

**PILLAR 3:  
RISK MANAGEMENT DISCLOSURES**

**31 DECEMBER 2010**



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## **1. Overview**

### **Background**

Since 1 January 2007, Naspa Dublin has been operating under the Capital Requirements Directive (CRD).

The CRD is built on three pillars:

Pillar 1 – minimum capital requirement and calculation of Risk Weighted Amounts (RWA)

Pillar 2 – supervisory review process including the Internal Capital Adequacy Assessment Process (ICAAP)

Pillar 3 – disclosure requirements

The objective of Pillar 3 is to improve market discipline through effective public disclosure to complement requirements under Pillar 1 and Pillar 2.

### **Basis of Disclosures**

The disclosures have been prepared for Naspa Dublin. These disclosures cover the Pillar 3 qualitative and quantitative disclosure requirements.

The Pillar 3 disclosures have been prepared solely for providing the basis on which Naspa Dublin has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the company.

### **Frequency**

The disclosures will be made annually, as at the Accounting Reference Date e.g. 31 December.

### **Ultimate Holding Company**

The ultimate holding company of Naspa Dublin is the Sparkassen- und Giroverband Hessen-Thüringen (SGVHT), Germany, which has stated that it will ensure that Naspa Dublin is always in a position to meet the liabilities entered into by it during the period in which it is and remains a subsidiary of SGVHT.

The obligations of the SGVHT under the paragraph above shall be limited in the same proportion as the percentage of the shareholding interest of SGVHT in Naspa Dublin bears to the overall issued share capital of Naspa Dublin, at the time when the relevant liabilities of Naspa Dublin are incurred.

### **Naspa Dublin Rating**

The SGVHT is an integral part of the Sparkassen-Finanzgruppe Hessen-Thüringen (the fifty savings banks in the German states of Hesse and Thuringia and Landesbank Hessen-Thüringen Girozentrale "Helaba" – collectively named "Sparkassen-Finanzgruppe Hessen-Thüringen" or "Verbund"). The Verbund currently has a long-term rating of A and A+ as well as a short-term rating of A-1 and F1+ by Standard & Poor's and Fitch respectively.

As a 100% owned subsidiary of the SGVHT, Naspa Dublin has been assigned a long term rating of A and A+, and a short term rating of A-1 and F1+ , both with stable outlook, by Standard & Poor's and Fitch respectively.

### **Verification**

This report has been subject to internal review procedures consistent with those undertaken for unaudited information published in the Financial Statements and has not been subject to external audit. Disclosures are externally audited only to the extent that the information is required to be audited under an accounting requirement.

## 2. Risk management

The risk strategy of Naspá Dublin is to manage a conservative investment portfolio and the risk management framework is designed to support this objective.

The Board of Directors approves the framework setting out the strategy, the limits, the measurement and the monitoring of risk and has established a risk management framework which includes the business strategy, the markets in which transactions may take place, the type of trading transactions and the counterparties with whom transactions may be carried out. It also sets out the rules for the limitation of the risks associated with dealing which include the procedures for measurement, analysis, and the monitoring of risks.

The Bank's risk management framework sets out the following general principles:

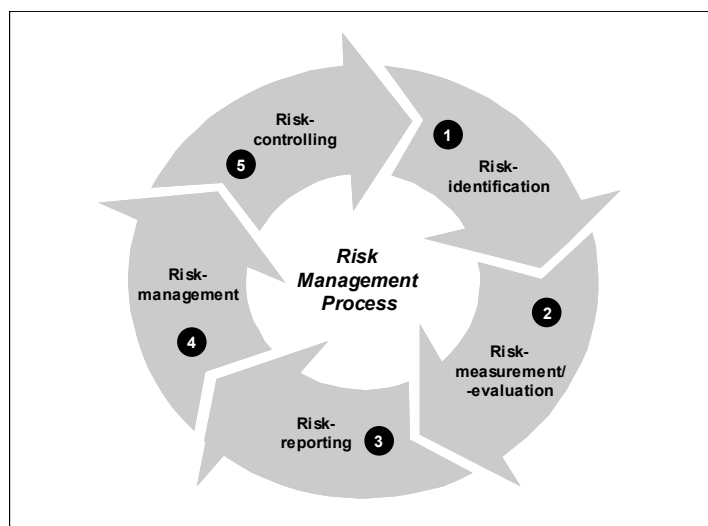
- The overall objective is to secure the risk-bearing capacity and to maintain an adequate amount of capital at any time. That means that the institution always has to hold a sufficient level of risk coverage capital in order to cover the risks taken.
- The risk management objective is to secure the going concern.
- Considered risks are taken in order to generate profits.
- Risk management has to be organised in such a way as to prevent any conflict of interests.
- The Board of Directors and all employees are committed to the risk policy principles and make their day-to-day decisions according to these guidelines.
- The compliance with regulatory requirements has to be secured at all times.

