

The background is an aerial photograph of a coastline, showing intricate patterns of land and water. Overlaid on this are several dark, semi-transparent geometric shapes: a large trapezoid at the top, a vertical rectangle on the left, a large rectangle in the middle, and another large rectangle at the bottom. The text is centered within the middle rectangle.

**Friesland Bank**  
Annual Report  
**2010**



**Friesland Bank N.V.**

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# Financial

# Annual Report 2010

**Friesland Bank**

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# Our own way, a special vision

Friesland Bank N.V. was incorporated as Coöperatieve Zuivelbank in 1913, and has operated under its present name since 1970. The bank's activities have been significantly expanded over the years. Its services, which originally concentrated on the dairy sector, have grown into a complete range of financial products and advisory services for both private and corporate clients. A further expansion in regional terms then took place, most recently with the opening of three branches in the Randstad (Amsterdam, Utrecht and Rotterdam). With this physical presence and a modern Internet channel, Friesland Bank offers its services nation-wide, albeit still with a focus on the northern half of the Netherlands.

The shares of Friesland Bank N.V. are held entirely by Friesland Bank Holding N.V. Until 1 April 2011, the shares of Friesland Bank Holding N.V. were held by Vereniging Friesland Bank. On that date, Vereniging Friesland Bank became Stichting Friesland Bank. The objective of the Stichting (or Foundation) as defined in its Articles of Association is to maintain Friesland Bank as a bank with its own commercial identity and culture, and to protect the interests of the bank, its clients and its employees. In principle there is no payment of dividend to Stichting Friesland Bank; the bank's result is transferred entirely to equity.

## Vision and Mission

We live in a fast-changing world. This brings opportunities, but also threats and uncertainties. As a result of internationalisation, the interrelationship of markets and the increasing effects of capital flows, the changes seem to have become more profound and to follow each other in quicker succession. At the same time, individual responsibilities are increasing, so that the financial housekeeping of our clients has become more complicated. With such developments, people need a bank that provides clear advice, that identifies with the needs of its clients, and that is transparent in the provision of its services. Our mission can be expressed as:

We are an enterprising bank.  
We do the utmost to help our clients make the right choices.  
Our transparency in word and deed provides security.

## Strategy

To fulfil our mission, personal attention is the central feature of our approach to clients. We strive to understand the situation they are in and to know what their motivations are. Only then can we offer comprehensive advice that takes account of the various aspects of financial possibilities and objectives. This applies to both our corporate and our private clients. Where we see a clear benefit to the client, we involve various partners in our services. Our partner for asset management is Optimix Vermogensbeheer N.V. For the medical sector, we cooperate closely with the Vereniging voor Arts en Auto (VvAA), a national financial services provider for medical and paramedical professionals.

We focus our services primarily on clients who recognise and experience added value in our specific approach. We particularly identify with the middle segment: clients that need a sounding board for specific financial questions. We value our clients and continually invest in improving our services. The recent crisis has further emphasised the pride we take in our loyal client base.

The confidence of our clients is for us the most important factor, enabling us to serve both the corporate and the private sector in the Dutch market as a successful bank with its own identity. We are and will remain a bank with its roots in Friesland, but with branches that cover the rest of the Netherlands.

### Client focus

Our ability to understand the situation and motivation of our clients is a crucial element in our banking style. Understanding a client's personal circumstances and financial situation, wishes and targets is the key, regardless of the channel through which contact occurs. The perception that only with such understanding is it possible to provide serious and proper advice to a client, is thoroughly embedded throughout our organisation. Much effort has been invested in establishing client focus in the conduct of our business across the whole of Friesland Bank. We are proud to have had external confirmation that we are taking the right approach, in the form of the CRM Pioneer Award (awarded by the Dutch Customer Relationship Management Association). Evidence that our approach is also appreciated in the agricultural sector is provided by the market survey of AgriDirect and V-focus. Friesland Bank has been voted the best in the category of banks for the agricultural sector over the last three years.

In order to ensure that we can continue to follow this path, it is essential that we regularly check our information and activities against the experience of our clients. For this reason, we maintain a regular, ongoing dialogue with them. For instance, each year we organise 20 client panels that provide valuable information on how our clients wish to experience our service. This enables us to continue to develop as a banking organisation, and to continually check that our services are meeting our clients' needs.

### Respect and realism

The developments in recent years, especially in the financial sector, have confirmed our perception that Friesland Bank has made good choices. We continue to play to our strengths: building relationships with clients based on mutual respect, with a realistic world view. We remain true to ourselves, but also especially to our clients, because this is the foundation for a healthy future.

### Credit ratings

	Moody's Investors Service	Fitch Ratings
Long-term	A3	BBB+
Short-term	P-2	F2

# Key figures

(x € mln)	Key figures *	2010	2009	2008	2007	2006
<b>Balance sheet data</b>						
	Balance sheet total	<b>11,055.4</b>	11,009.5	10,934.1	10,188.8	9,346.8
	Loans and advances	<b>8,545.8</b>	8,451.0	8,227.3	7,622.0	7,271.2
	Savings accounts	<b>3,265.8</b>	2,926.4	2,705.6	2,283.7	2,088.1
	Other funds entrusted	<b>2,010.9</b>	2,521.9	2,990.9	3,128.5	2,916.9
	Debt securities	<b>3,149.7</b>	2,912.3	2,734.1	2,929.0	2,513.2
	Equity (excluding third-party interests)	<b>795.6</b>	856.2	796.8	922.2	833.0
	Equity (including third-party interests)	<b>841.6</b>	883.0	824.7	938.1	856.7
	Capital base	<b>1,202.1</b>	1,301.8	1,234.2	1,341.4	1,230.2
	BIS ratio (core assets, in %) **)	<b>9.0</b>	10.0	10.1	12.6	13.2
	BIS ratio (total assets, in %) **)	<b>12.1</b>	13.1	12.6	12.6	13.2
(x € mln)	<b>Results data, excluding consolidation of investments</b>					
	Operating income	<b>225.2</b>	225.6	177.7	322.5	291.6
	Operating expense	<b>162.0</b>	169.3	165.4	163.7	156.0
	Ordinary operating result	<b>63.2</b>	56.3	12.3	158.7	135.5
	Impairment losses	<b>113.9</b>	41.8	115.0	49.7	17.6
	Operating result	<b>-50.7</b>	14.5	-102.7	109.0	118.0
	Net result	<b>-43.3</b>	27.0	-75.1	120.6	106.9
	Efficiency ratio (in %)	<b>71.9</b>	75.0	93.1	50.8	53.5
	Return on equity (in %)	<b>-5.2</b>	3.3	-8.7	13.7	12.6
(x € mln)	<b>Results data, including consolidation of investments</b>					
	Operating income	<b>412.5</b>	536.8	476.2	438.9	389.1
	Operating expense	<b>345.3</b>	467.2	448.7	271.2	247.6
	Ordinary operating result	<b>67.2</b>	69.5	27.5	167.7	141.5
	Impairment losses	<b>115.9</b>	41.8	115.0	49.7	17.6
	Operating result	<b>-48.7</b>	27.8	-87.5	118.0	123.9
	Net result	<b>-42.6</b>	32.6	-66.6	127.1	110.7
	Efficiency ratio (in %)	<b>83.7</b>	87.0	94.2	61.8	63.6
	Return on equity (in %)	<b>-4.9</b>	3.8	-7.6	14.2	12.7

\*) In accordance with IFRS, participating interests of Friesland Bank Investments of more than 50% are consolidated in the financial statements of Friesland Bank. The figures excluding these consolidated items give a truer picture of the state of affairs at Friesland Bank itself. The analyses in this report are based on the figures excluding the consolidation of participating interests of Friesland Bank Investments.

\*\*\*) until end 2007 Basel I, from 2008 Basel II

# Good progress in a turbulent year

## Report of the Executive Board

### Financial developments in 2010

Friesland Bank achieved continuing growth in 2010 in virtually all business units. Lending increased in both the corporate and the private client markets. Our bank also realised a very satisfactory increase in savings deposits, largely due to an increasing number of clients. In times of uncertain markets and scant confidence in the financial system, this strengthens our conviction that Friesland Bank is pursuing the right strategy.

The ordinary operating result came to €63 million, a rise of 12% compared to 2009.

Net profit excluding non-recurring impairment losses came to €18 million (2009: €27 million). As a result of impairment losses totalling €114 million (including a non-recurring impairment of €61 million on the investment in Van Lanschot), the net result was a negative €43 million.

Friesland Bank has traditionally had a strong capital base. Part of the bank's equity is invested in participating interests taken by the bank in other companies (through Friesland Bank Investments) and in other banks, including a still remaining 23% investment in Van Lanschot. For the calculation of the bank's capital base, this investment is deducted in full from the calculated BIS ratio (year-end: 12.1%), with 50% deducted from the calculated Tier 1 ratio (year-end: 9.0%). Under the new Basel III guidelines, the investment has to be deducted from the calculated Tier 1 ratio in full.

Friesland Bank has various options for compensating for this deduction. In addition to the retention of earnings, these include the raising of additional equity and the (gradual) liquidation of the investment in Van Lanschot. Since Friesland Bank expressly wishes to keep all its options open, it has chosen to make a reduction of the stated investment possible. The value adjustment now applied is in this context, and means that a future sale is not expected to necessarily involve a loss.

Friesland Bank expects that the reduction in value applied now should enable it to meet the stricter Basel III requirements regarding solvency at an early stage. Friesland Bank will thus have a BIS ratio that is approximately 5% higher than at the end of 2010, and approximately half of this will affect the Tier 1 ratio. This will allow the bank to use a significantly larger proportion of its equity for its core business activities. This will be used for further autonomous growth of the bank's core businesses, and will allow for additional investment in non-autonomous expansion.

The increased contribution from traditional banking business, namely interest and commission, will significantly improve the quality of our earnings. In 2009 there was significant income from the purchase and sale of financial instruments.

### Economic recovery and volatility

2010 featured the aftermath of the credit crisis. It was an extremely volatile year, full of contrasts. The economy did better than expected, mainly due to a strong recovery in exports.

It was mainly the larger internationally operating companies that benefited from this recovery. The SME sector had a more difficult time than the large companies, first because consumer spending was hesitant, and second because many multinationals implemented cost-cutting measures that directly affected their suppliers.

Despite the improvement in the economic situation, confidence in the financial markets recovered only to a limited extent. The stock markets rose further, partly due to the positive earnings development at the multinationals, but the money and capital markets remained nervous. The growing visibility of the financial burden on governments, as a result of the measures necessary to combat the crisis, sparked an exodus by investors, especially in Europe. Countries in which investors had previously seen no risk were shunned en masse. The credibility of the European Monetary Union and the euro came under severe scrutiny. The awareness that many bonds issued by the weaker countries were held by the banking system proved to be a serious obstacle to the restoration of confidence in the financial sector. Despite huge rescue measures for the weaker countries and stress tests conducted by the banks, investors remained largely unconvinced. The Dutch government benefited from the flight into safe investments with a significant fall in government bond yields to historically low levels, but this offered little help to the banking sector.

### **More clients, recovering margins**

In these turbulent conditions, Friesland Bank was able, as stated previously, to achieve an ordinary operating result of €63 million, which is an increase of 12% compared to 2009. The positive factors were increased lending, in both the corporate and the private market, and a recovery of the interest margin. The negative factors were a lower but still satisfactory result from the private equity business (Friesland Bank Investments), and lower income from financial transactions. We are thus able to conclude that the quality of the operating result was clearly better than in the previous year.

The growth of our business was based on a continuing upward trend in the number of clients we are able to serve, which increased by nearly 10,000 to 274,000. The growth was mainly in the private client segment. Many new clients were attracted to Friesland Bank by our successful KlimSpaar deposit account. It was also the case that new clients were more able to find our bank through the Internet.

As in 2009, the sums placed on deposit in many cases were higher than the statutory guaranteed threshold of €100,000. This is good illustration of the level of confidence in our bank. Besides the fact that we greatly appreciate the loyalty of our existing group of clients, we see the inflow of new clients as an important sign of confidence in the course we have taken, especially in view of the currently difficult climate in the financial sector.

### **Increase in lending**

Loans and advances in the corporate market rose in 2010 by 2% to €3.9 billion. The increased volume was due not only to existing clients; we were also able to welcome a number of new corporate borrowers. Loans and advances in the private market also rose 2% to €4.7 billion. This was a more than satisfactory result in the light of the stagnation in the mortgage market.

### **Growth in savings**

An important fact is that the increase in loans and advances could be entirely funded out of the rise in savings. As mentioned above, the Friesland Bank KlimSpaar deposit account is proving to be an attractive proposition in the savings market. There was a 12% net increase in savings entrusted to Friesland Bank, to €3.3 billion. In addition, the bank placed a securitisation of mortgages in the capital market in an amount of over €600 million.

## Investment in strategy

During the past year, the bank took important steps in the achievement of the three core elements of its strategy. These are: to raise the level of efficiency in the settlement of the service associated with our standard products; to increase our client focus in types of service in which we can make a difference; and finally, to increase the number of our clients and to raise our market share.

## Improving the infrastructure

Friesland Bank invested further in improving its services and optimising its processes in 2010. This made an important contribution to controlling our costs, which in the banking business were 8% lower than in 2009. In 2010 we closed a number of branches which were attracting very few visitors. By arranging for account managers at nearby offices to visit clients at home and through further investment in our Internet channel, we are able to continue to provide a high quality service.

The measures taken were properly communicated at all stages. Friesland Bank also provided active information on new service channels. Our clients generally accept the logic of the course we have taken and the advantages of today's working methods, which was shown for instance by the enthusiastic interest in our course on Internet banking. In a survey of 250 companies in 2010 conducted by Stichting ITO, our Service Desk was among the top five companies offering the best accessibility by email. This underlines the importance we attach to client-oriented and client-friendly service, regardless of the channel concerned. It also shows that we are making good progress in improving our infrastructure. It is clear that, due to the collective efforts we have made in recent years, we have made significant gains in comparison with our competitors.

## Emphasis on advice

As part of its strategy, Friesland Bank has increasingly focused on providing advice to its clients. Our strengths are our understanding of our clients and our ability to empathise. By gaining an in-depth understanding of a client's personal and business situation we can provide tailor-made advice that meets the client's specific needs. Complicated products are not usually necessary; it is the right combination of products that makes a solution effective. Last year we organised our processes so that our account manager could devote more time to the clients and use this time to provide practical advice. Our account managers thus became partners in a dialogue, enabling Friesland Bank to be the sounding board that our clients clearly need. Within this approach to the market, Friesland Bank is accumulating in-depth expertise in three niche markets in which the bank has particular ambitions. These are the agricultural sector, water sports and the medical sector. We have a historical connection with the agricultural sector. Water sports are an essential part of the culture and economy of the province in which we have our roots. For additional expertise in the medical sector, we work closely with the VvAA.

In the field of investment, Friesland Bank took an important step in 2010 with the increase of its interest in Optimix to 70%. The joint venture we initiated in 2008 has worked well for both parties. Friesland Bank benefits from the extensive investment expertise of Optimix, while Optimix benefits from our network and service concept. The essential point is, of course, that our clients benefit from the collaboration. The experience to date has been positive, as shown by the increasing number of clients choosing for tailor-made asset management from Optimix. The increase of our interest underlines our shared intention to further intensify this cooperation.

Our second core business, Friesland Bank Investments, has also survived the economic downturn in good shape. An important factor here is that we primarily focus on businesses with a strong track record and a strong market position. Friesland Bank Investments realised a net result after funding costs of €15 million, compared to €29 million in 2009. Considering the economic conditions in 2010, this is very satisfactory. A number of good divestments were successfully realised, one new investment was made and the interests in a number of existing investments were increased.

With regard to the banking associates, the funding costs again outweighed the income in 2010, although there was an underlying improvement. Van Lanschot achieved a good recovery in its result in 2010. An impairment loss on this investment has been recognised, as stated above. The result at BinckBank was slightly less positive than in the previous year. A more significant development however was the decline in the results on disposals, which at just under €6 million were much lower than in the previous year (more than €20 million).

### **Building further on our strengths**

While the financial crisis showed that “big” is not necessarily “beautiful”, scale is an important aspect in the strategy of Friesland Bank. Developments in automation, risk monitoring and regulation involve additional costs, which can seriously affect a relatively small organisation. Further growth is therefore necessary. The main objective is to increase the number of clients attracted by the Friesland Bank service concept. A gradual expansion of our branch network outside Friesland, most recently with the opening of a branch in Rotterdam, is an important factor. While a physical presence with branches is becoming less important due to the use of modern communication, we still consider personal contact with a local presence to be of value. With the acquisition of part of the banking operations of Unilever for its employees, our branch in Rotterdam has been given an extra boost. Our cooperation with the VvAA is also providing a successful basis for growing our services to the medical sector.

The growth we intend to achieve will be based on our strengths: empathising with the client’s needs and finding an appropriate solution. Our operating area is the Netherlands, our motto is ‘banking close to home’. This combination has brought us to where we are now, and is the basis on which we can build further.

### **Sustainable growth**

Further growth is an important goal for Friesland Bank. But growth in itself is not an objective. The ultimate goal is to offer the best possible solutions to our clients. Scale is important, but the quality of our employees is, in the end, the decisive factor. In 2010 a programme was initiated for all our employees, which was designed to bring essential aspects such as integrity and the duty of care to a higher level, and to further embed these qualities in our daily business. We continue to invest in the knowledge and competences of our employees, and systematically check that our product range meets today’s requirement of transparency and the expectations of our clients. Our starting point is full compliance with the Banking Code, with deviation (and therefore explanation) only in exceptional circumstances due to our specific position. The Executive Board of Friesland Bank has signed a declaration of ethical behaviour. Also in this context, it has been decided that Friesland Bank should devote more explicit attention to Corporate Social Responsibility, or CSR. We will place more emphasis on aspects of this in our advice, alongside our financial expertise.

### **Solid foundations**

Although no bank was completely unaffected by the crisis, we were able – partly thanks to our risk profile as a conservatively operating bank – to survive the crisis without the need for government support. The European stress tests, in which Friesland Bank participated on a voluntary basis, confirmed our positive risk profile, which was also a result of our lack of involvement in the riskier countries in Europe. At a time when the money and capital markets were still not functioning normally, Friesland Bank was able to fund the increase in its lending entirely from the assets entrusted by its customers. The solid foundation on which the past, present and future of Friesland Bank are built is also expressed in our strong capital position. The BIS ratio now stands at 12.1%, last year at 13.1%. The Tier 1 ratio stands at 9.0%. Both these ratios are at levels above the minimum Basel II requirements. This positive situation is the result of almost 100 years of conservative and client-oriented banking, with a shareholder that places the highest priority on the bank, its customers and its employees. The developments in 2010 provide a strong base that enables us to face the new year, in which the markets will continue to be uncertain, with sufficient confidence. We are moreover highly motivated to stand alongside our clients and support them with good advice, a superior product range and efficient service.

### **Outlook for 2011**

The market circumstances are still uncertain, and could have a material effect on the bank's financial result. Friesland Bank however is confident that the investment made in recent years in improving our service to customers, including the introduction of some attractive new products, will contribute to continuing commercial growth. Combined with strict cost control and lower impairment losses, the result from the banking business has scope to improve. We expect Friesland Bank Investments to continue to produce good results. Regarding our banking associates, we expect a further recovery in earnings at Van Lanschot. The combination of the above factors can deliver a powerful recovery of our total net profit in 2011.

Leeuwarden, 20 April 2011

C.J. Beuving  
A. Vlaskamp  
G.T. van Wakeren RBA

# A year of strategic discussion and extensive assessment of risks and targets

## Report of the Supervisory Board

### Strategy

Against the background of the financial crisis, the resulting measures imposed on the banking sector and the desired strengthening of the profitability of Friesland Bank's core business, an in-depth analysis was conducted last year for the purpose of assessing the bank's strategic positioning, objectives and the programme designed to bring profitability to the desired level in the period from 2010 to 2013.

This analysis was carried out by a working group comprising members of the Executive Board and of the Supervisory Board, assisted by external experts. The general conclusions were tested by two experts from the banking sector who also put forward certain recommendations. This led to a redefinition of the strategic programme that will be implemented by the bank in the next two years.

### Financial statements and dividend proposal

The Supervisory Board has approved the financial statements as audited by Ernst & Young Accountants LLP. The statement by the independent auditor is included on page 155. Our recommendation to the General Meeting of Shareholders is that it should adopt the 2010 financial statements and discharge the members of the Executive Board of responsibility for their management and the members of the Supervisory Board of responsibility for their supervisory work respectively.

The net result available to the shareholders of Friesland Bank N.V. for the 2010 financial year is €43,282,000 negative. As proposed by the Executive Board and approved by the Supervisory Board, the net result will be charged to the reserves. Moreover, as proposed by the Executive Board and approved by the Supervisory Board, a sum of €3,889,000 will be distributed as dividend in connection with the annual payment to holders of Perpetual Capital Securities.

