed of four members, who are also members of the Managing Board of NIBC Holding. As per 1 June 2012, Jeroen van Hessen left the Managing Board of NIBC. The Supervisory Board accepted his resignation and thanked him for his dedication and contribution. Jeroen Drost was reappointed as CEO and Chairman of the Managing Board for a further period of four years by the Supervisory Board following the approval of the General Meeting of Shareholders on 15 May 2012.

MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board met on six occasions in 2012. There were five regular two-day meetings of the Supervisory Board. On 28 June 2012, a Strategy Day was organised at which the Supervisory Board and the Managing Board discussed the current and future strategy of NIBC. Seven members of the Supervisory Board participated in all the 2012 meetings; four members were absent from one or two meetings. Each quarter, the Supervisory Board had lunch meetings with senior management of the bank.

During the regular meetings, there was extensive discussion of NIBC's market position and customer approach. Risk/return and financial performance discussions were held in relation to the half-year results of 2012 and the 2013 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 2012, the Supervisory Board continued its programme of lifelong learning. The topics of these learning sessions included credit ratings, corporate governance and remuneration. For more details on the lifelong learning programme, please see our website. Also in 2012, the Supervisory Board evaluated itself on the basis of written questionnaires and interviews, supported by external facilitator Egon Zehnder. The Board was positive about its performance overall and feels that substantial improvements have been made based on earlier evaluations of the Supervisory Board.

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 competences 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 EC. 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 four 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 responsibility issues.

During 2012, the ACC extensively reviewed NIBC's quarterly, half-yearly and annual financial reports and related press releases and trading updates. The committee discussed the reports of the external auditor, including the Board Report and Management Letter, before these were dealt with in the Supervisory Board meeting.

The ACC also discussed Internal Audit's annual plan and its quarterly reports, and Compliance's annual plan and its quarterly reports. Both internal auditors and the external auditor reported on the quality and effectiveness of governance, internal control and risk management.

The ACC took note of and discussed NIBC's contacts with the DNB.

The ACC evaluated the external auditor and the functioning of Internal Audit and of 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 2012. The external auditor had one meeting with the ACC without the members of the Managing Board present.

The ACC met five times in 2012 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. In addition, it provides the Supervisory Board with proposals for appointments and reappointments to 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. The RNC monitors the remuneration policy, which entails discussing the total available pool 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. Furthermore, the RNC oversees the remuneration of Identified Staff and determines the remuneration of the control functions.

In 2012, the RNC discussed amendments to the Remuneration Policy, resulting in a more sustainable remuneration policy, in response to social developments and further changes in regulation. Amendments included changing the pay mix for Identified Staff and strengthening the target-setting processes. For more details, please see the Remuneration Report in this Annual Report. The RNC also discussed the Remuneration Policy of the Supervisory Board, individual compensation arrangements for the members of the Managing Board and senior management, the overall available funding for variable compensation arrangements, and the performance and targets of the Managing Board.

Furthermore, the RNC advised on the reappointment of Jeroen Drost, the resignation of Jeroen van Hessen and composition and size of the Managing Board.

The RNC held four meetings in 2012. A delegation of the RNC attended a meeting of the Committee of Control Functions.

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 2012, the RPC extensively discussed NIBC's assets, liquidity, stress tests and risk profile, including the bank's risk appetite. 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 discussed NIBC's market risk and event risk reports, economic capital reports and liquidity risk reports. Additionally, it reviewed and approved the NPAP.

The RPC met four times in 2012.

Related Party Transactions Committee

The *Related Party Transactions Committee* (**RPTC**) is now a direct subcommittee of the Supervisory Board and no longer a subcommittee of the Risk Policy Committee. It assists the Supervisory Board in assessing material agreements of any kind with a person or group of persons who hold, directly or indirectly, 10% of 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 RPTC.

In 2012, one related party transaction that required Supervisory Board approval was presented to the RPTC. A case was presented whereby NIBC waived its right to a fee arrangement with its shareholder for services that were no longer provided.

The RPTC met once in 2012.

FINANCIAL STATEMENTS AND DIVIDEND PROPOSAL

The financial statements have been drawn up by the Managing Board and audited by Pricewaterhouse-Coopers Accountants N.V., who issued an unqualified opinion dated 5 March 2013. The Supervisory Board advises and proposes that shareholders adopt the 2012 consolidated financial statements at the Annual General Meeting of Shareholders on 14 May 2013.

Following the interim dividend of EUR 19 million paid in September 2012, NIBC proposes to pay a final dividend of EUR 20 million, payable after the Annual General Meeting of Shareholders on 14 May 2013.

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 2012.

The Hague, 5 March 2013

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. J.C. Flowers
Mr. N.W. Hoek
Mr. A. de Jong
Ms. S.A. Rocker
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, as well as the compliance statements relating to the Dutch Banking Code and the Dutch Corporate Governance Code. This chapter contains some important highlights of our governance structure. To the extent applicable, NIBC adheres to international governance standards such as the *European Banking Authority* (**EBA**) Guidelines on Internal Governance.

In 2012, we made some improvements to the corporate governance of NIBC. The RPTC, previously a subcommittee of the RPC, is now a direct subcommittee of the Supervisory Board. The chairman of the RPC is now a formally independent Supervisory Board member.

MANAGING BOARD

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

Jeroen van Hessen left the Managing Board as per 1 June 2012. It was decided not to replace him but to retain a Managing Board consisting of four members. His tasks were divided among the remaining Managing Board members.

The Managing Board, which meets weekly, represents and balances the interests of all stakeholders. The interests of stakeholders are also discussed in the *Engagement and Compliance Committee* (**ECC**), which combines members of the Managing Board, the general counsel and the head of Group Compliance and Corporate Social Responsibility. 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 compliance requirements and ethical and sustainability standards.

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 Code of Conduct, which is implemented throughout the entire organisation and included in our employee contracts. Members of the Managing Board and Supervisory Board will swear the bankers' oath in March 2013. More information concerning the Managing Board, including short biographies, can be found on our website.

Since mid-2011, we have had an Ethics Advisory Bureau to advise 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 or Investment Committee.

SUPERVISORY BOARD

The Supervisory Board oversees management performance and advises the Managing Board. On 31 December 2012, the Supervisory Board consisted of ten 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 Banking Code.

We have 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 in 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 have been held regularly since 2010. The Supervisory Board evaluated its performance in 2012, with the support of external advisors, and has continued following up on the recommendations. See the Report of the Supervisory Board for more information.

NIBC is fully compliant with the Dutch Banking Code. A detailed explanation of the 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. NIBC applies most of the 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, with the exception of not more than one person, should be independent. On this point, the Dutch Corporate Governance Code deviates from the policy of the DNB that came into force in 2012. It is policy of the DNB that at least 50% of the members of the Supervisory Board should be formally independent members according to the criteria of provision III.2.1 of the Dutch Corporate Governance Code. Based on this new policy, we made an assessment of the independence of the members of our Supervisory Board. Six of the Supervisory Board members qualify as formally independent.

On our website, you can find a detailed overview of NIBC's compliance with the principles of the Code, including reasons for the above and other minor departures, as well as the full text of the Corporate Governance Code.

Remuneration Report

The Supervisory Board reviewed and amended NIBC's Remuneration Policy in 2012. The review took into account all relevant regulations and guidelines: the Dutch Corporate Governance Code, the Dutch Banking Code, the *DNB Principles on Sound Remuneration Policies* (**DNB Principles**), including additional DNB guidance on the implementation of the DNB Principles and the *Committee of European Banking Supervisors Guidelines on Remuneration Policies and Practices* (**CEBS Guidelines**). In 2012, DNB assessed the Remuneration Policy of NIBC and concluded that it was in line with the DNB Principles.

NIBC's Remuneration Policy and Managing Board remuneration for 2012 are outlined below. An overview of the remuneration of other staff and the Supervisory Board is also presented. More information about the Remuneration Policy can be found on our website.

MANAGING BOARD REMUNERATION 2012

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.

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.

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 compensation element.

Peer group composition

In order to determine appropriate market levels of remuneration for the Managing Board, a hybrid benchmark peer group has been determined by the Supervisory Board, consisting of all AEX and AMX (Euronext) listed companies. The composition of this peer group reflects the labour market in which NIBC competes for talent. As such, it is an objective measure outside 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

As of 1 January 2012, base salary for the Chairman is set at EUR 800,000 gross per annum, while the base salary for members is set at EUR 500,000 gross per annum. Base salaries are payable in 12 equal monthly instalments. The Supervisory Board will review the level of base salaries against the market each year and may decide to adjust it. For 2013, the salaries of the Managing Board will remain at 2012 levels.

Short-term incentive compensation

As of 1 January 2012, all short-term variable compensation is eliminated.

Long-term incentive compensation

As of 1 January 2012, the maximum long-term incentive is 70% of base salary for the CEO, 60% for members of the Managing Board responsible for commercial activities and 40% for the CFO and *Chief Risk Officer* (**CRO**).

If any l*ong-term incentive* (**LTI**) is granted conditionally, this will be in the form of 66.67% *Conditional Restricted Depositary Receipts* (**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 rata deferral period. The Supervisory Board has agreed a set of six long-term performance conditions. Two are financial performance conditions and have a weighting of 60% (average return on equity and average impairment level). Four are non-financial performance conditions and have a weighting of 40% (employee engagement, client satisfaction for corporate as well as consumer clients and diversity). These are aligned with the overall corporate targets. The final LTI grant depends on the degree to which the agreed performance criteria have been met.

In view of current legislation, the Supervisory Board is not able to grant any variable compensation until NIBC has repaid all outstanding state-guaranteed funding.

For the LTI that was granted conditionally to the Managing Board in 2010, the three-year cliff vesting period ended on 1 January 2013. The Supervisory Board reviewed the agreed performance conditions. The financial performance conditions (60%) were not met. The non-financial performance conditions (40%) were met in full. The Supervisory Board therefore awarded a vesting of 40% of the LTI, consequently 60% was forfeited. The vested instruments (*Conditional Common Depositary Receipts* (**CCDRs**)) have an additional retention period of two years. Furthermore, these vested instruments need to be held until a liquidity event takes place to ensure 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 chauffeur 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. In addition, the Chairman and the members of the Managing Board are entitled to dividend compensation on share awards conditionally granted before 2012. 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 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.

Jeroen van Hessen stepped down as a statutory member of the Managing Board as per 1 June 2012 and his employment contract ended as per 31 December 2012. His severance was in line with the policy of 12 months' base salary.

AMENDMENTS TO MANAGING BOARD REMUNERATION POLICY IN 2013

After the thorough review of Managing Board remuneration in 2012, the Supervisory Board decided that no further amendment for 2013 is necessary.

OTHER STAFF REMUNERATION

In line with the DNB Principles, employees whose professional activities have a material impact on NIBC's risk profile are designated '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 below. 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, at its discretion, on the overall amount of money available for total compensation, the amount of variable compensation and the specific forms in which variable compensation may be awarded. The 2012 compensation ratio (total compensation costs as percentage of operating income) was 35%.

Variable compensation

All employees are eligible for 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. The 100% cap introduced by the Dutch Banking Code will also serve as a guideline for other employees.

Pay mix

Variable compensation, if any, will be delivered in various components: (i) cash; (ii) deferred cash; (iii) vested Phantom Share Units (PSUs); (iv) unvested PSUs. 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. For Identified Staff, no threshold applies and all variable compensation, if any, is delivered in a pre-defined mix: 30% is delivered in cash, 20% in deferred cash, 30% in PSUs and 20% in unvested PSUs. With this, NIBC complies with regulations stating that (for Identified Staff) 50% of all variable compensation is in the form of equity or equity-linked instruments and 40% of both the cash and equity component are deferred.

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 event of termination of employment by NIBC without cause is subject to local legislation. For the Netherlands, the prevailing business court formula (kantonrechtersformule) and, in the case of reorganisation, the bank's Social Protocol are applicable. Special compensation plans for specific groups of employees 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 in 2011 by establishing a

Committee of Control Functions consisting of representatives of the functions mentioned and further strengthened in 2012 by amending the governance processes.

The Supervisory Board has discussed employees with the highest proposed variable compensation for 2012, Identified Staff 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 downwards 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 the concept of 'malus' is part of 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.

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 [1] 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 a bi-annual In Control Statement to the Managing Board, based on a 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 or 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, 5 March 2013

Managing Board

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

1 Wet op het financiële toezicht (Wft), 12 oktober 2006.

Risk Management

Risk Management at NIBC is fully integrated in the strategic planning and daily business activities, thus enforcing efficiency, prioritisation and effectiveness throughout the organisation. Proactive, robust and structured Risk Management is implemented in NIBC's two pillars, Corporate and Consumer Banking.

KEY DEVELOPMENTS IN 2012

- Continued de-risking of the balance sheet and further reduced concentration of portfolios;
- Reinforced emphasis on clients via an enhanced sector-based approach in the Corporate Banking pillar;
- Intensified and proactive portfolio management in line with current market conditions with strong focus on credit quality of existing and newly originated clients;
- Increased cohesiveness of the second line of defence and heightened attention to operational risk;
- Strengthened capital and liquidity position with capital ratios well above the regulatory minimum requirements: 15.3% core Tier-1 ratio, 18.1% Tier-1 ratio and 19.1% BIS ratio;
- Diversified funding with expansion of the retail savings to EUR 7.7 billion and successful placements of two senior unsecured transactions and a securitisation transaction; and
- Prioritised management of interest risk in view of the low interest rate environment.

Risk Management includes credit, market, operational, liquidity, investment, regulatory and reputation risk. In line with previous years, NIBC had no sovereign debt exposure.

Notes 54, 55, 56, and 57 to the consolidated financial statements contain more detailed information on Risk Management as well as on NIBC's internal rating process and its use in decision-making. Additional information can be found in NIBC's Pillar 3 report on capital adequacy and risk management, published on NIBC's website.

PORTFOLIO OVERVIEW

Table 1 presents a breakdown of the book value of NIBC's risk exposures (drawn and undrawn), together with the types of risk present in these portfolios. Definitions of the main risk types are given in the respective sections that follow.

The exposure amounts of table 1 are in general aligned with the regulatory capital view of Basel II

1 Overview of risk exposures

IN EUR MILLIONS	Main risk types	31 December 2012	31 December 2011
CORPORATE/INVESTMENT LOANS		8,923	9,642
Corporate loans	Credit risk	8,750	9,410
Investment loans	Credit risk	173	232
RESIDENTIAL MORTGAGES	Credit risk	8,187	8,745
EQUITY INVESTMENTS	Investment risk	274	351
DEBT INVESTMENTS		1,346	1,412
Debt from financial institutions and corporate entities	Credit risk/Market risk	601	707
Securitisations	Credit risk/Market risk	745	705
CASH MANAGEMENT	Credit risk	2,188	3,030
DERIVATIVES [1]	Credit risk/Market risk	3,916	3,880
TOTAL		24,834	27,060

1. Positive replacement values.

capital calculations, except for derivatives, which show the positive replacement values only, without netting and without any potential future exposure add-on. The numbers presented can differ from the numbers on the balance sheet, on which only drawn amounts are shown, with the exception of equity investments. Note 54 to the consolidated financial statements presents a more detailed comparison between risk figures and balance sheet amounts. Sold securitised loans of EUR 468 million are excluded from corporate loans as NIBC does not have risk on them. The retained notes (EUR 143 million) are included in the exposure. In the Annual Report of 2011 both were included.

RISK GOVERNANCE

NIBC uses the so-called 'three lines of defence' model, which has become a standard model in a modern financial institution's approach to managing uncertainty and prevent risk. The first line consists of the business. The second line is the control functions, made up primarily of risk management and compliance. These functions set policies, define work practices and oversee the business frontlines with regard to risk and compliance. The third line of defence refers to internal audit, who regularly reviews both the business frontlines and the control functions to ensure that they are carrying out their tasks to the required level of competency.

With its responsibilities as the second line of defence, NIBC Risk Management translates and cascades the risk appetite throughout the organisation via a risk management culture, policies, limits and approvals.

NIBC has a two-tier board structure consisting of Supervisory Board and Managing Board. The overseeing body at Supervisory Board level for risk-related matters is the RPC and for compliance and audit-related topics - the ACC. Formal authority and decision-making are the responsibilities of the Managing Board, who delegates to the *Risk Management Committee* (**RMC**), the *Transaction Committee* (**TC**), the *Asset & Liability Committee* (**ALCO**), the *Investment Committee* (**IC**) and the ECC. These committees ensure that all risks NIBC is exposed to are effectively managed and that the bank is operating in line with the overall desired risk appetite.

The risk committees are supported by a robust risk management organisation, which focuses on the daily risk monitoring and management. The risk departments are *Credit Risk Management* (**CRM**), *Restructuring & Distressed Assets Management* (**RDA**), *Asset & Liability Management and Market Risk* (**ALM/MR**), *Financial Markets Credit Risk and Risk Policy & Reporting* (**FMCR/RP&R**) and *Operational Risk Management* (**ORM**). *Compliance & CSR* (**C&C**) and Legal joined Risk Management in their reporting line to the CRO in 2012, which further enhanced the cohesiveness of the second line of defence.

Effective and comprehensive internal risk reporting enables senior management to promptly and accurately assess the bank's risk profile and to ensure it remains within the predefined risk appetite framework. It further empowers the first line of defence, by providing tools and management information to optimise their portfolio decisions from a risk perspective. External risk reporting ensures that all stakeholders are informed through annual reports, interim reports and regulatory reports such as the Pillar 3 report on capital adequacy and risk management.

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 payments related to financial obligations on time or to comply with other conditions of the agreement. The possibility of restrictions on or impediments to the transfer of payments from abroad also fall under credit risk. Credit risk at NIBC is present in corporate loans, residential mortgages, debt investments, investment loans, cash management and derivatives. These portfolios are further discussed in note 54 to the consolidated financial statements.

Corporate loans

For quantifying the credit risk of its Corporate Loan portfolio, NIBC has been employing an internally developed methodology under the Basel II *Advanced Internal Ratings Based* (**AIRB**) approach since 2008. In line with regulations, the methodology consists of three elements: a *counterparty credit rating* (**CCR**) that reflects the *probability of default* (**PD**) of the borrower, 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, and *exposure at default* (**EAD**), defined as the amount that is expected to be outstanding at the moment that a counterparty defaults.

Main developments in the Corporate Loan portfolio

In 2012, NIBC strengthened its sector focus, further concentrating on industries, where it possesses strong expertise and knowledge and where it can best assist its clients to achieve their strategic ambitions. Excellent understanding of customer needs, key industry fundamentals, market developments and simultaneously, constantly following the trends are of pivotal importance. As a result of the increased emphasis on sectors, in early 2012, corporate lending was split into three sectors being Industries & Manufacturing, Technology, Media & Services and Food, Agri & Retail. This resulted in Leveraged Finance being the only department concentrated on a product type and covering a variety of sectors. The client focus of Leveraged Finance is fully aligned with NIBC's sectors and the department collaborates with other teams offering its specific product type expertise.

The Corporate Loan portfolio remained one of NIBC's core portfolios. The total exposure amounted to EUR 8,750 million at 31 December 2012 (31 December 2011: EUR 9,410 million). The eight sectors in the Corporate Loan portfolio are Infrastructure & Renewables, Commercial Real Estate, Shipping & Intermodal, Oil & Gas Services, Industries & Manufacturing, Technology, Media & Services, Food, Agri & Retail and Leveraged Finance.

Compared to 2011, the geographical distribution of corporate loans remained almost unchanged. The exposure in Germany increased, reflecting NIBC's strategy for further growth in this market. Europe comprises 83% of exposure, which is located mainly in the Netherlands (30%), Germany (23%) and the United Kingdom (18%). The exposure distribution in Asia/Pacific (8%), North America (5%) and other regions (4%) remained stable in 2012.

The Infrastructure & Renewables sector increased slightly in 2012 to EUR 2,190 million. The growth in the renewables segment continued and at year-end this segment covered 18% of the total sector (EUR 404 million). In 2012, NIBC increased its presence particularly in the solar segment after closing its first solar transaction in 2011. The market witnessed an increased appetite from institutional investors in the last year, to which the sector reacted by increasing its focus on the capital markets and applying the team's expertise to execute advisory mandates. In terms of geographical split, the sector is spread across the United Kingdom (59%), Germany (18%) and the Netherlands (14%). The remainder of the portfolio is located in the rest of Europe. The portfolio spans various industry sectors, of which education (23%), renewable energy (18%), healthcare (17%) and roads & railways (13%) are the most prominent sectors.

The Commercial Real Estate portfolio (EUR 1,941 million) remained relatively stable. In 2012, the emphasis was on active portfolio management with frequent screenings and semi-annual reviews of key clients. Credit default swap protection (EUR 202 million) was purchased and significant steps were taken in restructuring defaulted clients, which resulted in a better overall portfolio quality. More than 79% of the portfolio is appraised every year with external parties, in line with the increased focus on external and timely valuations. Early engagement with clients is pursued for upcoming redemptions and loan repayments. Commercial Real Estate remains a well-diversified portfolio across various commercial real estate classes. The properties are located in Germany (51%), the Netherlands (47%) and the United Kingdom (2%). Residential commercial property financing accounts for 59% of the portfolio, which significantly reduces the concentration risk in the underlying collateral pool given the large number of tenants. The majority of NIBC's residential properties are located in Germany (80%), where in general the market has remained strong. Other prominent segments relate to financing of development companies (9%), offices (9%), hotels (7%) and retail property financing (4%). Sold securitised loans of around EUR 468 million are excluded from the Commercial Real Estate exposure as NIBC does not have risk on them. The retained notes (EUR 143 million) are included in the exposure.

The Shipping & Intermodal sector exposure (EUR 1,521 million) slightly reduced in 2012, despite new transactions broadening the client base. The adverse economic conditions that the industry has been experiencing for the past three years continued throughout 2012. Active portfolio management, which remained a high priority on an on-going basis, resulted in a stable credit quality.

The sector did not experience new defaults. Attention to three key lending parameters, which are considered crucial for the generation of healthy cash flows, intensified in 2012. The three parameters are asset quality, owner of the asset and access to cargo. NIBC's Shipping & Intermodal portfolio consists mainly of tankers (34%), bulk carriers (28%), container boxes (also known as intermodal; 12%) and container vessels (9%). Borrowers are mainly located in Europe (38%), Asia/Pacific (34%) and North America (17%).

Oil & Gas Services performed well and the portfolio grew to EUR 1,015 million. In 2012, the sector continued diversifying its client base and product scope and further established its presence in the reserve-based lending and offshore support segments. The credit quality remained solid with no defaults, impairments or arrears. The total exposure in this portfolio is split over five main subsectors of which offshore support vessels (34%), drilling (25%) and production (21%) are the most prominent subsectors. In terms of geographical focus, the sector is balanced across Europe (51%), Asia/Pacific (18%) and North America (13%) and the assets are located all over the world in key oil and gas areas.

The Industries & Manufacturing portfolio was EUR 435 million at year-end 2012. Most of the clients are located in the Netherlands (75%) and the remainder in Germany (18%) and in the rest of Europe (7%). The credit quality of the portfolio remained stable, as a result of active portfolio management. Although in general the demand for industrial products tends to be cyclical, NIBC focuses on the more stable subsectors. The portfolio is well balanced and split across various industry sectors: rental and leasing activities (25%), financial services (23%), industrial products (18%), wholesale (15%), consumer products (8%), transportation & storage (7%) and other (4%). Certain transactions in the financial services industry are funded through a financial markets' structure with highly-rated and self-liquidating collateral.

The Technology, Media & Services' portfolio amounted to EUR 225 million at year-end 2012. The credit quality of the portfolio slightly improved during 2012. In the recent years, various developments occurred in the sector with the media segment redefining its business model and the technology segment undergoing frequent and significant changes. The portfolio mostly consists of general services (38%), IT services (22%), financial services (19%), media (8%) and electronics (8%). Borrowers are mainly located in the Netherlands (51%) and Germany (35%). The sector has a small presence in the Asia/Pacific region (8%) and the rest of Europe (6%).

The exposure of the Food, Agri & Retail sector amounted to EUR 141 million at year-end 2012 and is balanced across several segments. Most of the clients in this sector operate in food-retail (45%), services (19%), food & beverages (18%) and wholesale (12%). In terms of geographic distribution, the focus is exclusively on Europe with the Netherlands representing 56% of the portfolio, Germany 38% and the rest of Europe 6%. The credit quality remained solid, resulting from the continuous emphasis on a well-balanced credit selection. A substantial part of the Leveraged Finance portfolio is Food, Agri & Retail related.

The exposure of the Leveraged Finance portfolio (EUR 1,080 million) decreased in 2012, mainly due to reduced deal volume in the market and through sales in the secondary markets. NIBC continued its selective approach with respect to origination and its focus on proactive and forward-looking portfolio management. Consistent with the increased sector emphasis, Leveraged Finance pursued client alignment with the NIBC sectors. The portfolio is granular and well diversified, spread across NIBC key industries and geographies with a clear focus on mid-market companies. The most important segments are manufacturing of industrial products (17%), wholesale (15%), retail (14%), services (12%), healthcare (10%), food & beverages (6%) and media (5%). The remainder of the portfolio is spread over several sub-sectors, none of which represents more than 5%. At year-end 2012, exposure was located in the Netherlands (46%), Germany (25%) and the United Kingdom (13%) with the remainder in the rest of Europe.

Development of credit quality and special attention exposure

The credit quality of the Corporate Loan Portfolio remained stable in 2012. Emphasis during the year was on ensuring solid quality of existing and newly originated clients. This was enforced by strong and pro-active portfolio management and increased sector emphasis.

In terms of CCR's distribution, the credit quality of the portfolio is concentrated in the 5 and 6 categories in NIBC's internal rating scale (BB and B categories in external rating agencies' scales). The concentration of NIBC's corporate loan exposure in sub-investment grade is counterbalanced by the fact that almost all loans have some form of collateralisation. Loans can be collateralised by mortgages on vessels and real estate, by lease and other receivables, by pledge on machinery and equipment, or by third-party guarantees and other similar agreements. The collateral portfolio also benefits from external valuations. 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.

As a result of a successful restructuring, executed in cooperation between the business and Risk Management, the corporate loan exposure carrying an arrear fell to EUR 307 million at 31 December 2012 (31 December 2011: EUR 600 million). Fewer write-offs were taken in 2012 (EUR 28 million) compared to 2011 (EUR 71 million), while impairments increased by 17% to EUR 134 million.

Risk Management monitors the special attention exposure on a monthly basis, which enables a prompt and proactive response, if needed. Several metrics defining the special attention exposure are used to capture potential problematic borrowers:

- Exposure managed by the RDA department;
- Exposure on watch list: the watch list consists of obligors not managed by RDA, but with an increased risk of potential default. Several criteria exist for placement on the watch list, which mostly relate to credit ratings, rating migrations, non-commercial restructuring or non-performing facilities;
- Defaulted exposure: defined by the Basel II definition (see note 54). A counterparty is considered defaulted if it carries an internal CCR rating of 9 or 10;
- Impaired exposure: defined by the *International Financial Reporting Standards* (**IFRS**) accounting standard. Facilities are considered impaired if the TC decides on an impairment amount for that facility; and
- Non-performing exposure: defined by the *International Monetary Fund* (**IMF**). Non-performing include facilities with an arrear for more than 90 days and facilities with an arrear for less than 90 days and carrying an impairment amount.

In 2012, four out of five special attention metrics improved. Table 2 shows an overview of the five metrics as a percentage of the total exposure at 31 December 2012 and 31 December 2011.

Note 54 to the 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 using the AIRB approach for calculating solvency requirements and reporting to the DNB has been approved by 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 Residential Mortgage portfolio at 31 December 2012 amounted to EUR 8,187 million (31 December 2011: EUR 8,745 million), improving its alignment to the Corporate Loan portfolio's size. In 2012, it decreased by approximately EUR 600 million, due to repayments being higher than originations. The portfolio consists of residential mortgage loans originated in the Netherlands and Germany. The majority (96%) of the Residential Mortgage portfolio consists of Dutch mortgages. The other 4% comprises German mortgages. The total Dutch mortgage book of

2 Overview of special attention exposure (percentage of total exposure at year-end 2012 and 2011)

IN % OF TOTAL EXPOSURE	31 December 2012	31 December 2011
Defaulted exposure	6.1	9.3
Impaired exposure	4.8	3.6
Non-performing exposure	3.1	5.0
Exposure managed by RDA	11.1	12.1
Exposure on watch list	2.2	5.8

EUR 7,836 million is externally funded for EUR 4,512 million by bonds bought by investors of RMBS programmes. The German mortgage book has a size of EUR 351 million. NIBC handles all management of amounts in arrear of its Dutch Residential Mortgage portfolio in-house.

NIBC successfully placed a securitisation transaction (EUR 527 million) backed by residential mortgages under its long-standing Dutch MBS programme, in line with the improvement in the RMBS markets in 2012. The placement under the Dutch MBS programme increased the size of the securitised portfolio compared to 2011.

The residential mortgage market in 2012 remained challenging. After the September 2012 elections in the Netherlands, new measures were taken by the government with several new plans for the Dutch housing market, specified in note 54 to the financial statements.

The origination spread of mortgages in the Netherlands increased significantly, showing an increased risk perception of mortgages and increased funding costs. In the last two years losses increased, due to market circumstances; however, losses in 2012 were lower than in the previous year. Actual credit losses have, in general, been low in the past years.

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, further broken down into Western European and Liquidity Investments portfolio.

The portfolio of debt issued by financial institutions and corporate entities amounted to EUR 601 million at 31 December 2012 (31 December 2011: EUR 707 million). This portfolio is used to support NIBC's liquidity position. Bonds issued by financial institutions comprised 97% of this amount, and 3% were corporate bonds.

The exposure was mainly from issuers located in the Netherlands (22%), the United States (20%), the United Kingdom (15%), Germany (15%) and other Western European countries (28%). There were no *Credit Default Swaps* (**CDS**) outstanding in the Debt Investments portfolio.

The total securitisation exposure amounted to EUR 745 million at 31 December 2012 (31 December 2011: EUR 705 million), all of which was located in Western Europe.

The size of both portfolios combined decreased in 2012, mainly due to regular repayments and active sales of assets. Note 54 to the consolidated financial statements provides more information for both portfolios.

Cash management

NIBC is also exposed to credit risk as a result of cash management activities. An example is the credit risk on cash accounts with other banks. NIBC holds foreign currency accounts at correspondent banks and also utilises third-party account providers for internal securitisations.

In 2012, NIBC's risk management framework for cash management continued its conservative attitude, taking into account the vulnerable financial markets.

NIBC places its excess cash primarily at the DNB and a selected 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.

The size of this portfolio decreased to EUR 2,188 million at 31 December 2012 (31 December 2011: EUR 3,030 million), mainly as a result of the redemptions and buy-backs of government-guaranteed funding. At 31 December 2012, 73% of NIBC's excess cash was placed at the DNB. The remainder was mainly placed at financial institutions rated single-A or higher, of which 46% were located in the Netherlands, 23% in France, 20% in the United States and 10% in other European countries. 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 a *Potential Future Exposure* (**PFE**). The PFE 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 in the derivatives by means of *Credit Support Annexes* (**CSA**). For corporate clients, NIBC enters into a derivative transaction as part of its relationship management. No CSA agreements are in place for these contracts, however corporate derivative exposures usually benefit from the collateral also supporting the related loan exposure.

The size of NIBC's derivative portfolio excluding netting, collateral and PFE amounted to EUR 3,916 million at 31 December 2012 (31 December 2011: EUR 3,880 million). Including netting and collateral, the size was EUR 970 million (31 December 2011: 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, 42% is located in the United Kingdom, 25% in the Netherlands, 13% in France and 12% in Germany. In terms of industry sector, all of NIBC's financial counterparties fall into the financial services sector. Corporate clients with derivatives are mainly active in Infrastructure & Renewables (52%), Commercial Real Estate (34%) and Shipping & Intermodal (5%). 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 includes price risk, interest rate risk and foreign exchange risk, both within and outside the Trading portfolio. For fixed-income products, market risk also includes credit spread risk, which is the risk due to movements of underlying credit curves.

The predominant market risk drivers for NIBC are interest rate risk and credit spread risk. Interest rate risk of NIBC is present 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 NIBC's Trading portfolio is limited, as is also exhibited by the amount of Basel II/ Pillar I regulatory capital required for this activity, which only comprises 3% of the total regulatory capital. This is a slight increase compared to 2011, since the capital requirement is now based upon the sum of the normal *Value at Risk* (**VaR**) and Stressed VaR, whereas previously the capital requirement was based upon the normal VaR. The low level of market risk is further emphasised by the VaR, calculated with a 99% confidence interval, which amounted, on average, to only EUR 0.7 million in 2012. 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. NIBC closed the existing mismatch positions in 2011. Throughout 2012, interest rates remained at very low levels. NIBC did not to open a new mismatch position in 2012.

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

NIBC is subject to credit spread risk in the Debt Investments portfolio, which is part of the Banking Book and comprised mainly investments in financial institutions and securitisations.

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

In 2012, interest rates decreased to record low levels. This had little impact on the Trading portfolio, whose result is in general more influenced by the volatility of the rates than their actual level. NIBC closed its mismatch position in 2011 and after having considered the low interest rate environment, did not envisage opening a new mismatch position in 2012. The predominant effect of the low interest rates is manifested in the Banking Book. Due to the competitive environment, the client rate for retail savings cannot be lowered at the same pace as the decline in interest rates. In addition, NIBC has to hold significant cash buffers, both for prudent liquidity management and as collateral for derivatives. The short-term interest rates' decline to levels close to zero had a negative impact on NIBC's interest margin. Note 55 to the consolidated financial statements provides more information on market risk.

INVESTMENT RISK

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

NIBC's investment risk relates to positions in private equity, infrastructure equity and real estate equity investments. These equity investments can be divided into 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 NIBC's consolidated financial statements. 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.

The investment process is based on the following principles:

- Investment risk exposures are authorised independently from 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, CSR and customer due diligence are embedded as an integral part of the overall investment process.

Management of investment exposures

Direct investment transactions with respect to 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 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, sector 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 investments. All valuations are approved by the IC.

In each quarterly review, the exit strategy of the 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.

Avedon Capital Partners, which incorporated the activities of NIBC Capital Partners, was spun off from NIBC in 2011. Avedon Capital partners manages the NIBC Growth Capital Fund II and the equity funds NIBC Merchant Banking Fund IA and IB. It is fully independent from NIBC, in line with market requirements for the governance of third-party funds.

Composition of investment exposure

Tables 3 and 4 present the breakdown of the on-balance Equity Investments portfolio in industry sectors and regions. NIBC's off-balance commitments amounted to EUR 43 million at 31 December 2012 (31 December 2011: EUR 67 million).

3 Breakdown of equity investments per industry sector

IN EUR MILLIONS	2012	2011
Wholesale/Retail/Leisure	97	130
Infrastructure	80	76
Financial Services	32	33
Commercial Real Estate	17	31
Manufacturing	16	17
Services	3	3
Shipping	0	13
Agriculture & Food	0	5
TMT	-	21
Other	29	22
TOTAL AT 31 DECEMBER	274	351

4 Breakdown of equity investments per region

IN EUR MILLIONS	2012	2011
The Netherlands	214	281
United Kingdom	11	13
Rest of Europe	27	37
North America	22	20
TOTAL AT 31 DECEMBER	274	351

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 2012 were the further expansion of the online retail savings programme NIBC Direct from EUR 6.1 billion to EUR 7.7 billion, as well as renewed issuance of unsecured debt and a RMBS issuance. In addition, NIBC was able to maintain its liquidity buffers of highly liquid assets and collateralised funding capacity throughout 2012.