The framework also encompasses the following management specific principles:

- The institution focuses its exposures only on lines of business in which it possesses the expertise necessary to evaluate specific risks.
- The introduction of new business lines or products is preceded by a suitable analysis of business-specific risks.
- Credit risk on the overall portfolio is to be actively managed and the overall credit quality of the portfolio has to be maintained.
- The goal is to keep portfolio volatility at a low level by investing only in high quality assets.

### Risk management process

The risk management process takes place for every risk defined to be material for Naspá Dublin. It consists of the following steps: identification, measurement, reporting, management and controlling of risk.



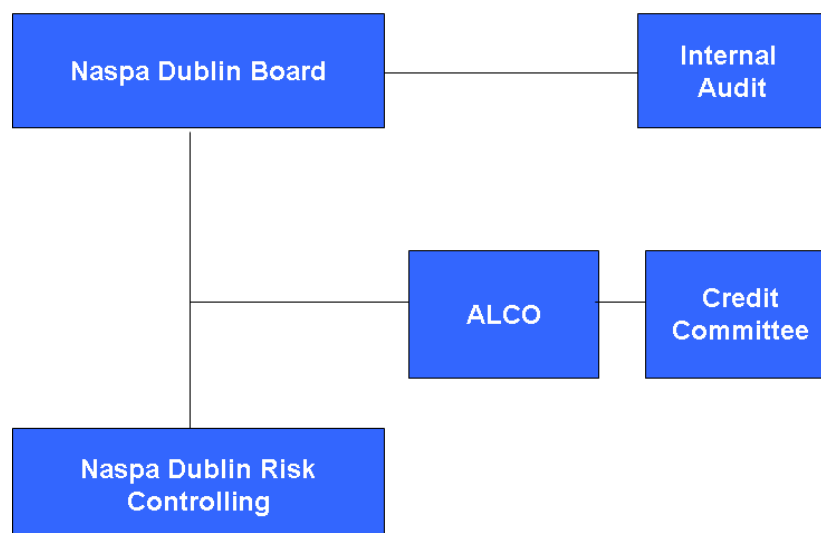
Risk management process for assessing risks

The internal audit function is mandated to carry out the independent review of risk management and the control environment.

## Organisation of Risk Management

The Bank's risk management reporting structure is illustrated below:

### Naspa Dublin Risk Management Reporting Structure



The Board has established an Asset Liability Committee (ALCO) and Credit Committee which monitor and report on key risk management areas. The Board has not delegated any decision making power to the committees.

The ALCO establishes and maintains appropriate procedures for the management of liquidity risk that are consistent with the strategy and policy approved by the Board of Directors. The ALCO reports quarterly, or as required about the monitoring and control of liquidity risk to the Board of Directors. The function of the credit committee is to review the credit portfolio in line with the strategy of Naspa Dublin, to establish procedures for the management of impaired assets and to assess the impact of recent credit events. The credit committee reports to the Board of Directors of Naspa Dublin quarterly or as otherwise required.

The most significant risks to which the Bank is exposed are discussed below:

#### **Credit Risk**

The Bank takes exposure to credit risk, which is the risk that a financial loss is incurred as a result of a obligor under a financial instrument failing to discharge an obligation under a contract. The Bank's exposure to credit risk arises predominantly through its debt security portfolio which represents 93% (2009: 95%) of total assets at balance sheet date and loans and advances to banks which make up a further 6% (2009: 4%) of total assets. Credit risk is the most significant risk for the Bank's business and is monitored in compliance with the Bank's Credit Risk Policy.

The Board of Directors approves the strategy, the limits, and the framework for the measurement and the monitoring of credit risk.

New business activity must meet a minimum credit standard, as defined in the Bank's Credit policy. The average rating of the Bank's portfolio is A (2009:A+).

In the event that a transaction gets downgraded below the minimum levels, a decision is made by the Board on a case-by-case basis as to whether the asset should be held. In addition, any counterparty/transaction below minimum rating criteria is reported at each Board meeting.