### Risk

The Supervisory Board has extensively investigated the effect of the stricter capital adequacy and liquidity requirements to be imposed as a result of the Basel III agreements for Friesland Bank. In this context, Friesland Bank, along with other banks in the Netherlands, has conducted stress tests with good results.

The principal risk management instruments and associated controls have been regularly discussed at the meetings of the Risk Committee on the basis of reports.

The bank's risk appetite and risk profile have been further defined. The Board's Risk Committee has been particularly involved in this process. As part of the training programme, both supervisory and executive directors spent a full day on deepening their expertise on this theme.

### **Composition and performance of the Supervisory Board**

The Supervisory Board met more frequently during the reporting year than in previous years, due to the in-depth strategic analysis conducted in 2010, as well as for discussions regarding the composition and performance of the Supervisory Board and the Executive Board. Some of the discussions regarding composition and performance took place without the presence of the Executive Board.

With one exception, all the regular meetings were attended by all supervisory directors; in the case of interim meetings and conference calls, not all supervisory directors were able to participate on every occasion.

All the supervisory directors were independent during the reporting year as defined in the Dutch Corporate Governance Code. In view of the imminent ending of his appointment term, Mr K. Wezeman stepped down as a member of the Board at his own request on 1 October 2010. Mr Wezeman had been a supervisory director since 1999, and since 2004 has held the position of Chairman. We are most highly appreciative of the effort and commitment he has shown to Friesland Bank over the years. He is succeeded as Chairman by Mr R.J. Meuter. For the details of the composition of the Board and the individual supervisory directors, see page 157.

After his appointment as Chairman, Mr Meuter spoke with all the supervisory directors regarding the performance of the Board as a whole and the performance of the individual members. As a result of this, the Board met in private on a number of occasions to discuss its most desirable profile. The conclusion was that the banking expertise available to the Board should be improved. With regard to future appointments, efforts should be made to reflect this observation and attract supervisory directors with a background in banking. Attention should also be paid to ensuring adequate diversity and complementarity on the Board.

### **Composition and activities of the Committees**

The Board has three permanent committees. The regulations for each of the committees were evaluated and reformulated in certain respects during the reporting year. The regulations for the permanent committees are published on the website.

#### *Remuneration Committee*

The Remuneration Committee now consists of J. Keijzer, L. Lindner and R.J. Meuter (member and chairman since 1 October 2010). Until 1 October 2010 this committee was chaired by K. Wezeman.

The Remuneration Committee met on ten occasions during 2010. The main items discussed were the composition of the Supervisory Board and of the Executive Board, the appointment of the Chairman of the Executive Board and the evaluation of the performance of the Executive Board and its individual members. The Committee also discussed the structure and composition of the newly formed Management Team for the banking business.

The Committee moreover discussed proposals for the application of the Regulations for Variable Remuneration of the Executive Board for 2010, as well as the payments in relation to the termination of the employment contract of departing members of the Executive Board. The Committee also met to discuss the application of the remuneration policy of the Executive Board and the application of the remuneration policy of Friesland Bank, which takes effect from 2011.

#### *Audit and Compliance Committee*

The Audit and Compliance Committee (A&CC) currently consists of B.R.I.M. Gerner, J. Keijzer (chairman) and R.J. Meuter. Mr Wezeman stepped down as a member of the Committee during the year and Mr Meuter was appointed by the Board as a new member. In accordance with its remit, the A&CC is mainly responsible for assessing the structure and operation of the financial reporting and compliance by the bank. The committee met on four occasions during the reporting year. The meetings were attended by a delegation from the Executive Board, the Director of Internal Audit and the Compliance Director, and on occasion by the external auditor. The A&CC discussed the annual figures, the half-year figures, the auditor's report and the Management Letter in detail before putting these items forward to be dealt with by the full Board. The same applied to the budget for 2011. The Committee further discussed the Internal Audit Department's plan for the period from 2011 to 2013, and the quarterly reports from the Internal Audit and Compliance Departments. The reports issued by De Nederlandsche Bank and the Netherlands Authority for the Financial Markets and the bank's responses thereto were also discussed. The A&CC moreover discussed the draft new regulations for the A&CC. The Committee met with the directors of the Internal Audit Department and the external auditor on one occasion without the presence of the Executive Board.

#### *Risk Committee*

This Committee consists of G. Benedictus, R.J. Meuter (chairman) and A. Oosterhof, and met on four occasions in 2010. The meetings were attended by a delegation of the Executive Board, the Director of Risk Management, the Director of Credit Risk Management and the Director of Treasury & Financial Markets.

The Risk Committee discussed the development of the principal risks affecting Friesland Bank, including liquidity risk, credit risk, interest-rate risk, operational risk and market risk. With regard to liquidity risk, the Risk Committee was frequently informed regarding the developments in the money and capital market and the potential effects thereof for the bank's funding position. The Committee also met regularly to discuss the qualitative and quantitative development of the loan portfolio, including the amount of the loan provisions. The potential effects of new regulation with respect to capital adequacy and liquidity received extensive attention.

### **Composition and performance of the Executive Board**

There were changes to the composition of the Executive Board in 2010. Mr R. Klaasman stepped down from the Board on 21 April 2010. Mr C.J. Beuving was appointed Chairman on 15 July. Ms E.H.M.M. Krijnsen stated that she did not wish to make herself available for reappointment for a second term and stepped down from the Board on 31 December 2010. The Supervisory Board wishes to express its appreciation to Ms Krijnsen and Mr Klaasman for the contributions they have made to the bank's development in the recent period.

The Supervisory Board approved the new management structure proposed by the Executive Board under the chairmanship of Mr Beuving. In this structure, the implementation of policy for the banking business is placed in the hands of a Management Team comprising six directors of the bank in addition to the members of the Executive Board. In this context the Supervisory Board has ensured that the members of the Executive Board were able to continue to meet the expertise requirements set by De Nederlandsche Bank. The Supervisory Board has formed an opinion regarding the qualities of the directors appointed to the bank's Management Team.

### **Governance**

The total group and governance structure was reassessed in order to comply with the requirements set by new legislation and regulation and the Banking Code with respect to corporate governance. In this context, the shareholder changed its legal structure from a cooperative (vereniging) to a foundation (stichting) and the Articles of Association and regulations of the companies belonging to the group were amended and updated accordingly. The documents concerned were then published on the website. Further details of this process are given elsewhere in this report. The members of the Supervisory Board had frequent substantive discussions with the shareholder and the working group responsible for the process of implementation of the Banking Code within the bank. The Board as a whole has attached its approval to the final documentation. The prevailing Regulations for the Supervisory Board were observed throughout the reporting year.

### **Remuneration**

The remuneration policy of Friesland Bank was reviewed in the light of new legislation and regulation and the principles of the Banking Code in 2010. This led to adjustments to the remuneration policy for 2011 which are described elsewhere in this report. The Supervisory Board has approved the new remuneration policy.

## Conclusion

Members of the Supervisory Board had various meetings with the Works Council or a delegation thereof in the course of 2010. The main items concerned the composition of the Executive Board and the Management Team, and the redefinition and progress of the strategic plan.

The Supervisory Board is pleased to acknowledge the constructive involvement of the Works Council and the efforts made by the employees of Friesland Bank. The Board hopes and expects this to continue in 2011.

Leeuwarden, 20 April 2011

The Supervisory Board:

R.J. Meuter, chairman

J. Keijzer, vice-chairman

G. Benedictus

B.R.I.M. Gerner

L. Lindner

A. Oosterhof

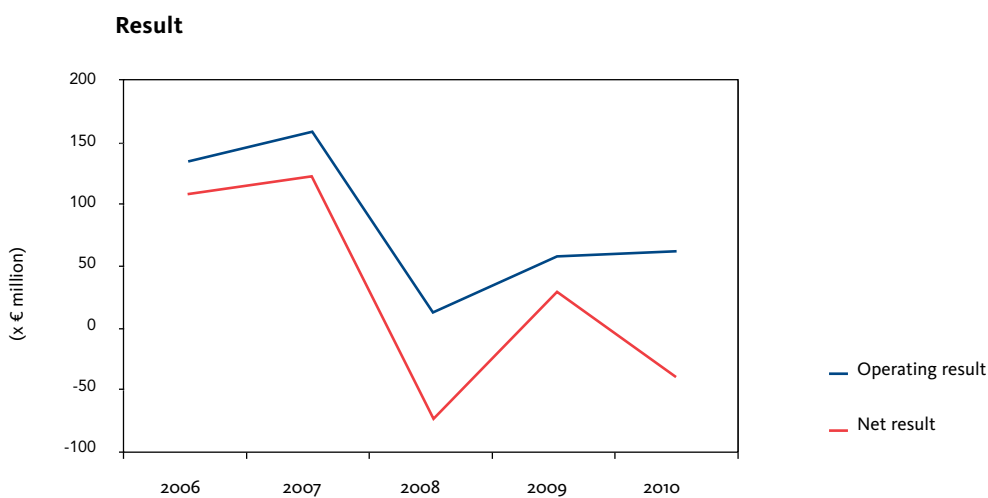
# Financial results\*

## I. Group

- Strong recovery in interest income
- Savings up 12%; modest growth in lending
- Efficiency (ratio) improves due to lower costs
- Ordinary operating result +12% to €63 million
- Net operating profit of €18 million
- Write-down of interest in Van Lanschot in anticipation of Basel III
- Net result including one-off impairment loss €43 million negative

The group's condensed income statement is as follows:

	2010	2009	Vershil
Operating income	<b>225</b>	225	-0%
Operating expense	<b>162</b>	169	-4%
Ordinary operating result	<b>63</b>	56	+12%
Impairment losses	<b>114</b>	42	+173%
Operating result	<b>-51</b>	14	-448%
Tax	<b>-9</b>	-13	-30%
Third-party interests	<b>1</b>	-	-%
Net profit	<b>-43</b>	27	-260%



\*) The figures for the result shown in this financial report – contrary to the financial statements – are excluding the consolidation of participating interests of Friesland Bank Investments. For further information, see pages 29 and 30.

### *Group result*

Friesland Bank realised an ordinary operating result of €63 million and a net result of -€43 million in 2010. The figures show that the underlying results significantly improved in 2010, mainly due to an improvement in the interest result. At group level there was a stabilisation of income, accompanied by a decline in operating expense. This led to a 12% increase in the ordinary operating result compared to 2009, to €63 million. Impairment losses were much higher than in 2009, at €114 million. €61 million of this amount concerned an impairment loss recognised on our interest in Van Lanschot. For this reason the improvement in the operating result was not visible in the net result, which came to a negative sum of €43 million. Without the impairment loss on Van Lanschot, the result would have been a positive sum of €18 million.

Income was on balance stable at €225 million. In the underlying figures however, there was a notable improvement in the traditional banking income from interest and commissions and a decline in the more volatile result from financial transactions.

Interest rose 26%, to €113 million, partly due to a higher commercial result and lower funding costs. Commissions increased by 33%, part of which was due to the consolidation of Optimix.

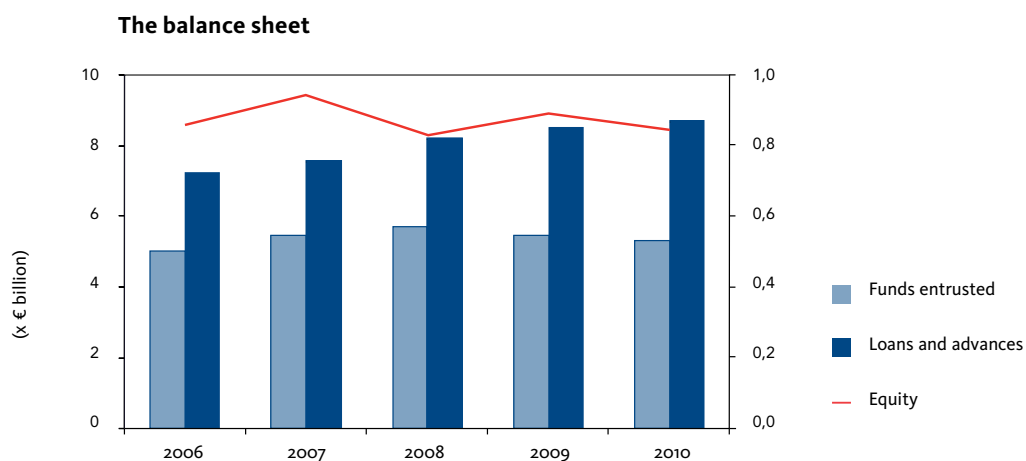
Revenue from securities and investments declined 5% to €64 million. Income from Friesland Bank Investments was at a good level, albeit lower than the results in 2009. Revenue from the banking business rose in comparison to the previous year, with the recovery in earnings at Van Lanschot making a clearly visible contribution. The result from financial transactions was €31 million lower than in 2009. The difference was mainly due to the high non-recurring results in the previous financial year.

On an autonomous basis, operating expenses fell 7% in 2010. Including the effect of the consolidation of Optimix, the decline was 4%. This was the visible result of the Back-to-Basics programme. The fall in staff costs was 8% (autonomous: 11%), and the decline in other administrative expenses was 2% (autonomous 5%). Depreciation and amortisation increased, mainly with respect to the banking business. Impairment losses were up €72 million at €114 million. The increase related mainly to the banking associates (Van Lanschot) and in addition, to increased impairments of loans and advances, as well as impairments in Friesland Bank Investments. The tax item amounted to €9 million.

The group's efficiency ratio improved from 75.0% to 71.9%, mainly due to the decline in operating expenses. The return on equity was -5.2%, compared to 3.3% in 2009.

### *Balance sheet*

There was a slight increase in the balance sheet total, to €11.1 billion in 2010. The commercial growth on the debit side of the balance sheet was mainly visible in the loans and advances item, which rose 1%. The increase was more or less equally divided between corporate and personal loans. Despite the limited activity in the housing market and industry, there was an increase in the portfolio in both segments. Personal loans rose 2% to €4.7 billion, and corporate loans also rose 2% to €3.9 billion. On the credit side of the balance sheet, the growth in commercial savings is shown in the item funds entrusted. Savings by private clients rose 12% in 2010, a large proportion of which concerned the (long-term) KlimSpaar deposit account.



Equity fell last year by €41 million to €842 million. The decline mostly concerned the recognition of the negative result, which was mainly due to the high impairment losses. The write-down of Van Lanschot did not affect the capital adequacy ratio, as this item is deductible for the calculation of the capital adequacy ratio. Capital adequacy nevertheless was under some pressure, since the increase in the risk-weighted assets was not offset by a proportionate increase in the qualifying capital. The BIS ratio came to 12.1% (2009: 13.1%), and the Tier 1 ratio came to 9.0% (2009: 10.0%). The liquidity position was comfortably within the ranges set at the end of 2010, with a net cash balance of €524 million. The funding facility of the ECB was used at the end of 2010 in an amount of €550 million.

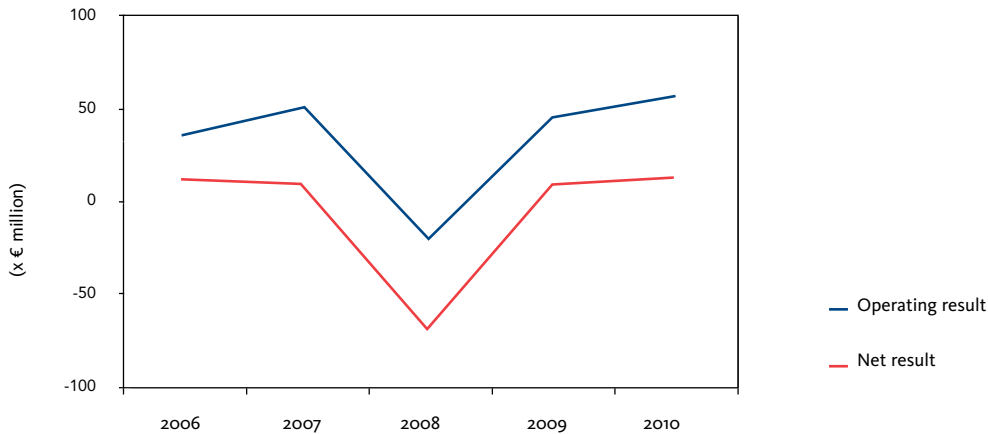
## II. Banking business

- Significant commercial growth
- Strong improvement in the underlying result
- Operating expenses fall 8%
- Operating result up 25%
- Higher impairment losses

The condensed income statement of the banking business is as follows:

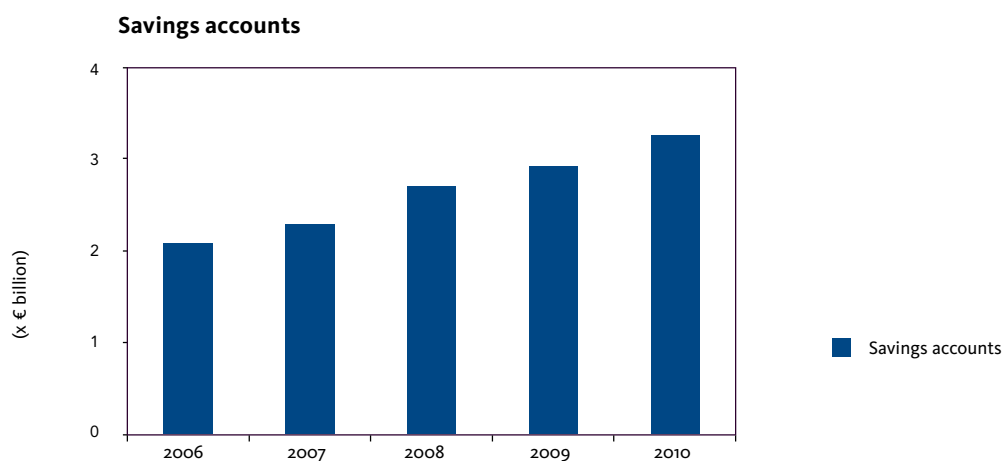
	<b>2010</b>	<b>2009</b>	<b>Difference</b>
Operating income	<b>205</b>	206	-0%
Operating expense	<b>147</b>	160	-8%
Ordinary operating result	<b>58</b>	46	+25%
Impairment losses	<b>37</b>	33	+10%
Operating result	<b>21</b>	13	+65%
Tax	<b>7</b>	2	+221%
Net profit	<b>14</b>	11	+33%

#### Result of the banking business

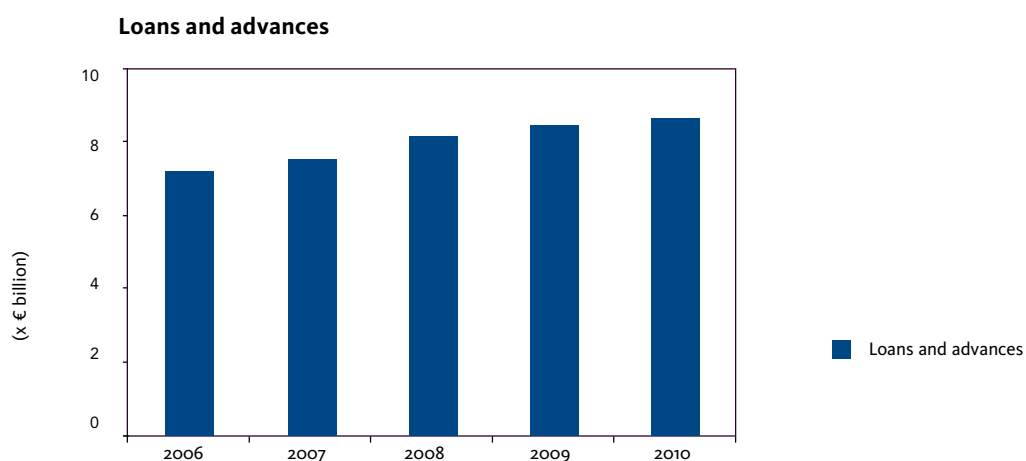


#### General and commercial developments

The commercial growth in 2010 was shown mainly in the increase in the number of clients and the funds entrusted. The number of clients rose by approximately 10,000 in 2010 to 274,000. This mainly concerned private clients, who, in combination with existing clients, accounted for a significant increase in the commercial funds entrusted of €350 million to €4.9 billion (+8%). Friesland Bank's KlimSpaar deposit account proved to be a very attractive proposition in the savings market. Savings by private clients were up 12%.



Loans and advances increased moderately by 2% to just under €8.7 billion. This was affected by both the lower level of activity in the housing market and the difficult conditions faced by industry. The increase in savings was more than sufficient to fund the increase in loans and advances. Personal loans rose by 2% to €4.7 billion. The increase was mainly in relation to mortgage finance, partly as a result of the increased banking cooperation with the VvAA. Lending to companies also rose 2%, to just over €3.9 billion. The increase concerned lending to both large and smaller corporate clients.