Based on projections prepared by the business units and reviewed by Risk Management, and the current asset and liability maturity profiles, several liquidity stress tests are prepared and presented once every two weeks to the ALCO, in order to allow continuous monitoring of the liquidity position. The market-wide stress test, for example, assumes no additional funding, continuation of business and potential outflow of cash due to collateral agreements. The outcomes of the liquidity stress tests are at a comfortable positive level and remain positive for a prolonged period. Note 56 to the consolidated financial statements provides more information on liquidity risk.

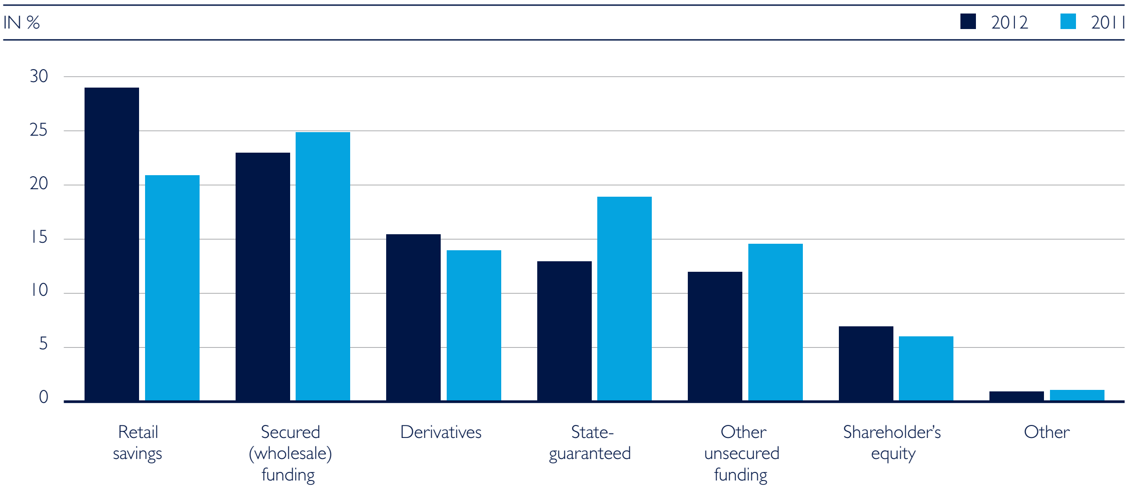
Funding

NIBC further diversified its funding base by the initiatives mentioned earlier. An overview of the Funding portfolio at 31 December 2012 and 31 December 2011 is shown in graph 5. The funding overview is based on total balance sheet amounts.

OPERATIONAL RISK

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

5 Breakdown of total Funding portfolio, 31 December 2012 (EUR 26,242 million) and 31 December 2011 (EUR 28,554 million)



In NIBC's three lines of defence model, the ORM department is part of the second-line function. NIBC's operational risk management framework outlines principles for the roles, responsibilities and accountabilities for front-to-back ORM. Staff is responsible for adherence to the framework and the operational risk policies, which include oversight of all operational risks specific to the business and reporting of operational risk events and losses.

ORM monitors and manages operational risk on group level, develops policies and processes (such as the new product approval process) and provides methodology and tools. In the course of 2012, five new products were launched by NIBC. 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. The department also co-ordinates the development of forward-looking scenario analysis (hypothetical external or internal scenarios with which it is ensured that a plan exists in case these events occur). Examples of such scenarios include business continuity plans for buildings, key technology systems and key processes of the bank, a possible exit of a country from the eurozone, stress in the Dutch banking sector, large-scale staff unavailability due to e.g. a pandemic, and other hypothetical events for which a forward-looking action plan is necessary. Overall, attention to operational risk was heightened and a reorganisation of the team took place in 2012.

CAPITAL ADEQUACY

Regulatory capital

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

As in previous years, NIBC was very well capitalised at 31 December 2012, characterised by the strong regulatory ratios. The core Tier-1 ratio stood at 15.3% (31 December 2011: 13.8%); the Tier-1 ratio at 18.1% (31 December 2011: 16.2%); and the BIS ratio at 19.1% (31 December 2011: 17.5%), 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%. NIBC is well prepared for Basel III charges on capital ratios.

The main driver for the higher levels of these ratios compared to 2011 was the further decrease in *Risk Weighted Assets* (**RWA**). Of the total capital requirement, 89% relates to credit risk, 8% to operational risk and 3% to market risk. Table 6 shows the summary of capital ratios and RWA for NIBC.

6 NIBC capital ratios, Basel II

IN %	31 December 2012	31 December 2011
CAPITAL RATIOS		
Core Tier-1 ratio	15.3	13.8
Tier-1 ratio	18.1	16.2
BIS ratio	19.1	17.5

IN EUR MILLIONS	31 December 2012	31 December 2011
RISK WEIGHTED ASSETS		
Credit risk	8,670	10,827
Market risk	325	254
Operational risk	736	717
TOTAL RWA	9,731	11,798

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 manner 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 2012, the EC remained relatively stable and ranged between EUR 1.1 billion and EUR 1.3 billion, with an average of EUR 1,163 million. Compared to 2011, the reduction in portfolios has led to a small decline in calculated EC. Note 57 to the consolidated financial statements provides more information on capital management.

Table of contents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

Consolidated income statement

for the year ended 31 December

IN EUR MILLIONS	NOTE	2012	2011
Interest and similar income		575	693
Interest expense and similar charges		449	528
NET INTEREST INCOME	2	**126**	**165**
Fee and commission income		18	36
Fee and commission expense		1	-
NET FEE AND COMMISSION INCOME	3	**17**	**36**
Dividend income	4	8	5
Net trading income	5	94	19
Gains less losses from financial assets	6	28	48
Share in result of associates	27	(1)	1
Other operating income	7	22	64
OPERATING INCOME		**294**	**338**
Personnel expenses and share-based payments	8	98	128
Other operating expenses	9	60	79
Depreciation and amortisation	10	10	19
OPERATING EXPENSES		**168**	**226**
Impairments of financial assets	11	45	44
TOTAL EXPENSES		**213**	**270**
PROFIT BEFORE TAX		**81**	**68**
Tax	12	8	1
PROFIT AFTER TAX		**73**	**67**
Result attributable to non-controlling interests	13	-	(1)
NET PROFIT ATTRIBUTABLE TO PARENT SHAREHOLDER		**73**	**68**

Consolidated statement of comprehensive income

for the year ended 31 December

IN EUR MILLIONS	2012 Before tax	2012 Tax charge/ (credit)	2012 After tax	2011 Before tax	2011 Tax charge/ (credit)	2011 After tax
PROFIT FOR THE YEAR	**81**	**8**	**73**	**68**	**1**	**67**
OTHER COMPREHENSIVE INCOME						
Net result on hedging instruments	(30)	(7)	(23)	28	6	22
Revaluation loans and receivables	4	1	3	14	3	11
Revaluation equity investments	(10)	(1)	(9)	1	1	-
Revaluation debt investments	24	6	18	(25)	(6)	(19)
Revaluation property, plant and equipment	1	-	1	(13)	(3)	(10)
TOTAL OTHER COMPREHENSIVE INCOME	**(11)**	**(1)**	**(10)**	**5**	**1**	**4**
TOTAL COMPREHENSIVE INCOME	**70**	**7**	**63**	**73**	**2**	**71**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO						
Parent shareholder	70	7	63	74	2	72
Non-controlling interests	-	-	-	(1)	-	(1)
TOTAL COMPREHENSIVE INCOME	**70**	**7**	**63**	**73**	**2**	**71**

Consolidated balance sheet

at 31 December

IN EUR MILLIONS	NOTE	2012	2011
Assets			
FINANCIAL ASSETS AT AMORTISED COST			
Cash and balances with central banks	14	1,604	2,430
Due from other banks	15	2,123	2,104
Loans and receivables			
Loans	16	7,343	7,517
Debt investments	17	366	507
Securitised loans	18	611	613
FINANCIAL ASSETS AT AVAILABLE-FOR-SALE			
Equity investments	19	49	66
Debt investments	20	985	887
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)			
Loans	21	515	998
Residential mortgages own book	22	3,675	3,185
Securitised residential mortgages	23	4,512	5,560
Debt investments	24	124	164
Equity investments (including investments in associates)	25	215	258
Derivative financial assets held for trading	26	3,642	3,657
Derivative financial assets used for hedging	26	275	292
OTHER			
Investments in associates (equity method)	27	10	14
Intangible assets	28	50	52
Property, plant and equipment	29	47	51
Investment property	30	1	27
Current tax	31	2	3
Other assets	32	93	169
TOTAL ASSETS		**26,242**	**28,554**

IN EUR MILLIONS	NOTE	2012	2011
Liabilities			
FINANCIAL LIABILITIES AT AMORTISED COST			
Due to other banks	34	1,026	1,261
Deposits from customers	35	8,347	6,644
Own debt securities in issue	36	4,314	7,096
Debt securities in issue related to securitised mortgages	37	4,470	5,416
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)			
Own debt securities in issue	38	34	41
Debt securities in issue structured	39	1,654	1,733
Derivative financial liabilities held for trading	26	4,026	3,966
Derivative financial liabilities used for hedging	26	20	34
OTHER FINANCIAL LIABILITIES			
Other liabilities	40	159	149
Current tax	31	9	-
Deferred tax	33	-	18
Employee benefits	41	4	5
SUBORDINATED LIABILITIES			
Amortised cost	42	83	85
Fair value through profit or loss	43	264	296
TOTAL LIABILITIES		**24,410**	**26,744**
SHAREHOLDER'S EQUITY			
Share capital	44	80	80
Other reserves	44	312	322
Retained earnings		1,385	1,361
Net profit attributable to parent shareholder		73	68
(Interim) dividend paid		(19)	(22)
TOTAL PARENT SHAREHOLDER'S EQUITY		**1,831**	**1,809**
Non-controlling interests		1	1
TOTAL SHAREHOLDER'S EQUITY		**1,832**	**1,810**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**26,242**	**28,554**

Consolidated statement of changes in shareholder's equity

IN EUR MILLIONS	Attributable to parent shareholder: Share capital	Other reserves[1]	Retained earnings	Net profit	Distribution charged to net profit	Total	Non-controlling interests	Total shareholder's equity
BALANCE AT 1 JANUARY 2011	80	318	1,329	76	(22)	1,781	22	1,803
Transfer of net profit 2010 to retained earnings	-	-	54	(76)	22	-	-	-
Total comprehensive income for the year ended 31 December 2011	-	4	-	68	-	72	(1)	71
Divestment of third-party interests in a subsidiary formerly controlled by NIBC	-	-	-	-	-	-	(20)	(20)
Dividend paid[2]	-	-	(22)	-	(22)	(44)	-	(44)
BALANCE AT 31 DECEMBER 2011	80	322	1,361	68	(22)	1,809	1	1,810

IN EUR MILLIONS	Attributable to parent shareholder: Share capital	Other reserves[1]	Retained earnings	Net profit	Distribution charged to net profit	Total	Non-controlling interests	Total shareholder's equity
BALANCE AT 1 JANUARY 2012	80	322	1,361	68	(22)	1,809	1	1,810
Transfer of net profit 2011 to retained earnings	-	-	46	(68)	22	-	-	-
Total comprehensive income for the year ended 31 December 2012	-	(10)	-	73	-	63	-	63
Dividend paid[2]	-	-	(22)	-	(19)	(41)	-	(41)
BALANCE AT 31 DECEMBER 2012	80	312	1,385	73	(19)	1,831	1	1,832

1. Other reserves include share premium, hedging reserve and revaluation reserves.
2. Ordinary interim and final dividend paid in 2012 and 2011 to equity holder.

Consolidated statement of cash flows

for the year ended 31 December

IN EUR MILLIONS	NOTE	2012	2011
OPERATING ACTIVITIES			
Net profit for the year		73	68
ADJUSTMENTS FOR NON-CASH ITEMS			
Depreciation, amortisation and impairment losses	10/11	55	63
Changes in employee benefits	41	(1)	-
Gains less losses from financial assets	6	(28)	(48)
Share in result of associates	27	1	(1)
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Derivative financial instruments	26	55	164
Operating assets		1,293	813
Operating liabilities (including deposits from customers)		523	1,539
Dividends received from associates	27	4	3
CASH FLOWS FROM OPERATING ACTIVITIES [1]		**1,975**	**2,601**
INVESTING ACTIVITIES			
Proceeds from the sale of property, plant and equipment and investment property	29/30	26	38
Acquisition of property, plant and equipment	29/30	(2)	(12)
Disposal of subsidiaries, associates and joint ventures	19/25/27/28	75	133
Acquisition of associates and joint ventures	27/28	(1)	(1)
CASH FLOWS FROM INVESTING ACTIVITIES		**98**	**158**
FINANCING ACTIVITIES			
Net decrease in own debt securities in issue	36/38	(2,789)	(1,118)
Net decrease in subordinated liabilities	42/43	(34)	(107)
Net decrease in debt securities in issue structured	39	(79)	(387)
Dividend paid		(41)	(44)
CASH FLOWS FROM FINANCING ACTIVITIES		**(2,943)**	**(1,656)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(870)**	**1,103**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**3,107**	**2,004**
Net increase/(decrease) in cash and cash equivalents		(870)	1,103
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**2,237**	**3,107**
RECONCILIATION OF CASH AND CASH EQUIVALENTS:			
Cash and balances with central banks	14	1,604	2,430
Due from other banks (maturity three months or less)	15	633	677
		2,237	**3,107**
SUPPLEMENTARY DISCLOSURE OF OPERATING CASH FLOW INFORMATION:			
Interest paid		554	576
Interest received		624	686

1. The cash flows from operating activities included an amount of EUR 1 million of taxes (2011: EUR 1 million of taxes).

Accounting policies

AUTHORISATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of *NIBC Bank N.V.* (**NIBC**) for the year ended 31 December 2012 were authorised for issue by the Managing Board of NIBC on 5 March 2013. NIBC, together with its subsidiaries (NIBC or the group), is incorporated and domiciled in the Netherlands, and is a wholly-owned subsidiary of *NIBC Holding N.V.* (**NIBC Holding**). The principal activities of NIBC 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'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'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 2012

The following new or revised standards and interpretations and amendments to standards and interpretations became effective in 2012:

- Amendment to IFRS 7 'Disclosures – Transfers of Financial Assets'. If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets;
- IAS 12 'Income Taxes' (Amendment) – Deferred Taxes: Recovery of Underlying Assets. The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value; and
- IFRS 1 'First-Time Adoption of IFRS' (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First Time Adopter. This amendment provides guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. The amendment also removes the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. In the amended standard these dates coincide with the date of transition to IFRS.

The amendment to IFRS 7 'Disclosures- Transfers of Financial Assets' and the other amendments resulting from Improvements to IFRSs to IAS 12 'Income Taxes' and IFRS 1 'First-Time Adoption of IFRS' did not have any impact on the financial position or performance of NIBC.

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

The following standards, amendments an interpretations to existing standards issued by the *International Accounting Standards Board* (**IASB**) and endorsed by the EU are mandatory for accounting periods beginning on or after 1 January 2013 or later periods, but NIBC has not early-adopted them:

- Amendments to IAS 1 'Presentation of Financial Statements - Presentation of Items of *Other Comprehensive Income* (**OCI**)' (effective for annual periods beginning on or after 1 July 2012). The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendment affects presentation only and has no impact on NIBC's financial position or performance;
- IFRS 13 'Fair Value Measurement' (effective as from 1 January 2013). IFRS 13 does not define when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements. Adoption of this standard is not expected to have a material impact on NIBC's financial position or performance;
- IFRS 10 'Consolidated Financial Statements' (effective as from 1 January 2014). IFRS 10 replaces the requirements of IAS 27 'Consolidated and Separate Financial Statements' that address the accounting for consolidated financial statements and SIC 12 'Consolidation – *Special Purpose Entities* (**SPE**)'. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. NIBC is currently assessing the impact of adopting IFRS 10;
- IFRS 11 'Joint Arrangements' (effective as from 1 January 2014). IFRS 11 replaces IAS 31 'Interests in Joint Ventures' and SIC 13 'Jointly Controlled Entities – Non Monetary Contributions by Venturers'. Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. The adoption of IFRS 11 is not expected to have a significant impact on the accounting treatment of investments currently held by NIBC;
- IFRS 12 'Disclosure of Interests in Other Entities' (effective as from 1 January 2014). IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 'Interests in Joint Ventures' and IAS 28 'Investment in Associates'. These disclosures relates to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if NIBC concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact had NIBC reached a different conclusion regarding consolidation. NIBC will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or has sponsored. However, the standard will not have any impact on the financial position or performance of NIBC;
- IAS 27 'Separate Financial Statements' (Revised) (effective as from 1 January 2014). As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. NIBC does not present separate financial statements;
- IAS 28 'Investments in Associates and Joint Ventures' (Revised) (effective as from 1 January 2014). As a consequence of the new IFRS 11 'Joint Arrangements', and IFRS 12 'Disclosure of Interests in Other Entities', IAS 28 'Investment in Associates', has been renamed IAS 28 'Investment in Associates and Joint Ventures' and describes the application of the equity method to investments in joint ventures in addition to associates;
- IFRS 7 'Disclosures, Offsetting Financial Assets and Financial Liabilities' (Amendment) (effective as from 1 January 2013). These amendments require an entity to disclose

information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set in accordance with IAS 32 'Financial Instruments: Presentation'. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact NIBC's financial position or performance;

- IAS 32 'Offsetting Financial Assets and Financial Liabilities' (Amendment) (effective as from 1 January 2014). These amendments clarify the meaning of 'currently has a legally enforceable right to set-off'. It will be necessary to assess the impact to NIBC by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off should be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the bank where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements etc. As the impact of the adoption depends on NIBC's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects; and
- IAS 19 'Employee Benefits' (Revised) (effective as from 1 January 2013). The amended IAS 19 states that changes in the defined-benefit obligation and fair value of plan assets should be recognised in the period as they occur. The corridor method is to be eliminated and actuarial gains and losses and unrecognised past service costs to be recognised directly in OCI. Because actuarial gains and losses are not deferred, both the net defined-benefit liability/asset and the amounts to be recognised in profit or loss are affected.

  The amended standard splits changes in defined-benefit liability/asset into:
  - Service costs (including past service costs; curtailments and settlements) in profit or loss;
  - Net interest costs (i.e. net interest on the net defined-benefit liability) – profit or loss;
  - Remeasurements of the defined-benefit liability/asset – in OCI.

For the impact of IAS 19 (Revised) on the financial and capital position of NIBC reference is made to note 41 Employee Benefits.

BASIS OF CONSOLIDATION

The consolidated financial statements are comprised of the financial statements of NIBC and its subsidiaries as at and for the years ended 31 December 2012 and 2011.

Subsidiaries

Subsidiaries are all entities (including SPEs) 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 the bank consolidates) have been changed where necessary to ensure consistency with the policies adopted by NIBC.

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 amount 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 (gains less losses from financial assets).

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 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, 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 has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

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

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

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's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by NIBC. Dilution gains or losses 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. For details of NIBC's operating segment reference is made to note 1.

FOREIGN CURRENCY TRANSLATION

Functional and presentation 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.

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 shareholder's equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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

RECOGNITION OF FINANCIAL INSTRUMENTS

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

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

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

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

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

- The rights to receive cash flows from the financial assets have expired; or
- When NIBC has transferred its contractual right to receive the cash flows of the financial assets, and either:
  - substantially all risks and rewards of ownership have been transferred; or
  - substantially all risks and rewards have neither been retained nor transferred but control is not retained.

If NIBC 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's continuing involvement in the asset.

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

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

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

If an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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 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 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 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:
  - 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. The information provided as of the reclassification date relates only to financial assets remaining on the balance sheet as of the reporting date 31 December 2012.

Changes to the classification of financial assets (in 2007)

In 2007, NIBC 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 off set 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 may designate financial instruments at fair value when the designation:

- Eliminates or significantly reduces valuation or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases. Under this criterion, the main classes of financial instruments designated by NIBC at fair value through profit or loss are: Residential mortgage loans (own book and securitised), 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 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 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 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'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 as available for sale assets at

31 December 2012 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'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 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'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 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 intends to sell immediately or in the short term, which are classified as held for trading; (b) those that NIBC upon initial recognition designates at fair value through profit or loss; (c) those that NIBC 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 2012 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 classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. NIBC's perpetual bonds are not redeemable by the holders but bear an entitlement to distributions that is not at the discretion of NIBC. 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 AMOUNT

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

Derivative financial instruments are initially measured, and are subsequently re-measured, at fair value. The fair value of exchange-traded derivatives is obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

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

When derivatives are designated as hedges, NIBC classifies them as either (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 applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation, as appropriate, to the risks being hedged.

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

NIBC 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 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 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 is seeking to hedge.

Designation and de-designation of hedging relationships is undertaken on a monthly basis, together with an assessment of the effectiveness of the hedging relationship at a portfolio level, across all time buckets.

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

Micro fair value hedge

NIBC applies micro fair value hedge accounting to the interest rate risk and/or the foreign exchange risk arising from debt investments at available for sale and 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 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 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 bandwidth of 80% - 125% for the hedge to be deemed effective.

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

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

All gains and losses arising from changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the income statement. Derivatives used to manage the interest rate and credit spread exposure on certain financial assets and liabilities (mainly structured funding, debt 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 risk rating 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 licenses

Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licenses 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 licenses over their estimated useful lives of ten years.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are 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 assesses whether there is any indication that an asset may be impaired or whenever events or changes in circumstances indicate that the carrying amount 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. If there is no lease agreement, the property is recognised as vacant 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 revalued 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 shareholder's 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 re-valued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

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 assets' 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 revalued 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 months' 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 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 and its subsidiaries have various pension arrangements in accordance with the local conditions and practices in the countries in which they operate. NIBC generally funds these arrangements through payments to insurance companies or trustee administered funds, determined by periodic actuarial calculations. These various pension arrangements consist of a defined-contribution plan, a defined-benefit plan or a combination of these plans.

A defined-contribution plan is a pension plan under which NIBC pays fixed contributions to a separate entity; the contributions are recognised as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. NIBC has no legal or constructive obligations to pay further 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 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 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; and
- 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 revises its estimates of the number of shares or options that are expected to vest based on the non-market vesting conditions. NIBC 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 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 are 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 shareholder after certain adjustments. NIBC recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

INCOME TAX

Income tax on the profit or loss for the year comprises 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 shareholder's equity (other comprehensive income), in which case it is recognised in shareholder's 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 intends to settle on a net basis and a legal right of offset exists.

Deferred income tax is provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NIBC's principal temporary differences arise from the revaluation of certain financial assets and liabilities including derivative contracts, the depreciation of property and provisions for pensions and other post-retirement benefits 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 remeasurement 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.

SHAREHOLDER'S 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 shareholder.

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's 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.

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 operating activities, 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. Investing 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 equipment. The issuing of shares and the borrowing and repayment of long-term funds are treated as financing activities. Movements due to currency translation differences as well as the effects of the consolidation of acquisitions, where of material significance, are eliminated from the cash flow figures.

FIDUCIARY ACTIVITIES

NIBC acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements as they are not assets of the group.

Critical accounting estimates and judgements

NIBC makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and judgements are principally made in the following areas:

- Estimated impairment of goodwill arising on consolidated non-financial companies;
- 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; and
- Pension benefits.

ESTIMATED IMPAIRMENT OF GOODWILL ARISING ON CONSOLIDATED NON-FINANCIAL COMPANIES

NIBC 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 a value-in-use 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 prudent forecasts covering a three-year period (2013 - 2015). 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 %	2012	2011
Perpetual growth rate	1.0	0.0
Pre-tax discount rate	9.7	8.8

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 at balance sheet date 31 December 2012.

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 amount 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.

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 (10.7% instead of 9.7%) at 31 December 2012, the outcome of the goodwill impairment test would not have changed. 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 2012 the outcome of the goodwill impairment test would not have changed.

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, if available, or by using models. Where market-observable inputs are not available, they are estimated based on appropriate assumptions.

Where valuation techniques 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, in 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 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 2012, the fair value of these liabilities was estimated to be EUR 1,952 million (31 December 2011: EUR 2,070 million). This portfolio is 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 portion of fair value changes on these liabilities designated at fair value through profit or loss during 2012 attributable to the movement in credit spreads as displayed in notes 38, 39 and 43 reflects gross amounts, excluding pull-to-par and model refinement effects. Net of pull-to-par and model refinement effects the portion of fair value changes on these liabilities designated at fair value through profit or loss during 2012 attributable to the movement in credit spreads amounts to EUR 11 milion debit (2011: EUR 78 million debit), being a reduction of the carrying value.

In 2012 NIBC refined the existing valuation methodology of the portfolio Debt securities in issue structured designated at fair value to profit or loss. This refinement encompasses changes in the valuation model which facilitates the valuation of the bonds on an individual basis instead of a portfolio-based valuation. This is considered as a change in accounting estimate resulting in an increase of the carrying amount of Debt securities in issue structured designated at fair value through profit or loss of EUR 12.2 million.

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 2012 by EUR 6.1 million (31 December 2011: EUR 13.4 million).

Valuation of 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 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 equity investments

The group estimates the fair value of its equity investments 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 2012, the fair value of this portfolio was estimated to be EUR 264 million (2011: EUR 324 million). This portfolio is reported as equity investments (including investments in associates) at fair value through profit or loss (2012: EUR 215 million; 2011: EUR 258 million) and as equity investments at available for sale (2012: EUR 49 million; 2011: EUR 66 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 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 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'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 2012, for each of NIBC's impaired corporate loans, the net present value of the estimated cash flows had been 5% lower or higher than estimated, NIBC would have recognised an additional impairment loss or gain of EUR 13.5 million (2011: EUR 10.8 million).

IMPAIRMENT OF DEBT INVESTMENTS CLASSIFIED AS AMORTISED COST

NIBC 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 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 2012, for each of NIBC's impaired debt investments, the net present value of the estimated cash flows had been 5% lower or higher than estimated, NIBC would have recognised an additional impairment loss or gain of EUR 0.7 million (2011: EUR 0.2 million).

IMPAIRMENT OF DEBT INVESTMENTS CLASSIFIED AS AVAILABLE FOR SALE

NIBC 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 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 2012, for each of NIBC's impaired debt investments, the fair value had been 5% lower or higher, NIBC would have recognised an additional impairment loss or gain of EUR 0.2 million (2011: EUR 0.4 million).

IMPAIRMENT OF EQUITY INVESTMENTS CLASSIFIED AS AVAILABLE FOR SALE

NIBC determines an impairment loss on the available for sale equity investments held in the Investment portfolio of the venture capital organisation when there has been a significant or prolonged decline in fair value below original cost. NIBC exercises judgement in determining what is 'significant' or 'prolonged' by evaluating, among other factors, whether the decline is outside the normal range of volatility in the asset's price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the company whose securities are held by NIBC, a decline in industry or sector performance, adverse changes in technology or problems with operational or financing cash flows. The level of the impairment loss that NIBC recognises in the consolidated income statement is the cumulative loss that had been recognised directly in the revaluation reserve of other comprehensive income. If NIBC 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 8.8 million (2011: EUR 6.5 million) reduction in the profit before tax (gains less losses from financial assets) in 2012.

SECURITISATIONS AND SPECIAL PURPOSE ENTITIES

NIBC 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 does not consolidate SPEs that it does not control.

The determination of whether NIBC exercises control over an SPE requires NIBC to make judgements about its exposure to the risks and rewards derived from the SPE as well as its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

When assessing whether NIBC has to consolidate an SPE, it evaluates a range of factors, including whether:

- It will obtain the majority of the benefits of the activities of an SPE;
- It retains the majority of the residual ownership risks related to the assets in order to obtain the benefits from its activities;
- It has decision-making powers to obtain the majority of the benefits; and
- The activities of the SPE are being conducted on NIBC's behalf according to NIBC's specific business needs so that it obtains the benefits from the 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 5.5 billion (2011: EUR 6.4 billion) and the net effect on the income statement in both 2012 and 2011 would be insignificant.

De-recognition of assets and recognition of continuous involvement

NIBC executed transactions under its *Commercial Mortgage-Backed Securities* (**CMBS**) programme. The purpose of this programme is to offer NIBC's real estate clients access to the capital markets. NIBC 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 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 2012 was EUR 966 million (2011: EUR 1,161 million). The loans that continued to be recognised to the extent of NIBC's continuing involvement amounted to EUR 679 million at 31 December 2012 (2011: EUR 683 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 611 million (2011: EUR 613 million) securitised loans valued at amortised cost and an amount of EUR 467 million (2011: EUR 469 million) in debt securities in issue related to securitised mortgages, EUR 65 million (2011: 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 3 million (2011: 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 to differ by 10% from management's estimates, the carrying amount of pension obligations would be an estimated EUR 17.9 million (2011: EUR 18.0 million) lower or EUR 19.5 million (2011: EUR 19.9 million) higher. The service cost would be EUR 0.7 million (2011: EUR 0.8 million) lower or EUR 0.8 million (2011: EUR 0.9 million) higher.

Notes
to the consolidated financial statements

1 Segment report

The segment information has been prepared in accordance with IFRS 8, 'Operating segments', which defines requirements for the disclosure of financial information on an entity's operating segments. IFRS 8 requires operating segments to be identified based on 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 Bank as a whole is identified as a single operating segment.

Segment information is presented in these consolidated financial statements on the same basis as used for internal management reporting within NIBC. Internal management reporting within NIBC 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 Bank, including a reconciliation to the consolidated results under IFRS for the years ended 31 December 2012 and 31 December 2011.

	Internal management report operating segment NIBC Bank		Consolidation effects [2]		Total (consolidated financial statements)	
IN EUR MILLIONS [1]	2012	2011	2012	2011	2012	2011
Net interest income	127	172	(1)	(7)	126	165
Net fee and commission income	18	36	-	-	17	36
Dividend income	8	5	-	-	8	5
Net trading income	94	18	-	1	94	19
Gains less losses from financial assets	27	50	2	(2)	28	48
Share in result of associates	(1)	1	-	-	(1)	1
Other operating income	-	-	22	64	22	64
OPERATING INCOME	**272**	**282**	**22**	**56**	**294**	**338**
OPERATING EXPENSES	**146**	**170**	**21**	**57**	**168**	**226**
Impairments of financial assets	45	44	-	-	45	44
TOTAL EXPENSES	**192**	**213**	**21**	**57**	**213**	**270**
PROFIT BEFORE TAX	**80**	**69**	**1**	**(1)**	**81**	**68**
Tax	7	1	1	-	8	1
PROFIT AFTER TAX	**73**	**68**	**-**	**(1)**	**73**	**67**
Result attributable to non-controlling interests	-	-	-	(1)	-	(1)
NET PROFIT ATTRIBUTABLE TO PARENT SHAREHOLDER	**73**	**68**	**-**	**-**	**73**	**68**
Average allocated economic capital	1,418	1,438	-	-	1,418	1,438
Average unallocated capital	237	117	-	-	237	117
Segment assets	26,137	28,424	104	130	26,242	28,554
Segment liabilities	24,340	26,651	69	93	24,410	26,744
Capital expenditure	1	8	-	1	1	10
Share in result of associates based on the equity method	(4)	-	-	-	(4)	-
Investments in associates based on the equity method	10	14	-	-	10	14

1. Small differences are possible in the table due to rounding.
2. The items displayed under 'consolidation effects' refer to the non-financial entities over which NIBC has control. IFRS requires NIBC 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, only NIBC'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 generated 86% of its revenues in the Netherlands (2011: 87%) and 14% abroad (2011: 13%).

2 Net interest income

IN EUR MILLIONS	2012	2011
INTEREST AND SIMILAR INCOME		
Interest income from assets designated at fair value through profit or loss	263	295
Interest income from other assets	312	398
	575	**693**
INTEREST EXPENSE AND SIMILAR CHARGES		
Interest expense from liabilities designated at fair value through profit or loss	24	25
Interest expense from other liabilities	425	503
	449	**528**
	126	**165**

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.

For the year ended 31 December 2012, interest expense related to deposits from customers amounted to EUR 267 million (2011: EUR 207 million).

For the year ended 31 December 2012, interest income included accrued interest on impaired financial assets of EUR 2 million (2011: EUR 3 million).

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 after and the figure before reclassification reflects the amortisation of discounts and premiums on financial assets reclassified from held for trading or available-for-sale.

	For the period ended 31 December			
	2012		2011	
IN EUR MILLIONS	After reclassification	Before reclassification	After reclassification	Before reclassification
Interest income	74	69	96	87

3 Net fee and commission income

IN EUR MILLIONS	2012	2011
FEE AND COMMISSION INCOME		
Agency and underwriting fees	3	6
Investment management fees	6	19
Other	9	11
	18	**36**
FEE AND COMMISSION EXPENSE		
Other non-interest related	1	-
	1	**-**
	17	**36**

4 Dividend income

IN EUR MILLIONS	2012	2011
Equity investments (available-for-sale)	8	5
	8	**5**

5 Net trading income

IN EUR MILLIONS	2012	2011
Assets and liabilities designated at fair value through profit or loss (including related derivatives)	84	(4)
Assets and liabilities held for trading	30	7
Other net trading income	(20)	16
	94	**19**

Net trading income included a foreign exchange loss of EUR 2 million (2011: loss of EUR 6 million).

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:

	For the period ended 31 December			
	2012		2011	
IN EUR MILLIONS	After reclassification	Before reclassification	After reclassification	Before reclassification
Net trading income	(7)	40	4	(4)

6 Gains less losses from financial assets

IN EUR MILLIONS	2012	2011
EQUITY INVESTMENTS		
GAINS LESS LOSSES FROM EQUITY INVESTMENTS (AVAILABLE-FOR-SALE)		
Net gain/(losses) on disposal	34	7
Net revaluation gain/(losses) transferred from equity on disposal	-	1
Impairment losses equity investments	-	(1)
GAINS LESS LOSSES FROM EQUITY INVESTMENTS (FAIR VALUE THROUGH PROFIT OR LOSS)		
Gains less losses from associates	(3)	31
Gains less losses from other equity investments	(3)	8
	28	**46**
DEBT INVESTMENTS		
Gains less losses from debt investments (available-for-sale)	-	2
	-	**2**
	28	**48**

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

7 Other operating income

IN EUR MILLIONS	2012	2011
OTHER OPERATING INCOME OF NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION CAN BE CATEGORISED AS FOLLOWS:		
NET REVENUE		
Net sales	250	311
Cost of sales	(227)	(247)
	23	**64**
Other	(1)	-
	22	**64**

Other operating income for the year 2011 included the net revenue of the non-financial companies which have been deconsolidated since 20 September 2011.