The Credit & Investment function is responsible for the management of credit. Credit risk controlling is carried out independently and reported on to the Board quarterly or more frequently if required. Credit risks are managed in accordance with the strategy and limits approved by the Board.

Ratings are closely monitored. Assets are monitored within a detailed credit monitoring process and all limits are formally reviewed annually.

The quantification of credit risk at portfolio level (Credit Value at Risk) is performed by means of the Gordy-Model, which is a one-factor model also used in the Basel II approach. The Credit Value at Risk model measures the unexpected loss on the portfolio with a confidence interval of 99.9% and a holding period of 250 days. Stress testing of credit risk is performed quarterly and reported to the Credit Committee and the Board.

### **Market Risk**

Naspa Dublin has insignificant exposure to market risk, arising primarily from interest rate and currency risk.

Market risk limits are approved by the Board. Treasury are responsible for the management of market risk and monitoring of the risks are carried out daily by the risk controlling function and reported to the Board.

The Bank utilises a Value-at-Risk (VaR) calculation to measure market risk. Value at Risk (VaR) provides an estimate of the maximum expected loss on a set of exposures over a specified period of time within a defined confidence interval. Naspa Dublin utilises the VaR measurement from both a capital adequacy and a P&L management perspective. Stress testing is performed quarterly and reported to the ALCO and the Board.

### **Interest Rate Risk**

The Bank's results include returns obtained from the controlled mismatching of maturity dates on EUR, USD, GBP, CHF and AUD asset and liability holdings. Interest rate risk has been limited by the Bank to open positions with a maximum maturity of up to one year. In addition a position limit is set for the entire book. The exception to this being assets which are funded with the Bank's shareholder funds. All other fixed rate interest positions maturing beyond 12 months are hedged using approved derivatives or matched funding.

### **Currency Risk**

Foreign exchange risk arises from mismatches from assets or liabilities in foreign currencies. Foreign exchange exposure is only permissible in certain currencies approved by the Board of Directors and is controlled by way of volume limits. Assets are matched funded by currency by either borrowing in that currency or through derivatives including foreign exchange swaps.

### **Liquidity Risk**

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due.

The Bank has established a liquidity policy to safeguard its ability to meet its payment obligations.

The Bank's liquidity risk is managed in accordance with the liquidity policy approved by the Board of Directors. The liquidity policy requires that the Bank has sufficient access to funding from a range of sources in the financial market and that market access is actively managed.

The Bank's investment strategy concentrates on eligible liquid assets which can be used for funding purposes by way of repurchase agreements. At 31 December 2010 the Bank held Euro 2.5bn ECB eligible assets (88% of total securities) (2009 Euro 3.1bn, 87% of total securities).

The management of the Bank's liquidity is the responsibility of Treasury. Naspa Dublin has adopted a maturity mismatch approach to measure liquidity risk (as required by the Financial Regulator). The Financial Regulator's limits have been adopted by the Bank and monitoring levels have been set at more conservative levels. The internal limits are monitored by risk-controlling on a daily basis with reporting lines to the Asset and Liability Committee and the Board of Directors.

The Bank performs liquidity stress testing based on a range of adverse scenarios and the results of these tests are reported to the ALCO and the Board quarterly.

### **Operational Risk**

Operational risk describes the potential danger of losses as a result of inadequacy or breakdown of the internal infrastructure, employees, internal processes or external influences. The Bank includes legal risk within the definition but not strategic and reputational risk.

The Bank manages its operational risks through a variety of techniques, including internal control systems and various risk mitigation techniques, such as insurance and business continuity planning. Day to day management of operational risks rests with department managers.

Naspa Dublin evaluates its operational risk with the help of an ex-post and ex-ante methodology, which allows both a systematic identification of losses due to operational risk in the past (ex-post identification, as well as a forward looking ex-ante methodology which seeks to evaluate operational risk by using scenario techniques. The database for losses is managed by risk controlling and losses meeting established criteria are reported to the Board. The reported loss events are then integrated from the model into the annual report on operational risk of Naspa Dublin.

In addition to the annual report on operational risk, ad-hoc reports in the case of large loss events are produced by Naspa Dublin.

The Bank has adopted the Basic Indicator approach for calculating the Pillar 1 capital requirements for operational risk.