The situation for the commission business was mixed. Insurance premiums were under pressure, partly due to the developments in the housing market. Commissions for payment services rose, due to both an increase in transaction volume and fee adjustments. Securities commissions also increased, although the level was still significantly lower than it was before the financial crisis.

*Result from the banking business*

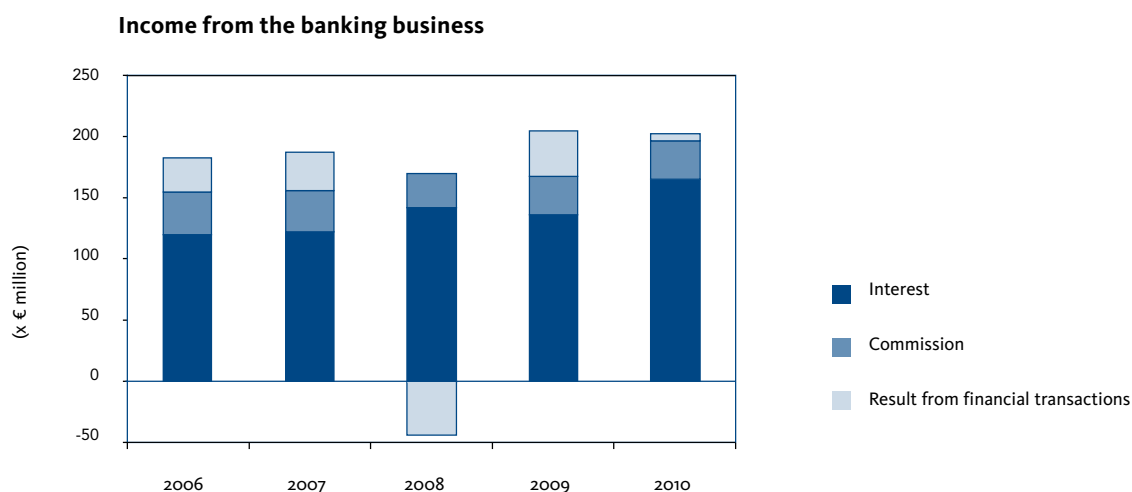
The net profit in the banking business rose €3 million to €14 million (+33%). The increase in net profit was offset by a relatively high level of impairment losses. The net profit therefore rose by less than the operating result. The operating result was up €12 million (+25%) to €58 million, due to stable income on balance and lower expenses.

*Operating income from the banking business*

The development of the operating income from the banking business was as follows:

	2010	2009	Difference
Interest	<b>165</b>	137	+21%
Income from securities and participating interests	<b>1</b>	-	-%
Commission	<b>32</b>	31	+2%
Result from financial transactions	<b>6</b>	37	-83%
Other income	<b>1</b>	1	+51%
	<b>205</b>	206	-0%

While the income from the banking business was on balance stable, the underlying quality of the income items significantly improved. In 2009, income was supported by one-off income items from the purchase and sale of financial instruments. The total result from financial transactions in that year amounted to €37 million. In 2010, this item returned to a more normal level of €6 million. The decline of €31 million in the result from financial transactions was mostly offset by a higher interest result. The total interest result in the banking business increased by €28 million (+21%) to €165 million. The increase was mainly due to an improvement in the interest margin, which in turn was due to the commercial growth, lower funding costs and the interest-rate term structure. Interest-related fees (such as initial and penalty fees) were also higher, and the funding interest attributed to the other business units increased. Fees and commissions showed a limited increase of 2% to €32 million. Insurance premiums fell to €15 million (from €16 million). This was offset by increases in payment services fees to almost €11 million (+8%) and securities commissions to €6 million (+17%).



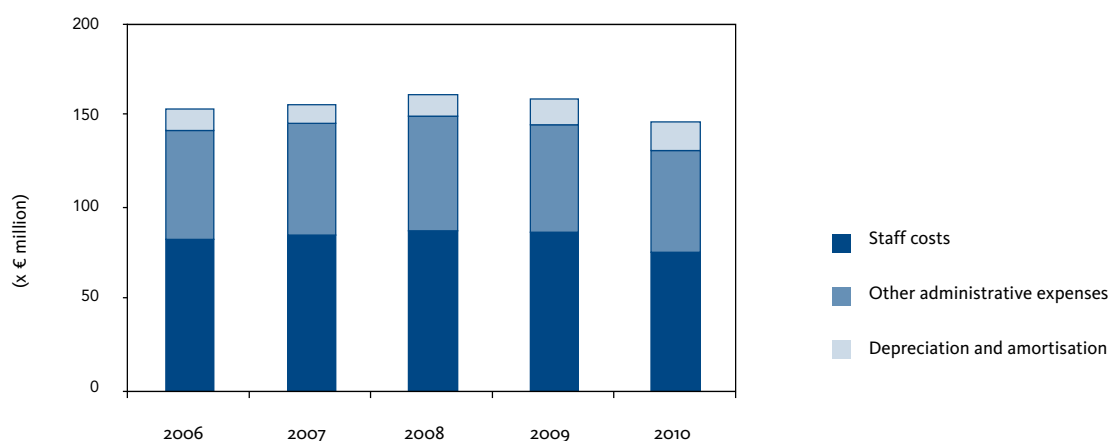
*Operating expenses for the banking business*

The development of the operating expenses for the banking business was as follows:

	2010	2009	Difference
Staff costs	<b>76</b>	87	-13%
Other administrative expenses	<b>55</b>	59	-6%
Depreciation and amortisation	<b>16</b>	14	+15%
	<b>147</b>	160	-8%

The operating expenses in the banking business declined by 8% in 2010, to €147 million, largely due to the Back-to-Basics programme. The effects of the savings are mainly visible in the staff costs, which were down 13%. In particular, salary expenses for the bank's employees were reduced as a result of the lower number of FTEs in 2010. The average number of FTEs in the banking business amounted to 907, compared to 990 in 2009. The salaries for contract staff were virtually unchanged in comparison with the previous year. Social insurance contributions were also lower, because the non-recurring costs of reorganisation were charged to the result in 2009. Other staff costs (including pensions and training) were on balance at a similar level as in 2009. Other administrative expenses in the banking business fell by 6% to €55 million. This was mainly due to a reduction in project costs. Although many project-related activities took place in 2010, the costs were still lower than in the previous year. It can also be said that the other administrative expenses have returned to a more normal development. Depreciation and amortisation rose 15% in 2010 to €16 million. This mainly concerned higher amortisation of capitalised projects, the result of investment commitments in previous years.

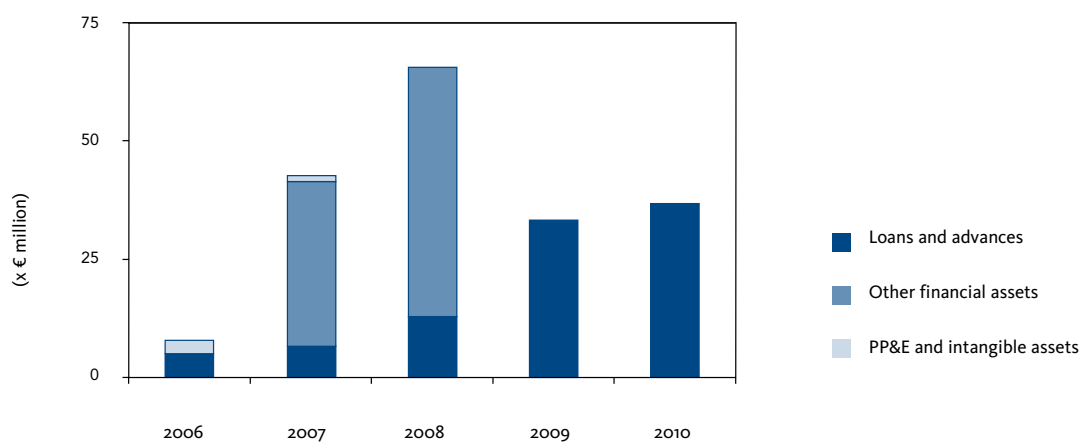
### Expenses in the banking business



### Impairment losses in the banking business

The impairment losses in the banking business consist entirely of impairment losses on loans, with an increase of €3 million to €37 million. Especially in the first half of the year, the reserves for loans and advances stood at a higher level (€22 million). The situation clearly improved in the second half of the year, when the impairment losses amounted to €15 million. The impairment losses consisted largely of corporate items (€32 million), which were more or less evenly divided between large, medium-sized and small businesses. The impairment losses on the private portfolio of €5 million were very limited in scale. Over the whole year, the impairment losses on loans and advances represented 0.59% of the risk-weighted assets; in 2009 this figure was 0.55%.

### Impairments in the banking business



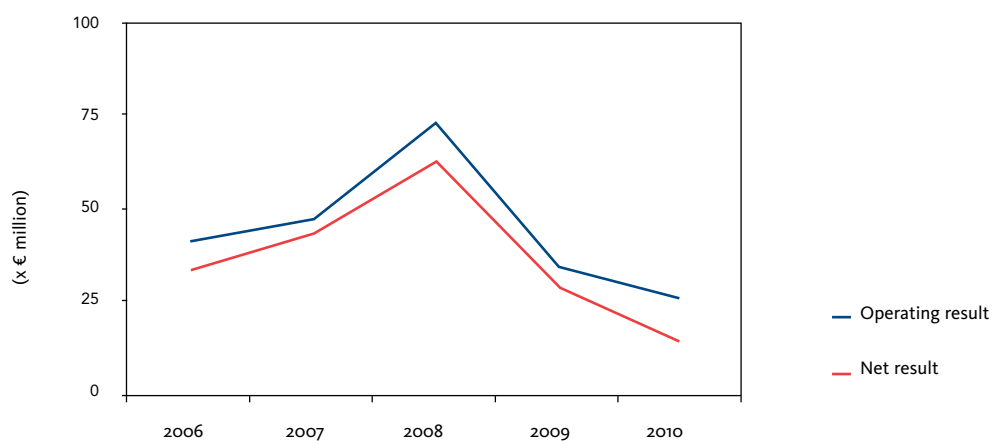
### III. Friesland Bank Investments

- Operating result remains strong
- Support from results on sales
- Impairments up
- Net profit of €15 million

The condensed income statement of Friesland Bank Investments is as follows:

	2010	2009	Difference
Operating income	<b>35</b>	42	-16%
Operating expense	<b>9</b>	9	+1%
Ordinary Operating result	<b>26</b>	33	-20%
Impairment losses	<b>16</b>	8	+94%
Operating result	<b>10</b>	25	-59%
Tax	<b>-5</b>	-4	+12%
Net profit	<b>15</b>	29	-48%

**Result from Friesland Bank Investments**



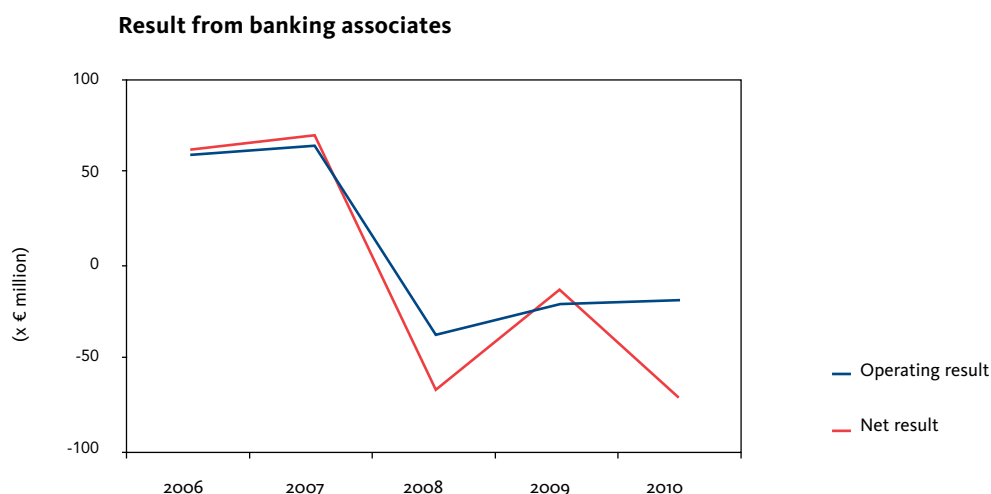
Friesland Bank Investments realised a net profit (after funding interest) of €15 million in 2010. In 2009 this was €29 million. Despite the difficult economic conditions, operating performance remained strong. The results were better than expected, although the level realised in 2009 could not be matched. This was due to the lower operating results realised by the participating interests. In addition, impairments were higher. Around half of the impairments related to an actual impairment of certain interests, the remainder was due to accounting methods. Due to the crediting of the contribution to the result, the carrying amount of certain interests was higher than the fair value, meaning that a technical write-down was necessary. The operating expenses of Friesland Bank Investments came to €9 million, which is comparable to the level in 2009. The expenses consist of staff costs and other administrative expenses of Friesland Bank Investments itself (€7 million) and also of depreciation and amortisation costs in relation to participating interests (€2 million).

#### IV. Banking associates

- Profit recovery and write-down of Van Lanschot
- Lower contribution from BinckBank
- Expansion of interest in Optimix
- Negative result

The condensed income statement of the banking associates is as follows:

	2010	2009	Difference
Operating income	-15	-22	+32%
Operating expense	<u>6</u>	<u>1</u>	+499%
Ordinary Operating result	-21	-23	+9%
Impairment losses	<u>61</u>	<u>0</u>	+100%
Operating result	-82	-23	-258%
Tax/third-party interests	<u>-10</u>	<u>-10</u>	+5%
Net profit	-72	-13	-466%



The contribution from the banking associates, net of funding interest, was very negative in 2010, mostly due to the write-down of the investment in Van Lanschot. The main banking associates concern Van Lanschot, BinckBank and Optimix.

The normal contribution from *Van Lanschot* consists of a proportionate share in the result, and this was significantly higher in 2010. Earnings per share in 2010 reached €1.47, compared to -€0.75 in 2009. This was certainly a recovery, however the normal return of earnings per share of between €4 and €5 was not achieved. The share price of Van Lanschot was under pressure in 2010, declining from €36.84 to €30.05 at the end of the year.

*BinckBank's* share price also fell in 2010: from €12.54 at year-end 2009 to €11.60 at year-end 2010. The contribution from BinckBank consists of dividends received and any sale proceeds. On balance this contribution was significantly lower in 2010. In 2009 the result was supported by a significant result on sale of part of the holding. The interest of Friesland Bank in BinckBank was slightly reduced in the previous year, realising a book profit of nearly €6 million.

Friesland Bank expanded its interest in *Optimix* from 45% to 70% in 2010. The figures of Optimix are fully consolidated with effect from 2010. This explains, for instance, the increase in fee and commission income and in the operating expenses for the banking associates. The results of Optimix showed a positive development.

## Figures including and excluding consolidation of private equity investments

In accordance with IFRS, participating interests of Friesland Bank Investments of more than 50% are consolidated in the financial statements of Friesland Bank. The figures excluding these consolidated items give a truer picture of the state of affairs at Friesland Bank itself. The analyses in this report are based on the figures excluding the consolidation of participating interests of Friesland Bank Investments. The relationship between the income statement excluding and including the consolidation of participating interests is as follows:

(x €1,000)	excluding		including		including	
	consolidation	consolidation	consolidation	consolidation	consolidation	consolidation
	2010	2010	2010	2009	2009	2009
Interest	112,533	-2,220	110,313	89,481	-4,421	85,060
Income from securities and participating interests	64,157	-7,572	56,585	67,286	-13,541	53,745
Commission	41,713	0	41,713	31,334	0	31,334
Result from financial transactions	5,986	0	5,986	36,741	0	36,741
Other income	833	80	913	752	4,108	4,860
Revenues of companies included as private equity investments	0	196,993	196,993	0	325,036	325,036
<b>Operating income</b>	<b>225,222</b>	<b>187,281</b>	<b>412,503</b>	<b>225,594</b>	<b>311,182</b>	<b>536,776</b>
Staff costs	84,265	41,078	125,343	91,522	129,215	220,737
Other administrative expenses	59,129	137,089	196,218	60,148	158,998	219,146
Depreciation and amortisation	18,603	5,099	23,702	17,625	9,721	27,346
<b>Operating expense</b>	<b>161,997</b>	<b>183,266</b>	<b>345,263</b>	<b>169,295</b>	<b>297,934</b>	<b>467,229</b>
<b>Ordinary operating result</b>	<b>63,225</b>	<b>4,015</b>	<b>67,240</b>	56,299	13,248	69,547
Impairment of loans	36,705	0	36,705	33,348	0	33,348
Impairment of other financial assets	77,194	2,007	79,201	8,404	0	8,404
Impairment of property, plant and equipment and intangible assets	0	0	0	0	0	0
<b>Total impairments</b>	<b>113,899</b>	<b>2,007</b>	<b>115,906</b>	<b>41,752</b>	<b>0</b>	<b>41,752</b>
<b>Operating result</b>	<b>-50,674</b>	<b>2,008</b>	<b>-48,666</b>	14,547	13,248	27,795
Tax	-8,727	2,628	-6,099	-12,441	7,678	-4,763
<b>Net result</b>	<b>-41,947</b>	<b>-620</b>	<b>-42,567</b>	<b>26,988</b>	<b>5,570</b>	<b>32,558</b>
<b>Net result attributable to third-party interests</b>	<b>1,335</b>	<b>-620</b>	<b>715</b>	<b>0</b>	<b>5,570</b>	<b>5,570</b>
<b>Net result attributable to shareholders</b>	<b>-43,282</b>	<b>0</b>	<b>-43,282</b>	<b>26,988</b>	<b>0</b>	<b>26,988</b>

Relation to segmented information:	Banking business	Friesland Bank Investments	Banking associates	Banking business	Friesland Bank Investments	Banking associates
	2010	2010	2010	2009	2009	2009
Net result attributable to shareholders	<b>14,067</b>	<b>15,095</b>	<b>-72,444</b>	10,607	29,174	-12,793
Third-party interests	<b>0</b>	<b>-620</b>	<b>1,335</b>	0	5,570	0
Net result attributable to shareholders see the financial statements	<b>14,067</b>	<b>14,475</b>	<b>-71,109</b>	10,607	34,744	-12,793

# Responsible policy, monitoring of legislation and regulation

## Compliance

The Compliance Department at Friesland Bank oversees compliance with legislation and regulation in order to safeguard the good reputation and integrity of the organisation, its employees, directors, supervisory directors and other stakeholders as far as possible. The Department issues impartial guidelines and advice, and makes decisions with regard to compliance issues. Its responsibilities moreover include the monitoring of compliance risks, maintaining contacts with regulators, and the development and implementation of training courses with regard to compliance matters and monitoring surveys.

## Compliance with the Banking Code

The Executive Board signed the declaration of ethics included in the Code at the beginning of 2010. Also in connection with the Banking Code, the Permanent Education Programme for the Executive and Supervisory Boards was started in 2010. In addition, various other measures were introduced that the bank considered necessary in connection with the Banking Code in 2010.

## Remuneration policy

In view of the new legislation regarding remuneration that will take effect on 1 January 2011, a risk analysis of our remuneration policy was carried out in 2010. The remuneration policy was amended where this was necessary. Friesland Bank operates a moderate remuneration policy that is suitable for the strategy of the bank and the spirit of today's culture.

## Culture and Attitude

Partly as a result of the Banking Code, a start was made at the end of last year with the roll-out of the Integrity, Fraud Prevention and Information Security Programme for all employees of Friesland Bank. The Programme was initiated on the instructions of the Executive Board. The objectives of the plan include the obtaining of the necessary expertise with regard to integrity, fraud prevention and information security and raising awareness of ethical conduct in relation to the organisation.

## Duty of care

Much attention was devoted in 2010 to the subject of the duty of care in combination with the strategy of Friesland Bank. The need to increase the realisation and awareness of the importance of the duty of care and the exercise of this duty in one's daily conduct led to the creation of the Duty of Care Project. Important themes in this project are the preparation and introduction of a communication plan, the design and implementation of management frameworks and the provision of courses and training focusing on raising awareness in relation to this issue.

### **Monitoring**

The many duties of Compliance include the design and systematic conduct of monitoring surveys. These provide valuable information regarding compliance with legislation and regulation, and the potential risks incurred by the organisation. Several such surveys were conducted in 2010.