8 Personnel expenses and share-based payments

IN EUR MILLIONS	2012	2011
Salaries	63	64
Variable compensation	7	17
PENSION AND OTHER POST-RETIREMENT CHARGES:		
Defined-benefit plan	6	6
Defined-contribution plan	3	3
Other post-retirement charges/(releases)	-	(1)
Social security charges	8	7
Other staff expenses	2	2
Staff cost of non-financial companies included in the consolidation	9	30
	98	**128**

The decrease in salaries in 2012 is mainly explained by a decrease in the average number of *Full Time Equivalents* (**FTEs**).

The decrease in variable compensation is mainly explained by a further reduction of the variable compensation pool available for employees, lower performance related fees combined with a lower level of expenses related to share-based payment plans from previous years, partly due to remeasurement based upon target realisation.

The number of FTEs (excluding the non-financial companies included in the consolidation) decreased from 664 at 31 December 2011 to 627 at 31 December 2012. The number of FTEs employed outside of the Netherlands decreased from 130 at 31 December 2011 to 126 at 31 December 2012.

At 31 December 2012, 106 FTEs (2011: 106 FTEs) were employed at the non-financial companies included in the consolidation, all of them are employed in the Netherlands. The decrease of staff costs is fully related to the deconsolidation of the non-financial companies of NIBC Merchant Banking Fund IB of which NIBC lost control on 20 September 2011.

Information on the pension charges is included in note 41 Employee benefits.

Information on the remuneration of the members of the Managing 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	2012	2011
THE BREAKDOWN OF THE TOTAL REMUNERATION OF THE STATUTORY BOARD IS AS FOLLOWS[1]:		
Cash compensation (base salary)	2,800,000	2,294,698
Cash compensation (severance payment)	500,000	-
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
Vesting of prior years long-term deferred share awards compensation	(124,998)	408,333
Vesting of 2009 one-off co-investment related deferred share awards compensation	(389,444)	945,947
Forfeiture of unvested share awards [2]	(330,189)	(352,863)
Pension costs	474,049	393,722
Other remuneration elements	455,680	373,111
	3,385,098	**4,171,428**

1. 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 2012 is EUR 0.4 million (2011: nil). In accordance with NIBC's accounting policies for share-based compensation, this amount has been credited to other reserves.
2. The forfeiture in 2012 relates fully to non-vested long-term deferred compensation granted to Mr. Jeroen van Hessen in 2012 and previous years. Mr. Jeroen van Hessen stepped down as member of the Statutory Board on 1 June 2012 and his employment ended at 31 December 2012. The forfeiture in 2011 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 his employment ended at the same date.

In 2012 the government imposed a one-off crisis levy of 16% on salaries of employees exceeding EUR 150,000. This one-off levy on employers is not part of the remuneration of the Statutory Board as presented in note 53 or in the previous table. The total crisis levy included in the personnel expenses amounts to EUR 1.4 million of which EUR 0.4 million relates to current and former members of the Statutory Board.

The total number of options on NIBC Holding *Common Depositary Receipts* (**CDRs**) held by the Statutory Board amounted to 267,056 (vested) as at 31 December 2012 (2011: 242,056 (vested) and 25,000 (unvested)). As at 31 December 2012, members of the Statutory Board held 282,990 CDRs (2011: 273,581), nil *Restricted Depositary Receipts* **(RDRs)** (2011: 2,316), 146,272 *Conditional Common Depositary Receipts* **(CCDRs)** (2011: 81,083) and 70,395 *Conditional Restricted Depositary Receipts* **(CRDRs)** (2011: 217,045).

Key management personnel compensation (Supervisory Board)

IN EUR	2012	2011
TOTAL REMUNERATION OF THE SUPERVISORY BOARD IS AS FOLLOWS:		
Annual fixed fees, committee fees	653,500	664,000
	653,500	**664,000**

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 our 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-emptive rights. Consequently, when given these pre-emptive rights, the Foundation will exercise the pre-emption rights attached to the ordinary shares underlying the DRs if these holders so elect.

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 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. In 2012 the vesting date of newly granted instruments was changed 1 April to be in line with the remuneration guidelines of the *Dutch Central Bank* (**DNB**). 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 2012, no new RDRs were granted by NIBC Holding. Instead, the 2011 short-term deferred compensation was delivered in the form of a deferred cash bonus and *Restricted Phantom Share Units* (**RPSUs**), both subject to three-year vesting, the first such vesting to occur on 1 April 2013.

In 2009, Statutory Board members made a combined personal investment of EUR 1.7 million (184 thousand NIBC CDRs at a price of EUR 9.25). In relation to that co-investment the Statutory Board members were granted 184 thousand 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.

NIBC 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 it was accepted by her in January 2012 against a price per CDR of EUR 8.70 being the fair value at that time.

On 1 June 2012, Mr. Jeroen van Hessen stepped down from the Statutory Board and his employment ended on 31 December 2012. All non-vested instruments, options and CRDRs (related to the co-investment and to long-term incentive programmes) were forfeited on 31 December 2012.

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 objective 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 RPSUs. RPSU 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. In 2012, as part of the review of the remuneration policies against the remuneration guidelines of DNB, it was decided to shorten the retention period from a five-year period to a one-year period and to move the vesting date from 1 January to 1 April. The (R)PSU has similar characteristics as the CRDR used for the LTI, such as eligibility for dividend and a value which is tied to movements in the net asset value of NIBC Holding, however from 2012 newly granted RPSUs are not eligible for dividend. 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* (**the 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% vest after three years and the remainder vest 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. In 2012, the Statutory Board, after consultation with the Supervisory Board, decided to apply this three-year extension. As a general rule, all unvested and vested out of the money 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 2012, no new options were granted to employees.

Stock option and share plans

Options

As at year-end 2012, 2,458,592 (2011: 3,038,879) options on CDRs of NIBC Holding were in issue, with a weighted average remaining vesting period of nil years (2011: nil years). Of this total position, 2,421,092 options were vested at 31 December 2012. 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 is 3.0 years (2011: 1.0 years). All options in issue as at 31 December 2012 and as at 31 December 2011 are equity-settled instruments.

	Options outstanding (in numbers)		Weighted average exercise price (in EUR)	
	2012	2011	2012	2011
CHANGES IN OPTION RIGHTS OUTSTANDING:				
BALANCE AT 1 JANUARY	3,038,879	3,607,268	13.06	13.22
Granted	-	-	-	-
Exercised	(311,300)	(185,850)	8.28	8.56
Forfeited	(268,987)	(382,539)	14.50	13.43
Expired	-	-	-	-
BALANCE AT 31 DECEMBER	2,458,592	3,038,879	13.17	13.06
OF WHICH VESTED AT 31 DECEMBER	2,421,092	2,468,179	13.16	13.95

The average fair value per option at grant date was EUR 5.51. In 2012, 311,300 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. At year-end the conversion of 75,400 exercised options into 13,038 CDRs was still pending.

Common Depositary Receipts

As at year end 2012, 2,775,057 (2011: 2,993,187) CDRs were issued to employees. Of the position as at year end 2012, 9,191 which is 0.3% of CDRs are considered cash-settled (2011: 10,465 and 0.3%); the remaining 99.7% is 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).

In 2012, a fully discretionary offer was made to current and former employees to sell their CDR holdings to a certain threshold with a maximum of 10%. Main reason was to reduce administrative and handling expenses by reducing the number of (small) holders of CDRs. Statutory Board members were not eligible for this offer.

	Depositary Receipt awards (in numbers)		Fair value at balance sheet date (in EUR)	
	2012	2011	2012	2011
CHANGES IN COMMON DEPOSITARY RECEIPTS:				
BALANCE AT 1 JANUARY	2,993,187	2,749,722	-	-
Granted	-	-	-	-
Investments from own funds	17,242	-	-	-
Exercised (options)	48,203	16,327	-	-
Vesting of RDRs	49,090	249,748	-	-
CDRs repaid	(332,665)	(22,610)	-	-
BALANCE AT 31 DECEMBER	2,775,057	2,993,187	8.40	8.70
OF WHICH RELATES TO INVESTMENT FROM OWN FUNDS AT 31 DECEMBER	1,185,478	1,280,112	-	-

Restricted Depositary Receipts

As at year-end 2012, nil (2011: 49,090) RDRs had been issued to employees, with a weighted average remaining vesting period of nil years (2011: nil). 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 (2011: nil), but all RDRs were considered equity-settled.

	Depositary Receipt awards (in numbers)		Weighted average fair value at grant date (in EUR)	
	2012	2011	2012	2011
CHANGES IN RESTRICTED DEPOSITARY RECEIPTS:				
BALANCE AT 1 JANUARY	49,090	303,623	13.65	13.65
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	(4,785)	-	19.68
Vested into CDRs	(49,090)	(249,748)	13.65	12.39
Expired	-	-	-	-
BALANCE AT 31 DECEMBER	-	49,090	-	13.65

Conditional Common Depositary Receipts

As at year-end 2012, 146,272 (2011: 81,083) CCDRs had been issued to Statutory Board members. Of the position as at year-end 2012, no CCDRs were considered cash-settled (2011: nil), but all CCDRs were considered equity-settled.

At year-end 2012, 24,648 (2011: nil) CCDRs were in issue to Statutory Board members related to the LTI scheme for the performance year 2009 for which 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 have fully vested into CCDRs at 1 January 2012. The vested instruments have an additional retention period of two years. Furthermore the vested instruments need to be held until a liquidity event takes place to ensure alignment with the shareholders.

	Conditional Common Depositary Receipt awards (in numbers)		Weighted average fair value at grant date (in EUR)	
	2012	2011	2012	2011
CHANGES IN CONDITIONAL COMMON DEPOSITARY RECEIPTS:				
BALANCE AT 1 JANUARY	**81,083**	**45,948**	**9.25**	**9.25**
Vesting of one-off matching shares awarded in 2009 on investment from own funds	40,541	45,947	9.25	9.25
Vesting of one-off performance shares awarded in 2009	-	-	-	-
Vesting of Long Term Incentive shares awarded in 2009	24,648	-	9.25	-
Forfeited	-	(10,812)	-	9.25
BALANCE AT 31 DECEMBER	**146,272**	**81,083**	**9.25**	**9.25**

The fair market value per CCDR 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 8.40.

Conditional Restricted Depositary Receipts

At year-end 2012, 92,519 (2011: 282,929) were in issue to employees, including 55,080 (2011: 81,083) CRDRs which were in issue to Statutory Board members related to their personal co-investment in 2009 and 2012 in NIBC Holding CDRs, with a weighted average remaining vesting period of 0.5 years (2011: 1.0 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 and 1 January 2013 (2012 investment) 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 nil CRDRs, based on NIBC's long-term forecast and taking into account price-to-book ratios observed in the market. 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 2012, no CRDRs were considered cash-settled (2011: nil), but all CRDRs were considered equity-settled.

The three-year cliff vesting period of a total of 45,115 CRDRs under the LTI 2010 ended 1 January 2013. The Supervisory Board reviewed the agreed long-term financial and non-financial performance conditions. The financial performance conditions (60%) were not met. The non-financial performance conditions (40%) were met in full. The Supervisory Board therefore awarded a vesting of 40% of the LTI 2010 CRDRs, which have fully vested at 1 January 2013. Consequently 60% of the LTI 2010 forfeited. The vested instruments have an additional retention period of two years. Furthermore the vested instruments need to be held until a liquidity event takes place to ensure alignment with the shareholders.

An interim re-measurement of the LTI 2011 (performance period 2011 - 2013) was done.
The number of CRDRs which are expected to vest on 1 January 2014 was re-estimated at 40% of the maximum number.

At year-end 2012, 15,315 (2011: 73,146) CRDRs were in issue to Statutory Board members related to the LTI scheme for the performance years 2010/2011, with an estimated weighted average remaining vesting period of 0.5 years (2011: 1.0 years).

	Conditional Restricted Depositary Receipt awards (in numbers)		Weighted average fair value at grant date (in EUR)	
	2012	2011	2012	2011
CHANGES IN CONDITIONAL RESTRICTED DEPOSITARY RECEIPTS:				
BALANCE AT 1 JANUARY	282,929	289,418	9.31	9.25
One-off matching shares (CRDRs) awarded in 2012 on investment from own funds	17,242	-	8.70	-
One-off performance shares (CRDRs) re-estimated 2012/ awarded in 2009/2012	(49,332)	19,470	9.25	9.25
Conditional Restricted Depositary Receipts re-estimated 2012/ awarded based on LTI scheme in 2011/2010	(55,765)	64,651	9.41	9.56
Forfeited	(37,365)	(44,663)	9.32	9.31
Vested into conditional CDRs	(65,189)	(45,947)	9.25	9.25
BALANCE AT 31 DECEMBER	92,519	282,929	9.21	9.31

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 8.40.

Phantom Share Units

As at year end 2012, 229,685 (2011: 211,420) 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)	
	2012	2011	2012	2011
CHANGES IN PHANTOM SHARE UNITS:				
BALANCE AT 1 JANUARY	211,420	91,383	9.10	9.56
Granted	85,116	120,037	8.40	8.75
Vesting of RPSUs	31,287	-	9.56	-
Exercised	(98,138)	-	9.56	-
Forfeited	-	-	-	-
BALANCE AT 31 DECEMBER	229,685	211,420	8.71	9.10

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 8.40.

Restricted Phantom Share Units

As at year end 2012, 272,022 (2011: 231,576) RPSUs had been 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)	
	2012	2011	2012	2011
CHANGES IN RESTRICTED PHANTOM SHARE UNITS:				
BALANCE AT 1 JANUARY	**231,576**	**101,904**	**9.05**	**9.56**
Granted	80,896	137,308	8.41	8.70
Vesting of RPSUs	(31,287)	-	9.56	-
Exercised	-	-	-	-
Forfeited	(9,163)	(7,636)	9.28	9.56
BALANCE AT 31 DECEMBER	**272,022**	**231,576**	**8.79**	**9.05**

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 reporting date was EUR 8.40.

With respect to all instruments relating to NIBC Choice (CDRs, RDRs, CCDRs, CRDRs, options and deferred cash), an amount of EUR 2 million was expensed through personnel expenses in 2012 (2011: EUR 4 million), of which EUR 2 million (2011: EUR 2 million) refers to cash-settled instruments (deferred cash and vested PSUs) and nil (2011: EUR 2 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 outstanding 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 (2011: EUR 5 million). With respect to the equity-settled instruments (CDRs, RDRs, CCDRs, 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 payable is included (2011: 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 accounted 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 50 million (2011: EUR 51 million) in relation to the share-based payments programme granted by NIBC Holding.

9 Other operating expenses

IN EUR MILLIONS	2012	2011
Other operating expenses	50	62
Other operating expenses of non-financial companies included in the consolidation	8	15
Fees of the external auditor	2	2
	60	**79**
FEES OF THE EXTERNAL AUDITOR CAN BE CATEGORISED AS FOLLOWS:		
Audit of financial statements	2	2
	2	**2**

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

10 Depreciation and amortisation

IN EUR MILLIONS	2012	2011
Property, plant and equipment	6	6
Property, plant and equipment of non-financial companies included in the consolidation	-	4
Intangible assets	4	9
	10	**19**
AMORTISATION OF INTANGIBLE ASSETS CAN BE CATEGORISED AS FOLLOWS:		
Trademarks and licenses	1	4
Customer relationships	2	3
Other intangibles	1	2
	4	**9**

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

11 Impairments of financial assets

IN EUR MILLIONS	2012	2011
IMPAIRMENTS		
Loans classified at amortised cost	45	67
Debt investments classified at amortised cost	8	5
Debt investments classified at available-for-sale	1	-
	54	**72**
REVERSALS OF IMPAIRMENTS		
Loans classified at amortised cost	(8)	(19)
Debt investments classified at amortised cost	-	-
Debt investments classified at available-for-sale	(2)	(5)
	(10)	**(24)**
Other	1	(4)
	45	**44**

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):

	For the period ended 31 December			
	2012		2011	
IN EUR MILLIONS	After reclassification	Before reclassification	After reclassification	Before reclassification
Impairments of financial assets	(18)	(11)	(5)	(6)

12 Tax

IN EUR MILLIONS	2012	2011
Current tax	21	14
Deferred tax	(13)	(13)
	8	**1**

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

IN EUR MILLIONS	2012	2011
TAX DIFFERENCES CAN BE ANALYSED AS FOLLOWS:		
PROFIT BEFORE TAX	**81**	**68**
Tax calculated at the nominal Dutch corporate tax rate of 25.0% (2011: 25.0%)	20	17
Impact of income not subject to tax	(13)	(12)
Impact of expenses not deductible for tax purposes	1	(1)
Effect of different tax rates in other countries	(1)	(1)
Result final tax assessment previous years	1	(2)
	8	**1**
EFFECTIVE TAX RATE	**9.4%**	**1.5%**

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

The current tax expense related to non-financial companies included in the consolidation is EUR 1 million (2011: nil).

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	2012	2011
Result attributable to non-controlling interests	-	(1)
	-	**(1)**

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

14 Cash and balances with central banks (amortised cost)

IN EUR MILLIONS	2012	2011
Cash and balances with central banks	1,604	2,430
	1,604	**2,430**

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

Cash and balances with central banks included EUR 1,557 million on the current account balance held with DNB (2011: EUR 101 million current account and an overnight deposit of EUR 2,270 million).

The mandatory reserve deposits at DNB required under its minimum reserve policy amounted to EUR 56 million (2011: EUR 108 million).

The fair value of this balance sheet item does not materially deviate from its face value, due to the short-term nature of the underlying assets.

15 Due from other banks (amortised cost)

IN EUR MILLIONS	2012	2011
Current accounts	535	624
Deposits with other banks	1,588	1,480
	2,123	**2,104**
DUE FROM OTHER BANKS CAN BE CATEGORISED AS FOLLOWS:		
Receivable on demand	535	624
Cash collateral placements posted under CSA agreements	1,474	1,398
Not receivable on demand	114	82
	2,123	**2,104**
THE LEGAL MATURITY ANALYSIS OF DUE FROM OTHER BANKS NOT RECEIVABLE ON DEMAND IS ANALYSED AS FOLLOWS:		
Three months or less	98	53
Longer than three months but not longer than one year	5	-
Longer than one year but not longer than five years	7	25
Longer than five years	4	4
	114	**82**

There were no subordinated loans outstanding due from other banks in 2012 and 2011.

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 2012 and 2011 on the amounts due from other banks at amortised cost.

An amount of EUR 1,474 million (2011: EUR 1,398 million) related to cash collateral given to third parties and was not freely available to NIBC.

NIBC transacted several reverse repurchase transactions with third parties. The related disclosures are included in note 46 Repurchase and resale agreements and transferred financial assets.

16 Loans (amortised cost)

IN EUR MILLIONS	2012	2011
Loans to corporate entities	7,309	7,479
Guaranteed by public authorities	34	38
	7,343	**7,517**
THE LEGAL MATURITY ANALYSIS OF LOANS IS ANALYSED AS FOLLOWS:		
Three months or less	331	564
Longer than three months but not longer than one year	396	487
Longer than one year but not longer than five years	3,766	3,107
Longer than five years	2,850	3,359
	7,343	**7,517**
THE MOVEMENT IN IMPAIRMENT LOSSES ON LOANS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**130**	**153**
Additional allowances	45	67
Write-offs	(28)	(71)
Amounts released	(8)	(19)
Unwinding of discount adjustment	(7)	(3)
Other (including exchange differences)	6	3
BALANCE AT 31 DECEMBER	**138**	**130**

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 as loans at amortised cost. The corresponding total amount of loans in the available-for-sale category net of impairments has been reclassified to the loans at amortised cost category as at 1 July 2008. The cumulative impairments at 31 December 2012, related to the available-for-sale loans reclassified to the loans at amortised cost category on 1 July 2008, amounted to EUR 78 million (2011: EUR 86 million).

If NIBC 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 2012, then the carrying amount would have decreased at the balance sheet date by EUR 117 million (2011: EUR 90 million). This decrease would reflect both changes due to interest rates and credit spreads. NIBC 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 8,496 million (2011: EUR 8,307 million).

The total amount of subordinated loans in this item amounted to EUR 252 million in 2012 (2011: EUR 254 million).

As per 31 December 2012, EUR 34 million (2011: EUR 38 million) was guaranteed by the Dutch State.

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

IN EUR MILLIONS	Fair value on date of reclassification	Carrying amount as per 31 December 2012	Fair value as per 31 December 2012
Loan portfolio reclassified from available-for-sale category	1,639	1,625	1,536

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 expected to recover from the assets reclassified as at 1 July 2008, which were still on the balance sheet as per 31 December 2012:

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	240	274	576	534	**1,624**

At the reclassification date (1 July 2008), NIBC recognised a total fair value loss in equity of EUR 11 million on assets reclassified.

17 Debt investments (amortised cost)

IN EUR MILLIONS	2012	2011
Debt investments	366	507
	366	**507**
DEBT INVESTMENTS CAN BE CATEGORISED AS FOLLOWS:		
Listed	334	507
Unlisted	32	-
	366	**507**

All debt investments are non-government.

IN EUR MILLIONS	2012	2011
THE LEGAL MATURITY ANALYSIS OF DEBT INVESTMENTS IS ANALYSED AS FOLLOWS:		
Three months or less	1	1
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	66	110
Longer than five years	299	396
	366	**507**
THE MOVEMENT IN DEBT INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**507**	**566**
Additions	42	63
Disposals (sale and/or redemption)	(185)	(128)
Impairments	(8)	(5)
Exchange differences and amortisation	10	11
BALANCE AT 31 DECEMBER	**366**	**507**
THE MOVEMENT IN IMPAIRMENT LOSSES ON DEBT INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**21**	**16**
Additional allowances	8	5
BALANCE AT 31 DECEMBER	**29**	**21**

If NIBC 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 2012, the carrying amount would have decreased at the balance sheet date by EUR 59 million (2011: EUR 113 million). This decrease would reflect both changes due to interest rates and credit spreads. NIBC hedges its interest rate risk from these assets.

The following table presents the fair value and carrying amount 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 amount as per 31 December 2012	Fair value as per 31 December 2012
DEBT INVESTMENTS RECLASSIFIED FROM:			
Held for trading category	400	257	201
Available-for-sale category	65	60	57

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
DEBT INVESTMENTS RECLASSIFIED FROM:	
Held for trading category	5 - 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 2012:

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	22	27	186	388	**623**
Available-for-sale category	3	4	11	81	**99**

18 Securitised loans (amortised cost)

IN EUR MILLIONS	2012	2011
Loans to corporate entities	611	613
	611	**613**
THE LEGAL MATURITY ANALYSIS OF THE SECURITISED LOANS IS ANALYSED AS FOLLOWS:		
Three months or less	1	3
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	610	610
Longer than five years	-	-
	611	**613**
THE MOVEMENT IN SECURITISED LOANS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	613	614
Disposals (sale and/or redemption)	(2)	(1)
BALANCE AT 31 DECEMBER	611	613

If NIBC had fair valued the securitised loans classified at amortised cost using the valuation methodology applied to loans designated as available-for-sale as per 31 December 2012, then the balance sheet amount would have decreased at the balance sheet date by EUR 41 million (2011: EUR 53 million). The fair value reflects movements due to both interest rate changes and credit spread changes. NIBC 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 611 million (2011: EUR 613 million).

No impairments were recorded in 2012 and 2011 on securitised loans at amortised cost.

19 Equity investments (available-for-sale)

IN EUR MILLIONS	2012	2011
Equity investments	49	66
	49	**66**

All of these equity investments are unlisted.

IN EUR MILLIONS	2012	2011
THE MOVEMENT IN EQUITY INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**66**	72
Additions	2	2
Disposals (sales and/or capital repayments)	(9)	(9)
Changes in fair value	(10)	1
Impairments	-	(1)
Exchange differences	-	1
BALANCE AT 31 DECEMBER	**49**	**66**
THE MOVEMENT IN IMPAIRMENT LOSSES ON EQUITY INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**61**	67
Additional allowances	-	1
Write-offs	-	(9)
Exchange differences	(1)	2
BALANCE AT 31 DECEMBER	**60**	**61**

20 Debt investments (available-for-sale)

IN EUR MILLIONS	2012	2011
Debt investments	985	887
	985	**887**
DEBT INVESTMENTS CAN BE CATEGORISED AS FOLLOWS:		
Government-guaranteed	-	5
Other debt investments	985	882
	985	**887**
DEBT INVESTMENTS CAN BE CATEGORISED AS FOLLOWS:		
Listed	908	706
Unlisted	77	181
	985	**887**
THE LEGAL MATURITY ANALYSIS OF DEBT INVESTMENTS IS ANALYSED AS FOLLOWS:		
Three months or less	99	86
Longer than three months but not longer than one year	132	161
Longer than one year but not longer than five years	261	342
Longer than five years	493	298
	985	**887**
THE MOVEMENT IN DEBT INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**887**	**1,190**
Additions	626	278
Disposals (sale and/or redemption)	(545)	(571)
Changes in fair value	19	(19)
Impairment amounts released	1	5
Exchange differences	(3)	4
BALANCE AT 31 DECEMBER	**985**	**887**

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC 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	2012	2011
THE MOVEMENT IN IMPAIRMENTS ON DEBT INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**18**	**23**
Additional allowances	1	-
Amounts released	(2)	(5)
BALANCE AT 31 DECEMBER	**17**	**18**

The following table presents the fair value and carrying amount 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 amount as per 31 December 2012	Fair value as per 31 December 2012
Debt investments reclassified from held for trading category	24	4	4

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 expected to recover from the assets reclassified as at 1 July 2008, which were still on the balance sheet as per 31 December 2012:

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	5	22	21	**55**

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

IN EUR MILLIONS	2012	2011
Loans to corporate entities	515	998
	515	**998**
THE LEGAL MATURITY ANALYSIS OF LOANS IS ANALYSED AS FOLLOWS:		
Three months or less	13	5
Longer than three months but not longer than one year	21	17
Longer than one year but not longer than five years	314	808
Longer than five years	167	168
	515	**998**
THE MOVEMENT IN LOANS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**998**	**1,074**
Additions	1	10
Disposals	(518)	(91)
Changes in fair value	30	(2)
Exchange differences	4	7
BALANCE AT 31 DECEMBER	**515**	**998**

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC 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 2012 included in the balance sheet amount (designated at fair value through profit or loss) as at 31 December 2012 relating to the movement in credit spreads amounted to EUR 30 million debit (2011: EUR 2 million credit), being an increase in the balance sheet carrying amount.

The maximum credit risk exposure including undrawn credit facilities amounted to EUR 515 million (2011: EUR 717 million).

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

IN EUR MILLIONS	2012	2011
Residential mortgages own book	3,675	3,185
	3,675	**3,185**
THE LEGAL MATURITY ANALYSIS OF RESIDENTIAL MORTGAGES OWN BOOK IS ANALYSED AS FOLLOWS:		
Three months or less	33	20
Longer than three months but not longer than one year	24	15
Longer than one year but not longer than five years	41	36
Longer than five years	3,577	3,114
	3,675	**3,185**
THE MOVEMENT IN RESIDENTIAL MORTGAGES OWN BOOK MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**3,185**	**4,429**
Additions (including transfers from consolidated SPEs)	1,269	27
Disposals (sale and/or redemption, including replenishment of consolidated SPEs)	(864)	(1,251)
Changes in fair value	85	(20)
BALANCE AT 31 DECEMBER	**3,675**	**3,185**

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC 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 3,681 million (2011: EUR 3,190 million).

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

IN EUR MILLIONS	2012	2011
Securitised residential mortgages	4,512	5,560
	4,512	**5,560**
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	3	2
Longer than one year but not longer than five years	17	22
Longer than five years	4,491	5,535
	4,512	**5,560**
THE MOVEMENT IN SECURITISED RESIDENTIAL MORTGAGES MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**5,560**	**5,338**
Additions	527	750
Disposals (sale and/or redemption including transfers to own book)	(1,625)	(569)
Changes in fair value	50	41
BALANCE AT 31 DECEMBER	**4,512**	**5,560**

At 31 December 2012 the balance sheet carrying amounts for residential mortgages own book and securitised residential mortgages include a total revaluation adjustment of EUR 450 million debit (2011: EUR 314 million debit) related to both interest rates and credit spreads and EUR 164 million credit (2011: EUR 152 million credit) related to mortgage savings amounts. As NIBC hedges its interest rate risk from these assets, the revaluation adjustment related to interest rates is compensated in the balance sheet in derivative financial assets and liabilities.

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC 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 2012, securitised residential mortgages in the amount of EUR 4,512 million (2011: EUR 5,560 million) were pledged as collateral for NIBC's own liabilities (see note 49 Assets transferred or pledged as security).

The maximum credit exposure was EUR 4,512 million at 31 December 2012 (2011: EUR 5,560 million).

The portion of fair value changes in 2012 included in the balance sheet amount relating to the movement in credit spreads on residential mortgages own book (see note 22 Residential mortgages own book) and securitised residential mortgages amounted to EUR 36 million credit at 31 December 2012 (2011: EUR 131 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 Residential mortgages own book) and securitised residential mortgages at 31 December 2012 amounted to a liability of EUR 25 million (2011: EUR 26 million).

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

IN EUR MILLIONS	2012	2011
Held for trading	49	58
Designated at fair value through profit or loss	75	106
	124	164

All debt investments are non-government.

IN EUR MILLIONS	2012	2011
DEBT INVESTMENTS HELD FOR TRADING CAN BE CATEGORISED AS FOLLOWS:		
Listed	40	50
Unlisted	9	8
	49	58
DEBT INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS CAN BE CATEGORISED AS FOLLOWS:		
Listed	75	96
Unlisted	-	10
	75	106
THE LEGAL MATURITY ANALYSIS OF DEBT INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS IS ANALYSED AS FOLLOWS:		
Three months or less	-	-
Longer than three months but not longer than one year	23	31
Longer than one year but not longer than five years	45	67
Longer than five years	7	8
	75	106
THE MOVEMENT IN DEBT INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	106	476
Additions	-	8
Disposals (sale and/or redemption)	(33)	(368)
Changes in fair value	2	(10)
Exchange differences	-	-
BALANCE AT 31 DECEMBER	75	106

The changes in fair value in the previous table reflect movements due to both interest rate changes and credit spread changes. As NIBC 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 2012 included in the balance sheet amount (designated at fair value through profit or loss) relating to the movement in credit spreads amounted to EUR 3 million debit (2011: nil), being an increase 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 (including investments in associates) (designated at fair value through profit or loss)

IN EUR MILLIONS	2012	2011
Investments in associates	196	237
Other equity investments	19	21
	215	**258**

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	2012	2011
THE MOVEMENT IN INVESTMENTS IN ASSOCIATES MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**237**	**255**
Additions	20	13
Disposals	(66)	(60)
Changes in fair value	5	29
BALANCE AT 31 DECEMBER	**196**	**237**

All of these investments in associates are unlisted.

IN EUR MILLIONS	2012	2011
THE MOVEMENT IN OTHER EQUITY INVESTMENTS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**21**	**14**
Additions	1	11
Disposals	(1)	(10)
Changes in fair value	(2)	6
BALANCE AT 31 DECEMBER	**19**	**21**

The other equity investments are unlisted.

26 Derivative financial instruments

IN EUR MILLIONS	2012	2011
DERIVATIVE FINANCIAL ASSETS		
Derivative financial assets held for trading (trading portfolios)	3,120	2,968
Derivative financial assets held for trading (other portfolios)	522	689
Derivative financial assets used for hedging	275	292
	3,917	**3,949**
DERIVATIVE FINANCIAL LIABILITIES		
Derivative financial liabilities held for trading (trading portfolios)	3,643	3,548
Derivative financial liabilities held for trading (other portfolios)	383	418
Derivative financial liabilities used for hedging	20	34
	4,046	**4,000**

Derivative financial instruments held for trading (trading portfolios) at 31 December 2012

IN EUR MILLIONS	Notional amount with remaining life of					
	Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
INTEREST RATE DERIVATIVES						
OTC PRODUCTS:						
Interest rate swaps	3,892	5,877	55,480	65,249	3,038	3,589
Interest rate options (purchase)	45	22	482	549	4	-
Interest rate options (sale)	45	19	495	559	-	7
	3,982	**5,918**	**56,457**	**66,357**	**3,042**	**3,596**
CURRENCY DERIVATIVES						
OTC PRODUCTS:						
Currency/cross-currency swaps	-	-	791	791	35	1
	-	**-**	**791**	**791**	**35**	**1**
OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)						
OTC PRODUCTS:						
Other swaps	-	-	62	62	43	46
	-	**-**	**62**	**62**	**43**	**46**
TOTAL DERIVATIVES HELD FOR TRADING (TRADING PORTFOLIOS)	**3,982**	**5,918**	**57,310**	**67,210**	**3,120**	**3,643**

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

IN EUR MILLIONS	Notional amount with remaining life of					
	Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
INTEREST RATE DERIVATIVES						
OTC PRODUCTS:						
Interest rate swaps	11,567	9,232	56,385	77,184	2,901	3,469
Interest rate options (purchase)	55	207	534	796	8	-
Interest rate options (sale)	21	107	504	632	-	9
	11,643	**9,546**	**57,423**	**78,612**	**2,909**	**3,478**
CURRENCY DERIVATIVES						
OTC PRODUCTS:						
Currency/cross-currency swaps	-	705	4	709	56	59
	-	**705**	**4**	**709**	**56**	**59**
OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)						
OTC PRODUCTS:						
Other swaps	-	-	62	62	2	10
Other options (purchase)	-	-	42	42	1	-
Other options (sale)	-	-	42	42	-	1
	-	**-**	**146**	**146**	**3**	**11**
TOTAL DERIVATIVES HELD FOR TRADING (TRADING PORTFOLIOS)	**11,643**	**10,251**	**57,573**	**79,467**	**2,968**	**3,548**

Derivative financial instruments held for trading (other portfolios) at 31 December 2012

IN EUR MILLIONS	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
INTEREST RATE DERIVATIVES						
OTC PRODUCTS:						
Interest rate swaps	102	1,333	12	1,447	475	347
	102	**1,333**	**12**	**1,447**	**475**	**347**
CURRENCY DERIVATIVES						
OTC PRODUCTS:						
Interest currency rate swaps	17	15	870	902	43	4
Other currency contracts	603	-	-	603	3	13
	620	**15**	**870**	**1,505**	**46**	**17**
OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)						
OTC PRODUCTS:						
Credit default swaps (guarantees given)	-	-	50	50	-	1
Credit default swaps (guarantees received)	-	-	201	201	-	-
Other OTC products	17	-	4	21	1	18
	17	**-**	**255**	**272**	**1**	**19**
TOTAL DERIVATIVES HELD FOR TRADING (OTHER PORTFOLIOS)	**739**	**1,348**	**1,137**	**3,224**	**522**	**383**

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

IN EUR MILLIONS	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
INTEREST RATE DERIVATIVES						
OTC PRODUCTS:						
Interest rate swaps	1,713	1,058	13,073	15,844	435	367
	1,713	**1,058**	**13,073**	**15,844**	**435**	**367**
CURRENCY DERIVATIVES						
OTC PRODUCTS:						
Forward rate agreements	60	-	-	60	1	1
Interest currency rate swaps	525	469	880	1,874	226	3
Other currency contracts	895	-	-	895	-	29
	1,480	**469**	**880**	**2,829**	**227**	**33**
OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)						
OTC PRODUCTS:						
Credit default swaps (guarantees given)	-	-	50	50	1	1
Other OTC products	14	10	4	28	26	17
	14	**10**	**54**	**78**	**27**	**18**
TOTAL DERIVATIVES HELD FOR TRADING (OTHER PORTFOLIOS)	**3,207**	**1,537**	**14,007**	**18,751**	**689**	**418**

Derivative financial instruments used for hedging at 31 December 2012

IN EUR MILLIONS	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
DERIVATIVES ACCOUNTED FOR AS FAIR VALUE HEDGES OF INTEREST RATE RISK						
OTC PRODUCTS:						
Interest rate swaps	78	292	5,071	5,441	266	20
Interest currency rate swaps	-	-	10	10	9	-
TOTAL DERIVATIVES USED FOR HEDGING	**78**	**292**	**5,081**	**5,451**	**275**	**20**

Derivative financial instruments used for hedging at 31 December 2011

IN EUR MILLIONS	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
DERIVATIVES ACCOUNTED FOR AS FAIR VALUE HEDGES OF INTEREST RATE RISK						
OTC PRODUCTS:						
Interest rate swaps	1,430	342	5,444	7,216	286	34
Interest currency rate swaps	-	-	27	27	6	-
TOTAL DERIVATIVES USED FOR HEDGING	**1,430**	**342**	**5,471**	**7,243**	**292**	**34**

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		2012	2011
Fair value pay - fixed swaps (hedging assets)	**assets**	-	-
Fair value pay - fixed swaps (hedging assets)	**liabilities**	(20)	(34)
		(20)	**(34)**
Fair value pay - floating swaps (hedging liabilities)	**assets**	275	292
Fair value pay - floating swaps (hedging liabilities)	**liabilities**	-	-
		275	**292**

The average remaining maturity (in which the related cash flows are expected to enter into the determination of profit or loss) is four years (2011: three years).