**3. Scope of application of Directive requirements**

Naspa Dublin is a fully-licensed Irish bank, regulated by the Financial Regulator in Ireland.

Naspa Dublin does not have any subsidiary undertakings.

#### 4. Own Funds

The table below summarises the components of Naspa Dublin's regulatory capital as at 31 December 2010 and 2009.

	Notes	As at 31.12.10 EUR'000	As at 31.12.09 EUR'000
Tier 1 Capital			
Called up share capital		254,250	254,250
Capital Conversion Reserve Fund		823	823
Capital Contribution Reserve		150,000	150,000
Retained earnings and other reserves	1	24,312	6,744
Audited results for the current year		18,966	17,568
Total Tier 1 Capital		448,351	429,385
<b>Shareholder Funds</b>		<b>448,351</b>	<b>429,385</b>

#### Notes

1. Within core capital under the CRD, retained earnings and other reserves exclude the available-for-sale reserve which has been neutralised through the application of a prudential filter as permitted by the Financial Regulator.

The Bank's core capital ratio under the CRD at 31 December 2010 was 37% (2009: 34.1%).

## 5. Capital Requirement

### Internal Capital

The Bank allocates internal capital against the significant risks that it bears. This is carried out through the ICAAP (Internal Capital Adequacy Assessment Process) as required under the Capital Requirements Directive.

The overall target and strategy is to ensure the risk-bearing-capacity of the Bank at all times. Available capital is allocated against the single risk types credit risk, market risk, operational risk and concentration risk. This way Naspa Dublin derives for internal management purposes capital targets for each risk type in the form of risk limits. These limits may not be exceeded and are monitored and reported to the Board monthly.

### Minimum Regulatory Capital Requirement (Pillar 1)

Naspa Dublin is subject to the minimum capital requirements under the CRD. The following table shows the Bank's capital requirement under Pillar 1 by asset class at 31 December 2010 and 2009

	At 31/12/10	As at 31/12/09
	EUR'000	EUR'000
Credit Risk: Standardised Approach		
Central government or central banks	-	-
Regional governments or local authorities	181	181
Administrative bodies and non-commercial undertakings	-	-
Multilateral development banks	-	-
International organisations	-	-
Credit Institutions and investment firms	75,146	92,180
Corporates	4,027	-
Retail	-	-
Secured on real estate property	-	-
Past due items	-	-
Items belonging to regulatory high-risk categories	-	-
Covered bonds	576	772
Securitisation positions	7,805	8,157
Short term claims on institutions and corporate	4,148	3,262
Claims in the form of collective investment undertakings	-	-
Other items	530	815
<b>Total</b>	<b>92,413</b>	<b>105,367</b>
Position, foreign exchange and commodity risk	599	716
Operational Risk	3,812	3,197
<b>Total Pillar 1 capital requirement</b>	<b>96,824</b>	<b>109,280</b>

## 6. Counterparty Credit Risk

Counterparty credit risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Bank is exposed to counterparty credit risk by way of its derivatives and repo transactions.

Internal capital and credit limits for counterparty credit exposures are determined by the same methodology as for all credit exposures, and are based on counterparty creditworthiness as defined in the Bank's strategy.

### Derivatives

Naspa Dublin has agreed a Credit Support Annexes (CSA) with only one derivative counterparty. At 31 December 2010 the amount of collateral held / provided was nil. The remainder of the banks derivative counterparties do not require CSAs.

Derivative netting provisions within ISDA agreements (International Swaps and Derivatives Association agreements) are not taken into consideration for credit limits, and are not recognised as credit risk mitigation for reducing the exposure at default (EAD) on the derivative transactions in the Pillar 1 regulatory capital calculations.

The Bank measures exposure value on counterparty credit exposures under the CCR mark to market method. The exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contracts potential credit exposure, which is calculated by applying a multiple based on the contracts residual maturity to the notional value of the contract.

As the Bank does not take into consideration netting provisions and does have collateral arrangements in place, there is no difference between the gross positive fair value of derivative contracts and the net derivative credit exposure. This exposure at 31 December 2010 and 2009 is demonstrated in the table below:

<b>2010</b>		
<b>Contract/Notional Amount EUR'000</b>	<b>Positive Fair Value EUR'000</b>	<b>Net Credit Exposure EUR'000</b>
194,206	2,131	2,131

<b>2009</b>		
<b>Contract/Notional Amount EUR'000</b>	<b>Positive Fair Value EUR'000</b>	<b>Net Credit Exposure EUR'000</b>
111,819	4	4

### Repurchase Agreements

The Bank engages in repurchase agreements on its debt securities portfolio. The Bank can engage in both bilateral and triparty repo, although no triparty repo transactions have been undertaken during the last year. The Bank's repo agreements are covered by General Master Repo Agreements concluded with each repo counterparty.