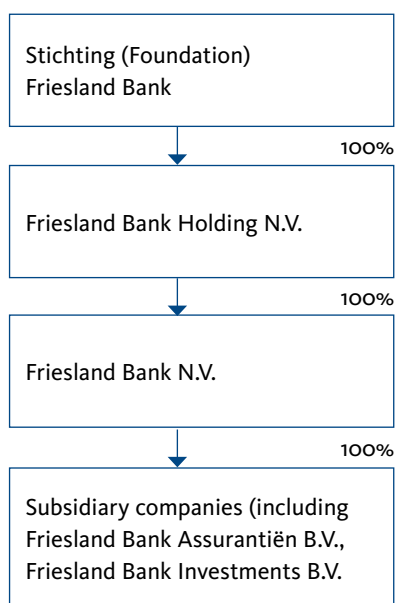
### **Legislation and regulation**

The various guidelines published by the AFM in 2010 have led to adjustments to policy where necessary. Preparatory work was also carried out in relation to legislation and regulation expected to take effect in 2011, to the extent known.

# Corporate Governance

Friesland Bank was incorporated as the 'Coöperatieve Zuivelbank' (Cooperative Dairy Bank) by a number of Frisian dairy cooperatives in 1913. The primary objective was to enable the participants to exchange cash surpluses and deficits. The bank has operated under the name of Friesland Bank since 1970. Since that time, we have expanded our activities to include clients outside the cooperative sector. The bank originally only had branches in Friesland; it has, however, also had a presence in the other Northern provinces since 1992. The cooperative structure was abandoned in this period. With the recent opening of branches in Amsterdam (2008), Utrecht (2009) and Rotterdam (2010), the bank is further spreading its presence in the Netherlands. As a general bank we offer a wide range of products to private and corporate customers.

## Ownership structure



The activities of Friesland Bank are carried out by Friesland Bank N.V. and its principal subsidiary companies Friesland Bank Assurantiën B.V. and Friesland Bank Investments B.V. The shares of Friesland Bank N.V. are held entirely by Friesland Bank Holding N.V. Until 1 April 2011, the shares of Friesland Bank Holding N.V. were held by Vereniging (Association) Friesland Bank. In view of the desirability of an optimal corporate governance structure, Vereniging Friesland Bank was changed to Stichting (Foundation) Friesland Bank on this date.

## Activities

### *Stichting (Foundation) Friesland Bank*

Friesland Bank strongly values its identity and culture that stem from nearly a century of banking. The retention of this identity and culture are embedded in the objective of Stichting Friesland Bank as defined in its Articles of Association, which read as follows:

“the maintenance of the public limited liability companies Friesland Bank Holding N.V., hereinafter referred to as Friesland Bank Holding N.V., and Friesland Bank N.V., hereinafter referred to as Friesland Bank N.V., both with registered office in Leeuwarden, as a bank with its own commercial identity and culture, as well as protecting the direct and indirect interests of Friesland Bank Holding N.V., and its affiliated group companies and associated stakeholders, such as clients and employees”.

### *Friesland Bank Holding N.V.*

Friesland Bank Holding N.V. acts as the holding company of the shares of Friesland Bank N.V. and has (virtually) no other activities. Friesland Bank Holding N.V. is a two-tier board company.

### *Friesland Bank N.V.*

The business of Friesland Bank is conducted in practice by Friesland Bank N.V. and its subsidiary companies. Friesland Bank N.V. is subject to the normal regime. The banking business is conducted by Friesland Bank N.V. The interests held by the bank including those in Van Lanschot N.V., BinckBank N.V., Optimix Vermogensbeheer N.V. and Triodos Bank N.V. (‘the banking associates’) are held by Friesland Bank N.V. The insurance business of Friesland Bank is carried out by its subsidiary company Friesland Bank Assurantiën B.V. Friesland Bank also participates in the private equity market through its subsidiary companies Friesland Bank Investments B.V. and Friesland Bank Participaties B.V.

## **Organs of Stichting Friesland Bank, Friesland Bank Holding N.V. and Friesland Bank N.V.**

### **Stichting Friesland Bank**

The board of Stichting Friesland Bank consists of at least three and not more than seven members. The Articles of Association and profile description of Stichting Friesland Bank can be found on the website of Friesland Bank.

### **Friesland Bank Holding N.V. en Friesland Bank N.V.**

#### *Personal union*

To ensure consistency of policy between Friesland Bank Holding N.V. and Friesland Bank N.V., there is a personal union between the respective Executive and Supervisory Boards.

#### *The Executive Board*

The members of the Executive Board of Friesland Bank Holding N.V. are appointed by the Supervisory Board in accordance with the two-tier board regime. The persons appointed as executive directors of Friesland Bank Holding N.V. are appointed by the General Meeting of Shareholders of Friesland Bank N.V. as members of the Executive Board of Friesland Bank N.V. This is in accordance with the Regulations for the Executive Board of Friesland Bank N.V., which state that a person may only be appointed as an executive director of Friesland Bank N.V. who has also been appointed as an executive director of Friesland Bank Holding N.V. The Articles of Association and the Regulations for the Executive Board of Friesland Bank Holding N.V. and Friesland Bank N.V. are published on the website.

#### *Composition and functioning of the Executive Board*

The number of members of the Executive Board is established by the Supervisory Board, after consultation with the Executive Board. The Supervisory Board moreover appoints a chairman and possibly a vice-chairman. The Executive Board must have at least two members. The delineation of duties within the Executive Board is determined (and amended if necessary) by the Executive Board, subject to the approval of the Supervisory Board.

For matters relating to the banking business, since the fourth quarter of 2010 the Executive Board has been assisted by a Management Team. This Management Team consists of both the members of the Executive Board and the directors responsible for the business operation and support of the banking business. The authority to make decisions rests with the Executive Board. The Regulations for the Management Team are published on our website.

#### *Supervisory Board*

The Supervisory Board of Friesland Bank Holding N.V. is also the Supervisory Board of Friesland Bank N.V. The Regulations for the Supervisory Board of Friesland Bank N.V. state that only persons who have been appointed as supervisory directors of Friesland Bank Holding N.V. can be appointed as supervisory directors of Friesland Bank N.V. The supervisory directors of Friesland Bank Holding N.V. and Friesland Bank N.V. are appointed by their General Meeting of Shareholders. In the case of Friesland Bank Holding N.V., this takes place in accordance with the procedure applying to two-tier board companies.

#### *Composition and functioning of the Supervisory Board and its committees*

The number of members of the Supervisory Board is established by the Supervisory Board, whereby the Board ensures that the number of members and the disciplines represented are adequate for the proper conduct of the duties of the Supervisory Board and its committees. The Supervisory Board has prepared a profile description for its composition in both quantitative and qualitative terms. This takes account of the nature of the business of Friesland Bank and its subsidiary companies and the desired expertise and background of members of the Supervisory Board. The profile description is published on our website.

The committees formed by the Supervisory Board include the Risk Committee, the Audit and Compliance Committee and the Remuneration Committee. In addition to matters relating to remuneration, the responsibilities of the Remuneration Committee include the preparation for the selection and appointment of members of the Executive Board.

The composition of these committees is determined by the Supervisory Board. The committees prepare for resolutions to be taken by the Supervisory Board relating to their respective areas of attention. The Supervisory Board remains responsible for resolutions prepared by the committees formed from among its members. For a review of the activities of the Supervisory Board and its sub-committees in 2010, see the Report of the Supervisory Board on page 13 of this report.

## **The Banking Code**

Friesland Bank is subject to the Banking Code that took effect on 1 January 2010 and establishes principles with regard to the Supervisory Board, the Executive Board, risk management, auditing and remuneration policy. For an account of the introduction of the Banking Code in our organisation, see page 37 of this report.

## **Process of preparing financial information**

Friesland Bank has embedded adequate safeguards in the process of preparation of financial information to provide a reasonable degree of certainty regarding the reliability of the financial accountability and reporting.

The main elements are:

- process descriptions, including internal control measures, designed to conduct correct and timely financial administration and reporting;
- the use of up-to-date automated systems for administration, reporting and documentation;
- frequent, regular analysis of financial and non-financial figures and trends, also with respect to former periods and budgets;
- review and/or approval of the financial reporting by the Executive Board, the Audit and Compliance Committee and the Supervisory Board;
- assessment of the operation of the process of preparation of financial information by the internal and external auditors.

The Executive Board, which is responsible for the process of preparation of financial information, declares that it can be stated with a reasonable degree of certainty that this process has operated satisfactorily and that the financial reporting contains no material misstatements.

## **Management statement**

To the best of our knowledge, the financial statements prepared in accordance with the International Financial Reporting Standards give a true and fair view of the assets, liabilities, financial position and result of Friesland Bank, including its consolidated companies. The annual report gives a true reflection of the developments in the past reporting year, the situation as at balance sheet date and the expected developments and associated risks in the forthcoming year.

# The Banking Code

The Dutch Banking Code (Code Banken) came into force on 1 January 2010. This code, that applies to all banks in possession of a licence on the basis of the Financial Supervision Act, contains principles that are an extension of the Dutch Corporate Governance Code. Existing principles have been further defined in some cases and new principles have been formulated, including with respect to the remuneration policy at banking organisations.

The design and introduction of the Banking Code have been closely studied by our organisation since the fourth quarter of 2009. A working group was formed for the actual introduction; this group monitors the progress on each element closely and informs the Executive Board and the Supervisory Board on the status of affairs on a regular basis. The monitoring of the performance of the working group is the responsibility of the Internal Audit Department.

## Compliance with the Banking Code

The Banking Code uses the principle known as 'apply or explain'. Friesland Bank applies the basic principle that its policy is brought into line with the principles stated in the Code and that these principles are applied within its organisation.

In our view, most of the intentions of the Code have been reflected in the working and management culture of our bank for generations. Since our incorporation we have established our own identity and culture, which takes account of all those involved with the bank: in other words, our customers, shareholders and employees. As a general bank with its main roots in the Northern provinces of the Netherlands, the concept of customer-oriented banking has always been a central element in our strategy. Our principle here is that our clients must be able to rely on receiving appropriate advice from professionally qualified employees. Our remuneration policy, also in connection with our background as a general bank and our regional involvement, has historically been moderate in nature.

While as a result of this background we already apply the principles of the Banking Code to a large extent, the introduction of the Code has led to a critical review of our working methods in certain respects. This has led to the formulation of additional measures, most of which were initiated and implemented in 2010. Various other measures will also be introduced in 2011.

In 2011 we will devote particular attention to the following elements:

- Recommendation 3.2.2 (in relation to putting the client's interest first): the principle of putting the client first will be further reflected in the targets for the departments and employees of our bank in 2011. The training programme initiated in 2010 designed to further embed this principle in our organisational culture, will be continued in 2011.
- Recommendation 3.2.4 (in relation to the reflection of the statement of ethical behaviour in principles that act as a guideline for the actions of the bank's employees): this reflection and its establishment in the employment contracts of our employees will be further developed in 2011.
- Recommendation 4.1 (in relation to the bank's general risk policy and risk appetite): The definition of the relationship between risk and risk appetite will be further elaborated in 2011.
- Recommendation 4.5 (in relation to the product approval process): the testing of the bank's existing products by the committee responsible within the bank for the product approval process will be completed in 2011.
- Recommendation 6.3.2 (in relation to the remuneration of a member of the Executive Board): on the basis of existing contracts, the rule as formulated in principle 6.3.2 was not complied with in 2010. The provision of principle 6.3.2 will be met with effect from 2011.

- Recommendation 6.4.1 (in relation to the relativity of variable remuneration to the bank's long-term objectives): the annual targets for departments and employees are derived from the bank's long-term financial targets. The bank will consider whether further definition in respect of this aspect is desirable in 2011.
- Recommendation 6.4.4 (in relation to the adjustment of financial performance to reflect estimated or actual risks and costs of capital): this recommendation will be further implemented in 2011.

After completion of all the outstanding improvement measures, Friesland Bank expects to fully comply with the provisions of the Banking Code in the conduct of its business by 1 July 2011 at the latest.

### Progress per area

A further explanation of the progress in implementing the principles of the Banking Code in the various areas is given below.

#### *Supervisory Board*

The Banking Code contains a number of principles in relation to the composition and functioning of the Supervisory Board as a body, as well as the functioning of the individual supervisory directors.

The Supervisory Board has met to discuss the principles concerned on a number of occasions, and a critical assessment has been made to determine whether measures need to be taken in order to comply. The assessment particularly focused on the content of the profile description for the Supervisory Board. The conclusion was that the banking expertise available to the Board should be improved. This will be taken into account in future changes to the Board's composition. At the same time, the Board will ensure that there is adequate diversity and complementarity in its composition.

Friesland Bank commenced a programme of permanent training for the supervisory and executive directors of the bank in mid 2010, in which those concerned participated collectively on various occasions during the rest of the year. The subjects addressed included the Financial Supervision Act, the duty of care, and integrity. A programme has been prepared for 2011 under the guidance of an external party in which all supervisory and executive directors will participate. The collective programme has been compiled so that all the issues in provisions 2.1.8 and 3.1.3 of the Banking Code will be addressed.

In addition to the annual evaluation of the performance of the Supervisory Board, the Board has decided, in line with principle 2.1.10, that an externally guided evaluation should take place every three years. The first of these evaluations will take place in 2012.

The Risk Committee of the Supervisory Board devoted extensive attention to the definition of the bank's risk appetite and risk profile in 2010. The results of this were discussed at a special session of the Executive Board and the Supervisory Board. It was established that the composition of the Risk Committee and the Audit Committee was adequate to meet the specific requirements with regard to competence and experience in both cases. It was considered that the rotation of the chairmen appointed for the two committees encouraged the desired exchange of information between the two committees.

### *Executive Board*

The Banking Code contains a number of principles in relation to the composition and functioning of the Executive Board as a body, as well as the functioning of the individual executive directors. It is the duty of the Supervisory Board to ensure that the preconditions for the proper exercise of the Board's duties are in place.

For details of the permanent training programme for executive directors, please refer to the section on the Supervisory Board.

Within the Executive Board, one member is designated as the director responsible for preparing for decision-making with regard to risk management (Chief Risk Officer). This member is also responsible for Finance & Control (Chief Financial Officer), but is not individually responsible for the commercial operations of the normal banking business and acts independently from this business.

All members of the Executive Board have signed the statement of ethical conduct referred to in principle 3.2.3 of the Banking Code. In order to further embed this statement in our organisation, much attention was paid in 2010 to the question of how principles 3.2.1 and 3.2.2 of the Banking Code could be more explicitly expressed in our procedures. In particular, the duty of care to customers and the prioritisation of the client's interest by all employees were issues that were re-evaluated in 2010. In this context we introduced a number of measures in 2010 to further refine our working methods on these points. In mid 2010, we introduced service concepts to further professionalise our services to various customer groups. Our account managers have undergone intensive training so that they will correctly interpret these service concepts in practice.

We also defined various principles that are essential preconditions for the prioritisation of the customer's interest. These include: professional advice, good accessibility and high standards for the professional expertise of our employees. Furthermore, we are continually assessing whether the product range in place meets the realistic expectations of our clients. These principles form the basis for the targets that have been agreed for 2011 with the employees of the bank.

Friesland Bank explicitly acknowledges that further expression of the concept of putting the client's interest first is only possible if this principle is fully anchored in the organisation's culture. An intensive training programme was initiated in 2010 designed to enable all employees to contribute to the desired change in culture. This programme will be continued under external guidance in 2011.

### *Risk management*

The responsibility for risk management at Friesland Bank rests primarily with the Executive Board, which has delegated execution of policy to the Risk Management Department. Regular reports relating to risk management are prepared for the Executive Board which are used as the basis for regular risk reporting to the Risk Committee (as a sub-committee of the Supervisory Board) and to the Supervisory Board.

At least once per quarter, the Risk Committee discusses the bank's risk profile; minutes of this discussion are taken for the Supervisory Board. Risk management is moreover a permanent item on the annual agenda of the Supervisory Board.

The basis for the assessment of the risk profile of Friesland Bank is the risk appetite established by the Executive Board. This is communicated to the Risk Committee and the Supervisory Board, and forms the basis for decision-making in areas such as liquidity management, and asset and liability management.

With effect from 2011, the Executive Board's proposal with respect to risk appetite will be submitted to the Supervisory Board for approval each year.

Friesland Bank acknowledges the importance of maintaining a product range that can meet the reasonable expectations of its clients. A product approval process was therefore introduced in 2009, and further improved by the bank in 2010. A committee has been formed within the bank that has to approve new products before these are offered to the bank's customers. This committee also made a start in 2010 on an evaluation of the bank's current products. This evaluation of the bank's complete product range will be completed in 2011.

#### *Audit*

Our Internal Audit Department assesses whether the internal control measures are effective in terms of design, existence and operation. The positioning and performance of its duties by Internal Audit has complied with the relevant principles in the Banking Code for many years. This also applies to the performance of duties by the external auditor. In addition to the normal annual discussion that has taken place for some time, a discussion of risk took place in 2010 between De Nederlandsche Bank, the external auditor and the Internal Audit Department, in accordance with recommendation 5.6 of the Banking Code.

#### *Remuneration policy*

Friesland Bank has traditionally pursued a moderate policy with regard to remuneration. In 2010 we reviewed this policy in the light of the principles of the Banking Code, the Principles for a Controlled Remuneration Policy published by the Authority for the Financial Markets and De Nederlandsche Bank, and the other relevant changes arising from the most recent legislation and regulation with regard to remuneration. The conclusion of this review was that the bank's remuneration policy in 2010 complied with the conditions set in the Banking Code. It was decided to redefine certain elements in line with the provisions of the Code, also as regards governance in relation to remuneration policy. A number of changes were introduced in this respect, which have led to an amended remuneration policy for 2011. We took advice from an external expert on this issue.

For the basic salary, the amended remuneration policy for 2011 is in line with the General Banking collective employment agreement (or CAO). Regarding a variable remuneration or bonus, the principle is that this shall only be allocated on condition that Friesland Bank adequately meets a number of centrally formulated targets. If this condition is met, all employees with an individual assessment of not less than 'good' will basically be entitled to a bonus according to a previously set percentage paid out of a centrally established budget. The extent to which targets are achieved will be the decisive factor. A significant number of the targets relate to the principle of putting the client's interest first. In addition, employees may be eligible for an individual bonus in case of exceptional performance. The variable remuneration received in any year is capped at 20% of the basic 12-months salary in all cases.

The remuneration policy for the Executive Board will be evaluated and reformulated in 2011, in line with the Banking Code, the Principles for a Controlled Remuneration Policy published by the Authority for the Financial Markets and De Nederlandsche Bank in mid 2009 and the most recent European and Dutch regulations.

# Sustainable business operation is part of our nature

The credit crisis has compelled us to focus on the primary objectives we wish to achieve, both as an enterprise and as individuals. It is clear that there has been a disproportionate emphasis on maximising profits in recent years. In order to bring about a better balance between the interests of all the bank's stakeholders, including those of our customers and those of society as a whole, the interest in sustainable business operation, or Corporate Social Responsibility (CSR) has increased greatly.

Friesland Bank has not previously formulated an external profile for itself with regard to CSR. There is a reason for this. By our nature, we already follow most of the principles of CSR. Certain issues are second nature for us: banking close to home, knowing your customers, understanding their business and being able to support them. These are the basic principles for our organisation. A further point is that our customers are mostly active in the Netherlands and are therefore subject to Dutch law, standards and values.

## **Maintaining a dialogue**

While we naturally conduct our business in line with general CSR principles, we will nonetheless formulate our CSR policy in more practical and transparent terms and pursue it more actively. Particularly in the case of a bank, with relations with a large number of companies, it is important to exercise vigilance so that we do not become involved with (the funding of) projects or activities that do not reflect our sense of social responsibility. We will strive to maintain a dialogue with our clients more explicitly, as part of our strategic role as adviser to and sounding-board for companies. Besides advice on purely financial matters, we will include Corporate Social Responsibility in our advisory agenda. We will do this based on the conviction that CSR ultimately will be to the benefit for everyone, including our organisation.

## **The international framework**

The basis for our CSR policy is the framework established by international organisations which the Netherlands has also adopted. The most important of these are the ten United Nations Global Compact Principles. These principles, which are derived from other international agreements such as the universal declaration of human rights, relate to human rights, working conditions, the environment and measures against corruption.

In addition, often in the context of the UN, treaties have been signed in relation to arms (production and trade), health, nature and biodiversity and animal welfare.

In practice this means that Friesland Bank does not wish to be involved in activities that infringe human rights or labour laws, in the production of controversial weapons or supplying repressive regimes and terrorist groups, in fraudulent, corrupt and illegal tax practices or in activities that could damage health or biodiversity. We have included these principles in our client acceptance policy.

### **Customer relations**

The application of the above-mentioned principles in the relationship with our customers has two aspects. First, we take a critical view of the products we offer to our customers. Second, we take a critical view of the relationships we have with our customers. Regarding our products, Friesland Bank in principle offers a full range of standard banking products and services. We continually review whether our products are still suitable to meet the needs of our clients. Friesland Bank does not offer specific sustainable products.