Hedging activities

Portfolio fair value hedge of plain vanilla funding

According to NIBC's Hedging Policy, NIBC should not be exposed to interest rate risk from its fixed rate plain vanilla funding activities above certain limits prescribed by the *Asset & Liability Committee* (**ALCO**). Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the fixed rate plain vanilla funding and corresponding hedging transactions.

The hedged risk is the benchmark interest rate (interbank offered rates up to one year and swap rates for periods longer than one year) for the currency in question.

The net fair value of the derivative financial instruments designated as hedging instruments in these relationships at 31 December 2012 was EUR 20 million debit (2011: EUR 24 million debit). The loss on the hedging instruments was EUR 1 million (2011: loss of EUR 1 million). The gains on the hedged items attributable to the hedged risk were EUR 1 million (2011: nil). 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'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 uses interest rate swaps to hedge the fair value interest rate risk arising on this fixed rate funding. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the 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 2012 was EUR 108 million debit (2011: EUR 56 million debit). The gains on the hedging instruments were EUR 44 million (2011: gain of EUR 45 million). The losses on the hedged items attributable to the hedged risk were EUR 40 million (2011: loss of EUR 42 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's hedging policy, NIBC 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 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 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 2012 was EUR 144 million debit (2011: EUR 203 million debit). The losses on the hedging instruments were EUR 10 million (2011: gain of EUR 17 million). The gains on the hedged items attributable to the hedged risk were EUR 11 million (2011: loss of EUR 8 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's hedging policy, NIBC should not be exposed to interest rate risk from its corporate loan activities above certain limits as set by ALCO. Consequently, NIBC uses interest rate swaps to hedge the fair value interest rate risk arising from these fixed rate loans. To mitigate any accounting mismatches, NIBC has defined a portfolio fair value hedge for the fixed rate 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 2012 was EUR 11 million credit (2011: EUR 14 million credit). Losses on the hedging instruments were nil (2011: loss of EUR 2 million). The gains on the hedged items attributable to the hedged risk were EUR 3 million (2011: gain of EUR 3 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's hedging policy, NIBC 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 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 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 2012 was EUR 6 million credit (2011: EUR 10 million credit). The gains on the hedging instruments were EUR 2 million (2011: gain of EUR 2 million). The losses on the hedged items attributable to the hedged risk were EUR 3 million (2011: loss of EUR 2 million).

Cash flow hedges

All macro cash flow hedge relationships ceased to exist during 2011 and therefore the related cumulative hedge adjustment as from that date are being amortised over the remaining contractual maturity of the hedged item.

The amount that was recognised in equity during the year 2012 was nil (2011: EUR 28 million credit). The amount that was removed from equity and included in the income statement in 2012 was a gain of EUR 29 million net of tax (2011: gain of EUR 11 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 211 million (2011: USD 203 million) was designated as a hedging instrument, and gave rise to currency gain for the year 2012 of EUR 3 million before tax (2011: loss of EUR 5 million), which was 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 2012 (2011: 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	2012	2011
Investments in associates	10	14
	10	**14**
THE MOVEMENT IN INVESTMENTS IN ASSOCIATES MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**14**	**18**
Purchases and additional payments	1	1
Disposals	-	(3)
Share in result of associates	(1)	1
Dividend received	(4)	(3)
BALANCE AT 31 DECEMBER	**10**	**14**

At the end of 2012 and 2011, 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 and/or repayment of loans.

There is no unrecognised share of losses of an associate, either for the period or cumulatively.

See note 52 Principal subsidiaries, joint ventures and associates for further details on the investments in associates.

The cumulative impairment losses of EUR 10 million did not change in 2012 and 2011.

28 Intangible assets

IN EUR MILLIONS	2012	2011
Intangible assets	50	52
	50	52
INTANGIBLE ASSETS RELATED TO NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION MAY BE SUMMARISED AS FOLLOWS:		
Cost	63	61
Accumulated amortisation	(13)	(9)
	50	52

IN EUR MILLIONS	Goodwill	Trademarks and licences	Customer relationships	Other intangibles	Total
THE MOVEMENT IN INTANGIBLE ASSETS TO NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION MAY BE SUMMARISED AS FOLLOWS:					
BALANCE AT 1 JANUARY 2011	64	27	27	4	122
Additions	-	-	-	-	-
Derecognition following deconsolidation of non-financial companies	(32)	(15)	(14)	-	(61)
Amortisation	-	(4)	(3)	(2)	(9)
BALANCE AT 31 DECEMBER 2011	32	8	10	2	52

IN EUR MILLIONS	Goodwill	Trademarks and licences	Customer relationships	Other intangibles	Total
THE MOVEMENT IN INTANGIBLE ASSETS TO NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION MAY BE SUMMARISED AS FOLLOWS:					
BALANCE AT 1 JANUARY 2012	32	8	10	2	52
Additions	-	-	-	2	2
Amortisation		(1)	(2)	(1)	(4)
BALANCE AT 31 DECEMBER 2012	32	7	8	3	50

Amortisation of EUR 4 million (2011: EUR 9 million) was included in the depreciation and amortisation line of the income statement.

After derecognition in 2011, NIBC recognised goodwill to an amount of EUR 32 million (2011: EUR 32 million) and other intangible assets to an amount of EUR 18 million (2011: EUR 20 million) on the acquisition of business combinations.

The remaining amortisation period for the categories trademarks and licences is seven years and four years for customer relationships. There is no remaining amortisation period for order backlog.

Intangible assets pledged as security for liabilities were nil for both 2012 and 2011.

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 amount.

IN EUR MILLIONS	2012	2011
GOODWILL HAS BEEN ALLOCATED TO THE GROUP OF CASH GENERATING UNITS AS FOLLOWS:		
Non-financial companies included in the consolidation	32	32
	32	**32**

No impairments were recorded in 2012 and 2011 on intangible assets.

29 Property, plant and equipment

IN EUR MILLIONS	2012	2011
Land and buildings	43	46
Other fixed assets	3	4
	46	**50**
Other fixed assets from non-financial companies included in the consolidation	1	1
	1	**1**
	47	**51**
THE MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**51**	**101**
Additions	1	8
Additions non-financial companies included in the consolidation	-	2
Derecognition following deconsolidation of non-financial companies	-	(37)
Revaluation	1	(13)
Depreciation	(6)	(10)
BALANCE AT 31 DECEMBER	**47**	**51**

In 2012, there were no depreciation expenses relating to non-financial companies included in the consolidation (2011: EUR 4 million).

IN EUR MILLIONS	2012	2011
THE ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT CAN BE CATEGORISED AS FOLLOWS:		
Land and buildings	45	41
Other fixed assets	12	10
	57	**51**
Other fixed assets from non-financial companies included in the consolidation	3	3
	3	**3**
	60	**54**

NIBC'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 are insured for EUR 70 million (2011: EUR 69 million). Other fixed assets are insured for EUR 31 million (2011: EUR 39 million). Other fixed assets of the non-financial companies included in the consolidation are insured for EUR 1 million (2011: EUR 1 million).

At 31 December 2012 and 2011, no property, plant and equipment from the non-financial companies included in the consolidation were pledged as security for liabilities.

At 31 December 2012 and 2011, there was no capital expenditure contracted for related to non-financial companies included in the consolidation. No amount was recognised in the carrying amount of property, plant and equipment in the course of construction at 31 December 2012 and 2011.

30 Investment property

IN EUR MILLIONS	2012	2011
Land and buildings	1	27
	1	**27**

In 2012, investment property is insured for EUR 1 million (2011: EUR 13 million).

IN EUR MILLIONS	2012	2011
THE MOVEMENT IN INVESTMENT PROPERTY MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**27**	**26**
Additions resulting from acquisition	1	2
Disposals	(26)	(1)
Changes in fair value	(1)	-
BALANCE AT 31 DECEMBER	**1**	**27**

At the end of 2012, this balance sheet item included only acquired property of EUR 1 million (2011: EUR 2 million) 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 is nil (2011: EUR 25 million).

Rental income of EUR 1 million (2011: EUR 2 million) was recognised in the income statement.

31 Current tax

IN EUR MILLIONS	2012	2011
Current tax assets	2	3
	2	**3**

IN EUR MILLIONS	2012	2011
Current tax liabilities	9	-
	9	**-**

It is expected that the current tax will be settled within 12 months.

32 Other assets

IN EUR MILLIONS	2012	2011
Accrued interest	1	1
Other accruals and receivables	40	118
Defined-benefit pension asset [1]	2	-
Other assets related to non-financial companies included in the consolidation	50	50
	93	**169**

1. For further explanation, see note 41 Employee benefits.

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 47 million (2011: EUR 48 million).

IN EUR MILLIONS	2012	2011
OTHER ASSETS RELATED TO NON-FINANCIAL COMPANIES INCLUDED IN THE CONSOLIDATION CAN BE CATEGORISED AS FOLLOWS:		
Trade receivables (less provisions for doubtful debts)	50	50
	50	**50**

33 Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using a nominal tax rate of 25.0% (2011: 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	2012	2011
Deferred tax liabilities	-	18
	-	**18**
THE AMOUNTS OF DEFERRED INCOME TAX ASSETS, WITHOUT TAKING INTO CONSIDERATION THE OFFSETTING OF BALANCES WITHIN THE SAME JURISDICTION, WERE AS FOLLOWS:		
Loans (available-for-sale)	-	1
Debt investments (available-for-sale)	3	9
Tax losses carried forward	28	14
	31	**24**
THE AMOUNTS OF DEFERRED INCOME TAX LIABILITIES, WITHOUT TAKING INTO CONSIDERATION THE OFFSETTING OF BALANCES WITHIN THE SAME JURISDICTION, WERE AS FOLLOWS:		
Equity investments (available-for-sale)	2	2
Cash flow hedges	23	31
Property, plant and equipment	6	6
Temporary differences on loans and receivables as a result of internal securitisations	-	3
	31	**42**
	-	**18**

Temporary differences on loans and receivables arise as a result of internal securitisations related to SPEs, which are consolidated in the financial statements, but not included in the fiscal unity of NIBC.

IN EUR MILLIONS	2012	2011
THE GROSS MOVEMENT ON THE DEFERRED INCOME TAX ACCOUNT MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	18	34
LOANS (REPORTED AS AVAILABLE-FOR-SALE):		
Fair value remeasurement charged/(credited) to revaluation reserve	1	4
DEBT INVESTMENTS (REPORTED AS AVAILABLE-FOR-SALE):		
Fair value remeasurement charged/(credited) to revaluation reserve	6	(6)
PROPERTY, PLANT AND EQUIPMENT (REPORTED AT FAIR VALUE):		
Fair value remeasurement charged/(credited) to revaluation reserve	-	(3)
EQUITY INVESTMENTS (REPORTED AS AVAILABLE-FOR-SALE):		
Fair value remeasurement charged/(credited) to revaluation reserve	-	(8)
CASH FLOW HEDGES:		
Fair value remeasurement charged/(credited) to hedging reserve	(8)	7
Temporary differences on loans and receivables as a result of internal securitisations	(3)	(10)
Tax losses carried forward	(14)	-
BALANCE AT 31 DECEMBER	-	18

34 Due to other banks (amortised cost)

IN EUR MILLIONS	2012	2011
Due to other banks	1,026	1,261
	1,026	**1,261**
DUE TO OTHER BANKS CAN BE CATEGORISED AS FOLLOWS:		
Payable on demand	10	9
Not payable on demand	1,016	1,252
	1,026	**1,261**
THE LEGAL MATURITY ANALYSIS OF DUE TO OTHER BANKS NOT PAYABLE ON DEMAND IS ANALYSED AS FOLLOWS:		
Three months or less	340	220
Longer than three months but not longer than one year	3	64
Longer than one year but not longer than five years	508	730
Longer than five years	165	238
	1,016	**1,252**

Interest is recognised in interest expense and similar charges on an effective interest basis.

NIBC transacted several repurchase transactions with third parties. The related disclosures are included in note 46 Repurchase and resale agreements and transferred financial assets.

An amount of EUR 274 million (2011: EUR 216 million) related to cash collateral received from third parties.

35 Deposits from customers (amortised cost)

IN EUR MILLIONS	2012	2011
Deposits from customers	8,347	6,644
	8,347	**6,644**
DEPOSITS FROM CUSTOMERS CAN BE CATEGORISED AS FOLLOWS:		
On demand	4,282	3,603
Term deposits	4,065	3,041
	8,347	**6,644**
THE LEGAL MATURITY ANALYSIS OF DEPOSITS FROM CUSTOMERS IS ANALYSED AS FOLLOWS:		
Three months or less	5,160	4,066
Longer than three months but not longer than one year	925	763
Longer than one year but not longer than five years	1,693	1,303
Longer than five years	569	512
	8,347	**6,644**

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	2012	2011
Bonds and notes issued	4,314	7,096
	4,314	**7,096**
THE LEGAL MATURITY ANALYSIS OF OWN DEBT SECURITIES IN ISSUE IS ANALYSED AS FOLLOWS:		
Three months or less	-	2,373
Longer than three months but not longer than one year	220	62
Longer than one year but not longer than five years	4,024	4,588
Longer than five years	70	73
	4,314	**7,096**

The Dutch State has unconditionally and irrevocably guaranteed payment of all amounts of principal and interest due by NIBC up to EUR 3,311 million (2011: EUR 5,410 million) of the issued notes according and subject to (i) the Rules governing the 2008 Dutch State's Credit 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.dsta.nl. In 2012, losses of EUR 12 million were realised on the repurchase of own debt securities in issue at amortised cost (2011: loss of EUR 6 million).

37 Debt securities in issue related to securitised mortgages (amortised cost)

IN EUR MILLIONS	2012	2011
Bonds and notes issued	4,470	5,416
	4,470	**5,416**
THE LEGAL MATURITY ANALYSIS OF DEBT SECURITIES IN ISSUE RELATED TO SECURITISED MORTGAGES IS ANALYSED AS FOLLOWS:		
Three months or less	6	15
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	16	-
Longer than five years	4,448	5,401
	4,470	**5,416**

38 Own debt securities in issue (designated at fair value through profit or loss)

IN EUR MILLIONS	2012	2011
Bonds and notes issued	34	41
	34	**41**
THE LEGAL MATURITY ANALYSIS OF OWN DEBT SECURITIES IN ISSUE IS ANALYSED AS FOLLOWS:		
Three months or less	-	11
Longer than three months but not longer than one year	-	-
Longer than one year but not longer than five years	6	6
Longer than five years	28	24
	34	**41**

The fair value reflects movements due to both interest rate changes and credit spread changes. As NIBC 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 35 million at 31 December 2012 (2011: EUR 45 million).

The portion of fair value changes during 2012 attributable to the movement in credit spreads amounted to nil (2011: EUR 2 million debit, being a reduction in the carrying amount).

39 Debt securities in issue structured (designated at fair value through profit or loss)

IN EUR MILLIONS	2012	2011
Bonds and notes issued	1,654	1,733
	1,654	**1,733**
THE LEGAL MATURITY ANALYSIS OF DEBT SECURITIES IN ISSUE STRUCTURED IS ANALYSED AS FOLLOWS:		
Three months or less	-	25
Longer than three months but not longer than one year	690	701
Longer than one year but not longer than five years	307	326
Longer than five years	657	681
	1,654	**1,733**

The fair value reflects movements due to both interest rate changes and credit spread changes. As NIBC 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 1,671 million at 31 December 2012 (2011: EUR 1,827 million).

The portion of fair value changes during 2012 attributable to the movement in credit spreads amounted to EUR 12 million debit, being a reduction of the carrying amount (2011: EUR 63 million debit). In 2012, gains of EUR 4 million (2011: gains of EUR 6 million) were realised on the repurchase of liabilities with respect to this balance sheet item.

40 Other liabilities

IN EUR MILLIONS	2012	2011
Accrued interest	3	-
Other accruals	33	55
Payables	85	59
Other liabilities related to payables of the non-financial companies	38	35
	159	**149**

41 Employee benefits

IN EUR MILLIONS	2012	2011
Pension benefit obligations	-	1
Other post retirement obligations	-	-
Other employee benefits	3	3
Other employee benefits related to non-financial companies	1	1
	4	**5**

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 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 2012. 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'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 pays contributions directly into the member's scheme. NIBC has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

IN EUR MILLIONS	2012	2011
PENSION BENEFIT OBLIGATIONS CAN BE CATEGORISED AS FOLLOWS:		
Present value of funded obligations	242	212
Fair value of plan assets	232	203
DEFICIT FOR FUNDED PLANS	**10**	**9**
Unrecognised actuarial gains/(losses)	(9)	(5)
Subordinated loan to trustee-administered fund [1]	(3)	(3)
	(2)	**1**

At 31 December 2012, the defined-benefit pension asset was reported under Other assets (note 32).

IN EUR MILLIONS	2012	2011
THE MOVEMENT IN THE PRESENT VALUE OF FUNDED PENSION BENEFIT OBLIGATIONS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**212**	**197**
Current service cost	6	6
Interest cost	10	9
Actuarial (gains)/losses on obligations	20	6
Benefits paid	(6)	(6)
BALANCE AT 31 DECEMBER	**242**	**212**
THE MOVEMENT IN THE FAIR VALUE OF PLAN ASSETS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**203**	**183**
Expected return on plan assets	9	8
Actuarial gains/(losses)	17	12
Employer and employee contributions	9	6
Benefits paid	(6)	(6)
BALANCE AT 31 DECEMBER	**232**	**203**
PLAN ASSETS ARE COMPRISED AS FOLLOWS:		
Equities	58	50
Bonds	163	156
Cash	14	-
Subordinated loan to trustee-administered fund [1]	(3)	(3)
	232	**203**

1. NIBC has advanced a subordinated loan (interest charge: 0%) for an amount of EUR 3 million (2011: 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 2012, the actual return on plan assets was EUR 26 million gain (2011: EUR 20 million gain).

IN EUR MILLIONS	2012	2011
THE AMOUNTS RECOGNISED IN PERSONNEL EXPENSES IN THE INCOME STATEMENT WERE AS FOLLOWS:		
Current service cost	6	6
Interest cost	9	9
Expected return on plan assets	(9)	(8)
Amortisation of net (gain)/losses	-	(1)
	6	**6**
THE MOVEMENT IN THE LIABILITY RECOGNISED IN THE BALANCE SHEET MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**1**	**1**
Total expense – as above	6	6
Employer contributions	(9)	(6)
BALANCE AT 31 DECEMBER	**(2)**	**1**

IN %	2012	2011
THE PRINCIPAL ACTUARIAL ASSUMPTIONS USED WERE AS FOLLOWS:		
Discount rate	3.75	4.50
Expected return on plan assets	3.75	4.50
Future salary increases, excluding career developments	2.25	2.25
Future pension increases	1.00	1.50
Price inflation	2.00	2.00

For the mortality assumptions, NIBC used the generation tables 'AG Prognosetafel 2012-2062' 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	2012	2011	2010	2009	2008
LIABILITY RECOGNISED IN THE BALANCE SHEET AT END OF YEAR					
Present value of obligation	242	212	197	176	159
Fair value of plan assets	232	203	183	166	153
DEFICIT/(SURPLUS)	**10**	**9**	**14**	**10**	**6**
Unrecognised actuarial (loss)/gain	(9)	(5)	(10)	(5)	1
Subordinated loan to trustee-administered fund	(3)	(3)	(3)	(3)	(3)
Present value of unfunded obligation	-	-	-	-	-
Unrecognised past service cost	-	-	-	-	-
Unrecognised transition amount	-	-	-	-	-
Adjustment for limit on net asset	-	-	-	-	-
	(2)	**1**	**1**	**2**	**4**

IAS 19 Employee Benefits (Revised)

IAS 19 Employee Benefits (Revised) requires that actuarial gains and losses arising from defined-benefit pension schemes are recognised in full. Previously NIBC deferred these over the remaining average service lives of the employees (the 'corridor' approach). From 1 January 2013, in accordance with amendments to IAS 19, the balance sheet will fully reflect the pension liability or asset, including any previously unrecognised actuarial losses or gains. As at 31 December 2012 there were unrecognised actuarial losses of EUR 7 million (net of tax). In addition, NIBC will recognise interest expense or income on the net pension liability or asset, rather than the expected return on the plan assets and interest cost on the plans' benefit obligation. NIBC will no longer recognise the amortisation of unrecognised actuarial gains or losses. Had NIBC applied this method in 2012 no gains or losses would have been recognised in the income statement. Given these amendments the charge for 2012 would have been equal under the amended standard and a charge of EUR 2 million (net of tax) would have been recognised in OCI. Therefore this amendment has an insignificant impact on the financial position of NIBC at the first application date 1 January 2013 and furthermore the classification of the different pension plans will not alter.

According to the amended IAS 19 Employee Benefits a defined-benefit pension liability should be recognised directly in Common Equity Tier-1. Due to the recognition of the defined-benefit pension liability as from 1 January 2013 up to EUR 7 million (net of tax) the Core Tier-1 ratio will be adversely affected by 0.07%.

IN EUR MILLIONS	2012	2011
THE MOVEMENT IN THE OTHER EMPLOYEE BENEFITS RECOGNISED IN THE BALANCE SHEET MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	3	3
Increase	-	-
Releases	-	-
BALANCE AT 31 DECEMBER	3	3

Other employee benefit obligations of EUR 3 million at 31 December 2012 are related to payments to be made in respect of other leave obligations (2011: EUR 3 million). These obligations are short-term in nature and therefore valued at nominal value.

In 2012, EUR 1 million was related to employee benefit obligations of the non-financial companies included in the consolidation (2011: EUR 1 million).

42 Subordinated liabilities - amortised cost

IN EUR MILLIONS	2012	2011
Subordinated loans qualifying as Tier-1 capital	46	48
Other subordinated loans	37	37
	83	85
THE LEGAL MATURITY ANALYSIS OF SUBORDINATED LIABILITIES IS ANALYSED AS FOLLOWS:		
One year or less	25	-
Longer than one year but not longer than five years	-	25
Longer than five years but not longer than ten years	-	1
Longer than ten years	58	59
	83	85

All of the above loans are subordinated to the other liabilities of NIBC. EUR 46 million (2011: EUR 48 million) qualifying as Tier-1 capital is subordinated to other subordinated loans. These securities are perpetual securities and may be redeemed by NIBC at its option after ten years with the prior approval of DNB. Interest expense of EUR 5 million was recognised on subordinated liabilities during the year 2012 (2011: EUR 5 million). In 2012, no gains were realised on the repurchase of liabilities with respect to this balance sheet item (2011: gain of EUR 12 million).

43 Subordinated liabilities - designated at fair value through profit or loss

IN EUR MILLIONS	2012	2011
Subordinated loans qualifying as Tier-1 capital	144	138
Other subordinated loans	120	158
	264	**296**
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	40	39
Longer than five year but not longer than ten years	-	4
Longer than ten years	224	253
	264	**296**

The fair value reflects movements due to both interest rate changes and credit spread changes. As NIBC 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 388 million at 31 December 2012 (2011: EUR 437 million).

The portion of fair value changes during 2012 attributable to the movement in credit spreads amounted to EUR 29 million debit, being a reduction of the carrying amount (2011: EUR 49 million debit). All of the above loans are subordinated to the other liabilities of NIBC. EUR 144 million (2011: EUR 138 million) qualifying as Tier-1 capital is subordinated to other subordinated loans. These securities are perpetual securities and may be redeemed by NIBC at its option after ten years with the prior approval of DNB. Interest expense of EUR 20 million was recognised on subordinated liabilities during the year 2012 (2011: EUR 31 million). In 2012, losses of EUR 4 million were realised on the repurchase of liabilities with respect to this balance sheet item (2011: gain of EUR 3 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, subordinated liabilities and securities in issue related to securitised mortgages classified at amortised cost, the carrying amount 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 amount of own debt securities in issue classified at amortised cost amounted to EUR 4,314 million (2011: EUR 7,096 million), and the fair market value amounted to EUR 4,144 million (2011: EUR 6,903 million). The carrying amount of subordinated liabilities classified at amortised cost amounted to EUR 84 million (2011: EUR 85 million), and the fair market value amounted to EUR 81 million (2011: EUR 86 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 amount of debt securities in issue related to securitised mortgages classified at amortised cost amounted to EUR 4,470 million (2011: EUR 5,416 million), and the fair market value amounted to EUR 4,287 million (2011: EUR 5,100 million).

NIBC has not had any defaults of principal, interest or redemption amounts during either 2012 or 2011 on its liabilities.

44 Shareholder's equity

The ultimate controlling company is New NIB Limited, a company incorporated in Ireland.

Share capital

IN EUR MILLIONS	2012	2011
Paid-up capital	80	80
	80	**80**

	2012	2011
THE NUMBER OF AUTHORISED SHARES IS SPECIFIED AS FOLLOWS:		
Number of authorised shares [1]	183,597,500	183,597,500
Number of shares issued and fully paid [2]	62,586,794	62,586,794
Par value per A-share	1.28	1.28
Par value per preferent share (B,C,D, E1-E3)	1.00	1.00
Par value per preferent share (E4)	5.00	5.00

1. The authorised capital amounts to EUR 214.9 million and is divided into 110,937,500 A shares of EUR 1.28 nominal value each, 72,600,000 of different classes of preference shares with a nominal value of EUR 1.00 each and 60,000 of preference shares with a nominal value of EUR 5.00 each.
2. The shares issued and fully paid consist of A-shares.

Other reserves

IN EUR MILLIONS	2012	2011
OTHER RESERVES ARE COMPRISED OF:		
Share premium	238	238
Hedging reserve	66	89
Revaluation reserve - loans (available-for-sale)	-	(4)
Revaluation reserve - equity investments (available-for-sale)	(2)	7
Revaluation reserve - debt investments (available-for-sale)	(8)	(26)
Revaluation reserve - property, plant and equipment	18	18
	312	**322**

IN EUR MILLIONS	Share premium	Hedging reserve	Revaluation reserves	Total
BALANCE AT 1 JANUARY 2011	**238**	**67**	**13**	**318**
Net result on hedging instruments	-	22	-	22
Revaluation (net of tax)	-	-	(18)	(18)
TOTAL RECOGNISED DIRECTLY THROUGH OTHER COMPREHENSIVE INCOME IN EQUITY	**-**	**22**	**(18)**	**4**
BALANCE AT 31 DECEMBER 2011	**238**	**89**	**(5)**	**322**

IN EUR MILLIONS	Share premium	Hedging reserve	Revaluation reserves	Total
BALANCE AT 1 JANUARY 2012	**238**	**89**	**(5)**	**322**
Net result on hedging instruments	-	(23)	-	(23)
Revaluation (net of tax)	-	-	13	13
TOTAL RECOGNISED DIRECTLY THROUGH OTHER COMPREHENSIVE INCOME IN EQUITY	**-**	**(23)**	**13**	**(10)**
BALANCE AT 31 DECEMBER 2012	**238**	**66**	**8**	**312**

Share premium
The proceeds from rights issues and options exercised received net of any directly attributable transaction costs and less the nominal value are credited to share premium.

Hedging reserve
This reserve comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge (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 comprises changes in the 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 shareholder's equity (revaluation reserves of loans and receivables, debt investments and financial assets) can be explained as follows:

Revaluation reserve - loans (available-for-sale)
NIBC would have been recognised in the revaluation reserve in equity a total fair value gain of EUR 11 million on financial assets reclassified out of the available-for-sale category into the loans and receivables category related to loans reclassified as per 1 July 2008.

Revaluation reserve - debt investments (available-for-sale)
NIBC recognised in the revaluation reserve in equity a total fair value loss of EUR 1 million on financial assets reclassified out of the available-for-sale category into the loans and receivables category related to debt investments reclassified as per 1 July 2008.

Revaluation reserve financial assets reclassified into available-for-sale category
In 2012 and 2011, no transfers to impairment expense with a fair value loss were recognised in the revaluation reserve in shareholder's equity on financial assets reclassified out of trading into the available-for-sale category.

NIBC chose to reclassify (as of 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'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 determined that the market conditions during 2008 did not represent a rare circumstance or that NIBC did not have the intention and ability to hold the financial assets for the foreseeable future or until maturity, and had NIBC therefore not reclassified the financial assets, a net of tax gain of EUR 36 million (2011: net of tax loss of EUR 13 million) would have been recognised in the income statement and an incremental net of tax gain of EUR 5 million (2011: net of tax gain of EUR 5 million) would have been recognised in the revaluation reserve in equity in 2012 due to changes in 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).

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 2012

IN EUR MILLIONS	Level 1	Level 2	Level 3	2012
FINANCIAL ASSETS AVAILABLE-FOR-SALE				
Equity investments				
Unlisted	-	-	49	49
Debt investments	-	981	4	985
	-	981	53	1,034
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)				
Loans	-	515	-	515
Residential mortgages own book	-	3,675	-	3,675
Securitised residential mortgages	-	4,512	-	4,512
Debt investments	-	124	-	124
Equity investments (including investments in associates)	-	-	215	215
Derivative financial assets held for trading	-	3,642	-	3,642
Derivative financial assets used for hedging	-	275	-	275
	-	12,743	215	12,958
	-	13,724	268	13,992

IN EUR MILLIONS	Level 1	Level 2	Level 3	2012
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)				
Own debt securities in issue	-	34	-	34
Debt securities in issue structured	-	1,654	-	1,654
Derivative financial liabilities held for trading	-	4,026	-	4,026
Derivative financial liabilities used for hedging	-	20	-	20
Subordinated liabilities	-	264	-	264
	-	5,998	-	5,998

Fair value of financial instruments at 31 December 2011

IN EUR MILLIONS	Level 1	Level 2	Level 3	2011
FINANCIAL ASSETS AVAILABLE-FOR-SALE				
Equity investments				
Unlisted	-	-	66	66
Debt investments	-	879	8	887
	-	879	74	953
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)				
Loans	-	998	-	998
Residential mortgages own book	-	3,185	-	3,185
Securitised residential mortgages	-	5,560	-	5,560
Debt investments	-	164	-	164
Equity investments (including investments in associates)	-	-	258	258
Derivative financial assets held for trading	-	3,657	-	3,657
Derivative financial assets used for hedging	-	292	-	292
	-	13,856	258	14,114
	-	14,735	332	15,067

IN EUR MILLIONS	Level 1	Level 2	Level 3	2011
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)				
Own debt securities in issue	-	41	-	41
Debt securities in issue structured	-	1,733	-	1,733
Derivative financial liabilities held for trading	-	3,966	-	3,966
Derivative financial liabilities used for hedging	-	34	-	34
Subordinated liabilities	-	296	-	296
	-	6,070	-	6,070

Financial instruments 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's interpretation of valuation assumptions (qualitative) 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.

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 2012, NIBC used market-observable prices (including broker quotes), interest rates and credit spreads derived from market-verifiable data. NIBC has determined the 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 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 at fair value through profit or loss

Loans - level 2

In an active market environment, 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 whenever possible.

In certain instances, where the market is inactive, 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

NIBC determines the fair value of residential mortgages (both those NIBC holds in its own warehouse and those NIBC has securitised) by using a valuation model developed by NIBC. To calculate the fair value, NIBC discounts expected cash flows (after expected prepayments) to present value using inter-bank zero-coupon rates, adjusted for a spread that principally takes into account the credit spread risk of the mortgages and uncertainty relating to prepayment estimates. In the absence of observable primary *Residential Mortgage-Backed Securities* **(RMBS)** transactions, NIBC has used observed offered mortgage rates as a benchmark to determine credit spreads as from 2008 up to 2011.

On the basis of the available data on RMBS spreads and offered mortgage rates, NIBC concluded in the second half of 2012 that the use of RMBS spreads provides the best estimate of the credit spread that would be inherent in a hypothetical exit transaction at the balance sheet date motivated by normal business considerations.

The RMBS spread is determined by collecting RMBS spreads from publicly issued Dutch RMBS-transactions. The discount spread is derived by adding related RMBS costs to the RMBS spread.

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 2012, NIBC applied market-observable prices (including broker quotes), interest rates and credit spreads derived from market-observable data. NIBC has determined fair value in a consistent manner over time, ensuring comparability and continuity of valuations.

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 2012 and 2011.

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 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 2011	Total gains/ (losses) recorded in the income statement	Total gains/ (losses) recorded in equity	Purchases	Sales	Settlements	Transfers from level 1 and level 2	At 31 December 2011
AVAILABLE-FOR-SALE FINANCIAL ASSETS								
Equity investments	72	7	1	2	(16)	-	-	66
Debt investments	3	5	-	-	-	-	-	8
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)								
Equity investments (including investments in associates)	268	39	-	24	(73)	-	-	258
	343	51	1	26	(89)	-	-	332

IN EUR MILLIONS	At 1 January 2012	Total gains/ (losses) recorded in the income statement	Total gains/ (losses) recorded in equity	Purchases	Sales	Settlements	Transfers from level 1 and level 2	At 31 December 2012
AVAILABLE-FOR-SALE FINANCIAL ASSETS								
Equity investments	66	33	(9)	2	(43)	-	-	49
Debt investments	8	1	-	-	(3)	(2)	-	4
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)								
Equity investments (including investments in associates)	258	2	-	22	(67)	-	-	215
	332	36	(9)	24	(113)	(2)	-	268

The total impact on level 3 financial instruments included in the income statement for the period were:

IN EUR MILLIONS	Realised gains	Unrealised gains	2012
Total gains/(losses) included in the income statement	58	(22)	36

IN EUR MILLIONS	Realised gains	Unrealised gains	2011
Total gains/(losses) included in the income statement	14	37	51

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument:

	For the period ended 31 December			
	2012		2011	
IN EUR MILLIONS	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Equity investments (unlisted)	49	2	66	3
Debt investments	4	-	8	1
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)				
Debt investments	-	-	-	-
Equity investments (including investments in associates)	215	11	258	13

In order to determine the reasonably possible alternative assumptions, NIBC 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 are adjusted by 5%; and
- For the debt investments, NIBC 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 and transferred financial assets

NIBC has a programme to borrow and lend securities and to sell securities under agreements to repurchase ('repos') and to purchase securities under agreements to resell ('reverse repos'). The securities lent or sold under agreements to repurchase are transferred to a third party and the bank receives cash in exchange, or other financial assets. The counterparty is allowed to sell or repledge those securities lent or sold under repurchase agreements in the absence of default by the bank , but has an obligation to return the securities at the maturity of the contract. These transactions are conducted under terms based on the applicable ISDA Collateral Guidelines. If the securities increase or decrease in value, the bank may in certain circumstances, require, or be required, to pay additional cash collateral. NIBC has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

Similarly NIBC may sell or repledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently the securities are not recognised by the bank, which instead records a separate asset for the cash collateral given.