Annual review of repo counterparties are performed by the credit function. Repo exposure is calculated daily on a mark to market basis by the risk controlling function. Margining is cash based. The Bank does not net exposures in the calculation of the exposure at default in repo transactions in the Pillar 1 regulatory capital calculations.

### Change in Rating

A change in the Bank's rating is not a trigger for further collateral under the Bank's Repo Agreements.

## 7. Credit Risk and Dilution Risk

### 7.1 Impairment of Financial Assets

A financial asset is impaired and impairment losses are incurred if, and 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 that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- Significant financial difficulty of the obligor
- A breach of contract, such as a default or delinquency in interest or principal repayments
- The Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- Observable data indicating that there is a measurable decrease in the estimated cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - Adverse changes in the payment status of the borrowers in the group, or
  - National or local economic conditions that correlate with defaults on the assets in the group

Assets are assessed for impairment on a case by case basis.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate

The Bank considers exposures on which a payment date has been missed as past due.

### 7.2 Analysis of credit risk exposures

Table 1 to 5 analyses the Bank's regulatory credit risk exposures as at 31 December 2010 and 2009. These exposures equate to the exposure at default (EAD), including on balance sheet exposures and off-balance sheet exposures after credit conversion factors (CCF) have been applied.

#### 1. Analysis of exposures by exposure class

The table below shows the breakdown of exposures by exposure class:

Exposure Class	As at 31/12/10	Average exposure from 1/1/10 to 31/12/10
	EUR'000	EUR'000
Central government or central banks	116,203	76,290
Regional governments or local authorities	4,519	4,517
Credit Institutions and investment firms	2,258,775	2,514,310
Corporates	68,059	43,098
Covered bonds	36,027	45,441
Securitisation positions	411,305	438,309
Short term claims on institutions and corporate	239,227	133,743
Other items	6,619	8,021
<b>Total</b>	<b>3,140,734</b>	<b>3,263,728</b>

<b>Exposure Class</b>	<b>As at 31/12/09</b>	<b>Average exposure from 1/1/09 to 31/12/09</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Central government or central banks	164,954	211,207
Regional governments or local authorities	4,517	4,523
Credit Institutions and investment firms	2,817,794	3,028,545
Corporates	-	-
Covered bonds	60,461	65,268
Securitisation positions	495,110	525,558
Short term claims on institutions and corporate	203,888	116,645
Other items	10,194	13,636
<b>Total</b>	<b>3,756,918</b>	<b>3,965,381</b>

## 2. Geographic distribution

The table below shows the geographic distribution of the banks exposures at 31 December 2010 and 2009

<b>EUR'000</b>				
<b>Exposure Class</b>	<b>Europe</b>	<b>US</b>	<b>Other</b>	<b>Total</b>
Central govt/central banks	116,203	-	-	116,203
Regional govt/local authorities	4,519	-	-	4,519
Credit Institutions and investment firms	1,666,172	416,227	176,375	2,258,775
Corporates	51,325	5,375	11,359	68,059
Covered bonds	36,027	-	-	36,027
Securitisation positions	384,233	-	27,072	411,305
Short term claims on institutions and corporate	189,157	-	50,070	239,227
Other items	6,619	-	-	6,619
<b>Total</b>	<b>2,454,256</b>	<b>421,603</b>	<b>264,876</b>	<b>3,140,734</b>

<b>EUR'000</b>				
<b>Exposure Class</b>	<b>Europe</b>	<b>US</b>	<b>Other</b>	<b>Total</b>
Central govt/central banks	164,954	-	-	164,954
Regional govt/local authorities	4,517	-	-	4,517
Credit Institutions and investment firms	2,109,450	414,294	294,050	2,817,794
Covered bonds	60,461	-	-	60,461
Securitisation positions	462,671	-	32,439	495,110
Short term claims on institutions and corporate	203,888	-	-	203,888
Other items	10,194	-	-	10,194
<b>Total</b>	<b>3,016,135</b>	<b>414,294</b>	<b>326,489</b>	<b>3,756,918</b>

### 3. Industry

The table below shows the breakdown of the Bank's exposures by industry at 31 December 2010 and 2009.