Our view with regard to sustainable business operation is therefore mainly expressed in our customer relations. In our role as sounding board, aspects of CSR are increasingly an item of attention. In this respect we appeal to our collective social responsibility and we strive to give the most sustainable advice to the company concerned. If there are suspicions of direct or indirect involvement in activities that are inappropriate for the policy of the bank, we raise the matter with the client concerned. In extreme cases, this can lead to termination of the client relationship.

### **Agriculture and policy regarding nature**

We devote special attention to the agricultural sector, where we have a strong position. Many land-based family businesses such as dairy and arable farms bank with Friesland Bank. For these businesses, we act as a sparring partner in the development of sustainable production with reduced use of imported concentrates or artificial fertilisers, or increased attention to nature management.

### **Screening of investments**

We pursue the principle of sustainability in our investment policy. Investing can easily involve businesses that operate internationally, so that there is a real risk of involvement in illegal practices. Our investment policy is also formulated by Optimix. An agreement was concluded with Sustainalytics, a specialist research agency in the field of sustainable business operation, in 2010. This agency conducts a screening process for potential investee companies. If a company appears on the 'non-compliant list', we prefer not to invest. There is also the possibility however that we can use our position as an investor to convince the management of a company to change its policy.

### **Business organisation**

CSR goes further than our customer relationships. It also affects our own business organisation. In the past year the bank invested heavily in training with respect to behaviour and the attitude of our employees, in order to raise awareness of the need to act with integrity. Awareness of the duty of care when advising clients is an extension of this point. With regard to our products, we had already started, in 2009, to review continually whether we were meeting the expectations of our clients. Our Compliance Department monitors progress in this respect and reports regularly on the progress made in this area.

There is also an increasing role in this respect for our Risk Management Department. While the emphasis in our business conduct will always be on our clients 'close to home' and our presence outside our immediate client base will be limited, the complexity and volatility of the markets demand additional vigilance with regard to risk monitoring. Partly as a result of stricter regulation, the commitment of our resources, the associated risks in 'normal' times and in stress scenarios, and the size of the buffers in these scenarios will receive increasing attention.

Lastly, CSR affects our actions with regard to our physical premises. We have recently transferred to the use of 'green' energy. The principle of flexible workstations is increasingly applied in our branches in order to save space and energy. The furnishings for our branches are purchased according to sustainable principles and observing the standards of Agentschap NL, the successor of SenterNovem. The use of company cars is restricted to the environmental classes A, B and C. Friesland Bank moreover participates in sustainable initiatives of the Municipality of Leeuwarden. For instance, we participated in a trial in 2010 designed to reduce motor traffic in the town centre through the provision of a shared bicycle scheme on the outskirts of the town.

# New times, new conditions for responsible risk management

Risk management is a core activity for banks. The degree to which Friesland Bank is successful in this respect is a significant determining factor for our return. The conditions under which risk management is conducted have radically changed since the beginning of the financial crisis. At Friesland Bank, this has led to a redefinition of the risk management framework and tighter governance and direction.

The bank had a relatively sound position at the start of the financial crisis, mainly as a result of our low risk profile and our cautiousness with respect to taking on (additional) risks. This was one of the reasons we were able to survive the financial crisis without government support. We did however make use of the (market-facilitating) policy measures made available by the government and the central banks. This primarily concerned the possibility of raising liquidity at a previously determined (and low) price. Moreover, immediately from the beginning of the financial crisis we took measures designed to manage the effect of the risks that were present. In practical terms, this concerned the effect on the bank's credit risk and liquidity management.

## **Credit risk**

The deteriorating economic situation had a dramatic effect on the financial development of companies. This clearly had its effect on the treatment of loans by Friesland Bank. Credit risk did increase within our portfolio, although ultimately our risk limits were not exceeded. This was mainly due to the conservative stance traditionally taken by Friesland Bank with regard to lending. The development of the credit portfolio was monitored closely. Concentration of risks was avoided or mitigated as far as possible.

## **Liquidity management**

One important effect of the financial crisis was (and is) that the mutual trust between regular participants in the money and capital markets has diminished. This led to a lack of liquidity, or a situation in which liquidity was only available at high cost. Friesland Bank was able to execute transactions at a number of important times, which gave us the necessary room, in combination with the slower growth of lending as a result of the economic recession, to maintain a healthy cash position. For instance, we placed a securitisation transaction in the market shortly before the financial crisis. Furthermore, we were one of the first banks to successfully place a further securitisation in the market in 2010.

The developments described above did however have consequences for the development of our profitability. A further description of other areas of risk is given in the financial statements.

The most important elements in the risk management framework of Friesland Bank are risk governance, risk appetite and stress testing.

## **Risk governance**

Risk management is primarily the responsibility of the Executive Board, which has delegated executive responsibility to the Risk Management Department. As part of this responsibility, the Executive Board establishes the risk appetite of Friesland Bank and is kept regularly informed on developments in the various risk areas. Actions are identified and executed on the basis of these reports. The reporting to the Executive Board forms the basis for the reporting to the Supervisory Board and, more specifically, the Risk Committee. The various risks faced by the bank are discussed at a special quarterly meeting of the Risk Committee. The results of these meetings are discussed at the quarterly meetings of the Supervisory Board. Risk management is also included as a specific item on the annual agenda of the Supervisory Board.

## **Risk appetite**

Since 2009 we have followed a procedure to define the risk appetite to be used in our decision-making at least once a year. The risk appetite is discussed and approved by the Executive Board, and in 2010 was subsequently discussed by the Risk Committee and the Supervisory Board. The risk appetite establishes the risk Friesland Bank is prepared to accept in various risk areas, such as interest-rate risk and market risk. The risk reporting establishes the relationship between the desired level of risk and the actual level of risk. In 2010 steps were also taken to further define the relationship between return and risk, and risk acceptance. This will be further elaborated in 2011.

## **Stress testing**

Stress tests are an important instrument for identifying the potential effect of risks. The assumptions used and expected developments are taken as the starting point, and more or less realistic scenarios are defined that could seriously affect the bank. The risks are measured in terms of result and BIS ratios.

We conduct a number of single stress tests, in which a single variable is 'stressed'. Stress tests are also conducted in order to determine and calculate scenarios. In 2010 Friesland Bank calculated the scenario of the CEBS stress test (among other tests) and published the result independently after publication by the large European banks. The result was that Friesland Bank comfortably passed the test: after a two-year stress scenario the bank still had a significant buffer at its disposal.

# Investment in people as the basis for renewed confidence

Banking is a people business. Certainly in the challenge facing the banking sector since the crisis, a change of culture and restoring customer confidence, the human factor is decisive.

## Integrity

Partly in view of this challenge, we initiated an ambitious, bank-wide programme in 2010: 'Friesland Bank makes integrity visible'. In addition to the updating of knowledge of legislation and regulation, the training programme is designed to raise awareness of aspects such as compliance, fraud and information security. Briefly, the programme was very much part of the concept of 'acting with integrity'. It started with several seminars on the Financial Supervision Act (Wet op het financieel toezicht, or Wft) attended by the Supervisory Board, the Executive Board and other managers. The integrity programme, which was available to all employees, consisted of certain individual training in combination with departmental workshops. The Integrity Module for Financial Services Providers of DSI, including the completion test, is part of the total programme.

Moreover, much attention was once again devoted to increasing the professional competence of our employees in 2010. Greater awareness of our duty of care when providing advice was also an important guiding principle for the training of our commercial employees during the past year. Both group and individual training was organised and followed in this respect. Individual training is increasingly conducted by means of e-learning, the design of learning situations using ICT applications via the E-campus system. A new introductory course has now been designed using e-learning that is offered to all new employees of Friesland Bank. To optimise our client focus, which is essential for our existence, the 'sales excellence' programme has been rolled out in the private client sector. This programme is designed to increase the advisory skills of internal account managers and their line managers. In its formulation of training programmes and intern projects, Friesland Bank has cooperated extensively with training institutes and colleges. The resulting exchange of information also enables us to stay abreast of developments in the market.

## Back to Basics

Our reorganisation programme 'Back to Basics', started in 2009, was further continued and completed in 2010. After the reduction in 2009, the average number of FTE in the reporting year was reduced further by 83. We were able to redeploy some employees internally. In the cases where compulsory redundancy was unavoidable, the employees concerned were provided with counselling by external experts. Back to Basics was conducted in accordance with the formulated redundancy plan. The Appeals Committee formed in the context of the redundancy plan issued a ruling in two cases in 2010.

A reorganisation programme like the Back to Basics programme has serious consequences, not only for the employees who have to leave. The remaining staff and their managers are also affected. Much attention was devoted to this in 2010. In addition to the individual guidance requested, the HRM Department organised workshops for all departments and managers focusing on how to deal with the radical changes. For the managers, the emphasis was on leadership in transitions. The Works Council and the employee representative organisations were closely involved at all stages of the formulation, implementation and evaluation of the redundancy plan. Their critical and constructive attitude made a valuable contribution to the success of the programme.

## Looking to the future

It was confirmed on all fronts in 2010 that focusing our attention on our clients, and looking to the future together with them, is of vital importance. This can only happen if we have motivated employees who fully endorse our basic principles: working together to build on the values and ambitions that Friesland Bank stands for, advising our clients from the perspective of a close relationship and inspiring those who are not yet clients with our concepts and working methods. We do this in our uniquely Frisian style: honest, sober and realistic. Employees of Friesland Bank have both feet on the ground, they are future-oriented in their thinking and actions, they have respect for the past, and they search for the right solution using our group motto – where there's a will, there's a way.

In this context we offer our staff the opportunity to take control of their careers. With good consultation, there are always opportunities for further professional and personal development.

Permanent education, in our experience, is the basis for a learning organisation. We strive to place the right people in the right job, in the knowledge that this will maximise both motivation and performance. Due to our small scale, employees can have a varied and wide field of activity. This strengthens versatility, which enables internal mobility and flexibility. All these features make the work our employees do more attractive.

## Remuneration policy

Friesland Bank has a moderate remuneration policy in accordance with the collective employment agreement (CAO) for small and medium-sized banks. Friesland Bank evaluated its remuneration policy in 2010 in relation to the recommendations of the Banking Code of the NVB and the Principles for Controlled Remuneration of the AFM. The remuneration policy was accordingly amended in certain respects.

Our remuneration policy is based on the salary scales in the CAO plus an increment reflecting the state of the labour market (if applicable). In addition to the basic salary, employees may be entitled to a variable remuneration, or bonus. This depends on their performance, as expressed by a performance assessment. The Executive Board reserves a budget for a general bonus each year. For 2010, all the employees with a sufficiently high performance assessment qualify for a payment under this general bonus. Approximately 10% of our employees qualified for a special bonus on the basis of extraordinary performance, which is allocated on the recommendation of line managers by the Executive Board. The bonus paid varied from 2% to 17% of the basic salary.

Friesland Bank applies separate remuneration agreements for the Executive Board and its subsidiary Friesland Bank Investments (FBI). The remuneration policy for FBI is based on the benchmark for private equity companies and applies to employees with the following job titles: Managing Director, Investment Director, Investment Manager and Analyst.

# Remuneration policy for members of the Executive Board

## Remuneration report by the Supervisory Board

The remuneration policy for members of the Executive Board is formulated by the Supervisory Board on the advice of the Remuneration Committee and adopted by the General Meeting of Shareholders. This takes place after the Works Council has been given a timely opportunity to formulate an opinion, which is presented to the General Meeting of Shareholders at the same time as the proposed remuneration policy.

The remuneration of the individual executive directors is subsequently determined by the Supervisory Board on the advice of the Remuneration Committee.

The principles applied in the establishment of the remuneration policy and the individual levels of pay are those deemed appropriate for the type of organisation that Friesland Bank represents and adequate in order to be able to attract, retain and motivate suitable directors.

The remuneration of the members of the Executive Board is based on the Hay method for job evaluation and profiling and is established on the basis of the remuneration elsewhere of employees with comparable responsibilities. The market level of pay is established in accordance with the general market for senior managers within the financial sector, as well as an analysis of a reference group consisting of a selection of smaller banks which are comparable to Friesland Bank in terms of size and complexity.

The total remuneration package is reviewed every two years. The basic salary – the sum of monthly salaries, holiday allowance and the 13th month – is adjusted annually in line with the development of salaries in the Banking CAO.

Their pension is based on an average salary plan with indexation and an accrual percentage of 2.25% per service year. The pensionable salary is equal to the annual salary including holiday allowance and the 13th month. The retirement age is 65 years. The minimum permitted offset for state retirement pension under the tax regulations is applied. A personal contribution of 2.5% of the pension base was withheld in 2010 for members of the Executive Board.

Until the end of 2010, the remuneration policy for members of the Executive Board was based on a total package consisting of a basic salary and a variable payment capped at 50% of the basic salary, plus benefit value of a number of important secondary conditions of employment. The level of remuneration thus established was around the average level for comparable directors in the financial sector in 2008.

Details of the remuneration of members and former members of the Executive Board in 2010 are given on page 134 of the 2010 financial statements under note 45.

The remuneration policy for the Executive Board and the remuneration of its members will be evaluated and reformulated in 2011, in line with the Banking Code, the Principles for a Controlled Remuneration Policy published by the Authority for the Financial Markets and De Nederlandsche Bank in mid 2009 and the most recent European and Dutch regulations.

# 1. Financial statements

## 1.1.1 Consolidated balance sheet at 31 December 2010

(x € 1,000) ASSETS	Note	2010	2009
Cash	1	<b>66,129</b>	60,239
Banks	2	<b>533,683</b>	680,538
Loans and advances	3	<b>8,545,832</b>	8,450,974
Other financial assets	4	<b>848,359</b>	854,364
Investments in associates	5	<b>430,951</b>	535,196
Intangible assets	6	<b>199,415</b>	82,040
Property, plant and equipment	7	<b>99,594</b>	93,742
Non-current assets held for sale	8	-	-
Current tax	9	<b>4,821</b>	285
Deferred tax assets	9	<b>141,768</b>	132,802
Inventory	10	<b>30,168</b>	19,179
Trade receivables	11	<b>56,955</b>	34,983
Other assets	12	<b>38,675</b>	26,533
Prepayments and accrued income	13	<b>59,024</b>	38,661
<b>Total assets</b>		<b>11,055,374</b>	11,009,536

(x € 1,000) LIABILITIES	Note	2010	2009
Banks	14	<b>996,435</b>	950,763
Funds entrusted	15	<b>5,276,714</b>	5,448,282
Debt securities	16	<b>3,149,700</b>	2,912,282
Financial liabilities	17	<b>119,654</b>	132,602
Other liabilities	18	<b>100,675</b>	100,498
Accruals and deferred income	19	<b>151,688</b>	125,489
Provisions	20	<b>29,209</b>	30,535
Current tax liabilities	9	<b>5,180</b>	-
Deferred tax liabilities	9	<b>23,985</b>	7,315
Subordinated liabilities	21	<b>360,501</b>	418,736
		<b>10,213,741</b>	10,126,502
Share capital and reserves attributable to shareholders			
Friesland Bank N.V.		<b>670,641</b>	733,417
Perpetual capital securities		<b>125,000</b>	122,831
Third-party interests		<b>45,992</b>	26,786
Equity	22	<b>841,633</b>	883,034
<b>Total equity and liabilities</b>		<b>11,055,374</b>	11,009,536

## 1.1.2 Consolidated income statement for 2010

(x € 1,000)	Note	2010	2009
Interest income		<b>372,868</b>	382,320
Interest expense		<b>262,555</b>	297,260
Interest	23	<b>110,313</b>	85,060
Income from securities		<b>8,030</b>	25,981
Income from associates		<b>48,555</b>	27,764
Income from securities and associates	24	<b>56,585</b>	53,745
Commission	25	<b>41,713</b>	31,334
Result from financial transactions	26	<b>5,986</b>	36,741
Other income	27	<b>913</b>	4,860
Revenues of companies included as private equity investments	28	<b>196,993</b>	325,036
<b>Operating income</b>		<b>412,503</b>	<b>536,776</b>
Staff costs	29	<b>125,343</b>	220,737
Other administrative expenses	30	<b>196,218</b>	219,146
Depreciation	31	<b>23,702</b>	27,346
<b>Operating expenses</b>		<b>345,263</b>	<b>467,229</b>
Impairment of loans and advances	32	<b>36,705</b>	33,348
Impairment of other financial assets	33	<b>79,201</b>	8,404
Impairment of property, plant and equipment and intangible assets	34	-	-
Total impairment losses		<b>115,906</b>	41,752
<b>Total expenses</b>		<b>461,169</b>	<b>508,981</b>
<b>Operating result</b>		<b>-48,666</b>	<b>27,795</b>
Tax credit	35	<b>-6,099</b>	-4,763
<b>Net result for financial year</b>		<b>-42,567</b>	<b>32,558</b>
<b>Net result attributable to third-party interests</b>	36	<b>715</b>	<b>5,570</b>
<b>Net result attributable to shareholders of Friesland Bank N.V. and perpetual holders</b>	37	<b>-43,282</b>	<b>26,988</b>
		<b>-42,567</b>	<b>32,558</b>

### 1.1.3 Consolidated statement of comprehensive income in 2010

(x € 1,000)	Note	2010	2009
<b>Net result for financial year</b>		<b>-42,567</b>	<b>32,558</b>
<b>Other results</b>			
Movement in cash flow hedges	4	<b>5,156</b>	-10,449
Tax effect		<b>-1,389</b>	2,665
		<b>3,767</b>	-7,784
Revaluation of associates	5	<b>-10,918</b>	11,047
Other revaluations		<b>2,456</b>	793
Tax effect		<b>-</b>	-
		<b>-8,462</b>	11,840
Profit / (loss) on financial instruments available for sale			
Revaluation of investments available for sale:	4		
Equities		<b>-8,016</b>	45,677
Equities held by Friesland Bank Investments		<b>-2,615</b>	-608
Bonds		<b>-5,577</b>	21,712
Realised revaluation result and impairments via income statement:	4		
Equities		<b>5,588</b>	-16,636
Equities held by Friesland Bank Investments		<b>78</b>	-4,076
Bonds		<b>5,434</b>	-6,622
Tax effect		<b>247</b>	-4,045
		<b>-4,861</b>	35,402
<b>Other results, including tax effect</b>		<b>-9,556</b>	<b>39,458</b>
<b>Total results, including tax effect</b>		<b>-52,123</b>	<b>72,016</b>
<b>Attributable to third-party interests</b>		<b>715</b>	<b>5,570</b>
<b>Attributable to shareholders of Friesland Bank N.V. and perpetual capital securities holders</b>		<b>-52,838</b>	<b>66,446</b>
		<b>-52,123</b>	<b>72,016</b>

## 1.1.4 Consolidated statement of changes in equity in 2010

(x € 1,000)

### Capital and reserves attributable to shareholders of Friesland Bank N.V.

	Share capital	Share premium reserve	Revaluation reserve	Cash flow hedge reserve	Other statutory reserves	Other reserves	Result in financial year	Total capital and reserves	Perpetual capital securities	Interest of third parties	Total equity capital
<b>Situation at 1 January 2009</b>	<b>16,858</b>	<b>76,319</b>	<b>-2,142</b>	<b>-7,039</b>	<b>164,556</b>	<b>498,369</b>	<b>-75,098</b>	<b>671,823</b>	<b>125,000</b>	<b>27,869</b>	<b>824,692</b>
Movements in 2009											
Profit appropriation previous year	-	-	-	-	8,963	-84,061	75,098	-	-	-	-
Result for the year	-	-	-	-	-	-	26,988	26,988	-	5,570	32,558
Other results	-	-	47,242	-7,784	-	-	-	39,458	-	-	39,458
<b>Total result</b>	<b>-</b>	<b>-</b>	<b>47,242</b>	<b>-7,784</b>	<b>-</b>	<b>-</b>	<b>26,988</b>	<b>66,446</b>	<b>-</b>	<b>5,570</b>	<b>72,016</b>
Dividends received	-	-	-	-	-5,049	5,049	-	-	-	-	-
Dividend payment	-	-	-	-	-	-4,852	-	-4,852	-	-	-4,852
Purchase perpetual bond	-	-	-	-	-	-	-	-	-2,169	-	-2,169
Sale perpetual bond	-	-	-	-	-	-	-	-	-	-	-
Transaction result perpetual bond	-	-	-	-	-	-	-	-	-	-	-
Transaction result perpetual bond	-	-	-	-	-	-	-	-	-	-6,653	-6,653
<b>Situation at 31 December 2009</b>	<b>16,858</b>	<b>76,319</b>	<b>45,100</b>	<b>-14,823</b>	<b>168,470</b>	<b>414,505</b>	<b>26,988</b>	<b>733,417</b>	<b>122,831</b>	<b>26,786</b>	<b>883,034</b>
Movements in 2010											
Profit appropriation previous year	-	-	-	-	-10,079	37,067	-26,988	-	-	-	-
Result for the year	-	-	-	-	-	-	-43,282	-43,282	-	715	-42,567
Other results	-	-	-13,323	3,767	-	-6,385	-	-15,941	-	-	-15,941
<b>Total result</b>	<b>-</b>	<b>-</b>	<b>-13,323</b>	<b>3,767</b>	<b>-</b>	<b>-6,385</b>	<b>-43,282</b>	<b>-59,223</b>	<b>-</b>	<b>715</b>	<b>-58,508</b>
Dividends received	-	-	-	-	-	-	-	-	-	-	-
Dividend payment	-	-	-	-	-	-3,889	-	-3,889	-	-	-3,889
Purchase perpetual bond	-	-	-	-	-	-	-	-	-	-	-
Sale perpetual bond	-	-	-	-	-	-	-	-	2,505	-	2,505
Transaction result perpetual bond	-	-	-	-	-	336	-	336	-336	-	-
Movements in third-party interests	-	-	-	-	-	-	-	-	-	18,491	18,491
<b>Situation at 31 December 2010</b>	<b>16,858</b>	<b>76,319</b>	<b>31,777</b>	<b>-11,056</b>	<b>158,391</b>	<b>441,634</b>	<b>-43,282</b>	<b>670,641</b>	<b>125,000</b>	<b>45,992</b>	<b>841,633</b>

The other statutory reserves include €158,249 (2009: €168,328) in statutory reserves for undistributed profit-sharing and €142 (2009: €142) in the redenomination reserve.