NIBC transacted several repurchase transactions with third parties, in which notes amounting to a notional of EUR 323 million (with a fair value at 31 December 2012 of EUR 411 million) were transferred from NIBC to third parties at 31 December 2012 in exchange for deposits of EUR 384 million advanced to NIBC at 31 December 2012 for periods ranging from six months up to four years.

NIBC conducts these transactions under terms agreed Global Master Repurchase Agreements.

Assets not derecognised in their entirety

In prior years, NIBC transferred certain financial assets to securitisation vehicles it did not control. NIBC has determined that as a consequence of providing clean up calls (call option to purchase the loans if the principal outstanding of all notes in the securitisation vehicles is less than 10% of the principal amount) not substantially all risks and rewards were transferred, consequently NIBC continues to recognise these financial assets and related liabilities to the extent of its continuing involvement. For further details see the following table:

	For the period ended 31 December 2012	
IN EUR MILLIONS	Carrying amount Asset	Carrying amount Related liability
Loans at fair value through profit or loss	65	-
Debt securities in issue related to securitised mortgages (amortised costs)	-	65

	For the period ended 31 December 2012
IN EUR MILLIONS	Carrying amount of assets before transfer
Loans at fair value through profit or loss	65

For further explanation reference is made to the Critical accounting estimates and judgements section Securitisations and Special Purpose Entities.

47 Commitments and contingent assets and liabilities

At any time, NIBC has outstanding commitments to extend credit. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one to three months. Commitments extended to customers related to mortgages at fixed-interest rates or fixed spreads are hedged with interest rate swaps recorded at fair value. These commitments are designated upon initial recognition at fair value through profit or loss.

NIBC provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. Expirations are not concentrated in any period.

The contractual amounts of commitments (excluding residential mortgage commitments of EUR 6 million at 31 December 2012 (2011: EUR 5 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	2012	2011
CONTRACT AMOUNT		
Committed facilities with respect to corporate loan financing (including investment management loans)	1,153	1,428
Capital commitments with respect to equity investments	43	67
Guarantees granted	95	104
Irrevocable letters of credit	34	4
	1,325	**1,603**

These commitments and contingent liabilities have off-balance sheet credit risk because only commitment/origination fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

Details of concentrations of credit risk including concentrations of credit risk arising from commitments and contingent liabilities as well as NIBC's policies for collateral for loans are set out in note 54.

Legal proceedings

There were a number of legal proceedings outstanding against NIBC at 31 December 2012. No provision has been made, as legal advice indicates that it is unlikely that any significant loss will arise.

48 Business combinations

No new business combinations were acquired in the year ended 31 December 2012 and 2011.

At 31 December 2012, NIBC has the potential 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	2012	2011
ASSETS HAVE BEEN PLEDGED AS SECURITY IN RESPECT OF THE FOLLOWING LIABILITIES AND CONTINGENT LIABILITIES:		
LIABILITIES		
Due to other banks / Own debt securities in issue	1,575	1,627
Debt securities in issue related to securitised loans and mortgages	4,470	5,416
Derivative financial liabilities	1,474	1,398
	7,519	**8,441**
DETAILS OF THE CARRYING AMOUNTS OF ASSETS PLEDGED AS COLLATERAL ARE AS FOLLOWS:		
ASSETS PLEDGED		
Debt investments / Residential mortgages own book	1,995	2,142
Securitised loans and mortgages	5,123	6,173
Cash collateral (due from other banks)	1,474	1,398
	8,592	**9,713**

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

With respect to assets utilised as collateral, the total portfolio eligible for use to collateralise funding amounted to EUR 4.5 billion (2011: EUR 4.9 billion), including assets already utilised as collateral.

As of 31 December 2012, the excess cash liquidity of NIBC was EUR 1.6 billion (2011: EUR 2.3 billion), consisting of EUR 1.5 billion (2011: EUR 2.3 billion) cash placed with DNB and EUR 0.1 billion (2011: nil) placed overnight with the Dutch Government.

50 Assets under management

NIBC provides collateral management services, whereby it holds and manages assets or invests funds received in various financial instruments on behalf of customers. NIBC receives fee income for providing these services. Assets under management are not recognised in the consolidated balance sheet. NIBC is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2012, total assets held and managed by NIBC on behalf of customers were EUR 1,082 million (2011: EUR 1,175 million).

51 Related party transactions

Transactions involving NIBC's shareholders

Significant related party transactions executed in 2012 and 2011 are the following:

At 31 December 2012, NIBC had EUR 307 million of net exposure (assets minus liabilities) to its parent and to entities controlled by its parent entity (2011: EUR 389 million). The interest received and paid on this exposure was at arm's length.

In June 2006, the general partner of J.C. Flowers II LP (together with its sister vehicle, 'Flowers Fund II'), an investment fund managed by an affiliate of J.C. Flowers & Co., accepted a USD 100 million capital commitment from NIBC. The management fee and the profits interest otherwise payable by limited partners in such fund were waived with respect to the investment by NIBC. In addition, NIBC 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. During both 2012 and 2011, NIBC's commitment was fully drawn. In 2012 and 2011, NIBC did not earn fees relating to this transaction.

In June 2009, NIBC 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 2012, the remaining undrawn commitment in this facility was USD 6 million. Fees paid to NIBC related to these asset management activities were nil for both 2012 and 2011.

Transactions related to associates

As at 31 December 2012, NIBC had EUR 56 million of loans advanced to its associates (2011: EUR 59 million). In addition to net interest income on these loans, NIBC did not earn fees from these associates in 2012 and 2011.

In June 2007, NIBC 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. The fund invests in infrastructure projects mainly in Western Europe. NIBC realised a gain from its investment in the fund in 2012 of EUR 1 million (2011: gain of EUR 1 million) and earned fees of EUR 3 million (2011: EUR 4 million). In NIBC'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. The fund invests in structured commercial real estate in Western Europe. NIBC's income from this fund in 2012 was nil (2011: EUR 1 million income). In NIBC's financial statements, this fund is classified as an associate at fair value through profit or loss.

In 2012, NIBC paid fees relating to the servicing of its online retail savings programme NIBC Direct to Welke Beheer B.V. of EUR 3 million (2011: EUR 3 million). NIBC's equity stake in Welke Beheer B.V. is 15%. In NIBC's financial statements, this entity is classified as an associate (equity method), as NIBC has significant influence.

Transactions related to key employees

All transactions with key employees are reported in the tables in note 53 Remuneration of Statutory Board members and Supervisory Board members.

Loan from NIBC to the Pension Fund

At the balance sheet date, NIBC had advanced a subordinated loan (interest charge: 0%) for an amount of EUR 3 million (2011: 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
SUBSIDIARIES OF NIBC BANK N.V.		
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 EUR MILLIONS			
	IN %	Country	Assets	Liabilities	Operating income	Net result
ASSOCIATES (DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS)	0-50	The Netherlands	2,466	1,898	458	(50)

In view of the control exercised by the government over the policy of NIBC's wholly-owned associate De Nederlandse Participatie Maatschappij voor de Nederlandse Antillen N.V., this company has not been treated as a subsidiary.

The list of participating interests and companies for 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 NIBC's remuneration policy in 2012 and amended it. The review took into account all relevant regulations and guidelines: the Dutch Corporate Governance Code, the Dutch Banking Code, the *DNB Principles on Sound Remuneration Policies* (**DNB Principles**), including additional guidance of DNB towards the implementation of the DNB Principles and the *Committee of European Banking Supervisors Guidelines on Remuneration Policies and Practices* (**CEBS Guidelines**). In 2012 DNB assessed the remuneration policy of NIBC and concluded that it was in line with the DNB Principles.

In response to social developments and further regulatory changes, the Supervisory Board decided to further amend the remuneration policy for the Statutory Board 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 compensation element. In view of current legislation, the Supervisory Board is not able to grant any variable compensation for as long as NIBC has not repaid all outstanding state guaranteed funding.

Regular annual remuneration

In 2012, the average number of members of the Statutory Board appointed under the articles of association was 5.0 (2011: 4.5). 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. On 1 June 2012 Mr. van Hessen stepped down as Statutory Board member and his employment ended on 31 December 2012.

Base salary and short-term incentive compensation (cash bonus)

As of 1 January 2012, base salary for the Chairman is determined at EUR 800,000 gross per annum, whilst the base salary for members is determined at EUR 500,000 gross per annum. As of 1 January 2012, all short-term variable compensation has been eliminated.

Table 1

IN EUR	2012	2011
THE BREAKDOWN OF THE AMOUNTS OF COMPENSATION AWARDS IN CASH PER MEMBER AND FORMER MEMBER OF THE STATUTORY BOARD IS AS FOLLOWS:		
MR. JEROEN DROST, CHIEF EXECUTIVE OFFICER, CHAIRMAN		
Base salary	800,000	741,667
Short-term incentive compensation (cash bonus)	-	-
TOTAL CASH COMPENSATION	**800,000**	**741,667**
MR. KEES VAN DIJKHUIZEN, CHIEF FINANCIAL OFFICER, VICE-CHAIRMAN		
Base salary	500,000	441,667
Short-term incentive compensation (cash bonus)	-	-
TOTAL CASH COMPENSATION	**500,000**	**441,667**
MR. ROB TEN HEGGELER, MEMBER		
Base salary	500,000	441,667
Short-term incentive compensation (cash bonus)	-	-
TOTAL CASH COMPENSATION	**500,000**	**441,667**
MS. PETRA VAN HOEKEN, CHIEF RISK OFFICER, MEMBER [1]		
Base salary	500,000	11,363
Short-term incentive compensation (cash bonus)	-	-
TOTAL CASH COMPENSATION	**500,000**	**11,363**
MR. JEROEN VAN HESSEN, FORMER MEMBER [2]		
Base salary	500,000	441,667
Severance payment	500,000	-
Short-term incentive compensation (cash bonus)	-	-
TOTAL CASH COMPENSATION	**1,000,000**	**441,667**
MR. JAN SIJBRAND, FORMER MEMBER [3]		
Base salary	-	216,667
Short-term incentive compensation (cash bonus)	-	-
TOTAL CASH COMPENSATION	**-**	**216,667**

1. Joined NIBC and appointed as a member of the Statutory Board on 23 December 2011.
2. Mr. Jeroen van Hessen stepped down as a member of the Statutory Board on 1 June 2012 and his employment ended at 31 December 2012. Base salary 2012 relates to the period up to the end of employment.
3. Mr. Jan Sijbrand, former Chief Risk Officer, stepped down as a member of the Statutory Board on 30 June 2011 and his employment ended with effect from the same date. Base salary 2011 relates to the period up to the end of employment.

Short-term incentive compensation (deferred cash bonus)

As of 1 January 2012, all short-term variable compensation is eliminated.

Table 2

IN EUR	2012	2011
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:		
Mr. Jeroen Drost	-	-
Mr. Kees van Dijkhuizen	-	-
Mr. Rob ten Heggeler	-	-
Ms. Petra van Hoeken	-	-
Mr. Jeroen van Hessen	-	-
Mr. Jan Sijbrand	-	-

Short-term incentive compensation (Phantom Share Units)

As of 1 January 2012, all short-term variable compensation is eliminated.

Table 3

IN EUR	2012	2011
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:		
MR. JEROEN DROST		
Number of phantom share units	-	-
Fair value of short-term incentive at date of grant (in EUR)	-	-
MR. KEES VAN DIJKHUIZEN		
Number of phantom share units	-	-
Fair value of short-term incentive at date of grant (in EUR)	-	-
MR. ROB TEN HEGGELER		
Number of phantom share units	-	-
Fair value of short-term incentive at date of grant (in EUR)	-	-
MS. PETRA VAN HOEKEN		
Number of phantom share units	-	-
Fair value of short-term incentive at date of grant (in EUR)	-	-
MR. JEROEN VAN HESSEN		
Number of phantom share units	-	-
Fair value of short-term incentive at date of grant (in EUR)	-	-
MR. JAN SIJBRAND		
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 and other emoluments.

Table 4

IN EUR	2012	2011
THE BREAKDOWN OF THE AMOUNTS OF OTHER REMUNERATION ELEMENTS PER MEMBER AND FORMER MEMBER OF THE STATUTORY BOARD IS AS FOLLOWS:		
Mr. Jeroen Drost	151,234	140,906
Mr. Kees van Dijkhuizen	75,941	66,850
Mr. Rob ten Heggeler	94,644	67,040
Ms. Petra van Hoeken	42,128	683
Mr. Jeroen van Hessen	91,733	76,184
Mr. Jan Sijbrand	-	21,448

Long-term incentive compensation (Conditional Restricted Depositary Receipts)

As of 1 January 2012 the maximum long-term incentive is 70% of base salary for the CEO, 60% for members of the Managing Board responsible for commercial activities and 40% for the CFO and CRO.

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. The Supervisory Board has agreed a set of six long-term performance conditions. Two are financial performance conditions and have a weight of 60% (average return on equity and average impairment level). Four are non-financial performance conditions and have a weight of 40% (employee engagement, client satisfaction for corporate as well as consumer clients and diversity). These are aligned with the overall corporate targets. The final LTI grant depends on the degree to which the agreed performance criteria have been met. In view of current legislation, the Supervisory Board is not able to grant any variable compensation until NIBC has repaid all outstanding state guaranteed funding.

The three-year cliff vesting period of a total of 19,459 CRDRs under the LTI 2010 ended 1 January 2013. The Supervisory Board reviewed the agreed long-term financial and non-financial performance conditions. The financial performance conditions (60%) were not met. The non-financial performance conditions (40%) were met in full. The Supervisory Board therefore awarded a vesting of 40% of the LTI 2010 CRDRs, which have fully vested at 1 January 2013. Consequently 60% of the LTI 2010 forfeited. The vested instruments have an additional retention period of two years. Furthermore the vested instruments need to be held until a liquidity event takes place to ensure alignment with the shareholders.

An interim re-measurement of the LTI 2011 (performance period 2011 - 2013) was done.
The number of CRDRs which is expected to vest on 1 January 2014 was re-estimated at 40% of the maximum number.

Table 5

IN EUR	2012	2011
THE LONG-TERM INCENTIVE AWARDS/RE-ESTIMATED AWARDS PER MEMBER AND FORMER MEMBER OF THE STATUTORY BOARD ARE AS FOLLOWS [1]:		
MR. JEROEN DROST		
Number of conditional restricted depositary receipts	(10,721)	8,787
Fair value of long-term incentive at date of grant (in EUR)	(100,804)	84,000
MR. KEES VAN DIJKHUIZEN		
Number of conditional restricted depositary receipts	(6,126)	5,021
Fair value of long-term incentive at date of grant (in EUR)	(57,600)	48,000
MR. ROB TEN HEGGELER		
Number of conditional restricted depositary receipts	(6,126)	5,021
Fair value of long-term incentive at date of grant (in EUR)	(57,600)	48,000
MS. PETRA VAN HOEKEN		
Number of conditional restricted depositary receipts	-	-
Fair value of long-term incentive at date of grant (in EUR)	-	-
MR. JEROEN VAN HESSEN		
Number of conditional restricted depositary receipts	(10,210)	5,021
Fair value of long-term incentive at date of grant (in EUR)	(95,999)	48,000
MR. JAN SIJBRAND		
Number of conditional restricted depositary receipts	-	-
Fair value of long-term incentive at date of grant (in EUR)	-	-

1. The above figures are presented on an after tax basis at the date of grant. All of the 2012 figures relate to a re-estimate of LTI grants awarded in previous years.

Pension costs

Table 6

IN EUR	2012	2011
THE AMOUNTS OF PENSION COSTS PER MEMBER AND FORMER MEMBER OF THE STATUTORY BOARD ARE AS FOLLOWS:		
Mr. Jeroen Drost	119,675	111,024
Mr. Kees van Dijkhuizen	106,237	94,542
Mr. Rob ten Heggeler	77,375	68,950
Ms. Petra van Hoeken	77,282	1,744
Mr. Jeroen van Hessen	93,480	83,469
Mr. Jan Sijbrand	-	33,993

As at 31 December 2012 and 31 December 2011, no loans, advance payments or guarantees had been provided 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 Bank.

Table 7

IN EUR	2012	2011
MEMBERS		
Mr. W.M. van den Goorbergh [1]	96,500	96,500
Mr. D.R. Morgan	71,500	86,500
Mr. A.A.G. Bergen [1]	66,500	66,500
Mr. M.J. Christner	55,000	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	51,500
Sir M.C. McCarthy [1/2]	34,333	51,500
Ms. S.A. Rocker	50,000	50,000
Mr. D.K.M. Rümker [1/3]	66,500	66,500
Mr. A.H.A. Veenhof	50,000	50,000
Mr. J.C. Flowers [4]	6,667	-

1. In line with Dutch tax regulations, the VAT on the total remuneration payable to these Supervisory Board members increased from 19% to 21%.
2. Sir M.C. McCarthy stepped down as a member of the Supervisory Board as of 1 September 2012.
3. Mr. D.K.M. Rümker stepped down as a member of the Supervisory Board as of 31 December 2012.
4. Mr J.C. Flowers nomination was adopted in the Extraordinary Meeting of Shareholders on 29 October 2012.

The remuneration amounted of the Supervisory Board members consist of annual fixed fees and committee fees. As at 31 December 2012 and 31 December 2011, no loans, advance payments or guarantees have been provided 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)	2012	2011
Mr. Kees van Dijkhuizen	13,063	12,454
Mr. Jeroen van Hessen	53,973	58,264

NUMBER OF COMMON DEPOSITARY RECEIPTS (INVESTMENT FROM OWN FUNDS)	2012	2011
Mr. Jeroen Drost	75,676	75,676
Mr. Kees van Dijkhuizen	42,433	42,433
Mr. Rob ten Heggeler	43,244	43,244
Ms. Petra van Hoeken	17,242	-
Mr. Jeroen van Hessen	37,359	41,510

On 1 June 2012, Mr. Jeroen van Hessen stepped down from the Statutory Board. After this date Mr. van Hessen was given the same opportunity as other employees to participate in the offer to sell his CDR holdings with a maximum of 10%.

Restricted Depositary Receipts

The following table shows the holdings by members of the Statutory Board:

NUMBER OF RESTRICTED DEPOSITARY RECEIPTS	2012	2011
Mr. Kees van Dijkhuizen	-	609
Mr. Jeroen van Hessen	-	1,707

Conditional Common Depositary Receipts

The following tables show the holdings by members of the Statutory Board:

NUMBER OF CONDITIONAL COMMON DEPOSITARY RECEIPTS (VESTED ONE-OFF MATCHING SHARES)	2012	2011
Mr. Jeroen Drost	56,757	37,838
Mr. Kees van Dijkhuizen	24,325	16,217
Mr. Rob ten Heggeler	32,433	21,622
Ms. Petra van Hoeken	-	-
Mr. Jeroen van Hessen	8,109	5,406

NUMBER OF CONDITIONAL COMMON DEPOSITARY RECEIPTS (LTI)	2012	2011
Mr. Jeroen Drost	9,081	-
Mr. Kees van Dijkhuizen	5,189	-
Mr. Rob ten Heggeler	5,189	-
Ms. Petra van Hoeken	-	-
Mr. Jeroen van Hessen	5,189	-

The three-year cliff vesting period of a total of 24,648 CCDRs under the LTI 2009 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 into CCDRs at 1 January 2012. The vested instruments have an additional retention period of two years. Furthermore the vested instruments need to be held until a liquidity event takes place to ensure alignment with the shareholders.

Conditional Restricted Depositary Receipts

ESTIMATED NUMBER OF CONDITIONAL RESTRICTED DEPOSITARY RECEIPTS (LTI)	2012	2011
Mr. Jeroen Drost	7,147	26,949
Mr. Kees van Dijkhuizen	4,084	15,399
Mr. Rob ten Heggeler	4,084	15,399
Ms. Petra van Hoeken	-	-
Mr. Jeroen van Hessen	-	15,399

The three-year cliff vesting period of a total of 19,459 CRDRs under the LTI 2010 ended 1 January 2013. The Supervisory Board reviewed the agreed long-term financial and non-financial performance conditions. The financial performance conditions (60%) were not met. The non-financial performance conditions (40%) were met in full. The Supervisory Board therefore awarded a vesting of 40% of the LTI 2010 CRDRs, which have fully vested at 1 January 2013. Consequently 60% of the LTI 2010 were forfeited. The vested instruments have an additional retention period of two years. Furthermore the vested instruments need to be held until a liquidity event takes place to ensure alignment with the shareholders.

An interim re-measurement of the LTI 2011 (performance period 2011 - 2013) was done. The number of CRDRs which is expected to vest on 1 January 2014 is re-estimated at 40% of the maximum number.

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 (continuous employment) and the realisation of predetermined performance conditions. For the number of CRDRs reference is made to the following tables.

NIBC 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 it was accepted by her in January 2012 against a price per CDR of EUR 8.70 being the fair value at that time.

The following table shows the holdings by members of the Statutory Board:

NUMBER OF CONDITIONAL RESTRICTED DEPOSITARY RECEIPTS (ONE-OFF MATCHING SHARES)	2012	2011
Mr. Jeroen Drost	18,919	37,838
Mr. Kees van Dijkhuizen	8,108	16,216
Mr. Rob ten Heggeler	10,811	21,622
Ms. Petra van Hoeken	17,242	-
Mr. Jeroen van Hessen	-	5,405

The matching shares are subject to four-year vesting with one quarter vesting each year, the first such vesting having occured 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:

ESTIMATED NUMBER OF CONDITIONAL RESTRICTED DEPOSITARY RECEIPTS (PERFORMANCE SHARES)	2012	2011
Mr. Jeroen Drost	-	23,143
Mr. Kees van Dijkhuizen	-	13,225
Mr. Rob ten Heggeler	-	13,225
Mr. Jeroen van Hessen	-	13,225
Ms. Petra van Hoeken	-	-

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.

For reporting purposes, the number of performance shares for the combined Statutory Board is estimated at nil CRDRs, based on NIBC's long-term forecast and taking into account price-to-book ratios observed in the market. 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.

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 2012:

NUMBER OF VESTED OPTIONS	Outstanding as at 31 December 2011	Transferred from unvested options in 2012	Forfeited in 2012	Outstanding as at 31 December 2012	Average Exercise price	Average fair value option at grant date	Expiry date
Mr. Kees van Dijkhuizen	60,000	-	-	60,000	14.37	6.00	2015
Mr. Jeroen van Hessen	182,056	25,000	-	207,056	12.90	5.43	2015

NUMBER OF UNVESTED OPTIONS	Outstanding as at 31 December 2011	Transferred from unvested options in 2012	Forfeited in 2012	Outstanding as at 31 December 2012	Average Exercise price	Average fair value option at grant date	Expiry date
Mr. Jeroen van Hessen	25,000	(25,000)	-	-	8.28	3.65	2015

At the expiry date of the options (14 December 2012), the maturity of the vested options could be extended once by three years. In 2012 the Statutory Board, after consultation with the Supervisory Board, decided to apply this three-year extension.

54 Credit risk

This section includes all financial assets subject to credit risk. Non-credit obligations fall under other risk types, such as market risk, and equity is subject to investment risk. The following portfolios that contain credit risk have been identified:

- Corporate/Investment 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.

54-1 Credit risk exposure breakdown per portfolio

IN EUR MILLIONS	31 December 2012	31 December 2011
CORPORATE/ INVESTMENT LOANS	8,923	9,642
Corporate loans	8,750	9,410
Investment loans	173	232
RESIDENTIAL MORTGAGES	8,187	8,745
DEBT INVESTMENTS	1,346	1,412
Debt from financial institutions and corporate entities	601	707
Securitisations	745	705
CASH MANAGEMENT	2,188	3,030
DERIVATIVES [1]	3,916	3,880
TOTAL	24,560	26,709

1. Positive replacement values.

Table 54-1 presents the maximum credit risk exposure per portfolio, without taking collateral or any other credit risk reduction into consideration. For all portfolios except derivatives, this is generally the total commitment of NIBC, which also includes off-balance sheet commitments such as guarantees and undrawn credit lines. Only the positive replacement values for derivatives are shown, without netting and without any potential future exposure add-on.

The figures in table 54-1 are not directly comparable to the figures on the balance sheet. Corporate and investment loans include off-balance sheet exposures and exclude exposures from NIBC Bank to NIBC Holding. Residential mortgages are recognised on the balance sheet under residential mortgages own book and securitised residential mortgages. Debt investments (securitisations) differ from the figure on the balance sheet due to partial offsetting of risk exposure with liabilities to the same counterparties. The main difference in the cash figures is due to collateral posting on credit risk differences for derivatives/repos. Sold securitised loans of around EUR 468 million are excluded from the corporate loans as NIBC does not have risk on them. The retained notes (EUR 143 million) are included in the exposure. Both were included in the Annual Report of 2011.

CORPORATE LOANS

Corporate loan distribution

The industry sectors shown in tables 54-2 and 54-3 are based on NACE classification and as such, do not strictly follow the internal NIBC sector organisation that is presented in the risk management chapter, although a large overlap exists. **NACE** is the Statistical Classification of Economic Activities in the European Community (in French: Nomenclature Statistique des Activités Économiques dans la Communauté Européenne), an EU industry standard classification system specifying eleven industry sectors. The overview mapping NACE codes with NIBC reporting sectors on NIBC's website contains a detailed breakdown of the NACE codes allocated to NIBC's exposures.

Tables 54-2 and 54-3 display a breakdown of the Corporate Loan portfolio among regions and industry sectors, at year-end 2012 and 2011. While the Corporate Loan portfolio decreased by EUR 660 million in 2012 to EUR 8,750 million, the portfolio distribution remained relatively stable compared to 2011 with the exception of the industry sector financial services. The exposure in this sector decreased significantly, mainly because a collateralised loan to an investment-grade financial institution of EUR 400 million was not utilised at year-end 2012.

In line with the trend observed in 2011, the relative weight of the Netherlands diminished slightly, mainly in favour of Germany, one of NIBC's core growth markets. The corporate loan portfolio outside Europe decreased to 17% of the total exposure at 31 December 2012 (31 December 2011: 19%).

54-2 Corporate loan exposure per industry sector and region, 31 December 2012

IN %	Infra-structure	Commer-cial Real Estate	Shipping	Oil & Gas	Financial Services	Wholesale/ Retail/ Leisure	Manu-facturing	Services	TMT[1]	Agriculture & Food	Other	TOTAL	TOTAL (IN EUR MILLIONS)
The Netherlands	4	10	2	1	3	3	2	3	1	1	0	30	2,564
Germany	4	11	1	-	2	2	2	1	0	0	-	23	2,050
United Kingdom	15	0	0	2	0	0	0	0	1	-	-	18	1,576
Rest of Europe	2	-	4	3	1	0	1	1	-	0	-	12	1,087
Asia / Pacific	-	-	6	2	-	-	0	0	-	-	-	8	715
North America	0	-	3	2	-	-	-	0	0	-	-	5	404
Other	-	0	2	2	-	-	-	-	-	-	-	4	354
TOTAL	**25**	**21**	**18**	**12**	**6**	**5**	**5**	**5**	**2**	**1**	**0**	**100**	**8,750**
TOTAL (IN EUR MILLIONS)	**2,190**	**1,941**	**1,521**	**1,015**	**483**	**467**	**446**	**446**	**150**	**85**	**6**		**8,750**

1 Telecommunication, Media and Technology.

54-3 Corporate loan exposure per industry sector and region, 31 December 2011

IN %	Infra-structure	Commer-cial Real Estate	Shipping	Oil & Gas	Financial Services	Wholesale/ Retail/ Leisure	Manu-facturing	Services	TMT[1]	Agriculture & Food	Other	TOTAL	TOTAL (IN EUR MILLIONS)
The Netherlands	3	10	1	1	8	3	2	3	1	1	-	33	3,061
Germany	3	9	0	-	3	1	2	1	0	0	-	19	1,752
United Kingdom	14	0	0	1	0	1	0	1	0	0	-	17	1,615
Rest of Europe	2	0	4	2	0	1	1	1	1	0	-	12	1,159
Asia / Pacific	-	-	8	2	-	-	-	0	-	-	-	10	923
North America	0	-	3	2	0	-	-	0	0	-	-	5	493
Other	-	0	2	2	-	-	-	-	-	-	-	4	407
TOTAL	**22**	**19**	**18**	**10**	**11**	**6**	**5**	**6**	**2**	**1**	**-**	**100**	**9,410**
TOTAL (IN EUR MILLIONS)	**2,112**	**1,774**	**1,718**	**965**	**1,008**	**529**	**468**	**530**	**183**	**123**	**-**		**9,410**

1 Telecommunication, Media and Technology.

Basel II and credit approval process

NIBC employs an internally-developed methodology under the Basel II *Advanced Internal Ratings Based* (**AIRB**) approach for quantifying the credit quality of its Corporate Loan portfolio. The Basel II AIRB approach for NIBC's exposure classes was adopted by NIBC and approved by NIBC's regulatory authority, the DNB in 2008. In line with Basel II regulations, the methodology consists of three elements:

- CCR, reflecting the PD of the borrower. The default definition is in line with the Basel II definition[1];
- LGD, defined as an anticipated loss element that expresses the potential loss in the event of default, which takes into account the presence and the value of collateral; and
- EAD, which is the amount that is expected to be outstanding at the moment a counterparty defaults.

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 1 *regulatory capital* (**RC**). *Economic capital* (**EC**), *risk-adjusted return on capital* (**RAROC**), limit setting and stress testing are additional areas which make use of these parameters, although the values and methodologies for both EC and stress testing differ from those employed in Pillar 1. PDs, LGDs and EADs are also used in the Basel II solvency report to the regulator.

Annual backtests of the internal rating framework are carried out to assess the quality and the performance of the models. The internal CCRs and LGDs are also benchmarked periodically with the scales of external rating agencies.

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 department involved are explicitly set out in internal policies and manuals, also in conformity with the stipulations of Basel II on model governance.

All approvals of individual credit proposals are granted after the *Credit Risk Management* department (**CRM**) or the *Financial Markets Credit Risk* department (**FMCR**) have made a credit risk assessment and have 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. Individual credit and transaction proposals are then approved in the *Transaction Committee* (**TC**). Proposals, credit reviews and amendments of smaller scale can be approved by CRM, for corporate counterparties, or FMCR, for non-corporate counterparties. All counterparties and, subsequently, all facilities, are reviewed at least once a year.

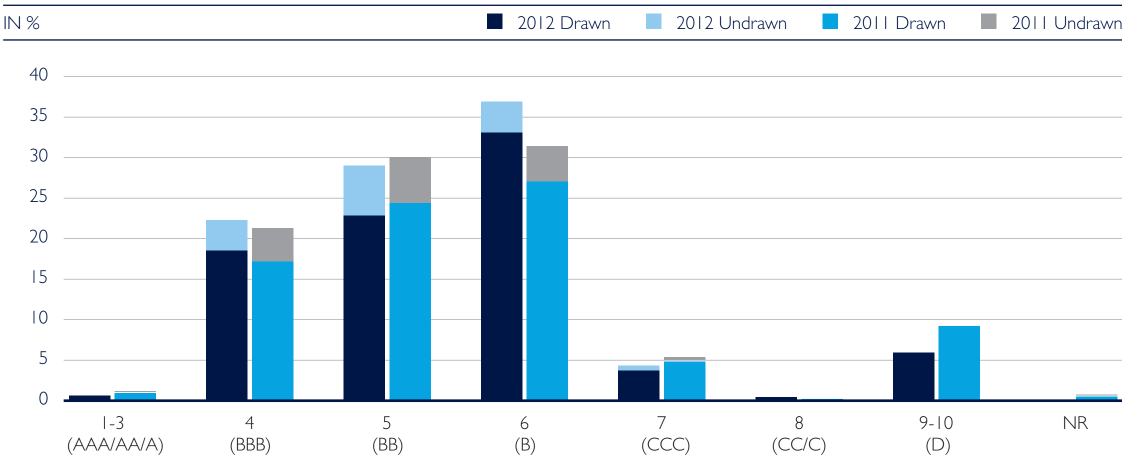
1. According to the Basel II definition, a default is determined at the borrower level. A default is indicated by using a 9 or 10 rating in NIBC's internal rating scale. A default is considered to have occurred with respect to a particular obligor when either or both of the two following events have 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.

Credit ratings

NIBC uses an internal through-the-cycle CCR rating scale, which consists of 10 grades (1-10) and a total of 22 notches. The CCRs 9 and 10 are assigned to counterparties that have already defaulted and therefore carry a PD of 100%.

The weighted average CCR of the non-defaulted clients remained stable at 6+ with an average PD of 2.4% at 31 December 2012 (31 December 2011: 2.4%). The credit quality in terms of CCRs remained concentrated in the 5 and 6 categories (BB and B categories in external rating agencies' scales). Graph 54-4 shows the distribution of the drawn and undrawn corporate loan exposure per CCR. The numbers on the horizontal axis refer to NIBC's internal rating scale, whereas the letters in parentheses refer to the equivalent rating scale of Standard & Poor's. NR stands for not rateable, which was a negligible portion of the corporate loans (0.2% at 31 December 2012; 0.7% at 31 December 2011). NR is assigned to entities, for which NIBC's corporate rating tools were not suitable at the time of rating.