<b>EUR'000</b>				
<b>Exposure Class</b>	<b>Financial Institutions</b>	<b>ABS</b>	<b>Other</b>	<b>Total</b>
Central govt/central banks	116,203	-		116,203
Regional govt/local authorities	-	-	4,519	4,519
Credit Institutions and investment firms	2,258,775	-	-	2,258,775
Corporates	-	-	68,059	68,059
Covered bonds	36,027	-	-	36,027
Securitisation positions	-	411,305	-	411,305
Short term claims on institutions and corporate	239,227	-	-	239,227
Other items	6,619	-	-	6,619
<b>Total</b>	<b>3,140,734</b>	<b>411,305</b>	<b>72,578</b>	<b>3,140,734</b>

<b>EUR'000</b>				
<b>Exposure Class</b>	<b>Financial Institutions</b>	<b>ABS</b>	<b>Other</b>	<b>Total</b>
Central govt/central banks	164,954	-		164,954
Regional govt/local authorities	-	-	4,517	4,517
Credit Institutions and investment firms	2,817,794	-	-	2,817,794
Covered bonds	60,461	-	-	60,461
Securitisation positions	-	495,110	-	495,110
Short term claims on institutions and corporate	203,888	-	-	203,888
Other items	10,194	-	-	10,194
<b>Total</b>	<b>3,257,291</b>	<b>495,110</b>	<b>4,517</b>	<b>3,756,918</b>

#### 4. Residual Maturity

The tables below show the residual maturity breakdown of all the exposures broken down by exposure class at 31 December 2010 and 2009:

<b>EUR'000</b>							
<b>Exposure Class</b>	<b>&lt; 3mths</b>	<b>3 – 6 mths</b>	<b>6 mths – 1 yr</b>	<b>1 yr – 5 yrs</b>	<b>&gt; 5yrs</b>	<b>Non matur-ing</b>	<b>Total</b>
Central govt/central banks	105,447	353	-	10,402	-	-	116,203
Regional govt/local authorities	19	-	-	-	4,500	-	4,519
Credit Institutions and investment firms	78,333	151,413	339,057	1,520,315	169,658	-	2,258,775
Corporates	1,161	1,106	-	65,792	-	-	68,059
Covered bonds	620	5,407	-	30,000	-	-	36,027
Securitisation positions	10,617	1,057	10,357	258,240	131,034	-	411,305
Short term claims on institutions and corporate	239,226	-	-	-	-	-	239,227
Other items	-	-	-	-	-	6,619	6,619
<b>Total</b>	<b>435,425</b>	<b>159,336</b>	<b>349,414</b>	<b>1,884,748</b>	<b>305,192</b>	<b>6,619</b>	<b>3,140,734</b>

<b>EUR'000</b>							
<b>Exposure Class</b>	<b>&lt; 3mths</b>	<b>3 – 6 mths</b>	<b>6 mths – 1 yr</b>	<b>1 yr – 5 yrs</b>	<b>&gt; 5yrs</b>	<b>Non matur-ing</b>	<b>Total</b>
Central govt/central banks	97,470	67,484	-	-	-	-	164,954
Regional govt/local authorities	17	-	-	-	4,500	-	4,517
Credit Institutions and investment firms	6,845	177,837	147,128	2,295,783	190,201	-	2,817,794
Covered bonds	620	10,555	14,255	35,031	-	-	60,461
Securitisation positions	6,904	-	15,742	277,868	194,596	-	495,110
Short term claims on institutions and corporate	203,888	-	-	-	-	-	203,888
Other items	-	-	-	-	-	10,194	10,194
<b>Total</b>	<b>315,744</b>	<b>255,876</b>	<b>177,125</b>	<b>2,608,682</b>	<b>389,297</b>	<b>10,194</b>	<b>3,756,918</b>

## 5. Impaired and Past Due Exposures

The tables below show the breakdown of impaired and past due exposures by industry type at 31 December 2010 and 2009:

### Impaired and Past Due Exposures 2009/2010

EUR'000	Financial Institutions	ABS	Other	Total
2009				
Impaired Exposure written down balance 1 January 2009	5,000	-	-	5,000
Closing balance 31 December 2009	5,000	-	-	5,000
2010				
Disposal	(5,000)	-	-	(5,000)
Past Due Exposure	-	-	-	-
<b>Impaired Exposure written down balance at 31 December 2010</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Reconciliation of Changes in Provisions for Impaired Exposures 2008/2009

The impaired exposure at 31 December 2009 relates to a single name, Lehman Bros of which the Bank held a nominal of €50m which had been written down to €5m. The exposure was sold during 2010.