## 1.1.5 Consolidated cash flow statement for 2010

(x € 1,000)	Note	2010	2009
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net result	37	-42,567	32,558
Adjustments for:			
- Depreciation	31	23,702	27,346
- Impairment of loans and advances	32	36,705	33,348
- Impairment of financial assets	33	79,201	8,404
- Impairment of property, plant and equipment and intangible assets	34	-	-
- Tax on profits	9, 35	-6,099	-4,763
- Income from securities and associates	24	-26,568	-11,847
- Change in market value of derivatives and hedged items	26	5,794	1,218
		<hr/>	<hr/>
Operating cash flow		70,168	86,264
Movement in (central) banks	1, 2, 14	-95,293	205,431
Movements in loans and advances	3	-121,382	-252,603
Movement in funds entrusted	15	-171,568	-248,222
Tax on profits settled with tax authority	9	-3,565	-7,496
Other operating cash flow		-2,995	9,052
		<hr/>	<hr/>
<b>Total cash flow from operating activities</b>		<b>-324,635</b>	<b>-207,574</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>			
Investments in and purchases of:			
- Other financial assets not part of trading portfolios	4	-1,389,166	-1,301,692
- Other associates	5	-1,203	-16,534
- PP&E and intangible assets	6, 7	-29,688	-25,871
- Business combinations	39	-41,242	-
Divestments and sales of:			
- Other financial assets not part of trading portfolios	4	1,409,738	1,533,048
- Other associates	5	25,550	6,444
- PP&E and intangible assets	6, 7, 8	4,232	3,914
- Business combinations	39	15,575	17,360
		<hr/>	<hr/>
<b>Total cash flow from investment activities</b>		<b>-6,204</b>	<b>216,669</b>
<b>CASH FLOW FROM FUNDING ACTIVITIES</b>			
Increase in subordinated liabilities	21	345	18,151
Decrease in subordinate liabilities	21	-58,578	-8,960
Increase in debt securities	16	497,249	366,160
Decrease in debt securities	16	-259,833	-188,003
Dividend paid	22	-3,889	-4,852
		<hr/>	<hr/>
<b>Total cash flow from funding activities</b>		<b>175,294</b>	<b>182,496</b>
<b>Net cash flow</b>		<b>-155,545</b>	<b>191,591</b>

(x € 1,000)

Note

2010

2009

**MOVEMENT IN CASH**

Cash balance at 1 January	1, 2, 14	<b>679,762</b>	488,171
Cash balance at 31 December	1, 2, 14	<b>524,217</b>	679,762

**Net cash flow** **-155,545** **191,591**

The analysis of the cash balance is as follows:

- Cash	1	<b>66,129</b>	60,239
- Bank demand deposits (assets)	2, 42	<b>511,520</b>	680,538
- Bank demand deposits (liabilities)	14, 42	<b>-53,432</b>	-61,015

**524,217** 679,762

Other information disclosed in relation to operating cash flow

Interest received	13, 23	<b>358,926</b>	392,284
Interest paid	19, 23	<b>243,951</b>	309,155
Dividends received	5, 24	<b>4,101</b>	11,910

# 1.2 Accounting policies

## 1.2.1 Company information

Friesland Bank N.V. is established in Leeuwarden. The consolidated financial statements of Friesland Bank N.V. for the 2010 fiscal year include the company and its subsidiary companies (hereinafter collectively referred to as 'the Group') and the Group's investments in associates and joint ventures. The Executive Board prepared the financial statements on 20 April 2011. The date set for adoption of the financial statements by the General Meeting of Shareholders is 20 April 2011.

## 1.2.2 Accounting policies used in the preparation of the financial statements

### General

The financial statements are prepared on the basis of historical cost, including ancillary costs which – for financial instruments – are recognised at amortised cost using the effective interest method. The following assets and liabilities are recognised at fair value: derivative financial instruments (derivatives), financial instruments held for trading purposes, financial instruments classified as available for sale, financial instruments forming part of a fair value hedge, and real estate investments. Non-current assets held for sale and groups of assets which are to be disposed of are measured at either the carrying amount or fair value less the costs of sale, whichever is the lower. Accrued interest on amounts receivable and payable is, unless otherwise stated in the note to the relevant item, included in prepayments and accrued income or accruals and deferred income.

The functional currency for Friesland Bank N.V. and the reporting currency for the Group is the euro. All figures in these financial statements are rounded off to thousands of euros, unless otherwise stated.

To the extent required as a result of changing perceptions, the comparative figures have been adjusted.

### Statement of compliance in the preparation of the financial statements

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), as accepted within the European Union (EU).

### Principles for consolidation

The consolidated financial statements consist of the financial statements of the Group and its group companies as at 31 December 2010.

Group companies are entities over which the company exercises decisive control. Interests qualifying as group companies and entities where the economic risk is almost entirely (more than 50%) borne by Friesland Bank N.V. (including foundations connected with securitisation) are included in the consolidation. There is a situation of decisive control if the company is able, directly or indirectly, to determine the financial and operational policy of an entity for the purpose of realising a benefit from the business of that entity.

When assessing the existence of control, the potential voting rights either existing or resulting from conversion are taken into consideration. The financial statements of group companies are included in the consolidated financial statements from the date on which control is first established until such time as this ends. Intra-group accounts and any unrealised profits and losses on intra-group transactions or income and expenses arising from such transactions are eliminated on consolidation. The financial statements of the group companies are prepared over the same reporting period on the basis of accounting policies which are consistent with those applied by Friesland Bank.

A financial instrument is included in the balance sheet as soon as the company becomes a contractual party and therefore is entitled to the benefits or bound by the obligations arising from the contractual definitions of the financial instrument concerned, on the basis of trade date accounting.

Profits or losses are, if applicable, attributed to the interests of third parties, also if, in the event of losses, this results in a negative sum.

If the Group loses decisive control of a group company, this company is no longer included in the consolidation.

### **Securitisation**

Friesland Bank has securitised some of its residential mortgages and business loans in special purpose vehicles (SPVs). As a result of these transactions, the beneficial ownership of these assets is transferred to the SPVs. Friesland Bank includes these SPVs in its consolidated financial statements because in economic reality, Friesland Bank bears the majority of the risks and is entitled to the majority of the rewards. Since the credit risk is fully transferred to the SPVs, the securitised assets are not included in the calculation of the risk-weighted assets. Securitisation transactions are treated as funding transactions. This means that the assets are transferred at face value with no gains or losses recognised on the sale. Derivative instruments are concluded between the SPVs and Friesland Bank, whereby the interest flows on the loans and the notes are swapped. Friesland Bank may hold a direct or indirect interest in the debt securities issued by the SPVs.

At the initiation of a securitisation transaction, Friesland Bank is directly involved in the following aspects: the selection of the assets to be securitised, review and assessment of the prospectus, road shows, press releases and contacts with rating agencies. After placing the transaction, Friesland Bank continues to maintain the accounts of the securitised assets. Friesland Bank provides monthly statements to the Trust Office which deals with the administration of the SPVs. The monthly statements include information on the developments of the outstanding loans and the interest received, loans repaid and accounts in arrears. An annual statement is also provided of the fair value of the outstanding loans as at 31 December.

### 1.2.3 Changes to accounting policies and disclosures

The following new or amended standards and interpretations took effect in 2010:

*IFRS 1 First-time Adoption of International Financial Reporting Standards*

First-time adoption of International Financial Reporting Standards (revised), effective for financial years beginning on or after 1 January 2010. Since Friesland Bank is not a first-time adopter of IFRS, the revised standard does not apply.

*IFRS 1 First-time Adoption of International Financial Reporting Standards*

First-time adoption of International Financial Reporting Standards – additional exemptions for first-time adopters, effective for financial years beginning on or after 1 January 2010. Since Friesland Bank is not a first-time adopter of IFRS, the revised standard does not apply.

*IFRS 2 Share-Based Payments (Revised)*

The IASB has implemented an amendment that clarifies the scope and reporting requirements for group cash-settled share-based payment transactions. This amendment, effective for financial years beginning on or after 1 January 2010, had no effect on the financial statements, since the Group does not enter into such arrangements.

*IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended), including pursuant amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39*

IFRS 3 (Revised) introduces significant changes for the reporting of business combinations effective from 1 July 2009.

The changes relate to the measurement of minority interests, the treatment of transaction costs, the initial recognition and subsequent measurement of an unforeseen consideration and the phased purchase of business combinations. These changes affect the size of the amount of goodwill, the results recognised in the period in which the purchase takes place, and future results. From now on, the option exists – for each transaction – to effect the valuation of a third-party interest in the acquired company either at the fair value on the acquisition date, or according to the proportional share in the identifiable assets and liabilities of the acquired company. The revised standard has been applied by Friesland Bank to its acquisitions in 2010.

IAS 27 (Amended) requires that a change in the interest in an associate (without loss of control) is recognised as a transaction with owners in their capacity as owners. As a result, such transactions will not require the recognition of goodwill, and furthermore will not lead to a gain or loss. The amendments will also change the recognition of losses incurred by the associate and the loss of control in the associate.

The amendments to IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of/in associates, and transactions with minority interests, whereby in the latter case the transactions will be recognised in equity.

*IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The amendment clarifies the policy that a company is permitted to designate a part of the changes in fair value or the changes in a cash flow item as a hedged item. This includes the designation of a part of inflation as a hedged risk. This amendment, effective for financial years beginning on or after 1 July 2009, had no effect on the financial statements, since the Group does not hold such positions.

#### *IFRIC 17 Distributions of Non-Cash Assets to Owners*

Effective for financial years beginning after 1 July 2009. Guidelines are provided for the treatment of distributions of assets to owners that are not made in cash. The interpretation clarifies when a payable has to be recognised, how the assets concerned should be measured, and when an asset or liability can be derecognised from the balance sheet. The Group does not expect this to affect the consolidated financial statements, since the Group has not previously entered into such transactions.

#### *Improvements to IFRSs*

In 2009 and 2010, the IASB issued various amendments in relation to standards primarily intended to remove inconsistencies and clarify texts. Various transition requirements were set for each standard. The application of the following changes has resulted in changes to the accounting policies, but has had no effect on the Group's financial position or result.

- IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations: clarifies the policy that the compulsory disclosures in relation to non-current assets and the sale of business elements classified as held for sale or discontinued business operations are restricted to those specified in IFRS 5. The compulsory disclosures in other IFRSs only apply if they are specifically required for the non-current assets or discontinued business operations in question. This amendment has had no effect on the financial statements of the Group.
- IFRS 8 Operating Segment Information: clarifies the policy that assets and liabilities of segments only have to be reported if these assets and liabilities are included in measures used by the entity's chief operating decision maker. This amendment has had no effect on the financial statements of the Group.
- IAS 7 Statement of Cash Flows: explicitly states that only expenses which result in the inclusion of an asset can be classified as cash flows from investment activities. This amendment will affect the presentation of a conditional obligation at a business combination completed in 2010 in the cash flow statement at such time as the money is received.
- IAS 36 Impairment of Assets: The amendment also clarifies the policy that the largest unit permitted for the allocation of goodwill acquired in a business combination is the operating segment as described in IFRS 8 and before aggregation for the purpose of reporting. This amendment has had no effect on the financial statements of the Group.

Other changes as a result of improvements to IFRS standards relate to the standards listed below. These changes have had no effect on the Group's accounting policies, financial position or results:

- IFRS 2 Share-Based Payments
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation

## 1.2.4 Principles for valuation and determination of results

### Foreign currency

Transactions in foreign currency are converted into euros at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currency are converted into euros on the balance sheet date at the exchange rate prevailing on that date. Non-monetary items in foreign currencies measured against fair value are converted at the exchange rate at the moment the fair value is determined. Price differences arising from conversion are recognised in the income statement.

### Cash and cash equivalents

The following qualify as cash: cash in hand, demand deposits at De Nederlandsche Bank N.V., and the balance of receivables and payables at banks with a very short maturity of not more than three months for which the risk of a change in value is insignificant and which are not subject to limitation.

### Financial instruments

#### *a) Initial recognition and measurement*

In accordance with IAS 39, financial instruments are – on initial recognition – classified in one of the following categories: financial assets/(liabilities) measured at fair value with changes in fair value through profit or loss (held for trading, HFT), financial assets held to maturity (HTM), loans and receivables (L+R), financial assets available for sale (AFS), other financial liabilities (OFL) or as derivatives designated as hedge instruments in an effective hedge relationship. The Group has no held-to-maturity investments.

On initial recognition in the balance sheet, all financial instruments are measured at fair value including transaction costs to the extent that the item in question does not concern financial assets or liabilities measured at fair value through profit or loss. Subsequent measurement depends on the category in which the item is placed on initial recognition.

In the Group's balance sheet, the following financial instruments are categorised as follows:

	HFT	L+R	AFS	OFL	Hedge relationship
<b>Assets</b>					
Cash	-	✓	-	-	-
Banks	-	✓	-	-	-
Loans and advances	-	✓	-	-	-
Other financial assets:					
- Equity trading portfolio	✓	-	-	-	-
- Equities available for sale	-	-	✓	-	-
- Private equity investments available for sale	-	-	✓	-	-
- Bonds available for sale	-	-	✓	-	-
- RMBS	-	✓	-	-	-
- Derivatives	✓	-	-	-	✓
Trade receivables	-	✓	-	-	-
Other liabilities, accruals and deferred income	-	✓	-	-	-
<b>Liabilities</b>					
Banks	-	-	-	✓	-
Funds entrusted	-	-	-	✓	-
Debt securities	-	-	-	✓	-
Financial liabilities	✓	-	-	-	✓
Other payables and accruals	-	-	-	✓	-
Subordinated liabilities	-	-	-	✓	-

*b) Subsequent measurement*

The subsequent measurements for the various categories are as follows:

*b.1) Financial assets/(liabilities) measured at fair value through profit or loss*

This category consists of assets and liabilities held for trading purposes and forming part of the trading portfolio. The intention is that these assets and/or liabilities will be traded in the short term. This category also includes financial instruments which on initial recognition are classified as measured at fair value through profit or loss (the fair value option). These items are initially recognised at fair value and subsequently measured at fair value. All realised and unrealised profits and losses are recognised in the income statement. The Group has no financial instruments classified as measured at fair value through profit or loss on the basis of the fair value option.

Dividends received in the trading portfolio are recognised under the result from financial transactions. Dividends are recognised on the date they are made available for payment. The items relating to the trading portfolios are classified in the balance sheet under other financial assets.

If there are contracts with embedded derivatives whereby the economic features and risks differ from those of the host contract, these derivatives are presented separately from the host contract as derivatives, unless the contracts are held as trading instruments or the fair value option has been chosen for these contracts. The embedded derivatives are measured at fair value and changes in value are recognised in the income statement. The Group held no such contracts during the year under review.

*b.2) Loans and receivables and other financial liabilities*

After initial recognition, measurement is at amortised cost using the effective interest method, taking account of impairments where necessary. The determination of the amortised cost takes account of any surcharges or discounts and costs forming an integral part of the effective interest method.

The effective interest income or expense is presented in the income statement under interest. Any impairments are presented in the income statement under impairments.

*b.3) Held-to-maturity investments*

This concerns financial instruments – other than derivatives – for which the intention is to hold the items until maturity. Measurement is at amortised cost using the effective interest method, taking account of impairments where necessary. The determination of the amortised cost takes account of any surcharges or discounts, and of costs forming an integral part of the effective interest method. The effective interest income or expense is presented in the income statement under interest. Any impairments are presented in the income statement under impairments. The Group did not hold any investments with the intention of holding them to maturity during the year under review.

*b.4) Financial assets available-for-sale*

The investment portfolios of interest-bearing securities and equities are classified as available for sale. These securities are measured at fair value on initial recognition in the balance sheet, including transaction costs. Subsequent measurement is at fair value with changes in value (until sale or impairment) recognised in equity (consolidated statement of comprehensive income). Realised results on sale are recognised in profit or loss.

Interest on the interest-bearing securities available for sale is presented in the income statement under interest, based on the effective interest rate. Dividends received on the equity investment portfolio are presented in the income statement under income from securities and associates. Dividends are recognised on the date they are made available for payment. The items relating to the investment portfolios are classified in the balance sheet under other financial assets.

Regular assessments are made to determine whether the intention to trade the items concerned in the short term is still justified. If it becomes impossible to trade instruments because markets have become inactive and the intention of the company's management to dispose of the instruments in the foreseeable future materially changes, it is possible, in exceptional circumstances and subject to strict conditions, that these instruments will be reclassified. Reclassification into the loans and receivables category is then permitted, as long as the financial asset meets the conditions for this category and the intention is to hold the asset for the foreseeable future or until maturity. After reclassification to loans and receivables, the method of measurement will not be subject to further change.

*c) Fair value of financial instruments*

Various methods are used to measure the fair value of a financial instrument. For financial instruments trading in active markets, fair value is based on the market price (fair value level I). Assets are measured at the bid price, liabilities at the offer price.

For financial instruments for which no market price or active market is available, fair value is determined using estimation methods, in principle on the basis of observable market circumstances (fair value level II). Estimation methods based on observable market data are, for example, bid prices quoted by brokers using a model in which observable market data are used, quoted prices of similar instruments, or estimation models which use data such as market interest rates and credit spreads.

If sufficiently reliable observable market data are not available to arrive at a fair value level II estimation, the fair value will be established using internal estimation models not based on observable market data (fair value level III). Estimation methods not based on observable market data are estimation models based on estimates and assumptions by the company management.

Only if there are clear indications that for example the transaction price differs from other similar observable current market transactions or the value based on an estimation model using observable market data, will the results on the financial instrument concerned be recognised on the first day.

*d) Impairments of financial assets*

An assessment is made as at balance sheet date to establish whether there are external or internal objective indications of impairment of a specific financial asset.

For financial instruments classified as available for sale, an objective indication of impairment is a significant or long-lasting decline in the market value compared to the carrying amount. To determine whether a decline is significant, a comparison is made between the fair value and the cost price. To determine whether a decline is long-lasting, an analysis is made of the period during which the fair value has been below the cost price. The principle applied by the Group is that if the fair value is 80% of the cost price or lower, the decline is significant. If the period in question is six months or longer, the decline is long-lasting. In case of an impairment, the cumulative loss is transferred from the unrealised result to the income statement. The cumulative loss is the difference between the acquisition value and the current fair value, less any impairment losses previously recognised in the income statement. In the event of a subsequent rise in value, impairments are not reversed in the income statement, the reversal is recognised in the unrealised result.

The same criteria apply to debt instruments available for sale as for the category of financial assets measured at amortised cost. For financial assets measured at amortised cost, including loans, objective indications include a reduction in the credit rating, severe deterioration of market conditions or significant financial problems (including default) at the debtor concerned. If there are such indications, it is first assessed whether an actual loss has been incurred before an impairment is recognised. A possible loss due to impairment is discounted at the original effective interest rate and recognised in the income statement under impairment of loans

and advances on the basis of the cash value of the expected future cash flows, including expected payments arising from guarantees and securities provided. For the collateral provided, the most recently expected recovery value is used. Impairments are initially assessed on an individual basis. In addition to these specific provisions, a general provision is made for impairment losses in the portfolio as a whole that is not specifically determined but which may be presumed to exist at balance sheet date on the basis of experience and general or economic trends. For the assessment at portfolio level, the assets are grouped according to similar credit characteristics. These characteristics are relevant for the estimation of expected future cash flows for portfolios of assets because they indicate the ability of the debtor to meet all its contractual obligations in full. The impairment test is conducted on portfolios of financial assets at portfolio level on the basis of contractually agreed cash flows and historical experience of defaults on assets with similar credit characteristics. Historical experience is adapted to take account of recent observed developments to reflect the effects of current market conditions which are not part of historical experience and to eliminate effects and conditions which are no longer relevant.