54-4 Drawn and undrawn corporate loan exposure per CCR rating



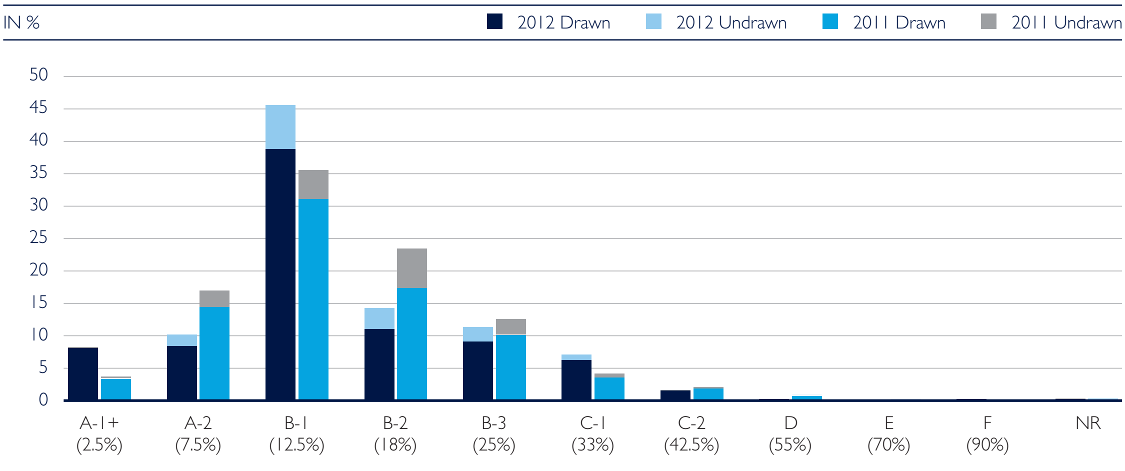
Collateral and LGD

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. LGD ratings are facility-specific. Weighted average LGD remained stable at B-2 with an average LGD of 16.0% at 31 December 2012 (31 December 2011: 16.1%). The weighted average is calculated for non-defaulted loans.

Graph 54-5 shows the distribution of drawn and undrawn corporate loan exposures per LGD. The letters on the horizontal axis refer to NIBC's LGD grades and notches, whereas the numbers in parentheses refer to the loss percentage assigned to each LGD rating. NR was negligible (0.3% of corporate loans at 31 December 2012; 0.3% at 31 December 2011).

Note that the corporate loan exposure of graph 54-5 refers to non-defaulted exposure as the LGD is a measure of anticipated loss for facilities of a non-defaulted counterparty. Once a counterparty enters default, the impairment amount becomes a more meaningful measure of the loss. Tables 54-9 and 54-10 provide more information on impairment amounts.

54-5 Drawn and undrawn non-defaulted corporate loan exposure per LGD rating



Although NIBC's corporate loan exposures are concentrated in sub-investment grade CCRs, this is counterbalanced by the fact that nearly all loans have some form of collateralisation. As a result, NIBC's LGDs are concentrated in those LGD categories which correspond to recoveries in the range of 80% and 90%, which are relatively high for the banking industry.

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. The most significant types of collateral securing the loan and derivatives portfolios are tangible assets, such as real estate, vessels, rigs, *floating production, storage & offloading* (**FPSO**) units and equipment. Exposures in the shipping and oil & gas sectors are primarily secured by moveable assets such as vessels and drilling vessels. The portfolio of commercial real estate is primarily collateralised by mortgages on financed properties. Collateral value is estimated using third-party appraisers, whenever possible, or valuation techniques based on common market practice. 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).

Arrears

The total arrears in the Corporate Loan portfolio increased in 2012 to 1.9% of total exposure at 31 December 2012 (31 December 2011: 1.1%). An overview of the amounts in arrear per arrear bucket 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 overdue at 31 December 2012 and 31 December 2011 respectively. The column labelled 'Impairment Amount' includes on-balance sheet impairment amounts only (31 December 2012: EUR 128 million; 31 December 2011: EUR 111 million). The inclusion of *Incurred but not Reported* (**IBNR**) impairment amounts on the line with no payment in arrear brings the total impairment amount for 31 December 2012 to EUR 134 million (31 December 2011: EUR 115 million). Tables 54-9 and 54-10 provide more information on impairment amounts.

54-6 Corporate loan amounts in arrear, 31 December 2012

	Exposure		Outstanding		Amount in arrear		
IN EUR MILLIONS	TOTAL	% of Exposure	TOTAL	% of On-Balance	TOTAL	% of On-Balance	Impairment Amount
AGE OF PAYMENT IN ARREAR							
1- 5 days	61	0.7%	52	0.7%	8	0.1%	4
6 - 30 days	-	-	-	-	-	-	-
31 - 60 days	-	-	-	-	-	-	-
61 - 90 days	26	0.3%	24	0.3%	1	0.0%	4
SUBTOTAL LESS THAN 90 DAYS	**87**	**1.0%**	**76**	**1.0%**	**9**	**0.1%**	**8**
Over 90 days	220	2.5%	220	2.9%	159	2.1%	56
No payment in arrear	8,443	96.5%	7,214	96.1%	0	0.0%	70
TOTAL	**8,750**	**100.0%**	**7,510**	**100.0%**	**168**	**2.2%**	**134**

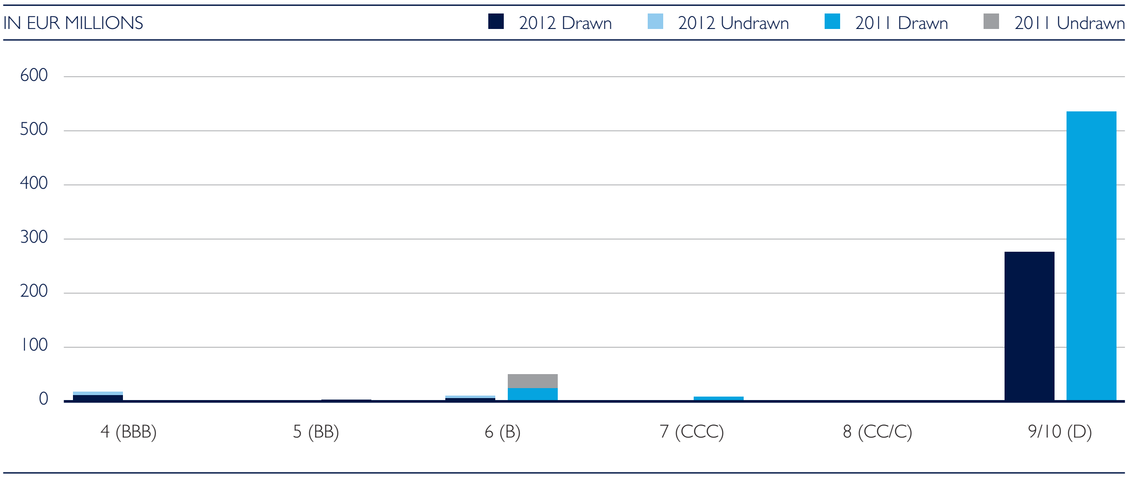
54-7 Corporate loan amounts in arrear, 31 December 2011

	Exposure		Outstanding		Amount in arrear		
IN EUR MILLIONS	TOTAL	% of Exposure	TOTAL	% of On-Balance	TOTAL	% of On-Balance	Impairment Amount
AGE OF PAYMENT IN ARREAR							
1- 5 days	19	0.2%	12	0.1%	0	0.0%	0
6 - 30 days	17	0.2%	17	0.2%	11	0.2%	0
31 - 60 days	15	0.2%	15	0.2%	0	0.0%	6
61 - 90 days	76	0.8%	76	1.0%	1	0.0%	5
SUBTOTAL LESS THAN 90 DAYS	**127**	**1.4%**	**120**	**1.5%**	**12**	**0.2%**	**11**
Over 90 days	473	5.0%	455	5.7%	91	1.1%	31
No payment in arrear	8,810	93.6%	7,401	92.8%	0	0.0%	73
TOTAL	**9,410**	**100.0%**	**7,976**	**100.0%**	**103**	**1.3%**	**115**

NIBC applies a threshold for determining whether a loan carries a non-material arrear. If the total arrear on facility level is lower than EUR 25 thousand per facility, the age of the payment in arrear is below 30 days and the counterparty has not defaulted, then the arrear is considered insignificant; the exposure is therefore regarded as not having an arrear. If arrears fall below the threshold, the exposure is placed on the 'no payment in arrear' line on tables 54-6 and 54-7. The application of this threshold does not influence the total arrears, which amounted to EUR 168 million at 31 December 2012 (31 December 2011: EUR 103 million). At 31 December 2012, the total arrears considered insignificant were EUR 17,849 (31 December 2011: 21,745).

Graph 54-8 displays 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 2012 was EUR 307 million (31 December 2011: EUR 600 million) and the total drawn amount at 31 December 2012 was EUR 296 million (31 December 2011: EUR 575 million). The reduction was driven mainly by a successful restructuring.

54-8 Distribution of drawn and undrawn amounts with an arrear per rating category



Impairment amounts

The Corporate Loan portfolio is reviewed by credit officers and CRM, who monitor the quality of counterparties and the related collateral. Formal assessment of the entire portfolio takes place on a quarterly basis. All existing impairments are reviewed as well. NIBC calculates an impairment amount by taking various factors into account, particularly the available collateral securing the loan and the corporate derivative exposure, if present. The loss amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If collateral is present, then the present value of the future cash flows reflects the foreclosure of collateral. More information on the method impairments are calculated is included in the Accounting Policies section.

NIBC determines a default at counterparty level, whereas an impairment amount is taken at facility level. When a default occurs, the entire exposure and outstanding amount of the borrower are classified as defaulted. If, however, an impairment amount is taken on a facility, only the exposure amount of that particular facility is classified as impaired.

In 2012, fewer write-offs occurred (EUR 28 million) than in 2011 (EUR 71 million). Impairments increased and amounted to EUR 134 million at year-end 2012 (year-end 2011: EUR 115 million). Tables 54-9 and 54-10 display an overview of the impairments at 31 December 2012 and 31 December 2011, subdivided in regions and industry sectors, respectively. The column labelled 'Exposure' includes both drawn and undrawn amounts.

54-9 Impairment per region

	31 December 2012				31 December 2011			
IN EUR MILLIONS	Exposure	Impaired Exposure	Impairment Amount	Write-offs	Exposure	Impaired Exposure	Impairment Amount	Write-offs
The Netherlands	2,564	237	60	4	3,061	199	48	64
Germany	2,050	13	7	9	1,752	17	7	2
United Kingdom	1,576	68	27	-	1,615	74	30	-
Rest of Europe	1,087	34	22	-	1,159	33	13	-
Asia/Pacific	715	55	12	-	923	0	0	5
North America	404	15	0	15	493	14	13	-
Other	354	0	0	-	407	0	0	-
IBNR Corporate Loans			6				4	
TOTAL	8,750	422	134	28	9,410	337	115	71

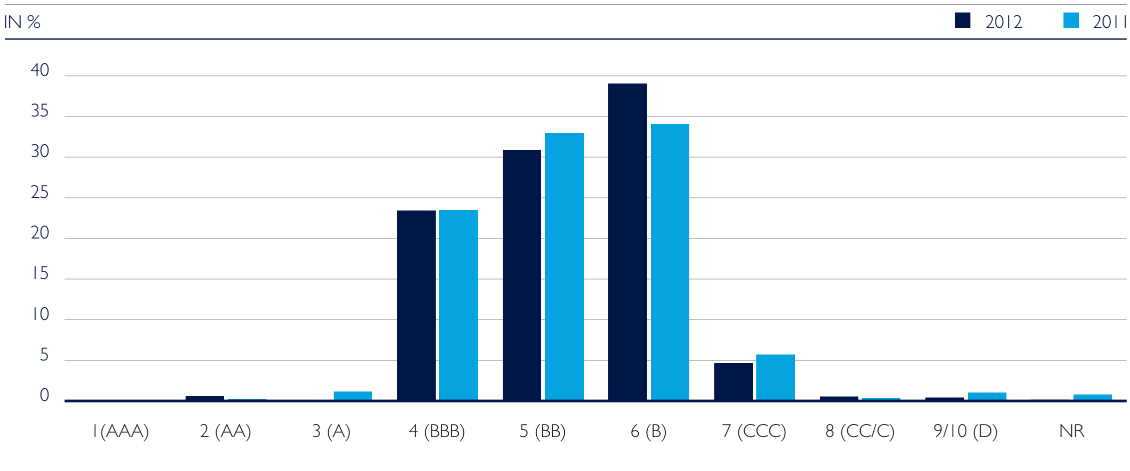
54-10 Impairment per industry sector

IN EUR MILLIONS	31 December 2012 Exposure	Impaired Exposure	Impairment Amount	Write-offs	31 December 2011 Exposure	Impaired Exposure	Impairment Amount	Write-offs
Infrastructure	2,190	7	3	-	2,112	7	4	-
Commercial Real Estate	1,941	196	44	-	1,774	154	28	-
Shipping	1,521	86	30	15	1,718	37	22	5
Oil & Gas	1,015	-	-	-	965	-	-	-
Financial Services	483	33	5	-	1,008	34	9	36
Wholesale/Retail/ Leisure	467	9	7	-	529	4	1	24
Manufacturing	446	7	4	-	468	10	6	6
Services	446	57	26	12	530	66	32	-
TMT	150	27	9	1	183	25	9	-
Agriculture & Food	85	0	0	0	123	0	0	-
Other	6	-	-	-	-	-	-	-
IBNR Corporate Loans			6				4	
TOTAL	**8,750**	**422**	**134**	**28**	**9,410**	**337**	**115**	**71**

Corporate loans without impairments or arrears

At 31 December 2012, the size of the corporate loan exposure carrying neither impairments nor arrears equalled EUR 8,223 million or 94% of the total Corporate Loan portfolio (31 December 2011: EUR 8,553 million or 91%). Graph 54-11 displays the distribution of exposure amounts without impairments or arrears, at 31 December 2012 and 31 December 2011. Of this exposure 93% is rated in CCR categories 4, 5 and 6 (BBB, BB and B categories in external rating agencies' scales). NR represents a negligible part of the portfolio (31 December 2012: 0.2% of all loans without impairments or amounts in arrear; 31 December 2011: 0.7%).

54-11 Distribution of exposure amount without impairments or arrears per rating category



Country risk

Country risk is the likelihood that a country will not service its external debt obligations and reflects the risk that a country will not honour its external liabilities due to political, social, economic or financial turmoil. Country risk can potentially be an important cause of increased counterparty default risk since a large number of individual debtors could default at the same time. NIBC did not experience any counterparty defaults from this risk in 2012. NIBC has no sovereign debt exposure.

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 or where the asset physically is operated. 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 if, for example 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, FPSO units and lease and other receivables that secure loans to borrowers in a given country, as well as corporate guarantees. After applying a valuation formula, the fair market value of such collateral is deducted per 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, for which specific limits apply. For non-OECD countries, an assessment is made to advise the TC regarding the size of a country limit.

INVESTMENT LOANS

Investment loans are originated and monitored separately from the Corporate Loan portfolio. Investment loans are typically unsecured subordinated loans that contain equity characteristics such as attached warrants or conversion features. As such, investment loans typically carry a higher risk profile than corporate loans. Examples of these loans include mezzanine loans, convertible loans and shareholder loans.

The investment loan 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. Avedon Capital partners, a spin-off from NIBC since 2011, manages the NIBC Growth Capital Fund II and the equity funds NIBC Merchant Banking Fund IA and IB. Avedon Capital Partners is fully independent from NIBC, in line with market requirements for governance of third-party funds.

Investment officers monitor the quality of counterparties in the portfolio on a regular basis. On a quarterly basis, the entire Investment Loan portfolio is assessed for impairment. All existing impairments are reviewed. Impairments of indirect investments are determined by the manager of the NIBC Fund. All impairments are reviewed and approved by the IC.

The total size of the investment loans at 31 December 2012 was EUR 173 million (31 December 2011: EUR 232 million), of which 95% was drawn (31 December 2011: 93%). In line with the characteristics of the asset class, investment loans typically carry riskier internal CCRs and often a higher LGD than corporate loans. At 31 December 2012, the weighted average counterparty credit rating of non-defaulted investment loans remained at an internal rating 6 (31 December 2011: 6) in NIBC's internal rating scale (equivalent to B in external rating agencies' scales).

Tables 54-12 and 54-13 display a breakdown of investment loans per region and industry sector, respectively, at 31 December 2012 and 31 December 2011.

54-12 Breakdown of investment loans per region

IN EUR MILLIONS	31 December 2012 Exposure	%	31 December 2011 Exposure	%
The Netherlands	119	69%	173	74%
United Kingdom	14	8%	55	24%
Rest of Europe	40	23%	4	2%
TOTAL	173	100%	232	100%

54-13 Breakdown of investment loans per industry sector

IN EUR MILLIONS	31 December 2012 Exposure	%	31 December 2011 Exposure	%
Financial Services	113	66%	45	19%
Wholesale/Retail/Leisure	38	22%	106	46%
Agriculture & Food	14	8%	-	-
TMT	4	2%	-	-
Manufacturing	2	1%	2	1%
Services	2	1%	3	1%
Commercial Real Estate	-	-	21	9%
Other	-	-	55	24%
TOTAL	173	100%	232	100%

Arrears

The amounts in arrear as percentage of exposure decreased for the investment loans from 3% at year-end 2011 to 1% at year-end 2012.

54-14 Investment loan amounts in arrear, 31 December 2012

	Exposure		Outstanding		Amount in arrear		
IN EUR MILLIONS	TOTAL	% of Exposure	TOTAL	% of On-Balance	TOTAL	% of On-Balance	Impairment Amount
AGE OF PAYMENT IN ARREAR							
Over 90 days	2	1.1%	2	1.1%	2	1.0%	2
No payment in arrear	171	98.9%	163	98.9%	0	0.0%	1
TOTAL	173	100.0%	165	100.0%	2	1.0%	3

54-15 Investment loan amounts in arrear, 31 December 2011

	Exposure		Outstanding		Amount in arrear		
IN EUR MILLIONS	TOTAL	% of Exposure	TOTAL	% of On-Balance	TOTAL	% of On-Balance	Impairment Amount
AGE OF PAYMENT IN ARREAR							
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
TOTAL	232	100.0%	216	100.0%	8	3.8%	15

Impairment amounts

At 31 December 2012, impairments on investment loans amounted to EUR 3 million (31 December 2011: EUR 15 million). Table 54-16 shows the breakdown of impairments and write-offs in industry sectors at 31 December 2012 and 31 December 2011. The column labelled 'Exposure' includes both drawn and undrawn amounts, and the column labelled 'Impairment Amount' refers to drawn amounts of impaired facilities. All impairments and write-offs occurred in the Netherlands.

54-16 Impairment per industry sector

	31 December 2012				31 December 2011			
IN EUR MILLIONS	Exposure	Impaired Exposure	Impairment Amount	Write-offs	Exposure	Impaired Exposure	Impairment Amount	Write-offs
Financial Services	113	-	-	-	45	-	-	-
Wholesale/Retail/Leisure	38	-	-	-	106	5	5	-
Agriculture & Food	14	14	1	-	-	-	-	-
TMT	4	-	-	-	-	-	-	-
Manufacturing	2	-	-	-	2	-	-	0
Services	2	2	2	-	3	-	-	-
Commercial Real Estate	-	-	-	-	21	11	10	-
Other					55	-	-	-
TOTAL	173	16	3	0	232	16	15	0

At 31 December 2012, the investment loans that carried neither impairments nor past-due amounts equalled EUR 157 million or 91% of total (31 December 2011: EUR 214 million or 92% of total).

RESIDENTIAL MORTGAGES

The composition of the Residential Mortgage portfolio at year-end 2012 and at year-end 2011 is displayed in Table 54-17.

54-17 Breakdown of Residential Mortgage portfolio

IN EUR MILLIONS	31 December 2012	31 December 2011
Dutch Own Book portfolio	3,324	2,759
Dutch Securitised portfolio	4,512	5,560
German Own Book portfolio	351	426
TOTAL	8,187	8,745

Dutch Residential Mortgage portfolio

The Dutch Residential Mortgage portfolio contains loans that were originated by business partners (insurance companies, mortgage chains and service providers), based on prescribed underwriting criteria. Servicing and administration of the mortgage portfolio is outsourced to third-party servicers.
At 31 December 2012, 27% of the Residential Mortgage portfolio (31 December 2011: 28%) had 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 total amount of the retained positions at 31 December 2012 was EUR 461 million (31 December 2011: EUR 600 million).

Risk governance

In order to control the credit risk in the origination of residential mortgages, an acceptance policy framework was 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* or **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**) and 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.

Following the elections in the Netherlands in September 2012, the government announced new measures for the Dutch housing market. The main ones are:

- Mortgage tax relief for existing home-owners will be reduced from a maximum 52% for the highest incomes to 38%, in equal steps of 0.5% over 28 years;
- As of January 2013, new mortgages must have a principal repayment component (at least on an annuity basis) over the lifetime of the loan, with a maximum of 30 years, to be eligible for interest tax relief;
- The LTMV will be gradually reduced from 106% in 2012 to 100% in 2018;
- To encourage activity in the housing market, the transfer tax on residential property will be permanently reduced to 2%; and
- Prohibition on commission payments from the originator to the advisor.

In February 2013, it became possible to take out a second mortgage loan of up to 50% of the market value of the property. This second loan can be used to repay a part of the first loan. The maturity of this loan can be more than 30 years and the interest on it will not be tax deductible.

Management of loans in arrear

In order to control the credit risk in the Dutch Residential Mortgage portfolio, NIBC has established standardised procedures to manage all loan amounts in arrear. 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 includes members from Risk Management, Operations, Portfolio Management and the Arrears Management team. NIBC bids for own foreclosed properties 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 2012 and 31 December 2011. Loans carrying an arrear at year-end 2012 had increased compared to year-end 2011.

54-18 Arrears overview, Dutch Residential Mortgage portfolio

IN %	31 December 2012	31 December 2011
No payment in arrear	95.8	97.5
0-30 days	2.2	1.4
31-60 days	0.8	0.4
61-90 days	0.3	0.2
Over 90 days	0.9	0.5
TOTAL	100	100
TOTAL (IN EUR MILLION)	7,836	8,319

Risk measurement

As of 1 January 2008, NIBC's rating methodology for residential mortgages 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 sale or foreclosure 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 annually. For the PD and LGD, the estimates are backtested against realised defaults and realised losses. In this way it is ensured that the model functions correctly in a changing economic environment.

Table 54-19 shows the PD distribution of the Dutch Residential Mortgage portfolio at 31 December 2012 and 31 December 2011. 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

	Own book Dutch mortgages		Securitised Dutch mortgages	
IN %	31 December 2012	31 December 2011	31 December 2012	31 December 2011
PROBABILITY OF DEFAULT				
<= 1%	93.4	96.4	95.7	97.6
1-2%	1.8	0.6	0.5	0.1
2-5%	0.9	0.9	0.6	1.0
5-99%	2.9	1.4	2.4	0.9
100%	1.0	0.7	0.8	0.4
TOTAL	100	100	100	100
TOTAL (IN EUR MILLION)	3,324	2,759	4,512	5,560

Risk mitigation and collateral management

Credit losses are mitigated in a number of ways:

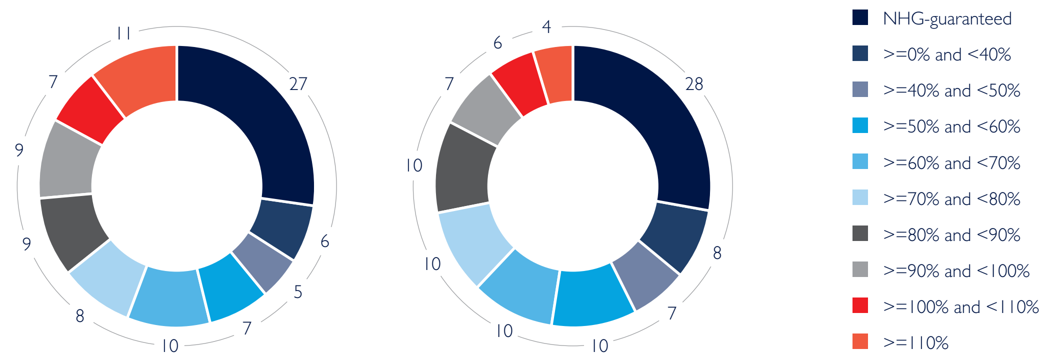
- The underlying property is pledged as collateral;
- 21% of the Dutch Own Book portfolio and 32% of the Securitised portfolio are covered by the NHG programme; and
- For the part of the Dutch portfolio that has been securitised, credit losses higher than the retained positions, excess spread and reserve accounts 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 2012 and 31 December 2011. LTIMV for all categories remained relatively stable between the two years. Only 18% 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 LTIMV of Dutch Residential Mortgage portfolio

PERCENTAGE



31 December 2012 (EUR 7,836 million) 31 December 2011 (EUR 8,319 million)

German Residential Mortgage portfolio

The German Residential Mortgage portfolio amounted to EUR 351 million at 31 December 2012 (31 December 2011: EUR 426 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 designated in 2011 as an exit portfolio, therefore no new originations took place in 2012.

In order to manage the credit risk of the German Residential Mortgage portfolio, NIBC has 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 with a letter sent every two weeks. In case of private insolvency or payment in arrear beyond 90 days, responsibility is taken over by a special servicer.

Table 54-22 displays an overview of the payments in arrear at 31 December 2012 and 31 December 2011 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 2012, only 50 loans had been transferred to special servicing, from a total portfolio of approximately 3,600 mortgages.

54-22 Arrears overview, German Residential Mortgage portfolio

IN %	31 December 2012	31 December 2011
No payment in arrear	93.1	93.6
0-30 days	1.5	1.5
31-60 days	0.8	0.7
61-90 days	0.2	0.5
Over 90 days	0.9	0.6
Special Servicing Cancelled Loans	3.5	3.1
TOTAL	**100**	**100**
TOTAL (IN EUR MILLION)	**351**	**426**

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 credit risk in debt investments as issuer risk, which is the credit risk of losing the principal amount on products such as bonds. Issuer risk is calculated based on the book value.

This portfolio does not contain any sovereign risk exposures.

Risk monitoring and measurement

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 the FMCR department. Apart from single issuer limits, risk is also monitored by assessing credit spread risk. Both sensitivity analysis *(basis point values,* **BPV***)* and *Value at Risk* (**VaR**) 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 size of this sub-portfolio was reduced in the course of 2012 by 15% to EUR 601 million at 31 December 2012 (31 December 2011: EUR 707 million). The credit profile of this portfolio improved in 2012 through increased investments in covered bonds. Of the total exposure, 40% (31 December 2011: 23%) was covered bonds. The remaining 60% (31 December 2011: 77%) was senior unsecured debt.

The amount of EUR 601 million at 31 December 2012 represents the maximum credit risk exposure, without taking into account the presence of any collateral that could be repossessed in case of default. The portfolio did not contain any *credit default swap* (**CDS**) exposures.

54-23 Debt from financial institutions and corporate entities, 31 December 2012

IN EUR MILLIONS	AAA	AA	A	BBB	BB	≤ B	NR	Total
Financial institutions	150	38	355	35	-	-	6	584
Corporate entities	-	-	-	17	-	-	0	17
TOTAL	**150**	**38**	**355**	**52**	**0**	**0**	**7**	**601**

54-24 Debt from financial institutions and corporate entities, 31 December 2011

IN EUR MILLIONS	AAA	AA	A	BBB	BB	≤ B	NR	Total
Financial institutions	72	113	383	42	-	-	6	616
Corporate entities	-	-	68	11	-	-	12	91
TOTAL	**72**	**113**	**451**	**53**	**0**	**0**	**18**	**707**

At both 31 December 2012 and 31 December 2011, the portfolio of debt from financial institutions and corporate entities had no impairments and exhibited no arrears.

Securitisations

NIBC has been an active participant on the securitisation market in the past decade, both as an originator and investor in securitisations.

Tables 54-25 and 54-26 present an overview of NIBC's total securitisation exposure resulting from its activities as 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 underlying 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 was EUR 604 million at 31 December 2012 (31 December 2011: EUR 744 million).

NIBC distinguishes two Securitisation sub-portfolios: the portfolio of Western European securitisations and the Liquidity Investments portfolio.

NIBC's total securitisation exposure (investor and non-consolidated originator) increased to EUR 745 million at 31 December 2012 (31 December 2011: EUR 705 million), mainly due to increased investments in the Liquidity Investments portfolio. Investments in the Liquidity Investments portfolio and divestments in the Western European Securitisations improved the credit profile of this portfolio significantly.

The portfolio of investments in Western European securitisations contains NIBC's investor securitisations in Western Europe as well as all investments in NIBC's own non-consolidated securitisations. All investments in NIBC's own securitisations are subject to approval from both FMCR and Finance. The total amount of the portfolio of investments in Western European decreased to EUR 403 million at 31 December 2012 (31 December 2011: EUR 530 million).

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 FMCR. Exposure in this portfolio increased to EUR 342 million at 31 December 2012 (31 December 2011: EUR 175 million).

54-25 Exposure to securitised products, 31 December 2012

BOOK VALUE, IN EUR MILLIONS	AAA	AA	A	BBB	BB	<BB	Total
EU - ABS	-	1	0	-	-	3	4
EU - CDO	10	33	41	19	12	23	138
EU - CMBS	14	26	19	24	14	17	114
EU - RMBS	13	20	54	37	10	13	147
TOTAL WESTERN EUROPEAN SECURITISATIONS	**37**	**80**	**114**	**80**	**36**	**56**	**403**
NL - RMBS AAA Liquidity portfolio	342	-	-	-	-	-	342
TOTAL SECURITISATION EXPOSURE	**379**	**80**	**114**	**80**	**36**	**56**	**745**

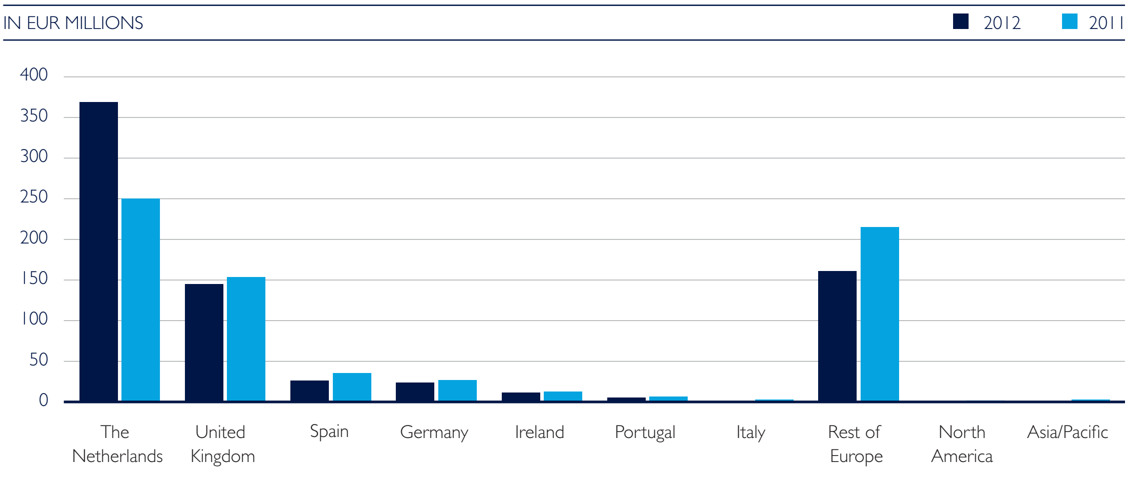
54-26 Exposure to securitised products, 31 December 2011

BOOK VALUE, IN EUR MILLIONS	AAA	AA	A	BBB	BB	<BB	Total
EU - ABS	-	1	4	-	-	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
TOTAL WESTERN EUROPEAN SECURITISATIONS	**49**	**109**	**131**	**85**	**63**	**94**	**530**
NL - RMBS AAA Liquidity portfolio	175	-	-	-	-	-	175
TOTAL SECURITISATION EXPOSURE	**224**	**109**	**131**	**85**	**63**	**94**	**705**

Geographic distribution of securitisations

Graph 54-27 presents the distribution of the Securitisations portfolio by geographic region at 31 December 2012 and 31 December 2011. 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 are located in Western Europe, mainly in the Netherlands (49%) and the United Kingdom (19%). The graph further shows that NIBC's exposure in Ireland, Italy, Spain and Portugal is limited and had decreased to EUR 45 million at 31 December 2012 (31 December 2011: EUR 55 million). Approximately 85% of this exposure is investment grade exposure. NIBC had no exposure in Greece at 31 December 2012 or 2011.

54-27 Distribution of securitisations per region, 31 December 2012 (EUR 745 million) and 31 December 2011 (EUR 705 million)



Impairments on securitisations

The majority of the Securitisations 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 increased to EUR 47 million at 31 December 2012 (31 December 2011: EUR 39 million).

Securitisations without impairments

Table 54-28 presents the rating breakdown of securitisation exposure that did not carry an impairment amount at 31 December 2012 (EUR 727 million). The total amount of securitisations without impairments at 31 December 2011 was EUR 693 million.

54-28 Distribution of securitisation exposure without impairments per rating category, 31 December 2012

BOOK VALUE, IN EUR MILLIONS	AAA	AA	A	BBB	BB	≤B	Total
SECURITISATION EXPOSURE WITHOUT IMPAIRMENTS	**379**	**80**	**115**	**79**	**36**	**38**	**727**

CASH MANAGEMENT

NIBC is exposed to credit risk as a result of cash management activities. In 2012, NIBC's risk management framework for cash management continued its conservative attitude, taking into account the vulnerable financial markets.

Risk monitoring and measurement

NIBC places its excess cash with the DNB/Dutch State Treasury Agency and with a selected number of investment-grade financial institutions. A monitoring process is in place within the FMCR department for the approved financial institutions. Cash management exposures can be collateralised through reverse repo transactions or unsecured through interbank deposits and current accounts.

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 displayed in table 54-29, at 31 December 2012 NIBC's total cash was EUR 2,188 million (31 December 2011: EUR 3,030 million). The change in cash was mainly a result of the redemptions and buy-backs of government-guaranteed funding.

At 31 December 2012, EUR 1,604 million of the cash was held at DNB and EUR 543 million at financial institutions while the remaining EUR 41 million related to securitisation-related liquidity facilities (corporate entities).

54-29 Cash, 31 December 2012

IN EUR MILLIONS	AAA	AA	A	BBB ≥	Total
Cash and balances with central banks	1,604	-	-	-	1,604
Financial institutions	2	52	486	3	543
Corporate entities	31	-	10	-	41
TOTAL	**1,637**	**52**	**496**	**3**	**2,188**

54-30 Cash, 31 December 2011

IN EUR MILLIONS	AAA	AA	A	BBB ≥	Total
Cash and balances with central banks	2,430	-	-	-	2,430
Financial institutions	17	122	421	-	560
Corporate entities	40	-	-	-	40
TOTAL	2,487	122	421	0	3,030

At year-end 2012, EUR 1,474 million cash collateral has been excluded from the cash management exposure (year-end 2011: EUR 1,352 million) as this amount is restricted cash that relates to derivatives or repos 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.

At both 31 December 2012 and 31 December 2011, this portfolio carried no impairments and no arrears.

CREDIT RISK IN 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. NIBC only enters into 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 *Potential Future Exposure* (**PFE**) of the derivative. The PFE 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. 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 CSA are taken into account. For corporate counterparties, both the loan and 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 display NIBC's exposures from credit risk in derivatives allocated across the rating class of the underlying counterparty. Exposure is the sum of the positive marked-to-market value of derivative contracts, excluding the effect of netting and collateral exchange.

The total derivative exposure excluding netting and collateral remained stable between year-end 2012 (EUR 3,916 million) and year-end 2011 (EUR 3,880 million).