There were no changes to provisions for impaired exposure during 2009 and 2010. On the sale of the impaired exposure a recovery of €6,813m was recorded. The balance on the provision account at 31 December 2010 was nil.

## 8. Credit Risk: Standardised approach

Naspa Dublin calculates all its credit risk exposures under the standardised approach. The Bank uses external credit assessments provided by Moody's, Standard & Poor's and Fitch. These are all recognised by the Financial Regulator as eligible external credit assessment institutions (ECAI) for the purpose of calculating credit risk requirements under the standardised approach.

The following table details the ECAIs used for the standardised credit risk exposure classes.

Asset class	ECAI
Central Government or Central Banks	Moody's, Standard & Poor's, Fitch
Regional Government or Local Authorities	Moody's, Standard & Poor's, Fitch
Credit Institutions and Investment Firms	Moody's, Standard & Poor's, Fitch
Corporates	Moody's, Standard & Poor's, Fitch
Covered Bonds	Moody's, Standard & Poor's, Fitch
Securitisation positions	Moody's, Standard & Poor's, Fitch
Short term exposures	Moody's, Standard & Poor's, Fitch

The Bank complies with the standard association of external rating by ECAI with the credit quality steps as set out in the in the CRD, as published by the Irish Financial Regulator.

The Banks exposure values and exposure values after credit risk mitigation associated with the credit quality steps as set out in the CRD are displayed in the tables below:

### Central Government or Central Banks

EUR'000		2010		2009	
Credit Quality Step	Risk weight	Exposure	Exposure after Credit Risk Mitigation	Exposure	Exposure after Credit Risk Mitigation
1	0%	116,203	116,203	164,954	164,954
2	20%	-	-	-	-
3	50%	-	-	-	-
4	100%	-	-	-	-
5	100%	-	-	-	-
6	150%	-	-	-	-

### Regional Government or Local Authorities

EUR'000		2010		2009	
Credit Quality Step	Risk weight	Exposure	Exposure after Credit Risk Mitigation	Exposure	Exposure after Credit Risk Mitigation
1	20%	-	-	-	-
2	50%	-	-	-	-
3	50%	-	-	-	-
4	100%	-	-	-	-
5	100%	-	-	-	-
6	150%	-	-	-	-
Unrated – non default	50%	4,519	4,519	4,517	4,517
Unrated - default	150%	-	-	-	-

### Credit Institutions and Investment Firms

EUR'000		2010		2009	
Credit Quality Step	Risk weight	Exposure	Exposure after Credit Risk Mitigation	Exposure	Exposure after Credit Risk Mitigation
1	20%	652,419	652,419	872,173	872,173
2	50%	1,190,360	1,190,360	1,706,140	1,706,140
3	50%	211,206	211,206	183,915	183,915
4	100%	55,584	55,584	-	-
5	100%	-	-	-	-
6	150%	-	-	-	-
Unrated – non default	50%	75,430	75,430	50,566	50,566
Unrated - default	150%	-	-	5,000	5,000

### Corporates

EUR'000		2010		2009	
Credit Quality Step	Risk weight	Exposure	Exposure after Credit Risk Mitigation	Exposure	Exposure after Credit Risk Mitigation
1	20%	-	-	-	-
2	50%	35,440	35,440	-	-
3	100%	32,619	32,619	-	-
4	100%	-	-	-	-
5	150%	-	-	-	-
6	150%	-	-	-	-
Unrated – non default	100%	-	-	-	-
Unrated - default	150%	-	-	-	-

### Covered Bonds

EUR'000		2010		2009	
Credit Quality Step	Risk weight	Exposure	Exposure after Credit Risk Mitigation	Exposure	Exposure after Credit Risk Mitigation
1	10%	-	-	24,412	24,412
2	20%	25,743	25,743	36,049	36,049
3	20%	-	-	-	-
4	50%	-	-	-	-
5	50%	-	-	-	-
6	100%	-	-	-	-
Unrated – non default	20%	10,284	10,284	-	-
Unrated - default	150%	-	-	-	-