Whenever possible, an attempt is made to restructure loans instead of resorting to foreclosure or recovery of collateral. This may lead to an extension of the term of the loan, or the conditions in the loan agreement may be adjusted. If the loan is successfully restructured, it is not longer considered to be a loan in arrears. The renegotiated conditions are regularly evaluated in order to safeguard future receipts and prevent payment arrears. Restructured loans however remain an integral part of the process leading to the recognition of impairment losses and if a specific provision proves necessary, the amount is discounted at the original effective interest rate.

*e) Derecognition in the balance sheet*

Financial assets are no longer recognised in the balance sheet if the entitlement to the cash flows from the asset has lapsed or if effectively all the risks and benefits associated with the asset have been transferred. If effectively all the risks and benefits have been neither transferred nor retained, a financial asset is no longer recognised in the balance sheet if there is no continuing involvement with the asset in question. In the event of the transfer of a financial asset over which the Group retains the power of disposal, the asset continues to be recognised in the balance sheet.

A financial liability is derecognised in the balance sheet if the obligation is removed, discontinued or if the contractual term has expired.

## Netting off of financial instruments

Financial assets and liabilities are presented on a net basis in the balance sheet if a legally enforceable right exists to net off the amounts concerned and the intention exists to settle the asset and the liability on a net basis, or to settle the asset and the liability simultaneously.

## Derivatives and hedge accounting

### *a) Initial recognition and measurement*

Friesland Bank uses derivative instruments for the purpose of managing risks, including interest-rate, currency and credit risk. On initial recognition in the balance sheet, derivatives are measured at fair value. Derivatives are subsequently carried at fair value. Unless hedge accounting is used, changes in fair value are recognised in the income statement under results from financial transactions. Derivatives are carried in the balance sheet as assets (under other financial assets) in the case of fair value gains, and as liabilities (under financial liabilities) in case of fair value losses.

For some derivatives, hedge accounting is used. Hedge accounting is used if the requirements regarding documentation are met (including the risk management policy, the initial date of the hedge, a description of the hedge instrument and the underlying position, the type of hedge, the hedged risk and the method of determining the effectiveness of the hedge) and the actual effectiveness of the hedge is determined. The effectiveness is assessed monthly, whereby it is established whether the hedge has actually been effective during the reporting periods for which it was intended.

Hedge accounting is discontinued if the hedge instrument expires, is exercised or sold, or if the hedge no longer meets the conditions, if the future transaction is no longer expected to take place, or if the designation of the hedge relationship is revoked. For that matter, not all economically effective hedges are eligible for hedge accounting. Gains and losses on these derivatives are recognised immediately in the income statement.

### *b) Fair value hedge accounting*

In fair value hedge accounting, the fair value change resulting from the hedged risk of specific assets or liabilities and the fair value change of the derivative are accounted for in the income statement.

Friesland Bank uses a macro hedge. This is a portfolio hedge, whereby the mortgage portfolio is designated as the hedged position. The interest-rate risk of the portfolio has been limited by reducing the interest-rate exposure of the value of the cash flows from the portfolio by concluding interest-rate swap (IRS) transactions which on balance have a contrary interest-rate exposure. The fair value changes in the interest-rate swaps will compensate for (part of) the fair value changes in the cash flows from the mortgage portfolio. The risk of fair value changes to the hedged position as a result of changes in the interbank swap rate (EURIBOR) is designated as hedged risk. Other interest-rate risk components apart from the interbank swap rate (EURIBOR) that could affect the fair value of the hedged position are not hedged. The test for effectiveness will be conducted prospectively and retrospectively at portfolio level on a monthly basis.

### *c) Cash flow hedge-accounting*

In cash flow hedge-accounting, potential fluctuations in future cash flows are hedged. The change in fair value of the derivative, if effective, is recognised in other unrealised results and not in the income statement, until such time as the hedged item affects the income statement.

## **Interests in other entities**

### *a) General*

The measurement and presentation of other entities in the financial statements depends on the degree to which the bank is able to influence policy decisions. A further distinction is made between banking interests, which are the bank's strategic investments in the share capital of other companies, and private equity investments, which are equity investments made by the bank's private equity business, Friesland Bank Investments. Various types of investments are recognised in the financial statements of Friesland Bank N.V.:

- Business combinations
- Joint ventures
- Associates
- Equity holdings

### *b) Business combinations*

Interests where decisive control can be exercised (usually larger than 50%) are consolidated. Business combinations are accounted for using the acquisition method. The purchase price of an acquisition is determined as the financial sum or equivalent thereof that is agreed for the acquisition of the business combination, plus any costs that are directly attributable to the purchase. For each business combination, the minority interests are valued at the proportion of the purchased entity in the identifiable net assets. Direct acquisition costs are recognised in the income statement, and until year-end 2009 these costs are capitalised.

If a business combination is acquired in stages, the fair value of the previously acquired interest is reassessed on the date of the purchase. Any resulting changes in value are recognised in the income statement.

Any conditional liabilities are measured at fair value and recognised as a liability. Subsequent fair value changes are recognised in the income statement or in other realised or unrealised results.

The valuation of a third-party interest in the acquired company is made at either the fair value on the acquisition date or the proportional share in the identifiable assets and liabilities of the acquired company.

### *c) Joint ventures*

Interests with joint control (joint ventures) are not consolidated. These interests are measured according to the equity method, meaning they are measured at cost plus the bank's share in the result and changes in assets post acquisition, and less the bank's share in payments made post acquisition. An indication for treatment as a joint venture is an interest of exactly 50%. As soon as joint control ceases, interests are deconsolidated. Depending on the remaining interest, these holdings are accounted for as an associate or a financial instrument. Friesland Bank had no interests in joint ventures in 2009 and 2010.

#### *d) Associates*

Interests where the bank has considerable influence (usually between 20% and 50%) are recognised in the balance sheet under associates. Interests where considerable influence can be exercised are accounted for using the equity method, meaning they are measured at cost plus the bank's share in the result and changes in assets post acquisition, and less the bank's share in payments made post acquisition.

#### *e) Equity holdings*

Interests where no decisive or significant influence can be exercised are classified as financial instruments available for sale and measured at fair value through equity. An important indicator for this treatment is an equity holding of less than 20%. These interests are recognised in the balance sheet under other financial assets. A financial instrument is included in the balance sheet as soon as the company becomes a contractual party and therefore is entitled to the benefits or bound by the obligations arising from the contractual definitions of the financial instrument concerned (trade date accounting).

### **Intangible assets**

#### *a) Goodwill*

The goodwill acquired with a business combination is equal to the extent to which the purchase price of the business combination exceeds the interest of the acquiring party in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is initially recognised in the balance sheet and measured at cost, unless the amount is negative, in which case the goodwill is applied immediately to the income statement.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is not systematically amortised. Periodically – and at least annually – an assessment is made – if events or changes give reason to do so – to determine whether an impairment loss has occurred as a result of a permanent change in the expected future cash flows. Impairment losses are recognised in the income statement.

#### *b) Other intangible assets*

Other intangible assets consist of purchased software, as well as purchased separately identifiable elements arising from the acquisition of business combinations, such as client relationships, brand names, insurance portfolios and other similar elements. Other intangible assets are measured at cost less cumulative amortisation and impairment losses. The amortisation charged to the income statement is applied on the basis of the estimated economically useful life of the intangible asset concerned, unless the useful life is indeterminate. Amortisation of other intangible assets commences as soon as the asset is available for use. The estimated economically useful life for other intangible assets depends on the specific features of the asset concerned. The following terms are used in the financial statements:

- Customer relationships 3 – 20 years
- Brand names 3 – 15 years
- Software 3 – 5 years

### Property, plant and equipment

Property, plant and equipment are carried at cost less cumulative depreciation and impairment losses. Straight-line depreciation is applied over the estimated economic life of all property, plant and equipment, with the exception of land in ownership, for which the useful life is considered to be unlimited. Residual values are assessed periodically.

The estimated useful life is as follows:

- Buildings 10 – 33 years
- Technical systems 10 – 15 years
- Equipment 8 – 12 years
- Computer equipment 3 – 5 years

### Non-current assets held for sale

A non-current asset is qualified as held for sale if it is most likely that the carrying amount will be realised through a sale transaction that is planned to take place within 12 months and not through continued use. Non-current assets and groups of assets which are to be disposed of are measured at either the carrying amount or fair value less the costs of sale, whichever is the lower. Any impairment losses recognised on first classification as held for sale are accounted for in the income statement. No further depreciation or amortisation is applied to non-current assets or intangible assets after initial recognition as held for sale.

### Impairments of non-financial assets

A test for indications of impairment is conducted on non-financial assets once a year. If such an indication exists, the asset is tested for impairment.

Regardless of whether there are indications of a potential impairment, the carrying amounts of goodwill and intangible assets not yet in use are subjected to a detailed impairment test at least once a year by means of comparison of the proceeds of cash-generating units with their carrying amount. The proceeds are calculated as the value in use or the fair value less the costs of sale, whichever is the higher. The recoverable value of a cash-generating unit is determined by means of calculation of the expected future cash flows of the cash-generating unit in comparison to the interest rate before tax. The principal assumptions used in the cash flow model depend on the input data reflecting the various financial and economic variables, such as the risk-free interest rate in a country and a premium reflecting the inherent risk of the entity concerned. These variables are determined on the basis of assessments made by management. An impairment loss is recognised if the carrying amount of an asset is higher than the recoverable value.

## Lease contracts

The lease contracts concluded by Friesland Bank concern operating leases. The total sums paid under the lease contracts are recognised on a straight-line basis in the income statement over the life of the contract. If payments are made to the lessor in connection with premature termination of the lease contract, these expenses are recognised immediately in the income statement.

## Tax

### *a) Current tax*

Current tax is accounted for in the balance sheet in the amount that is expected to be receivable or payable. Measurement is according to the tax rates that are current, or in practice already decided, on the balance sheet date.

### *b) Deferred tax*

The provision for deferred tax liabilities (deferred tax) is formed on the basis of the balance sheet method, where a provision is made for temporary differences between the carrying amount of assets and liabilities for reporting purposes and their respective tax bases. No provision is made for the following temporary differences:

- Fiscally non-deductible goodwill;
- Initial recognition of assets and liabilities affecting neither commercial profit nor taxable profit, and
- Differences relating to investments in subsidiaries where settlement is not likely in the foreseeable future.

The amount of the provision for deferred tax is based on the method whereby the carrying amount of the assets and liabilities is expected to be realised or settled, applying the tax rates that are current, or in practice already decided, on the balance sheet date.

The carrying amount of deferred tax assets is assessed annually as at balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be realised in future to make full or partial use of the deferred tax asset. The deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### *c) Tax on profit or loss*

The tax on profit or loss in the reporting year consists of the tax to be paid or received on the reporting period and the deferred tax assets and liabilities. The tax on profit is recognised in the income statement, except to the extent that it relates to items recognised directly in the other results, in which case the tax is accounted for in the other results. Tax is calculated at the tax rates current, or in practice already decided, on balance sheet date, plus adjustments to tax payable in previous years.

## Inventory

Inventory is held by the industrial companies included in the consolidation as private equity investments. Raw materials inventory is carried at historical cost, less a provision for obsolescence where necessary. Work in progress and processed goods are carried at direct product cost, plus attributable indirect costs or a surcharge for indirect costs. Inventory is measured at cost, or at sale value if lower.

## Provisions

### *a) General*

A provision is recognised if the bank has an obligation as at balance sheet date (either legal or effective) originating from an event in the past and if it is likely that the fulfilment of this obligation will require an outflow of funds and a reliable estimate of the size of the obligation can be made. If the effect is material, the provision is calculated by discounting the expected future cash flows on the basis of a pre-tax discount rate that reflects current market estimates of the time value of money and, if necessary, the specific risks relating to the obligation.

### *b) Pension provision*

Friesland Bank operates a defined benefit pension plan. The net liability arising from defined benefit plans is calculated separately for each plan, by estimating the pension claims that employees have accrued in consideration for their service during the current and past reporting periods. The pension claims are discounted to determine the cash value, and the fair value of the plan assets is then deducted. The actuarial interest rate is based on the nominal interest-rate term structure plus a credit spread based iBoxx (AA rating), using a maturity corresponding to that of the liabilities. This calculation is carried out by an accredited actuary using the projected unit credit method.

If the pension claims under a pension plan are increased, the increased past-service cost is expensed in the income statement on a straight-line basis over the average period until the pension claims become unconditional. To the extent that the claims become unconditional, the past-service cost is recognised immediately in the income statement. If the pension claims under a plan are curtailed, the gain is recognised immediately in the income statement.

The actual results may significantly vary from the actuarial assumptions, as a result of changes in market circumstances, economic developments or trends in life expectancy. Changes to these assumptions may significantly affect the amount of the defined benefit pension plan and the amount of future pension expenses. Differences between the expected and actual return on investments due to changes in actuarial assumptions and adjustments of empirical figures are not recognised in the income statement, unless the total cumulative changes amount to more than 10% of either the largest liability or the fair value of the associated investments. The part that falls outside this 10% range is credited or debited to the income statement over the expected average number of remaining service years of the plan members.

In addition to pensions, other long-term employee benefits are recognised in the balance sheet, such as jubilee benefits. No investments are made for these components; however, the future payments and expenses are discounted in the same way as for pensions.

### *c) Other provisions*

The other provisions recognised in the balance sheet relate to potential future liabilities for the repayment of unearned commission from insurance business. The amount of these provisions is based on both historical data and a future estimation.

## **Income**

Income is recognised if it is probable that the economic benefits of transactions will flow to the Group and these benefits can be reliably measured.

Interest income and expense on financial instruments are accounted for in the income statement based on the effective interest method and the actual purchase price. The effective interest method is based on the expected flow of cash receipts, taking account of the risk of premature redemption of the underlying financial instrument and the direct costs and revenues, such as the transaction costs and commissions charged, and any discount or premium. If the risk of early redemption cannot be sufficiently reliably measured, it is assumed the cash flows will continue during the entire term to maturity of the financial instruments. Results on the sale of interest-bearing financial instruments are recognised at the time of transfer under the result from financial transactions.

Commission income and expense are recognised in the period to which they relate. The commission received concerns revenue relating to the insurance business, securities transactions and payment services. These items are recognised in the reporting period in which the services were provided.

Dividend income is recognised in the income statement at the time that the entitlement of the entity to payment is confirmed. In the case of listed securities, this is the date on which the dividend is paid.

Results realised on sale or sale back of securitised items are recognised in the income statement at the time of sale. The result is determined as the difference between the carrying amount at the time of sale and the transaction value. Results are recognised under the result from financial transactions. If due to sale the entitlement to the cash flows from the asset has lapsed, or if effectively all the risks and benefits associated with the asset have been transferred, the asset is no longer recognised in the balance sheet.

The item 'revenues of companies included as private equity investments' concerns the revenues generated from the investments consolidated through Friesland Bank Investments. The accounting policies in the financial reporting of these consolidated investments have been adjusted where necessary to ensure consistency with the accounting policies of Friesland Bank.

## **Expenses**

Expenses arise from normal business operations. Employee and other administrative expenses are recognised in the financial year to which they relate. The item depreciation and amortisation contains all the depreciation and amortisation of property, plant and equipment and intangible non-current assets. Further details of the specific principles for depreciation and amortisation are given in the notes to the relevant balance sheet items.

### **Liabilities not shown in the balance sheet**

Contingent liabilities are liabilities that are not recognised in the balance sheet because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within Friesland Bank's control. The influence exercised by Friesland Bank is therefore assumed to be less than 50%. It is not possible to make a reliable estimate of these liabilities.

### **Cash flow statement**

The cash flow statement is prepared using the indirect method, in which cash flows are analysed according to operating, investing and financing activities. Cash flows in foreign currencies are converted at the rate on the transaction date. In the net cash flow from operating activities, the result before tax is corrected for items in the income statement and movements in balance sheet items that do not actually generate cash flows in the financial year.

Investments in consolidated or unconsolidated participating interests are reported under cash flow from investment activities. Cash and cash equivalents present on the acquisition date are deducted from the acquisition price. For the purpose of the cash flow statement, cash and cash equivalents are defined in accordance with the cash item in the balance sheet.

The net cash flow relating to loans concerns only transactions arising from actual payments and receipts. Additions to the provisions for default, which are deducted from the item loans and advances in the balance sheet, are adjusted in the result before tax and are separately recognised in the cash flow statement.

### **Segment reporting**

Friesland Bank primarily distinguishes the following business segments for the purpose of internal performance measurement: banking, private equity and banking associates (a number of banking interests, including Van Lanschot N.V.). Since funding is provided centrally by the banking business, funding expenses are charged to private equity and the banking associates. This is based on the carrying amount of the assets of these business segments. The funding mix conforms to the requirements set by the regulator. Market rates specific to Friesland Bank apply (the swap curve plus a surcharge the bank has to pay for the various instruments), calculated as the average over three years.

### 1.2.5 Significant estimates and assumptions

The preparation of the financial statements requires that the management of the company forms opinions and makes estimates and assumptions that affect the items in the balance sheet, income statement and related disclosures. Despite the fact that these estimates are based on the most recent knowledge of the current state of affairs, the situation in reality may ultimately prove to be different. The estimates and underlying assumptions are continually assessed. Revisions to estimates are included in the period in which the estimate is revised, if the revision only affects this period; if the revision affects both the reporting period and future periods it is included in both the period of the revision and future periods.

The company management has consulted with the Audit & Compliance Committee regarding the development and selection of the provision of information regarding the essential policies for financial reporting and estimates, as well as the application of these policies and estimates. The principal estimates and appraisals relate to the determination of fair values, impairment losses on loans and advances and investments, deferred taxation, other financial assets and goodwill, the principles for determination of the pension liabilities, and the outcome of current legal proceedings.

### 1.2.6 Changes to accounting policies and disclosures not yet in effect

The following standards, amendments of standards and interpretations that have not yet taken effect or have not yet been ratified by the European Union have not yet been applied by Friesland Bank:

#### *IAS 24 Related Party Disclosure*

The amended standard is effective for financial years beginning on or after 1 January 2011. It clarifies the definition of a related party in order to simplify the identification of such links and to eliminate inconsistencies in application. The amended standard introduces a partial exemption from disclosure requirements for parties affiliated to the government. The Group does not expect any changes as a result of the amended standard.

#### *IAS 32 Financial Instruments: Presentation – Classification of Rights Issues*

The amendment to IAS 32 is effective for financial years beginning on or after 1 February 2010, and changes the definition of a financial liability in order to classify the issuance of a right (and some options or warrants) as equity in cases where the rights are issued pro rata to all existing owners of the same class of a non-derivative equity instrument of an entity, or in order to acquire a fixed quantity of equity instruments of an entity for a fixed sum in any currency. This amendment will have no effect for the Group.

#### *IFRS 9 Financial Instruments*

The main focus of the new standard will be the classification and measurement of financial assets and financial liabilities. In addition, the following elements will be affected by the new standard (projects are currently ongoing): impairments of financial instruments and hedge accounting. The development of IFRS 9 consists of the following three main phases (including current status): Phase 1: Classification and measurement – assets (final, not endorsed by EU); Phase 1: Classification and measurement – liabilities (final, not endorsed by EU); Phase 2: Impairment methodology (exposure draft prepared) and Phase 3: Hedge accounting (exposure draft prepared). Partly due to the fact that phase 1 regarding assets and liabilities has not yet been endorsed by the EU, Friesland Bank has decided against early adoption.

#### *IFRIC 12 Service Concession Arrangements*

“Service concession arrangements” applies to reporting periods beginning on or after 1 January 2010. This interpretation concerns the measurement and recognition by concession holders of concession contracts in public-private partnerships. Friesland Bank is not a concession holder and therefore the interpretation does not apply.

#### *IFRIC 14 Prepayments of a minimum funding requirement*

The amendment to IAS 32 is effective for financial years beginning on or after 1 January 2011 and should be applied with retroactive effect. The change offers a method of determining the recoverability of a pension asset. It offers the possibility of recognising a prepayment of a minimum funding requirement as an asset. This amendment will have no effect for the Group.

#### *IFRIC 15 Agreements for the Construction of Real Estate*

“Agreements for the Construction of Real Estate” applies to reporting periods beginning on or after 1 January 2010. IFRIC 15 clarifies the classification of a contract for the construction of real estate, where the main issue is the date of revenue recognition. This interpretation has no effect for Friesland Bank since the bank does not enter into such contracts.