54-31 Derivative exposure excluding netting and collateral, 31 December 2012

IN EUR MILLIONS	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total
Financial institutions	-	69	2,681	214	-	-	-	-	-	-	2,963
Corporate entities	40	-	-	329	272	253	15	0	40	4	953
TOTAL	40	69	2,681	543	272	253	15	0	40	4	3,916

54-32 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	-	204	2,816	6	-	-	-	-	-	0	3,026
Corporate entities	-	-	-	247	291	189	36	0	88	3	855
TOTAL	**-**	**204**	**2,816**	**253**	**291**	**189**	**36**	**0**	**88**	**3**	**3,880**

Collateral

To the extent possible, NIBC attempts to limit credit risk arising from derivatives. 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 exchanges to account for changes in the market value of the contracts included in the CSA.

Terms and conditions of these CSAs are in line with general *International Swaps and Derivatives Association* (**ISDA**) credit support documents. Collateral from CSAs significantly decreases the credit exposure on derivatives, as presented in table 54-33 at 31 December 2012 and in table 54-34 at December 2011.

54-33 Derivative exposure including netting and collateral, 31 December 2012

IN EUR MILLIONS	AAA	AA	A	BBB	BB	B	CCC	CC	D	NR	Total
Financial institutions	-	1	63	0	-	-	-	-	-	-	64
Corporate entities	-	-	-	323	272	252	15	0	40	4	906
TOTAL	**0**	**1**	**63**	**323**	**272**	**252**	**15**	**0**	**40**	**4**	**970**

54-34 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	-	47	59	6	-	-	-	-	-	-	112
Corporate entities	-	-	-	247	293	186	36	0	88	3	853
TOTAL	**0**	**47**	**59**	**253**	**293**	**186**	**36**	**0**	**88**	**3**	**965**

Valuation of corporate derivatives (credit value adjustment)

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 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 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 PD and LGD estimates to the EE profile. The EE profile estimate takes into account repayments of notional amounts and the 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. Based on the current composition of the portfolio, the CVA, in general, reduces when interest rates rise.

Arrears

NIBC applies a threshold for determining whether a derivative carries a non-material arrear. The criteria for this threshold are the same as for the portfolio of corporate loans. 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 arrears for 2012 and 2011. For both years, the total arrears that is considered insignificant is below EUR 100 thousand.

Table 54-35 displays an overview of the arrears for corporate derivatives at 31 December 2012 and 31 December 2011 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, at 31 December 2012, a marked-to-market exposure of EUR 22 million carried an arrear of EUR 9 million (31 December 2011: exposure of EUR 40 million with an arrear of EUR 12 million).

54-35 Arrears overview, corporate derivative exposure

	2012		2011	
IN EUR MILLIONS	Exposure (MtM)[1]	Amount in arrear	Exposure (MtM)[1]	Amount in arrear
AGE OF PAYMENT IN ARREAR				
1- 5 days	11	1	3	1
6 - 30 days	-	-	-	-
31 - 60 days	-	-	2	0
61 - 90 days	-	-	18	1
SUBTOTAL LESS THAN 90 DAYS	**11**	**1**	**23**	**2**
Over 90 days	11	8	17	10
No payment in arrear	931	-	815	-
TOTAL	**953**	**9**	**855**	**12**

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 BPV, credit BPV, interest VaR, credit VaR and total VaR measures are calculated on a daily basis and reviewed by the Market Risk department:

- Interest and credit BPV measure the sensitivity of the market value to 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 to 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 on 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 CRO on a daily basis. The income statement for the Trading portfolio is also monitored daily.

Exposures

Interest rate risk in the Trading portfolio

The Trading portfolio only consists of books, which from a regulatory perspective fall under the market risk treatment. These books only contain interest rate derivatives (swaps, futures and interest options). The overall market risk in this portfolio is limited, as is evidenced by the actual level of the VaR. For the whole portfolio a VaR limit of EUR 2.25 million applies. During 2012, there has not been a single excess in the VaR limit.

55-1 Key risk statistics of the Trading portfolio

	2012		2011	
IN EUR THOUSANDS	Interest rate BPV	Interest rate VaR	Interest rate BPV	Interest rate VaR
Max [1]	(111)	1,337	202	3,321
Average	(36)	691	(2)	1,358
Min [2]	0	231	0	451
YEAR-END	**(7)**	**243**	**(41)**	**628**

1. Max: value farthest from zero.
2. Min: value closest to zero.

The portfolio is used for facilitating derivative transactions with corporate clients. Activities comprise short-term (up to two years) interest position taking, money market and bond futures trading and swap spread position taking. Basis risk, cross currency spread risk and interest rate spread risk between positions in swaps and bond futures are 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. In light of the low interest rate environment NIBC did not reopened a mismatch position in 2012.

55-2 Key risk statistics of the USD Mismatch portfolio

	2012		2011	
IN EUR THOUSANDS	Interest rate BPV	Interest rate VaR	Interest rate BPV	Interest rate VaR
Max [1]	(25)	435	(253)	5,081
Average	(17)	321	(195)	3,937
Min [2]	(11)	196	(20)	372
YEAR-END	**(11)**	**210**	**(20)**	**375**

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	2012		2011	
	Interest rate BPV	Interest rate VaR	Interest rate BPV	Interest rate VaR
Max [1]	(35)	168	(425)	5,704
Average	(12)	126	(278)	3,468
Min [2]	(10)	96	(13)	156
YEAR-END	**(10)**	**96**	**(13)**	**156**

1. Max: value farthest from zero.
2. Min: value closest to zero.

Interest rate risk in Banking book

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 loan portfolios. The interest rate risk in the Debt Investments portfolio appears mainly in the Securitisations portfolio. The interest rate risk on the Residential Mortgage portfolio is hedged within small facilitating limits.

Tables 55-4 and 55-5 illustrate in EUR the interest rate sensitivity for EUR, USD and GBP in the trading, mismatch and banking books at year-end 2012 and 2011. For other currencies, interest rate risk is minimal. Interest rate risk in the Banking Book is either related to fixings in the short-end of the curve (mainly in the three-month and six-month buckets) or the usage of a dedicated model for the interest rate risk of on-demand savings.

55-4 Interest rate statistics, 31 December 2012

IN EUR THOUSANDS	BPV			
	Trading	Mismatch	Banking	Total
EUR	(10)	(3)	90	77
USD	12	(18)	17	11
GBP	(9)	0	19	10
Other	0	0	4	4
TOTAL	**(7)**	**(21)**	**130**	**102**

55-5 Interest rate statistics, 31 December 2011

IN EUR THOUSANDS	BPV			
	Trading	Mismatch	Banking	Total
EUR	(36)	(6)	60	18
USD	4	(27)	(54)	(77)
GBP	(9)	0	9	0
Other	0	0	6	6
TOTAL	**(41)**	**(33)**	**21**	**(53)**

Currency risk

Apart from certain 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 main exposures in foreign currencies for NIBC are USD, GBP and JPY. As a result of its policy, NIBC does not actively maintain open currency positions other than translation exposures arising from future income in foreign currencies. The Finance department determines NIBC's currency positions on a monthly basis and reports these to Risk Management. When currency positions exceed NIBC's small facilitating foreign currency exposure limits, 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 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's most important risk management objectives. NIBC 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, several liquidity stress tests are prepared and presented once every two weeks to the ALCO, in order to create continuous monitoring of the liquidity position.

Assumptions

One of the stress scenarios, the market-wide stress test, assumes a world-wide liquidity shortage in which no new market funding can be attracted by NIBC. 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's business franchise, it is assumed that new corporate loan production continues at a level where the current books are maintained constant;
- Conservative assumptions with respect to for example collateral cash outflows (payments from CSAs) and drawdowns of undrawn commitments are made; and
- A one notch downgrade is assumed.

The projection of NIBC'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 with derivative counterparties.

In light of these projections, NIBC is confident that sufficient liquidity is available to meet maturing obligations over the next 12 months.

Maturity calendar consolidated balance sheet

The following tables present the cash flows payable by NIBC 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 on the fair value (discounted cash flows) for those assets which are classified at fair value through profit or 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).

56-1 Liquidity maturity calendar, 31 December 2012

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
LIABILITIES (UNDISCOUNTED CASH FLOWS)							
FINANCIAL LIABILITIES AT AMORTISED COST							
Due to other banks	-	10	340	3	508	165	**1,026**
Deposits from customers	-	4,282	878	925	1,693	569	**8,347**
Own debt securities in issue	-	-	-	220	4,024	70	**4,314**
Debt securities in issue related to securitised mortgages	-	-	6	-	16	4,448	**4,470**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)							
Own debt securities in issue	-	-	-	-	6	27	**33**
Debt securities in issue structured	-	-	-	75	310	1,273	**1,658**
OTHER FINANCIAL LIABILITIES							
Other liabilities	-	-	-	159	-	-	**159**
Current tax	-	-	-	-	9	-	**9**
Deferred tax	-	-	-	-	-	-	**-**
Employee benefits	-	-	-	-	4	-	**4**
SUBORDINATED LIABILITIES							
Amortised cost	-	-	-	25	-	58	**83**
Fair value through profit or loss	-	-	-	-	42	338	**380**
TOTAL LIABILITIES (excluding derivatives)	-	4,292	1,224	1,407	6,612	6,948	20,483
Estimated contractual interest cash flows	-	-	48	185	547	1,263	**2,043**
TOTAL LIABILITIES (excluding derivatives, including estimated contractual interest rate cash flows)	-	4,292	1,272	1,592	7,159	8,211	22,526
TOTAL ASSETS RELEVANT FOR MANAGING LIQUIDITY RISK AT FAIR VALUE (excluding derivatives and interest cash flows)	1,845	2,139	600	719	5,091	11,881	22,275

56-2 Liquidity maturity calendar, 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
LIABILITIES (UNDISCOUNTED CASH FLOWS)							
FINANCIAL LIABILITIES AT AMORTISED COST							
Due to other banks	-	9	220	64	730	238	**1,261**
Deposits from customers	-	3,603	463	763	1,303	512	**6,644**
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**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (INCLUDING TRADING)							
Own debt securities in issue	-	-	11	-	6	26	**43**
Debt securities in issue structured	-	-	24	82	339	1,369	**1,814**
OTHER FINANCIAL LIABILITIES							
Other liabilities	-	-	-	149	-	-	**149**
Current tax	-	-	-	-	-	-	**-**
Deferred tax	-	-	-	-	18	-	**18**
Employee benefits	-	-	-	1	4	-	**5**
SUBORDINATED LIABILITIES							
Amortised cost	-	-	-	-	25	60	**85**
Fair value through profit or loss	-	-	-	-	37	388	**425**
TOTAL LIABILITIES (excluding derivatives)	-	3,612	3,106	1,121	7,050	8,067	22,956
Estimated contractual interest cash flows	-	-	101	274	907	1,080	**2,362**
TOTAL LIABILITIES (excluding derivatives, including estimated contractual interest rate cash flows)	-	3,612	3,207	1,395	7,957	9,147	25,318
TOTAL ASSETS RELEVANT FOR MANAGING LIQUIDITY RISK AT FAIR VALUE (excluding derivatives and interest cash flows)	1,872	3,054	764	918	5,071	12,874	24,553

Liquidity maturity calendar derivatives

The following tables present the derivative financial instruments that will be settled on a net basis by relevant maturity classes based on the contractual maturity date at 31 December 2012 and 2011. The amounts disclosed in the tables are the contractual undiscounted cash flows.

56-3 Liquidity maturity calendar of derivatives, 31 December 2012

IN EUR MILLIONS	Less than three months	Between three months and one year	One to five years	Five years or more	Total
DERIVATIVES HELD FOR TRADING					
Interest rate derivatives (net settled)					
Inflow	496	743	2,791	1,763	5,793
Outflow	(370)	(754)	(2,885)	(1,281)	(5,290)
Credit derivatives					
Inflow	-	1	1	-	2
Outflow	(1)	(2)	(11)	-	(14)
DERIVATIVES USED FOR HEDGING					
FX forward (gross settled)					
Inflow	-	-	-	-	-
Outflow	-	-	-	-	-
Interest rate derivatives (net settled)					
Inflow	23	86	277	29	415
Outflow	(15)	(77)	(260)	(38)	(390)
TOTAL INFLOW	**519**	**830**	**3,069**	**1,792**	**6,210**
TOTAL OUTFLOW	**(386)**	**(833)**	**(3,156)**	**(1,319)**	**(5,694)**

56-4 Liquidity maturity calendar of derivatives, 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
DERIVATIVES HELD FOR TRADING					
Interest rate derivatives (net settled)					
Inflow	912	2,041	4,551	2,194	9,698
Outflow	(822)	(2,022)	(4,570)	(1,495)	(8,909)
Credit derivatives					
Inflow	1	1	3	-	5
Outflow	-	-	(1)	-	(1)
DERIVATIVES USED FOR HEDGING					
FX forward (gross settled)					
Inflow	963	33	-	-	996
Outflow	(996)	(33)	-	-	(1,029)
Interest rate derivatives (net settled)					
Inflow	18	72	289	49	428
Outflow	(21)	(85)	(298)	(65)	(469)
TOTAL INFLOW	**1,894**	**2,147**	**4,843**	**2,243**	**11,127**
TOTAL OUTFLOW	**(1,839)**	**(2,140)**	**(4,869)**	**(1,560)**	**(10,408)**

Liquidity maturity calendar off-balance sheet

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.

56-5 Liquidity maturity calendar off-balance sheet, 31 December 2012

IN EUR MILLIONS	Less than three months	Between three months and one year	One to five years	Five years or more	Total
CONTRACT AMOUNT					
Committed facilities with respect to corporate loan financing	1,153	-	-	-	1,153
Capital commitments	43	-	-	-	43
Guarantees granted	95	-	-	-	95
Irrevocable letters of credit	34	-	-	-	34
	1,325	**-**	**-**	**-**	**1,325**

56-6 Liquidity maturity calendar off-balance sheet, 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
CONTRACT AMOUNT					
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
	1,603	**-**	**-**	**-**	**1,603**

57 Capital management

Overview

It is NIBC's 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 an EC approach. EC is the amount of capital which 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 from the regulatory method. 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's capital allocation and usage process, assisting in allocating shareholder's equity as efficiently as possible, based on expectations of both risks 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's desired risk profile and the regulatory requirements.

Methodology

NIBC uses the business model of each activity as the basis for determining the EC approach. If the business model of an activity is trading, distribution or 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 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 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 Securitisations portfolio and NIBC's interest rate mismatch position. EC is determined by a market risk approach for these activities. The regulatory approach is either a credit risk approach (residential mortgages and securitisations) or is not part of the Basel II Pillar 1 at all (mismatch position).

Capital allocation

NIBC 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 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, the Residential Mortgage portfolio and the interest rate mismatch position, NIBC 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 loans, NIBC calculates EC usage by applying a credit approach based upon the Basel II regulatory capital formula. NIBC 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 1 describes the capital adequacy requirements for three risk types; credit risk, market risk and operational risk;
- Pillar 2 describes the additional *supervisory review and evaluation 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 3 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 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 started using the AIRB approach at 1 January 2008. A small residue of exposures is measured on the standardised approach.

For market risk, NIBC adopted an internal model VaR approach.

For measuring operational risk, NIBC adopted the standardised approach.

The basis for Pillar 2 is NIBC's ICAAP, which is NIBC's self-assessment of risks not captured by Pillar 1.

Pillar 3 is related to market discipline and complements the operation of Pillars 1 and 2, aiming to make banks more transparent. NIBC publishes its Pillar 3 disclosures on its website.

The following table displays the composition of regulatory capital as at 31 December 2012 and 31 December 2011. NIBC complies with DNB's Basel II capital requirements, which formally require a maximunm Tier-1 ratio of 4% and a BIS ratio of 8%.

IN EUR MILLIONS	2012	2011
TIER-1		
Called-up share capital	80	80
Share premium	237	237
Eligible reserves	1,367	1,361
Net profit after proposed dividend	53	28
Non-controlling interests	-	1
Regulatory adjustments	(251)	(74)
CORE TIER-1 CAPITAL[1]	**1,487**	**1,633**
Innovative hybrid Tier-1 capital	46	47
Non-innovative hybrid Tier-1 capital	230	233
TOTAL TIER-1 CAPITAL	**1,763**	**1,913**
TIER-2		
Reserves arising from revaluation of property and unrealised gains on available-for-sale equities	17	27
Qualifying subordinated liabilities		
Undated loan capital	36	36
Dated loan capital	103	158
Regulatory adjustments	(56)	(74)
TOTAL TIER-2 CAPITAL	**100**	**147**
TOTAL BIS-CAPITAL	**1,862**	**2,060**

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

Table of contents

COMPANY FINANCIAL STATEMENTS

Company income statement

for the year ended 31 December

IN EUR MILLIONS	NOTE	2012	2011
Results of participating interests after tax	6	153	42
Other results after tax		(80)	26
NET PROFIT FOR THE YEAR		**73**	**68**

Company statement of comprehensive income

for the year ended 31 December

	2012			2011		
IN EUR MILLIONS	Before tax	Tax charge/ (credit)	After tax	Before tax	Tax charge/ (credit)	After tax
PROFIT FOR THE YEAR	**81**	**8**	**73**	**71**	**3**	**68**
OTHER COMPREHENSIVE INCOME						
Net result on cash flow hedging instruments	(30)	(7)	(23)	28	6	22
Revaluation loans and receivables	4	1	3	14	3	11
Revaluation equity investments	(10)	(1)	(9)	1	1	-
Revaluation debt investments	24	6	18	(25)	(6)	(19)
Revaluation property, plant and equipment	1	-	1	(13)	(3)	(10)
TOTAL OTHER COMPREHENSIVE INCOME	**(11)**	**(1)**	**(10)**	**5**	**1**	**4**
TOTAL COMPREHENSIVE INCOME	**70**	**7**	**63**	**76**	**4**	**72**

Company balance sheet

before profit appropriation, at 31 December

IN EUR MILLIONS	NOTE	2012	2011
Assets			
Cash and balances with central banks	1	1,604	2,430
Due from other banks	2	2,378	2,405
Loans and receivables			
Guaranteed by public authorities	3	34	38
To the private sector	3	13,784	13,096
Interest-bearing securities	4	1,666	1,888
Equity investments	5	4	3
Participating interests in group companies	6	632	494
Other participating interests	7	1	1
Property, plant and equipment	8	12	14
Assets held under financial lease	9	15	15
Derivative financial instruments	10	4,771	4,801
Prepayments and accrued income	11	48	63
TOTAL ASSETS		24,949	25,248

IN EUR MILLIONS	NOTE	2012	2011
Liabilities			
Due to other banks	12	1,178	1,327
Deposits from customers	13	11,185	8,503
Debt securities	14	5,993	8,861
Other liabilities	15	79	95
Derivative financial instruments	10	4,332	4,254
Provisions	16	4	18
SUBORDINATED LIABILITIES			
Amortised cost	17	83	85
Fair value through profit or loss	18	264	296
TOTAL LIABILITIES		**23,118**	**23,439**
SHAREHOLDER'S EQUITY			
Share capital	19	80	80
OTHER RESERVES			
Share premium	19	238	238
Hedging reserve	19	66	89
Revaluation reserve	19	8	(5)
Retained earnings		1,385	1,361
Net profit		73	68
Interim dividend paid		(19)	(22)
TOTAL PARENT SHAREHOLDER'S EQUITY		**1,831**	**1,809**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**24,949**	**25,248**
Contingent liabilities	21	128	107
Irrevocable facilities	21	1,068	1,268

Company statement of changes in shareholder's equity

IN EUR MILLIONS	Attributable to parent shareholder Share capital	Other reserves [1]	Retained earnings	Net profit	Distribution charged to profit	Total shareholder's equity
BALANCE AT 1 JANUARY 2011	80	318	1,329	76	(22)	1,781
Transfer of net profit 2010 to retained earnings	-	-	54	(76)	22	-
Total comprehensive income for the year ended 31 December 2011	-	4	-	68	-	72
Capital contribution share-based payments	-	-	-	-	-	-
Dividend paid [2]	-	-	(22)	-	(22)	(44)
BALANCE AT 31 DECEMBER 2011	80	322	1,361	68	(22)	1,809

IN EUR MILLIONS	Attributable to parent shareholder Share capital	Other reserves [1]	Retained earnings	Net profit	Distribution charged to profit	Total shareholder's equity
BALANCE AT 1 JANUARY 2012	80	322	1,361	68	(22)	1,809
Transfer of net profit 2011 to retained earnings	-	-	46	(68)	22	-
Total comprehensive income for the year ended 31 December 2012	-	(10)	-	73	-	63
Capital contribution share-based payments	-	-	-	-	-	-
Dividend paid [2]	-	-	(22)	-	(19)	(41)
BALANCE AT 31 DECEMBER 2012	80	312	1,385	73	(19)	1,831

1. Other reserves include share premium, hedging reserve and revaluation reserves.
2. Ordinary interim and final dividend paid in 2012 and 2011 to equity holder.

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 company 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 amount 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 company financial statements

1 Cash and balances with central banks

IN EUR MILLIONS	2012	2011
Cash and balances with central banks	1,604	2,430
	1,604	**2,430**

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

Cash and balances with central banks included EUR 1,557 million on the current account balance held with DNB (2011: EUR 101 million current account and an overnight deposit of EUR 2,270 million).

The mandatory reserve deposits at DNB required under its minimum reserve policy was EUR 56 million (2011: EUR 108 million).

The fair value of this balance sheet item does not materially deviate from its face value, due to the short-term nature of the underlying assets.

2 Due from other banks

IN EUR MILLIONS	2012	2011
Current accounts	230	310
Deposits with other banks	1,568	1,432
Due from group companies	580	663
	2,378	**2,405**
DUE FROM OTHER BANKS CAN BE CATEGORISED AS FOLLOWS:		
Receivable on demand	810	973
Cash collateral placements posted under CSA agreements	1,474	1,398
Not receivable on demand	94	34
	2,378	**2,405**
THE LEGAL MATURITY ANALYSIS OF DUE FROM OTHER BANKS NOT RECEIVABLE ON DEMAND IS ANALYSED AS FOLLOWS:		
Three months or less	78	5
Longer than three months but not longer than one year	5	-
Longer than one year but not longer than five years	7	25
Longer than five years	4	4
	94	**34**

There were no subordinated loans outstanding due from other banks in 2012 and 2011.

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.

Other than from group companies, NIBC does not have receivables from other participating interests.

No impairments were recorded in 2012 and 2011 on the amounts due from other banks.

An amount of EUR 1,474 million (2011: EUR 1,398 million) relates to cash collateral given to third parties and is not freely available to NIBC.

NIBC transacted several reverse repurchase transactions with third parties. The related disclosures are included in note 20 Repurchase and resale agreements and transferred financial assets.

3 Loans and receivables

IN EUR MILLIONS	2012	2011
Loans - amortised cost	6,530	7,399
Loans - fair value through profit or loss	867	1,424
Guaranteed by public authorities	34	38
Group companies - amortised cost	6,387	4,273
	13,818	13,134
THE LEGAL MATURITY ANALYSIS OF LOANS AND RECEIVABLES IS ANALYSED AS FOLLOWS:		
Three months or less	2,983	2,880
Longer than three months but not longer than one year	613	475
Longer than one year but not longer than five years	5,229	4,418
Longer than five years	4,993	5,361
	13,818	13,134
THE MOVEMENT IN IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	121	148
Additional allowances	35	63
Write-offs	(28)	(69)
Amounts released	(9)	(19)
Unwinding of discount adjustment	(7)	(3)
Other (including exchange differences)	5	1
BALANCE AT 31 DECEMBER	117	121

On 1 July 2008, following the IAS 39 amendments, an amount of EUR 74 million of the impairments related to the available-for-sale loans were reclassified to the loans category at amortised cost. The total amount of loans in the available-for-sale category net of impairments was reclassified to the loans category at amortised cost as at 1 July 2008. The impairments at 31 December 2012, related to the available-for-sale loans reclassified to the loans category at amortised cost on 1 July 2008, amounted to EUR 69 million (31 December 2011: EUR 86 million).

If NIBC had fair valued the loans classified as amortised cost using the valuation methodology applied to loans designated as available-for-sale as per 31 December 2012, then the carrying amount would have decreased at the balance sheet date by EUR 150 million (2011: EUR 93 million) excluding group companies. This decrease would reflect both changes due to interest rates and credit spreads. NIBC hedges its interest rate risk from these assets.

The maximum credit risk exposure including undrawn credit facilities arising on loans at amortised cost amounts to EUR 7,632 million (2011: EUR 8,702 million), excluding the group companies.

The total amount of subordinated loans in this item was EUR 91 million in 2012 (2011: EUR 96 million), of which no amounts (2011: EUR 1 million) has been guaranteed by the Dutch State. No subordinated loans are included with respect to group companies.

As per 31 December 2012, EUR 34 million (2011: EUR 38 million) was guaranteed by the Dutch State.

For the impact of the reclassifications following IASB amendments 'IAS 39 Financial Instruments: Recognition and Measurements' on the income statement and on shareholder's equity, see notes to the consolidated financial statements 2012 of NIBC.

Impairment losses of loans at available-for-sale are defined as the difference between the fair value of loans that exhibit indicators of impairment and original cost.

Impairment losses of loans at amortised cost are 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.

As a policy, NIBC does not provide loans to its executives.

4 Interest-bearing securities

IN EUR MILLIONS	2012	2011
Amortised cost	560	843
Available-for-sale	985	887
Fair value through profit or loss	72	100
Held for trading	49	58
	1,666	**1,888**

The previous table displays the IFRS accounting treatment of interest-bearing securities. All interest-bearing securities are non-government. All held for trading interest-bearing securities are listed.

IN EUR MILLIONS	2012	2011
INTEREST-BEARING SECURITIES AT AMORTISED COST, AVAILABLE-FOR-SALE AND DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS CAN BE CATEGORISED AS FOLLOWS:		
Listed	1,494	1,590
Unlisted	123	240
	1,617	**1,830**
THE LEGAL MATURITY ANALYSIS OF INTEREST-BEARING SECURITIES AT AMORTISED COST, AVAILABLE-FOR-SALE AND DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS IS ANALYSED AS FOLLOWS:		
Three months or less	100	87
Longer than three months but not longer than one year	155	191
Longer than one year but not longer than five years	369	516
Longer than five years	993	1,036
	1,617	**1,830**
THE MOVEMENT IN INTEREST-BEARING SECURITIES AT AMORTISED COST, AVAILABLE-FOR-SALE AND DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**1,830**	**2,299**
Additions	733	692
Disposals (sale and/or redemption)	(955)	(1,143)
Impairments and changes in fair value	6	(27)
Exchange differences	3	9
BALANCE AT 31 DECEMBER	**1,617**	**1,830**

Subordinated assets included in interest-bearing securities amounted to EUR 4 million (2011: EUR 12 million).

Interest-bearing securities do not include assets issued and bought by NIBC for market making purposes. Any such assets are eliminated from the balance sheet.

Interest income from interest-bearing securities and other fixed-income instruments is recognised in interest and similar income at the effective interest rate. Fair value movements (excluding interest) are recognised in net trading income.

The portion of fair value changes in 2012 included in the balance sheet amount (designated at fair value through profit or loss) at 31 December 2012 relating to the movement in credit spreads amounted to EUR 1 million debit, being an increase in the carrying amount of the asset (2011: EUR 1 million credit).

If NIBC had fair valued the interest-bearing securities classified as amortised cost, then the balance sheet amount would have decreased at the balance sheet date by EUR 59 million (2011: EUR 113 million). This decrease reflects both changes due to interest rates and credit spreads.

In 2012, impairments on interest-bearing assets amounted to EUR 6 million (2011: nil).

As at 1 July 2008, certain debt investments from the available-for-sale and held for trading category were reclassified to debt investments at amortised cost.

For the impact of the implementation of IASB amendments 'IAS 39 Financial Instruments: Recognition and Measurements' on the income statement and on shareholder's equity, see notes to the consolidated financial statements of NIBC.

5 Equity investments

IN EUR MILLIONS	2012	2011
Available-for-sale	3	-
Fair value through profit or loss	1	3
	4	**3**
EQUITY INVESTMENTS CAN BE CATEGORISED AS FOLLOWS:		
Listed	-	-
Unlisted	4	3
	4	**3**
THE MOVEMENT IN EQUITY INVESTMENTS AT AVAILABLE-FOR-SALE MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	-	7
Disposals (sale and/or capital repayments)	-	(6)
Gains/(losses) from changes in fair value	3	(1)
BALANCE AT 31 DECEMBER	3	-
THE MOVEMENT IN IMPAIRMENT LOSSES ON EQUITY INVESTMENTS AT AVAILABLE-FOR-SALE:		
BALANCE AT 1 JANUARY	-	8
Write-offs	-	(8)
BALANCE AT 31 DECEMBER	-	-
THE MOVEMENT IN EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	3	3
Gains/(losses) from changes in fair value	(2)	-
BALANCE AT 31 DECEMBER	1	3

Impairment losses for equity investments at available-for-sale are defined as the difference between the fair value of equity investments that exhibit indicators of impairment and original cost.

6 Participating interests in group companies

IN EUR MILLIONS	2012	2011
Participating interests in group companies	632	494
	632	**494**
THE MOVEMENT IN PARTICIPATING INTERESTS IN GROUP COMPANIES MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	494	761
Purchases and investments	-	-
Disposals	(1)	-
Revaluation	(10)	(2)
Dividend received	-	(312)
Results of group companies	153	42
Exchange differences	(4)	5
BALANCE AT 31 DECEMBER	632	494

The group companies are unlisted.

Participating interests in group companies are accounted for at net asset value.

NIBC Bank Ltd included in group companies is a registered credit institution in Singapore.

7 Other participating interests

IN EUR MILLIONS	2012	2011
Other participating interests	1	1
	1	**1**

Other participating interests are accounted for at net asset value.

On the balance sheet dates at the end of 2012 and 2011, all other participating interests were unlisted.

The other participating interests are not registered as credit institutions.

There are no significant restrictions on the ability of other participating interests to transfer funds to the investor in the form of cash dividends, or repayment of loans.

There is no unrecognised share of losses of other participating interests, both for the period and cumulatively.

There were no movements in other participating interests in 2012 and 2011.

8 Property, plant and equipment

IN EUR MILLIONS	2012	2011
Land and buildings (in own use) / lease hold improvements	9	10
Other fixed assets	3	4
	12	**14**
THE MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**14**	**14**
Additions	1	8
Revaluations	1	(3)
Depreciation	(4)	(5)
BALANCE AT 31 DECEMBER	**12**	**14**
THE ACCUMULATED DEPRECATION IN PROPERTY, PLANT AND EQUIPMENT CAN BE CATEGORISED AS FOLLOWS:		
Land and buildings (in own use) / leasehold improvements	14	11
Other fixed assets	11	10
	25	**21**

For information about insurance of property, plant and equipment please refer to note 29 of the consolidated financial statements.

There is no property, plant and equipment pledged as security for liabilities.

There were no contractual commitments for the acquisition of property, plant and equipment at 31 December 2012 and 31 December 2011.

The fair value of land and buildings (in own use) does not materially deviate from its carrying amount. NIBC's land and buildings in own use were last revalued as of 31 December 2011 based on an external appraisal carried out in December 2011.

9 Assets held under financial lease

IN EUR MILLIONS	2012	2011
Assets held under financial lease	15	15
	15	**15**
THE MOVEMENT IN ASSETS HELD UNDER FINANCIAL LEASE MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**15**	**21**
Impairments	-	(5)
Depreciation	-	(1)
BALANCE AT 31 DECEMBER	**15**	**15**

Assets held under financial lease are pledged as security for liabilities to group companies.

There were no contractual commitments for the acquisition of assets held under financial lease at 31 December 2012 and 31 December 2011.

10 Derivative financial instruments

IN EUR MILLIONS	2012	2011
DERIVATIVE FINANCIAL ASSETS		
Derivative financial assets held for trading (trading portfolios)	3,838	3,682
Derivative financial assets held for trading (other portfolios)	658	827
Derivative financial assets used for hedging	275	292
	4,771	**4,801**
DERIVATIVE FINANCIAL LIABILITIES		
Derivative financial liabilities held for trading (trading portfolios)	3,929	3,795
Derivative financial liabilities held for trading (other portfolios)	383	425
Derivative financial liabilities used for hedging	20	34
	4,332	**4,254**

Derivative financial instruments held for trading (trading portfolios) at 31 December 2012

IN EUR MILLIONS	Notional amount with remaining life of Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
INTEREST RATE DERIVATIVES						
OTC PRODUCTS:						
Forward rate agreements	-	-	-	-	-	-
Interest rate swaps	4,332	7,402	69,375	81,109	3,741	3,859
Interest rate options (purchase)	45	23	482	550	4	-
Interest rate options (sale)	45	19	495	559	-	7
	4,422	**7,444**	**70,352**	**82,218**	**3,745**	**3,866**
CURRENCY DERIVATIVES						
OTC PRODUCTS:						
Currency/cross-currency swaps	-	-	791	791	35	1
	-	**-**	**791**	**791**	**35**	**1**
OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)						
OTC PRODUCTS:						
Other swaps	-	-	74	74	58	62
Other options (purchase)	-	-	-	-	-	-
Other options (sale)	-	-	-	-	-	-
	-	**-**	**74**	**74**	**58**	**62**
TOTAL DERIVATIVES HELD FOR TRADING (TRADING PORTFOLIOS)	**4,422**	**7,444**	**71,217**	**83,083**	**3,838**	**3,929**

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

IN EUR MILLIONS	Notional amount with remaining life of Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
INTEREST RATE DERIVATIVES						
OTC PRODUCTS:						
Forward rate agreements	-	-	-	-	-	-
Interest rate swaps	11,972	12,468	70,878	95,318	3,615	3,716
Interest rate options (purchase)	55	207	534	796	7	-
Interest rate options (sale)	21	107	504	632	1	9
	12,048	**12,782**	**71,916**	**96,746**	**3,623**	**3,725**
CURRENCY DERIVATIVES						
OTC PRODUCTS:						
Currency/cross-currency swaps	-	705	4	709	56	59
	-	**705**	**4**	**709**	**56**	**59**
OTHER DERIVATIVES (INCLUDING CREDIT DERIVATIVES)						
OTC PRODUCTS:						
Other swaps	-	-	62	62	2	10
Other options (purchase)	-	-	42	42	1	-
Other options (sale)	-	-	42	42	-	1
	-	**-**	**146**	**146**	**3**	**11**
TOTAL DERIVATIVES HELD FOR TRADING (TRADING PORTFOLIOS)	**12,048**	**13,487**	**72,066**	**97,601**	**3,682**	**3,795**

Derivative financial instruments held for trading (other portfolios) at 31 December 2012

IN EUR MILLIONS	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
INTEREST RATE DERIVATIVES						
OTC PRODUCTS:						
Interest rate swaps	1,502	1,836	12,225	15,563	610	365
	1,502	**1,836**	**12,225**	**15,563**	**610**	**365**
CURRENCY DERIVATIVES						
OTC PRODUCTS:						
Forward rate agreements	-	-	-	-	-	-
Interest currency rate swap	17	15	870	902	44	4
Other currency contracts	603	-	-	603	3	13
	620	**15**	**870**	**1,505**	**47**	**17**
OTC PRODUCTS:						
Credit default swaps (guarantees given)	-	-	50	50	-	1
Credit default swaps (guarantees received)	-	-	200	200	-	-
Other OTC products	-	-	4	4	1	-
	-	**-**	**254**	**254**	**1**	**1**
TOTAL DERIVATIVES HELD FOR TRADING (OTHER PORTFOLIOS)	**2,122**	**1,851**	**13,349**	**17,322**	**658**	**383**

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

IN EUR MILLIONS	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
INTEREST RATE DERIVATIVES						
OTC PRODUCTS:						
Interest rate swaps	2,588	1,468	15,542	19,598	595	388
	2,588	**1,468**	**15,542**	**19,598**	**595**	**388**
CURRENCY DERIVATIVES						
OTC PRODUCTS:						
Forward rate agreements	60	-	-	60	1	1
Interest currency rate swap	525	469	880	1,874	226	3
Other currency contracts	894	-	-	894	-	30
	1,479	**469**	**880**	**2,828**	**227**	**34**
OTC PRODUCTS:						
Credit default swaps (guarantees given)	-	-	50	50	1	1
Credit default swaps (guarantees received)	-	-	-	-	-	-
Other OTC products	-	20	4	24	4	2
	-	**20**	**54**	**74**	**5**	**3**
TOTAL DERIVATIVES HELD FOR TRADING (OTHER PORTFOLIOS)	**4,067**	**1,957**	**16,476**	**22,500**	**827**	**425**

Derivative financial instruments used for hedging at 31 December 2012

IN EUR MILLIONS	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
DERIVATIVES ACCOUNTED FOR AS FAIR VALUE HEDGES OF INTEREST RATE RISK						
OTC PRODUCTS:						
Interest rate swaps	78	292	5,071	5,441	266	20
Interest currency rate swaps	-	-	10	10	9	-
	78	**292**	**5,081**	**5,451**	**275**	**20**
DERIVATIVES ACCOUNTED FOR AS CASH FLOW HEDGES OF INTEREST RATE RISK						
OTC PRODUCTS:						
Interest rate swaps	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**
TOTAL DERIVATIVES USED FOR HEDGING	**78**	**292**	**5,081**	**5,451**	**275**	**20**

Derivative financial instruments used for hedging at 31 December 2011

IN EUR MILLIONS	Notional amount with remaining life of: Less than three months	Between three months and one year	More than one year	Total	Assets	Liabilities
DERIVATIVES ACCOUNTED FOR AS FAIR VALUE HEDGES OF INTEREST RATE RISK						
OTC PRODUCTS:						
Interest rate swaps	1,430	342	5,444	7,216	286	34
Interest currency rate swaps	-	-	27	27	6	-
	1,430	**342**	**5,471**	**7,243**	**292**	**34**
DERIVATIVES ACCOUNTED FOR AS CASH FLOW HEDGES OF INTEREST RATE RISK						
OTC PRODUCTS:						
Interest rate swaps	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**
TOTAL DERIVATIVES USED FOR HEDGING	**1,430**	**342**	**5,471**	**7,243**	**292**	**34**

Fair value hedges of interest rate risk

The interest rate risk of financial assets with a fixed-interest rate classified at available-for-sale or at amortised costs are hedged with interest rate swaps under which NIBC pays a fixed rate and receives floating rates. Fair value hedge accounting is applied to these hedge relationships.