**Short term exposures to institutions and corporates**

EUR'000		2010		2009	
Credit Quality Step	Risk weight	Exposure	Exposure after Credit Risk Mitigation	Exposure	Exposure after Credit Risk Mitigation
1	20%	234,222	234,222	203,888	203,888
2	50%	-	-	-	-
3	50%	-	-	-	-
4	100%	5,004	5,004	-	-
5	100%	-	-	-	-
6	150%	-	-	-	-
Unrated – non default	50%	-	-	-	-
Unrated - default	150%	-	-	-	-

## 9. Foreign Exchange Risk

The Banks calculation of capital requirements for foreign exchange risk at 31 December 2010 and 2009 is illustrated in the table below:

2010

<b>Risk Type</b>	<b>Positions subject to capital charge EUR'000</b>	<b>Capital Requirement EUR'000</b>
Currency risk	7,485	599

2009

<b>Risk Type</b>	<b>Positions subject to capital charge EUR'000</b>	<b>Capital Requirement EUR'000</b>
Currency risk	8,949	716

## 10. Interest Rate Risk in the Banking Book

All of the Bank's exposures are held on the banking book. The Bank's exposure to interest rate risk in the banking book arises from its fixed rate securities portfolio which is funded by the Bank's share capital and the controlled mismatching of maturity dates on EUR, USD, GBP and AUD positions out to a maximum of 12 months.

A summary of the Bank's policy on interest rate risk is included in the Risk Management section of these disclosures.

The Bank's Euro equivalent weighted open interest rate position and VaR based on a confidence level of 95% and a holding period of 10 days for all currencies at 31 December 2010 and 2009 is shown in the table below.

2010

<b>EURm</b>	<b>EUR</b>	<b>GBP</b>	<b>USD</b>	<b>AUD</b>
Open interest rate position	99.97	9.94	4.61	0
VaR	0.185	0.058	0.031	0

2009

<b>EURm</b>	<b>EUR</b>	<b>GBP</b>	<b>USD</b>	<b>AUD</b>
Open interest rate position	79.05	15.12	6.08	0
VaR	0.277	0.100	0.058	0

## 11. Securitisation

Naspa Dublin is involved in securitisation solely as an investor. The Bank invests in ABS in Europe (93% of the portfolio) and Australia (7% of the portfolio), first ranking tranches only with no synthetic deals or resecuritisations. During the 2010 financial year no new investments in securitised deals were carried out.

Naspa Dublin calculates its securitisation risk weighted exposures under the standardised approach, using external credit assessments provided by Moody's, Standard & Poor's and Fitch.

The Banks securitisation exposure values and exposure values after credit risk mitigation associated with the credit quality steps as set out in the CRD at 31 December 2009 and 2008 are displayed in the tables below:

2010

EUR'000				
Credit Quality Step	Exposure Type	Risk weight	Exposure	Exposure after Credit Risk Mitigation
1		20%		
	Residential Mortgage Backed Securities		313,483	313,483
	Commercial Mortgage Backed Securities		24,897	24,897
	Consumer Asset Backed Securities		26,347	26,347
	Collateralised Loan Obligations		1,057	1,057
	Lease Receivables		7,683	7,683
2		50%		
	Residential Mortgage Backed Securities		15,233	15,233
	Collateralised Loan Obligations		14,700	14,700
3		100%		
	Residential Mortgage Backed Securities		7,905	7,905
4		350%		
			-	-
5		1250%		
			-	-
Unrated – non default		50%		
			-	-
Unrated - default		150%-		
			-	-

2009

EUR'000				
Credit Quality Step	Exposure Type	Risk weight	Exposure	Exposure after Credit Risk Mitigation
1		20%		
	Residential Mortgage Backed Securities		378,047	378,047
	Commercial Mortgage Backed Securities		34,547	34,547
	Consumer Asset Backed Securities		46,038	46,038
	Collateralised Loan Obligations		14,036	14,036
	Lease Receivables		12,626	12,626
2		50%		
	Collateralised Loan Obligations		9,816	9,816
3		100%	-	-
4		350%	-	-
5		1250%	-	-
Unrated – non default		50%	-	-
Unrated - default		150%-	-	-

## **12. Remuneration**

Naspa Dublin has adopted a remuneration policy which is aligned to the Bank's objectives and does not encourage risk taking. Any variable remuneration does not impact the capital base and takes account of the business cycle.