Interest rate swaps under which NIBC pays a floating rate and receives a fixed rate are used in fair value hedges of fixed-interest rate liabilities (as far as not held for trading purposes or designated at fair value through profit or loss).

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

IN EUR MILLIONS		2012	2011
Fair value pay - fixed swaps (hedging assets)	assets	-	-
Fair value pay - fixed swaps (hedging assets)	liabilities	(20)	(34)
		(20)	**(34)**
Fair value pay - floating swaps (hedging liabilities)	assets	275	292
Fair value pay - floating swaps (hedging liabilities)	liabilities	-	-
		275	**292**

Cash flow hedges of interest rate risk

All macro cash flow hedge relationships ceased to exist during 2011 and therefore the related cumulative hedge adjustments as from that date are amortised over the remaining contractual maturity of the hedged item.

The average remaining maturity (within which the related cash flows are expected to enter into the determination of profit and loss) is four years (2011: four years).

11 Prepayments and accrued income

IN EUR MILLIONS	2012	2011
Accrued interest	-	1
Defined-benefit pension asset [1]	2	-
Current tax	2	4
Deferred tax	4	-
Accrued income and prepayments	40	58
	48	**63**

1. For further specification of the defined-benefit pension asset please refer to note 41 Employee benefits of the consolidated financial statements.

IN EUR MILLIONS	2012	2011
THE AMOUNTS OF DEFERRED INCOME TAX ASSETS, WITHOUT TAKING INTO CONSIDERATION THE OFFSETTING OF BALANCES WITHIN THE SAME JURISDICTION, WERE AS FOLLOWS:		
Loans to customers	-	1
Debt securities	3	9
Tax losses carried forward	28	14
	31	**24**
THE AMOUNTS OF DEFERRED INCOME TAX LIABILITIES, WITHOUT TAKING INTO CONSIDERATION THE OFFSETTING OF BALANCES WITHIN THE SAME JURISDICTION, WERE AS FOLLOWS:		
Equity investments	1	-
Cash flow hedges	23	31
Property, plant & equipment	3	3
Temporary differences as a result of internal securitisations	-	4
	27	**38**
	4	**(14)**

IN EUR MILLIONS	2012	2011
THE GROSS MOVEMENT ON THE DEFERRED INCOME TAX ACCOUNT MAY BE SUMMARISED AS FOLLOWS:		
BALANCE AT 1 JANUARY	**(14)**	**(26)**
LOANS (REPORTED AS AVAILABLE-FOR-SALE):		
Fair value remeasurement (charged)/credited to revaluation reserve	(1)	(3)
DEBT INVESTMENTS (REPORTED AS AVAILABLE-FOR-SALE):		
Fair value remeasurement (charged)/credited to revaluation reserve	(6)	6
PROPERTY, PLANT AND EQUIPMENT (REPORTED AT FAIR VALUE):		
Fair value remeasurement (charged)/credited to revaluation reserve	-	2
CASH FLOW HEDGES:		
Fair value remeasurement (charged)/credited to hedging reserve	8	(7)
Temporary differences as a result of internal securitisations	3	9
Tax losses carried forward	14	5
BALANCE AT 31 DECEMBER	**4**	**(14)**

12 Due to other banks

IN EUR MILLIONS	2012	2011
Due to other banks	1,178	1,327
	1,178	**1,327**
DUE TO OTHER BANKS CAN BE CATEGORISED AS FOLLOWS:		
Payable on demand	173	180
Not payable on demand	1,005	1,147
	1,178	**1,327**
THE LEGAL MATURITY ANALYSIS OF DUE TO OTHER BANKS NOT PAYABLE ON DEMAND IS ANALYSED AS FOLLOWS:		
Three months or less	339	220
Longer than three months but not longer than one year	-	35
Longer than one year but not longer than five years	501	719
Longer than five years	165	173
	1,005	**1,147**

Interest is recognised in interest expense and similar charges on an effective interest basis.

NIBC transacted several repurchase transactions with third parties. The related disclosures are included in note 20 Repurchase and resale agreements and transferred financial assets.

An amount of EUR 274 million (2011: EUR 216 million) related to cash collateral received from third parties.

13 Deposits from customers

IN EUR MILLIONS	2012	2011
Deposits from customers	11,185	8,503
	11,185	**8,503**
DEPOSITS FROM CUSTOMERS CAN BE CATEGORISED AS FOLLOWS:		
Certificates of deposits	-	-
Due to customers	11,185	8,503
	11,185	**8,503**
DEPOSITS FROM CUSTOMERS CAN BE CATEGORISED AS FOLLOWS:		
Payable on demand	4,274	3,603
Not payable on demand	6,911	4,900
	11,185	**8,503**
THE LEGAL MATURITY ANALYSIS OF DEPOSITS FROM CUSTOMERS NOT PAYABLE ON DEMAND IS ANALYSED AS FOLLOWS:		
Three months or less	3,283	2,235
Longer than three months but not longer than one year	1,085	763
Longer than one year but not longer than five years	1,958	1,387
Longer than five years	585	515
	6,911	**4,900**

Interest is recognised in interest expense and similar charges on an effective interest basis.

The balance sheet item included EUR 3,197 million (2011: EUR 2,106 million) in respect of deposits from customers to group companies.

The balance sheet item includes all non-subordinated liabilities other than debt securities and amounts owed to credit institutions.

14 Debt securities

IN EUR MILLIONS	2012	2011
Bonds and notes issued - amortised costs	4,792	7,546
Bonds and notes issued - fair value through profit or loss	1,074	1,158
Fair value hedge adjustment on amortised cost bonds and notes issued	127	157
	5,993	**8,861**
THE LEGAL MATURITY ANALYSIS OF DEBT SECURITIES IS ANALYSED AS FOLLOWS:		
Three months or less	1	2,411
Longer than three months but not longer than one year	295	146
Longer than one year but not longer than five years	4,941	5,526
Longer than five years	756	778
	5,993	**8,861**

The Dutch State has unconditionally and irrevocably guaranteed the due payment of all amounts of principal and interest due by NIBC for EUR 3,311 million (2011: EUR 5,410 million) of the issued notes according and subject to (i) the Rules governing the 2008 Dutch State's Credit 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.dsta.nl.

The balance sheet item includes debentures and other negotiable fixed-income debt investments, other than subordinated items.

15 Other liabilities

IN EUR MILLIONS	2012	2011
Accruals	31	53
Payables	21	22
Finance lease liabilities	19	20
Current tax	8	-
	79	**95**

Finance lease liabilities

The lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in event of default.

IN EUR MILLIONS	2012	2011
THE LEGAL MATURITY ANALYSIS OF THE GROSS FINANCE LEASE LIABILITIES - MINIMUM LEASE PAYMENTS - IS ANALYSED AS FOLLOWS:		
One year or less	2	2
Longer than one year but not longer than five years	8	8
Longer than five years	16	18
	26	**28**
THE PRESENT VALUE OF THE FINANCIAL LEASE LIABILITIES CAN BE CATEGORISED AS FOLLOWS:		
Gross financial lease liability	26	28
Future finance charge of finance leases	(7)	(8)
	19	**20**
THE LEGAL MATURITY ANALYSIS OF THE PRESENT VALUE OF FINANCE LEASE LIABILITIES IS ANALYSED AS FOLLOWS:		
One year or less	2	2
Longer than one year but not longer than five years	6	6
Longer than five years	11	12
	19	**20**

At the end of 2012, NIBC had leased land and buildings. The annual lease payments (related to the financial lease) are EUR 4.5 million (2011: EUR 4.5 million).

The remaining contractual term of the finance lease contract(s) is six years.

16 Provisions

IN EUR MILLIONS	2012	2011
Deferred tax	-	14
Employee benefits	4	4
	4	**18**

For further specification of the defined-benefit pension asset please refer to note 41 Employee benefits of the consolidated financial statements.

The movement in deferred tax is disclosed in note 11 Prepayments and accrued income.

17 Subordinated liabilities - amortised cost

IN EUR MILLIONS	2012	2011
Subordinated loans qualifying as Tier-1 capital	46	48
Other subordinated loans	37	37
	83	**85**
THE LEGAL MATURITY ANALYSIS OF SUBORDINATED LIABILITIES IS ANALYSED AS FOLLOWS:		
One year or less	25	-
Longer than one year but not longer than five years	-	25
Longer than five years but not longer than ten years	-	1
Longer than ten years	58	59
	83	**85**

All of the above loans are subordinated to the other liabilities of NIBC. EUR 46 million (2011: EUR 48 million) qualifying as Tier-1 capital is subordinated to other subordinated loans that rank pari passu.

These securities are perpetual securities and may be redeemed by NIBC at its option after ten years with the prior approval of the DNB. Interest expense of EUR 5 million was recognised on these subordinated liabilities during the year 2012 (2011: EUR 5 million).

The subordinated liabilities reflect seven transactions (2011: seven transactions), of which the largest three total EUR 67 million (2011 largest three: EUR 68 million).

18 Subordinated liabilities - designated at fair value through profit or loss

IN EUR MILLIONS	2012	2011
Subordinated loans qualifying as Tier-1 capital	144	138
Other subordinated loans	120	158
	264	**296**
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	40	39
Longer than five years but not longer than ten years	-	4
Longer than ten years	224	253
	264	**296**

All of the above loans are subordinated to the other liabilities of NIBC. EUR 144 million (2011: EUR 138 million) qualifying as Tier-1 capital is subordinated to other subordinated loans that rank pari passu. These securities are perpetual securities and may be redeemed by NIBC at its option after ten years with the prior approval of the DNB. Interest expense of EUR 20 million was recognised on these subordinated liabilities during the year 2012 (2011: EUR 31 million).

The subordinated liabilities reflect nine transactions (2011: nine transactions), of which the largest three total EUR 159 million (2011 largest three: EUR 200 million).

19 Shareholder's equity

The ultimate controlling company is New NIB Limited, a company incorporated in Ireland.

Share Capital

IN EUR MILLIONS	2012	2011
Paid-up capital	80	80
	80	**80**

	2012	2011
THE NUMBER OF AUTHORISED SHARES IS SPECIFIED AS FOLLOWS:		
Number of authorised shares [1]	183,597,500	183,597,500
Number of shares issued and fully paid [2]	62,586,794	62,586,794
Par value per A-share	1.28	1.28
Par value per (B,C,D,E1-E3) preference share	1.00	1.00
Par value per (E4) preference share	5.00	5.00

1. The authorised capital amounts to EUR 214.9 million and is divided into 110,937,500 A-shares of EUR 1.28 nominal value each, 72,600,000 of different classes of preference shares with a nominal value of EUR 1.00 each and 60,000 of preference shares with a nominal value of EUR 5.00 each.
2. The shares issued and fully paid consist of A-shares.

Other reserves

IN EUR MILLIONS	2012	2011
OTHER RESERVES ARE COMPRISED OF:		
Share premium	238	238
Hedging reserve - cash flow hedges	66	89
Revaluation reserve - loans (available-for-sale)	-	(4)
Revaluation reserve - equity investments (available-for-sale)	(2)	7
Revaluation reserve - debt securities (available-for-sale)	(8)	(26)
Revaluation reserve - property, plant and equipment	18	18
	312	**322**

IN EUR MILLIONS	Share premium	Hedging reserve	Revaluation reserve	Total
BALANCE AT 1 JANUARY 2011	**238**	**67**	**13**	**318**
Net result on cash flow hedging instruments	-	22	-	22
Revaluation of loans and receivables (net of tax)	-	-	11	11
Revaluation of equity investments (net of tax)	-	-	(1)	(1)
Revaluation of debt securities (net of tax)	-	-	(18)	(18)
Revaluation of property, plant and equipment (net of tax)	-	-	(10)	(10)
TOTAL RECOGNISED DIRECTLY THROUGH OTHER COMPREHENSIVE INCOME IN EQUITY	**-**	**22**	**(18)**	**4**
BALANCE AT 31 DECEMBER 2011	**238**	**89**	**(5)**	**322**

IN EUR MILLIONS	Share premium	Hedging reserve	Revaluation reserve	Total
BALANCE AT 1 JANUARY 2012	**238**	**89**	**(5)**	**322**
Net result on cash flow hedging instruments	-	(23)	-	(23)
Revaluation of loans and receivables (net of tax)	-	-	3	3
Revaluation of equity investments (net of tax)	-	-	(9)	(9)
Revaluation of debt securities (net of tax)	-	-	18	18
Revaluation of property, plant and equipment (net of tax)	-	-	1	1
TOTAL RECOGNISED DIRECTLY THROUGH OTHER COMPREHENSIVE INCOME IN EQUITY	**-**	**(23)**	**13**	**(10)**
BALANCE AT 31 DECEMBER 2012	**238**	**66**	**8**	**312**

If NIBC had not reclassified financial assets in 2008, additional fair value gains recognised for the year 2012 in the income statement and additional gains recognised in the revaluation reserve in shareholder's equity would have amounted to a net of tax gain of EUR 36 million (2011: net of tax loss of EUR 13 million) and a net tax gain of EUR 3 million (2011: net of tax gain of EUR 7 million) respectively. Impairment charges would have amounted to nil for these assets that were reclassified out of available-for-sale into loans and receivables. For more information, see note 45 of the consolidated financial statements.

Information on NIBC's solvency ratios is included in the risk management section of this Annual Report.

At 31 December 2012, 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 241 million (2011: EUR 305 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 2012 and 2011. At the balance sheet date, the legal reserve for currency translation differences was nil for both 2012 and 2011.

Including the revaluation and hedging reserves displayed in note 44 of the consolidated financial statements, total legal reserves at 31 December 2012 amount to EUR 325 million (2011: EUR 419 million).

20 Repurchase and resale agreements and transferred financial assets

For a specification of the Repurchase and resale agreements and transferred financial assets, we refer to note 46 of the consolidated financial statements.

21 Commitments and contingent assets and liabilities

At any time, NIBC has outstanding commitments to extend credit. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one to three months. Commitments extended to customers 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 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 up to five years. Expirations are not concentrated in any period.

The contractual amounts of commitments (excluding residential mortgages commitments which 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	2012	2011
CONTRACT AMOUNT:		
Undrawn facilities and capital commitments	1,068	1,268
Guarantees and letters of credit	128	107
	1,196	**1,375**

In 2012 and 2011, there were no guarantees to group companies.

These commitments and contingent liabilities have off-balance sheet credit risk because only commitment/origination fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

Details of concentrations of credit risk including concentrations of credit risk arising from commitments and contingent liabilities as well as NIBC's policies for collateral for loans are set out in note 54 of the consolidated financial statements.

Guarantees within the meaning of Section 403, Title 9 of Book 2, of the Netherlands Civil Code have been given on behalf of De Nationale Maatschappij voor Industriële Financieringen B.V., PARNIB Holding N.V. and B.V. NIBC Mortgage Backed Assets. A complete list of the companies on behalf of which NIBC has given guarantees within the meaning of Section 403, Title 9 of Book 2, of the Netherlands Civil Code has been filed with the Chamber of Commerce in The Hague. Declaration of joint and several liability has also been made to the respective monetary authorities of DNI Inter Asset Bank N.V. and NIBC Bank Ltd.

NIBC is, together with other group companies and participating interests, a member of one fiscal entity NIBC Holding N.V. Besides NIBC Bank N.V. and NIBC Holding N.V., the principal other members are B.V. NIBC Mortgage Backed Assets, Parnib Holding N.V., Vredezicht 's-Gravenhage 110 B.V. and NIBC Principal Investments Mezzanine B.V.

22 Assets pledged as security

For a specification of the assets pledged as security, please refer to note 49 of the consolidated financial statements.

23 Assets under management

NIBC provides collateral management services, whereby it holds and manages assets or invests funds received in various financial instruments on behalf of the customer. NIBC receives fee income for providing these services. Assets under management are not recognised in the consolidated balance sheet. NIBC is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2012, the total assets held by NIBC on behalf of customers were EUR 1,082 million (2011: EUR 1,175 million).

24 Related party transactions

For a specification of the related party transactions, we refer to note 51 of the consolidated financial statements.

25 Principal subsidiaries, joint ventures and associates

For a specification of the principal subsidiaries, joint ventures and associates, we refer to note 52 of the consolidated financial statements.

26 Financial risk management

Please refer to notes 54 to 57 of the consolidated financial statements, for NIBC's risk management policies.

27 Number of employees

The number of FTEs decreased from 645 at 31 December 2011 to 612 at 31 December 2012.

28 Remuneration

For the remuneration of the Statutory Board members and Supervisory Board members, we refer to notes 8 and 53 of the consolidated financial statements.

At 31 December 2012 and 31 December 2011, there were no receivables outstanding with current and former members of the Statutory Board and Supervisory Board.

29 Profit appropriation

The profit appropriation is included in Other information.

The Hague, 5 March 2013

Managing Board

Jeroen Drost, Chairman, *Chief Executive Officer*
Kees van Dijkhuizen, *Vice-Chairman, Chief Financial Officer*
Rob ten Heggeler, *Chief Client Officer*
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. J.C. Flowers
Mr. N.W. Hoek
Mr. A. de Jong
Ms. S.A. Rocker
Mr. A.H.A. Veenhof

Table of contents

OTHER INFORMATION

Independent auditor's report

To: the general meeting of shareholders of NIBC Bank N.V.

Report on the financial statements

We have audited the accompanying financial statements 2012 of NIBC Bank N.V., the Hague as set out on pages 46 to 207. 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 2012, 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 2012, 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 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 management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of NIBC Bank N.V. as at 31 December 2012, 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 Bank N.V. as at 31 December 2012, 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 and regulatory 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, 5 March 2013
PricewaterhouseCoopers Accountants N.V.

Original signed by R.E.H.M. van Adrichem RA

Page 2 of 2

Profit appropriation

List of Principal Participating Interests of NIBC

NIBC Bank Ltd., Singapore	100%
Parnib Holding N.V., The Hague	100%
Counting House B.V., The Hague	100%
B.V. NIBC Mortgage Backed Assets, The Hague	100%
NIBC Principal Investments B.V., The Hague	100%
Olympia Nederland Holding B.V., The Hague	100%

Profit appropriation

IN EUR MILLIONS	2012
Result available for shareholder's distribution	73
	73

IN EUR MILLIONS	2012
Interim dividend paid 2012	19
Proposed final dividend 2012	20
Transferred to retained earnings	34
	73

Subsequent events

On 1 February 2013, the State of the Netherlands nationalised SNS Reaal N.V. by means of expropriation of all related equity and subordinated debt. Furthermore the State of the Netherlands has imposed a EUR 1 billion one-time levy on Dutch banks to be paid in 2014 to share the costs of the SNS Reaal N.V. nationalisation. NIBC's share is estimated to be between EUR 15 million and EUR 20 million.

The profit appropriation is determined in accordance with Article 45 of the Articles of Association of NIBC Bank N.V., which can be found on our website.

Contact information

Our website, 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.

QUESTIONS AND REMARKS

We invite all stakeholders to ask 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;
- 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;
- Questions and remarks related to corporate responsibility can be addressed to the CSR department, e-mail csr@nibc.com;
- Questions and remarks related to NIBC Direct can be addressed to info@nibcdirect.com; and
- NIBC's and NIBC Direct's complaints procedures can be found on www.nibc.com/policy-regulations and www.nibcdirect.nl/klachtenprocedure.

Principal Subsidiaries and Offices

THE NETHERLANDS

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Key figures

	2012	2011	2010
CONSOLIDATED BALANCE SHEET			
Shareholder's equity (EUR millions)	1,832	1,810	1,803
Group capital base (EUR millions)	2,179	2,191	2,291
Loans to customers (EUR millions)	8,469	9,128	8,693
Residential mortgages (EUR millions)	8,187	8,745	9,767
Balance sheet total (EUR millions)	26,242	28,554	28,014
CONSOLIDATED INCOME STATEMENT			
Operating income (EUR millions)	272	282	323
Operating expenses (EUR millions)	146	170	163
Net profit attributable to parent shareholder (EUR millions)	73	68	76
SOLVENCY INFORMATION			
Risk weighted assets (EUR billions)	9.7	11.8	13.2
Core Tier-1 ratio	15.3%	13.8%	12.9%
Tier-1 ratio	18.1%	16.2%	14.5%
BIS ratio	19.1%	17.5%	15.8%
Leverage ratio (debt/equity)	13.3	14.8	14.5
EARNINGS RATIOS			
Return on equity	4.0%	3.8%	4.5%
Cost-to-income ratio	54%	60%	50%
Dividend payout ratio	53%	65%	58%
OTHER INFORMATION			
Assets under management for third parties (EUR billions)	1.1	1.2	1.7
CORPORATE RESPONSIBILITY FIGURES			
Number of FTEs end of year	627	664	669
Male/female ratio	70%/30%	70%/30%	71%/29%
Male/female ratio top management	90%/10%	91%/9%	91%/9%
Absenteeism	2.1%	2.7%	
Employee Engagement	85%	86%	85%
NPS score Corporate Banking clients	12%	25%	
NIBC Direct customer survey score	7.4	7.8	
% of new corporate clients screened against sustainability policy framework	100%	100%	50%
Number of project finance transactions closed in line with Equator Principles	16	20	Na
CO_2 emissions (tonnes)	2,343	2,461	3,383
% of carbon emissions compensated	100%	100%	100%

Corporate responsibility reporting scope

This Annual Report is an integrated report. We have chosen to combine all our financial, economic, social and environmental information into one document because all these factors are integral to NIBC's strategy and operations.

The corporate responsibility figures (all non-financial data) for this report were gathered via a questionnaire. The Corporate Social Responsibility department collected the information from different departments within NIBC and consolidated it to represent the bank as a whole. These departments include Finance, Risk Management, Compliance, Facilities & Services, Human Resources, Corporate Social Responsibility, Corporate Communications, Corporate Secretariat and Legal.

Scope

Unless specified otherwise, this Annual Report includes figures and information for NIBC Bank N.V. (including all international offices, and 100% subsidiaries established by NIBC for our business purposes). In the Key Figures section, the absenteeism rate and the NIBC Direct customer satisfaction score relate to our office in The Hague only.

NIBC continues to be a signatory to the UN Global Compact. This Annual Report contains details on our progress regarding the 10 Global Compact principles.

Criteria

The content of this Annual Report and the selection of performance indicators are based on the following criteria:

1. Assessment of materiality. We report on NIBC's strategy and the elements that we have identified as most relevant for us as a company and for our stakeholders. Please see our materiality matrix for an overview of these elements; and
2. Legal and regulatory requirements. For NIBC, the principal regulatory requirements are contained in the Dutch Corporate Governance Code and the Banking Code. Please see the Corporate Governance chapter for more details.

Accountability and reporting standards

Our Corporate Responsibility figures are prepared in accordance with the reporting criteria and guidelines of the *Global Reporting Initiative* (**GRI**). We have applied GRI level B+ (self-declared) and the Financial Services Sector Supplement, with no exceptions. The GRI matrix and glossary of definitions can be found in the appendices available on our website.

Figure relating to our carbon footprint include the following estimates or extrapolations:

- Our natural gas use in the UK is an estimate based on the number of FTEs according to Milieubarometer Guidelines, as we do not have access to an itemised invoice for our gas use. Energy consumption related to short-haul flights is calculated based on an average of 450 kilometres per single flight;
- As we receive an invoice for the whole building, we estimate our natural gas and electricity use in our Belgium office based on the number of square metres we occupy in the total building;
- To calculate energy consumption in Germany, we use estimates based on annual electricity and city heating bills, as the invoicing period does not match NIBC's reporting period;
- The calculation of our carbon dioxide emissions is made by the Climate Neutral Group. For this, the Climate Neutral Group principally uses the conversion factors of the CO_2 Performance Ladder of the *Stichting Klimaatvriendelijk Aanbesteden en Ondernemen* (**SKAO** - *Independent Foundation for Climate-Friendly Procurement and Business*); and
- In 2012, SKAO changed the conversion factors for the calculation of carbon emissions from green energy sources. 98.5% of NIBC's total energy use is from green energy sources and total energy use decreased 11% in 2012. However as a result of these different conversion factors, this is not reflected in the carbon footprint.

We compensate our carbon footprint by purchasing Gold Standard carbon credits from the Climate Neutral Group.

Re-statement of information from earlier reports

Equator Principle transactions: four project finance transactions were incorrectly included in NIBC's 2011 Equator Principles report. Closer review of the actual closing date of the project revealed that the signing of the project documentation in 2011 was subject to conditions. These were fulfilled in 2012, leading to the final close. We have decided to include these four project finance transactions in the 2012 Annual Report and to remove them from the 2011 Annual Report.

Assurance

Corporate Responsibility figures are as relevant to NIBC as financial data. For this reason, we have engaged PwC to provide limited assurance on the Corporate Responsibility figures in our Key Figures table (see page 214). PwC has not performed review procedures on any other corporate responsibility information in this Annual Report.

These key figures were determined through a materiality analysis of which indicators are the most relevant for NIBC and our stakeholders. We therefore decided to ask PwC to provide assurance on these specific data.

Such an external assessment is a logical step on our path towards ever greater transparency. At the same time, we have opted for a gradual phased approach that takes account of the time and cost impact on our organisation. Going forward, we will continue to take further steps on transparency and assurance. PwC's assurance work is performed in accordance with the ISAE 3000 standard.

NIBC's Internal Audit department plays an important role in the assurance of our data. On an ongoing basis, this department monitors and audits NIBC's financial and operational processes as part of our three lines of defence risk management model. For more information, please see the Risk Management chapter.

Corporate responsibility assurance report

Limited assurance report

To: the Managing Board of NIBC Bank N.V.

Engagement and responsibilities

We have been engaged by the Managing Board of NIBC Bank N.V. (hereafter: NIBC) to review the Key Corporate Responsibility (CR) Figures as included in the Key Figures Table on page 214 in the 2012 Annual Report of NIBC (hereafter: the Annual Report).

Review procedures focus on obtaining limited assurance in which the evidence-gathering procedures are more limited than for a reasonable assurance engagement, therefore obtaining less assurance than in a reasonable assurance engagement.

The Managing Board is responsible for the preparation of the Key CR Figures. We are responsible for providing an assurance report on the Key CR Figures.

Reporting criteria

NIBC developed its reporting criteria on the basis of the G3.1 Guidelines of the Global Reporting Initiative (GRI). The reporting criteria as developed by NIBC contain certain inherent limitations which may influence the reliability of the information as explained on pages 215 and 216 in the Annual Report. We consider the reporting criteria to be relevant and sufficient for our examination.

Scope and work performed

We have conducted our examination in accordance with Dutch law, including the Dutch Assurance Standard 3000 'Assurance engagements other than audits or reviews of historical financial information'.

The following information in the Report is outside the scope of our engagement:

- We do not provide any assurance on the assumptions and feasibility of prospective information, such as targets, expectations and ambitions with regard to the Key CR Figures.
- As this is the first year that the Key CR Figures are examined, comparative figures concerning previous years have not been examined by us.

Our most important review procedures were:

- assessing the acceptability of the reporting policies and consistent application of this, such as assessment of the reasonableness of estimates made by management;
- reviewing the systems and processes for data gathering, internal controls and processing of information, such as the aggregation process of data to the information as presented in the Key CR Figures table;
- reviewing internal and external documentation to determine whether the Key CR Figures are adequately substantiated.

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- evaluating the consistency of disclosures regarding the Key CR Figures in the Annual Report.

We believe that the information we have obtained from our examination is sufficient and appropriate to provide a basis for our conclusions.

Conclusion
Based on our procedures performed, nothing has come to our attention that would cause us to conclude that the Key CR Figures, in all material respects, are not correctly prepared in accordance with NIBC's reporting criteria as set out on pages 215 and 216 in the Annual Report.

Use of this report
This assurance report relates to NIBC's performance with regard to Key CR Figures only. Therefore it should not be taken as assurance relating to the overall CR performance of NIBC during the reporting year.

Amsterdam, 5 March 2013
PricewaterhouseCoopers Accountants N.V.

Original signed by R.E.H.M. van Adrichem RA

Abbreviations

ACC	Audit and Compliance Committee
AFM	Autoriteit Financiële Markten (Authority for the Financial markets)
AIRB	Advanced Internal Ratings Based
ALCO	Asset & Liability Committee
ALM/MR	Asset & Liability Management and Market Risk
BKR	Bureau Krediet Registratie (Dutch National Credit Register)
BPV	Basis Point Value
C&C	Compliance & Corporate Social Responsibility
CCDRs	Conditional Common Depositary Receipts
CCR	Counterparty credit rating
CDO	Collateralised Debt Obligation
CDRs	Common Depositary Receipts
CDS	Credit Default Swaps
CEBS	Committee of European Banking Supervisors Guidelines on Remuneration Policies and Practices
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGUs	Cash-generating units
CMBS	Commercial Mortgage-Backed Securities
CRDRs	Conditional Restricted Depository Receipts
CRO	Chief Risk Officer
CRM	Credit Risk Management
CSA	Credit Support Annexes
CSR	Corporate Social Responsibility
DNB	De Nederlandsche Bank (Dutch Central Bank)
DNB Principles	Dutch Central Bank Principles on Sound Remuneration Policies
DRs	Depositary Receipts
EAD	Exposure at Default
EBA	European Banking Authority
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EC	Economic Capital
EC	Employees' Council
ECB	European Central Bank
ECC	Engagement and Compliance Committee
EE	Expected Exposure
EL	Expected Loss
EP	Equator Principles
EU	European Union
FMCR/RP&R	Financial Markets Credit Risk and Risk Policy & Reporting
Foundation	Stichting Administratiekantoor NIBC Holding
FPSO	Floating production, storage & offloading
FTEs	Full-time equivalents
IASB	International Accounting Standards Board
IBNR	Incurred but not Reported
IC	Investment Committee
ICAAP	Internal capital adequacy assessment process
IFRS	International Financial Reporting Standards
ILAAP	Internal liquidity adequacy assessment process
IMF	International Monetary Fund
ISDA	International Swaps and Derivatives Association
LGD	Loss given default
LTI	Long-term incentive
Lti	Loan-to-Income
LTIMV	Loan-to-Indexed-Market-Value
LTMV	Loan-to-Market-Value
MtM	Marked-to-Market
NACE	Statistical Classification of Economic Activities in the European community
NHG Guarantee	Dutch government mortgage guarantee
NIBC	NIBC Bank N.V.
NIBC Funds	Funds set up and managed by NIBC
NIBC Holding	NIBC Holding N.V.
NPS	Net Promoter Score
NPAP	New Product Approval Process
OECD	Organisation for Economic Co-operation and Development
ORM	Operational Risk Management
OTC	Over The Counter
PD	Probability of default
PFE	Potential Future Exposure
PSUs	Phantom Share Units
RAC	Risk-Adjusted Capital
RAROC	Risk-adjusted return on capital
RC	Regulatory Capital
RDA	Restructuring & Distressed Assets Management
RDRs	Restricted Depositary Receipts
Repos	Securities sold subject to repurchase agreements
Reverse repos	Securities purchased under agreements to resell
RMBS	Residential Mortgage-Backed Securities
RMC	Risk Management Committee

RNC	Remuneration and Nominating Committee
RPC	Risk Policy Committee
RPSUs	Restricted Phantom Share Units
RPTC	Related Party Transaction Committee
RWA	Risk Weighted Assets
SPE	Special Purpose Entities
SPV	Special Purpose Vehicles
SREP	Supervisory Review and Evaluation Process
STI	Short-term incentive compensation
TC	Transaction Committee
VaR	Value at Risk
WEW	Stichting Waarborgfonds Eigen Woningen (Social Housing Guarantee Fund)

Annual Report 2012

Layout and production by:
Cascade – visuele communicatie, Amsterdam, the Netherlands

Written by:
Stampa Communications, Amsterdam, the Netherlands and London, United Kingdom

Photography by:
Annabel Oosteweeghel Fotografie, Noordwijk, The Netherlands

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Disclaimer

Presentation of information

This annual report (Annual Report) of NIBC Bank N.V. (NIBC) 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'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'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', 'forecast', 'target' 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'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, (xii) the consequences of a potential (partial) break-up of the Euro zone and/or its currency and (xiii) the risks and uncertainties as addressed in this Annual Report, the occurrence of which could cause NIBC'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 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 nor any of its directors, officers or 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.

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