#### *IFRIC 16 Hedges of a Net Investment in a Foreign Operation*

“Hedges of a Net Investment in a Foreign Operation” applies to reporting period beginning on or after 1 January 2010. It is an interpretation of the treatment of hedging the currency risks of net investments in foreign activities. This interpretation has no effect for Friesland Bank since the bank has no such operations.

#### *IFRIC 18 Transfers of Assets from Customers*

“Transfer of Assets from Customers” applies to reporting periods beginning on or after 1 January 2010. IFRIC 18 clarifies the IFRS regulation for the treatment of contracts in which the customer provides property, plant or equipment (or payment for this) to an entity and these assets are used to connect the customer to a network operated by the entity or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). This interpretation does not apply to Friesland Bank.

#### *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

The amendment to IAS 32 is effective for financial years beginning on or after 1 July 2010. The interpretation clarifies that the provision of equity instruments to a creditor in order to meet a financial obligation qualifies as ‘consideration paid’. The equity instruments provided are measured at fair value. If the fair value cannot be reliably established, the instruments are measured at the fair value of the paid debt. A gain or loss is recognised directly in the income statement. This amendment will have no effect for the Group.

#### *Improvements to IFRSs*

The IASB has implemented a number of amendments to its IFR standards. These have not been applied, since they are only effective for financial years beginning after 1 July 2010 or 1 January 2011. The amendments apply to the following standards:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The amendments are not expected to have any effect for the financial position or the results of the Group.

## 1.3 Notes to the consolidated balance sheet

(x € 1,000)

### 1. Cash

This item includes legal tender, including foreign currency bank notes and coins, as well as demand deposits at the Central Bank.

	<b>2010</b>	<b>2009</b>
This item comprises:		
- Cash	<b>9,361</b>	10,738
- Deposits at the Central Bank	<b>56,768</b>	49,501
	<b>66,129</b>	60,239

The deposits at the Central Bank concern the mandatory cash reserve and are therefore not available for normal banking activities.

### 2. Banks

This item comprises all amounts receivable from banks relating to the activities of the bank, regardless of form, except securities.

	<b>2010</b>	<b>2009</b>
This item comprises:		
- Demand deposits	<b>511,520</b>	680,538
- Time deposits	<b>22,163</b>	-
	<b>533,683</b>	680,538

There is no provision for default for the receivables in this item. The time deposits include a receivable in an amount of €22.1 million on DSB in connection with the deposit guarantee scheme. The receivable consists of an advance payment of €26.6 million and the provision formed in 2009 and 2010 of €4.5 million.

### 3. Loans and advances

This item includes all amounts receivable relating to the activities of the bank, other than receivables from banks and in the form of securities.

	<b>2010</b>	<b>2009</b>
This item comprises:		
- Loans and advances to the public sector	<b>14,092</b>	72,641
- Loans and advances to large companies	<b>2,199,192</b>	2,173,728
- Loans and advances to SMEs	<b>1,743,218</b>	1,683,669
- Residential mortgages	<b>4,109,756</b>	4,130,116
- Other personal loans and advances	<b>614,153</b>	501,622
- Provision for default	<b>-134,579</b>	-110,802
<b>Total loans and advances</b>	<b>8,545,832</b>	8,450,974

The item 'loans and advances' includes receivables securitised by the bank in an amount of €3.4 billion (2009: €3.9 billion). This concerns residential mortgages of which the beneficial ownership has been transferred to Special Purpose Vehicles (SPVs): Stichting (Foundation) Eleven Cities No. 1, Stichting Eleven Cities No. 2, Stichting Eleven Cities No. 3, Stichting Eleven Cities No. 4, Stichting Eleven Cities No. 5 and Stichting Eleven Cities No. 6. The credit risk on these loans is borne by the relevant foundation, while the interest-rate risk remains with Friesland Bank. The principal amounts of securitised receivables more than 90 days in arrears and/or receiving special attention amount to €35.2 million (2009: €16.6 million). In 2010 it was necessary to form a provision for default at the SPVs collectively in the amount of €7.3 million (2009: €1.6 million). The debt securities issued in connection with this securitisation amounted to €3.4 billion (2009: €3.9 billion) and are included as liabilities in the balance sheet under debt securities (see note 16) and subordinated liabilities (see note 21).

The collateral for the bank consists mainly of real estate, pledged receivables and inventories and guarantees. The analysis of loans and advances by type of collateral is as follows:

	<b>2010</b>	<b>2009</b>
- public sector guarantee	<b>6%</b>	6%
- mortgage	<b>45%</b>	47%
- other collateral (including unsecured)	<b>49%</b>	47%
	<b>100%</b>	100%

The other collateral and unsecured loans and advances include loans and advances for which the Group has obtained commercial real estate, operating assets, inventories, trade receivables, guarantees accepting joint and several liability and similar from the borrower as collateral. The provision of unsecured loans is subject to strict terms and conditions.

The development of the provision for default was as follows:

<b>2010</b>	<b>Large companies</b>	<b>SMEs</b>	<b>Residential mortgages</b>	<b>Other personal lending</b>	<b>Total 2010</b>
Balance at 1 January	60,918	30,283	15,404	4,197	<b>110,802</b>
Write-offs	-4,898	-4,665	-2,916	-763	<b>-13,242</b>
Releases	-1,510	-4,579	-3,763	-724	<b>-10,576</b>
Additions	17,175	19,863	8,038	2,205	<b>47,281</b>
Receipts	-	10	266	38	<b>314</b>
Balance at 31 December	71,685	40,912	17,029	4,953	<b>134,579</b>
Specific provisions	71,685	40,848	15,382	4,718	<b>132,633</b>
Portfolio provisions	-	64	1,647	235	<b>1,946</b>
Loans and advances with specific provision for impairment:					
Gross amount of credit	256,941	167,556	77,760	18,102	<b>520,359</b>
Collateral	143,552	104,084	50,475	10,660	<b>308,771</b>
Net amount of credit	113,389	63,472	27,285	7,442	<b>211,588</b>
<b>2009</b>	<b>Large companies</b>	<b>SMEs</b>	<b>Residential mortgages</b>	<b>Other personal lending</b>	<b>Total 2009</b>
Balance at 1 January	38,159	25,516	18,901	3,239	85,815
Write-offs	-2	-5,855	-2,450	-336	-8,643
Releases	-5,612	-5,161	-9,066	-1,051	-20,890
Additions	28,373	15,774	7,780	2,311	54,238
Receipts	-	9	239	34	282
Balance at 31 December	60,918	30,283	15,404	4,197	110,802
Specific provisions	60,918	30,206	13,423	3,914	108,461
Portfolio provisions	-	77	1,981	283	2,341
Loans and advances with specific provision for impairment:					
Gross amount of credit	215,325	130,236	60,513	15,716	421,790
Collateral	114,495	85,712	39,205	9,186	248,598
Net amount of credit	100,830	44,524	21,308	6,530	173,192

	Specific provisions	Portfolio provisions	Total 2010	Specific provisions	Portfolio provisions	Total 2009
Balance at 1 January	108,461	2,341	110,802	84,031	1,784	85,815
Write-offs	-11,165	-2,077	-13,242	-7,454	-1,189	-8,643
Releases	-10,576	-	-10,576	-20,890	-	-20,890
Additions	45,913	1,368	47,281	52,774	1,464	54,238
Receipts	-	314	314	-	282	282
Balance at 31 December	132,633	1,946	134,579	108,461	2,341	110,802

The amount of accrued interest income for loans and advances for which a provision has been made is accounted for in the customer's current account and is an integral part of the outstanding obligation.

The amount of non-performing loans (loans and advances on which interest is no longer received) is €47.4 million (2009: €31.7 million). The part of the default provision relating to non-performing loans is €31.8 million (2009: €19.8 million). As in 2009, virtually no negotiations took place regarding the restructuring of loans in 2010, with the result that an item is not recognised in the provision.

#### 4. Other financial assets

This item includes all financial instruments, interest-bearing and non-interest-bearing, in the trading and investment portfolios as well as derivatives with fair value gains. This item comprises:

	2010	2009
Trading portfolio		
- equities	-	-
Available for sale		
- equities	72,144	79,025
- private equity investments	14,510	12,744
- bonds	371,580	365,242
Derivatives		
- held for trading	42,953	29,885
- designated as hedge instruments	2,742	2,311
Loans *		
- RMBS portfolio	344,430	365,157
	<b>848,359</b>	854,364

The analysis of other financial assets by issuer is as follows:

	2010	2009
- Dutch government	278,829	194,276
- Private sector	569,530	660,088
	<b>848,359</b>	854,364

The development of bonds available for sale was as follows:

	<b>2010</b>	<b>2009</b>
Balance at 1 January	<b>365,242</b>	509,056
- Purchases	<b>1,387,586</b>	1,295,290
- Sales	<b>-1,374,460</b>	-1,410,430
- Redemptions	<b>-102</b>	-50,363
- Revaluations	<b>142</b>	21,712
- Reclassification of RMBS portfolio*	-	-
- Impairments	<b>-6,828</b>	-23
Balance at 31 December	<b>371,580</b>	365,242

*\* Reclassification of RMBS*

Based on the amendment to IAS 39 and IFRS 7 "Reclassification of financial instruments", Friesland Bank decided in 2008 to reclassify its RMBS portfolio for Dutch mortgages from bonds available for sale to loans with effect from 1 July 2008. The reason for this decision was that the market for these instruments virtually disappeared in 2008. Due to the reclassification, the valuation changes from fair value via the revaluation reserve to amortised cost. If reclassification had not occurred, the unrealised revaluation as at this date would have been €31.2 million lower. The effective interest rate at the time of reclassification was 4.90%. Without reclassification, the fair value of this portfolio at year end based on an internal valuation model would have been €323.9 million (2009: €292.3 million). If reclassification had not occurred, the movement in the unrealised revaluation in 2010 would have been €39.3 million higher (2009: €29.2 million lower). The reclassification has had no effect on the solvency ratio or the result. It is expected that all items in this portfolio will be settled at the nominal value of €348.3 million (2009: €371.8 million).

The following gives information on the RMBS portfolio since reclassification (at year end, in millions)

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Face value	<b>348.3</b>	371.8	384.7
Amortised cost	<b>344.4</b>	365.2	375.2
Market value	<b>323.9</b>	292.3	341.6
Difference between amortised cost and market value	<b>20.5</b>	72.9	33.6

The development of the RMBS portfolio is as follows:

	<b>2010</b>	<b>2009</b>
Balance at 1 January	<b>365,157</b>	375,174
- Redemptions	<b>-23,526</b>	-12,859
- Amortisation	<b>2,799</b>	2,842
Balance at 31 December	<b>344,430</b>	365,157

The development of equities available for sale was as follows:

	<b>2010</b>	<b>2009</b>
Balance at 1 January	<b>79,025</b>	87,573
- Purchases	<b>1,112</b>	5,652
- Sales	<b>-10,460</b>	-59,269
- Revaluations	<b>2,428</b>	45,069
- Impairments	-	-
- Consolidations and deconsolidations	<b>39</b>	-
	<hr/>	<hr/>
Balance at 31 December	<b>72,144</b>	79,025

The development of the private equity investments available for sale is as follows:

	<b>2010</b>	<b>2009</b>
Balance at 1 January	<b>12,744</b>	16,678
- Purchases	<b>470</b>	750
- Sales	<b>-1,191</b>	-127
- Revaluations	<b>2,537</b>	-608
- Reclassification of investments	-	-
- Impairments	<b>-50</b>	-3,949
	<hr/>	<hr/>
Balance at 31 December	<b>14,510</b>	12,744

The analysis of the derivatives is as follows:

	<b>Contracted amount 2010</b>	<b>Fair value 2010</b>		<b>Contracted amount 2009</b>	<b>Fair value 2009</b>	
		<b>Assets</b>	<b>Liabilities</b>		<b>Assets</b>	<b>Liabilities</b>
Derivatives held for:						
- Trading purposes						
Interest-rate contracts, swaps	2,468,049	<b>34,361</b>	<b>78,854</b>	1,214,449	20,017	52,468
Interest-rate contracts, options	510,369	<b>4,291</b>	<b>4,293</b>	314,571	4,089	4,149
Currency contracts, forwards	126,070	<b>1,592</b>	<b>1,062</b>	164,075	2,127	3,115
Currency contracts, options	-	-	-	-	-	-
Credit default swaps	-	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Sub-total	3,104,488	<b>40,244</b>	<b>84,209</b>	1,693,095	26,233	59,732
- Fair value hedge-accounting						
Interest-rate contracts, swaps	280,269	<b>2,742</b>	<b>31,068</b>	720,269	2,311	68,092
Interest-rate contracts, futures	-	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Sub-total	280,269	<b>2,742</b>	<b>31,068</b>	720,269	2,311	68,092
- Cash flow hedge-accounting						
Interest-rate contracts, swaps	25,000	-	<b>1,668</b>	25,000	-	1,214
Equity options, clients	-	<b>2,709</b>	<b>2,709</b>	-	3,652	3,564
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	3,409,757	<b>45,695</b>	<b>119,654</b>	2,438,364	32,196	132,602

Of the cash-flow hedges, it is expected that €25 million will lead to nominal cash flows in 2016 (2009: €25 million nominal in 2016).

The equity options concern transactions of clients which are not legally separate from Friesland Bank, in which Friesland Bank acts as intermediary between the clients and the market. The contractual value is equal debit and credit, and net nil.

The contracted amount represents the underlying value of the assets, reference prices or indices as the basis for measuring the value of derivatives. The contracted amount is the volume of outstanding transactions as at balance sheet date but is not an indication of market risk or credit risk.

An analysis of the unrealised gains and losses not yet recognised in the income statement is given in the table below:

<b>2010</b>	<b>Fair value</b>	<b>Gains</b>	<b>Losses</b>	<b>Gross</b>	<b>Tax</b>	<b>Net</b>
Bonds	371,580	1,323	11,011	-9,688	2,422	-7,266
Equities	72,144	13,329	1,682	11,647	-31	11,616
Private equity investments	14,510	3,391	244	3,147	-	3,147
Derivatives	45,695	-	14,741	-14,741	3,685	-11,056
	503,929	18,043	27,678	-9,635	6,076	-3,559
<b>2009</b>	<b>Fair value</b>	<b>Gains</b>	<b>Losses</b>	<b>Gross</b>	<b>Tax</b>	<b>Net</b>
Bonds	365,242	2,523	10,658	-8,135	2,074	-6,061
Equities	79,025	20,049	4,905	15,144	70	15,214
Private equity investments	12,744	1,968	1,280	688	-	688
Derivatives	32,196	-	19,897	-19,897	5,074	-14,823
	489,207	24,540	37,740	-12,200	7,218	-4,982

Unrealised losses not yet recognised in the income statement are treated as temporary declines in value. Impairment losses of €6.9 million (2009: €4.0 million) have been recognised in the income statement for items included under this heading.

## 5. Associates

This item includes investments in the share capital of entities over which the bank exercises significant influence.

	<b>2010</b>	<b>2009</b>
This item comprises:		
- Credit institutions	<b>331,649</b>	389,189
- Private equity investments	<b>86,988</b>	107,301
- Other entities	<b>12,314</b>	38,706
	<b>430,951</b>	535,196

The development of this item was as follows:

	2010	2009
Balance at 1 January	<b>535,196</b>	514,876
- Purchases	<b>1,203</b>	16,534
- Sales	<b>-25,550</b>	-6,444
- Result	<b>28,730</b>	11,606
- Revaluations	<b>-10,918</b>	11,047
- Dividends	<b>-1,581</b>	-7,994
- Impairments	<b>-69,176</b>	-4,429
- Consolidations and deconsolidations	<b>-26,953</b>	-
Balance at 31 December	<b>430,951</b>	535,196

The analysis by marketability is as follows:

	2010	2009
- Listed	<b>175,558</b>	114,120
- Unlisted	<b>255,393</b>	421,076
	<b>430,951</b>	535,196

The share price of Van Lanschot declined in the past year. At year-end 2010, the share price of Van Lanschot was €30.05 (2009: €36.84). Since a market value that is lower than the carrying amount is an indication of a potential impairment, an impairment test was conducted, as in the previous year. In view of the new solvency guidelines under Basel III (as at 1 January 2013), whereby in the calculation of the solvency ratios the interest in Van Lanschot is fully charged to the core capital, the investment in Van Lanschot will be disposed of in due course. On the basis of expected future dividend flows, based on the expected earnings per share, the calculation of the value in use on 31 December 2010 is made using an adjusted shorter period over which the investment will be held than in the previous year (until mid 2012 instead of 10 years). Based on the results of the impairment test calculation, the carrying amount of the investment in Van Lanschot at year-end 2010 is €332 million, and a write-off of €61 million has been made.

Impairment test calculations use assumptions which reflect the best estimates by the management at the time. The assumptions used for the calculation are based on public information from Van Lanschot and other external sources, including growth forecasts by external analysts with regard to earnings per share. The calculation is based on a discount rate of 8.5%.

The discount rate and the time of potential disposal of the investment are important determining variables. A 0.5% increase or decrease in the discount rate would lead to a 0.6% lower or higher value in use. If the investment in Van Lanschot were to be disposed of six months earlier or later, the measurement would be 6% lower or higher. If in future these or other assumptions vary from the present assumptions, this would lead to a further adjustment to the measurement.

The following summary information can be provided regarding the balance sheets and income statements of the associates:

	Balance sheet value	Total assets	Total borrowed capital	Total income	Total result
2010	430,951	21,135,799	20,980,196	1,683,798	90,435
2009	535,196	22,418,254	20,647,346	2,799,450	14,666

## 6. Intangible assets

This item consists of capitalised goodwill relating to group companies and other intangible assets such as software and purchased client relationships, brand names and insurance portfolios.

	2010	2009
These concern:		
- Goodwill	<b>90,036</b>	39,212
- Client relationships	<b>76,283</b>	20,564
- Brand names	<b>11,289</b>	4,052
- Software	<b>20,184</b>	18,117
- Other	<b>1,623</b>	95
	<b>199,415</b>	82,040

The development of this item was as follows:

	Goodwill	Client and brand	Other assets	Total 2010	Goodwill	Client and brand	Other assets	Total 2009
Balance at 1 January	39,212	24,616	18,212	<b>82,040</b>	57,143	32,796	12,323	102,262
- Purchases	56,065	75,118	12,570	<b>143,753</b>	-	-	11,128	11,128
- Disposals	-6,983	-9,120	-38	<b>-16,141</b>	-	-	-	-
- Consolidations and deconsolidations	1,742	-	-976	<b>766</b>	-17,931	-3,542	-	-21,473
- Depreciation	-	-3,042	-7,961	<b>-11,003</b>	-	-4,638	-5,239	-9,877
- Impairments	-	-	-	-	-	-	-	-
Balance at 31 December	90,036	87,572	21,807	<b>199,415</b>	39,212	24,616	18,212	82,040
Cumulative purchase cost	92,121	91,954	43,907	<b>227,982</b>	42,333	28,688	31,190	102,211
Accumulated amortisation and impairment	2,085	4,382	22,100	<b>28,567</b>	3,121	4,072	12,978	20,171

Within the 'Other assets' category, the amortisation on the insurance portfolios amounts to €95,000 (2009: €176,000). As in 2009, no insurance portfolios were acquired in 2010.

As in 2009, no impairments occurred in relation to goodwill in 2010. The cash-generating units of FBI are the individual associates. The analysis of the goodwill item is as follows:

2010	Orffa	ATAG	Optimix	King Nuts	T.M.S.	Torenvalk	Doedijns	Succes	Total
Balance at 1 January	-	-	-	3,411	11,590	12,780	7,859	3,572	<b>39,212</b>
- Purchases	10,142	26,623	16,738	-	-	-	2,562	-	<b>56,065</b>
- Disposals	-	-	-	-3,411	-	-	-	-3,572	<b>-6,983</b>
- Consolidations and deconsolidations	-	-	-	-	1,201	-83	624	-	<b>1,742</b>
- Impairments	-	-	-	-	-	-	-	-	-
Balance at 31 December	10,142	26,623	16,738	-	12,791	12,697	11,045	-	<b>90,036</b>
Cumulative purchase cost	10,142	26,623	16,738	-	12,791	13,813	12,014	-	<b>92,121</b>
Accumulated amortisation and impairment	-	-	-	-	-	1,116	969	-	<b>2,085</b>

<b>2009</b>	<b>Arboned</b>	<b>King Nuts</b>	<b>T.M.S.</b>	<b>Torenvalk</b>	<b>Doedijns</b>	<b>Succes</b>	<b>Total</b>
Balance at 1 January	17,931	3,411	11,590	12,780	7,859	3,572	57,143
- Purchases	-	-	-	-	-	-	-
- Disposals	-17,931	-	-	-	-	-	-17,931
- Depreciation	-	-	-	-	-	-	-
- Impairments	-	-	-	-	-	-	-
Balance at 31 December	-	3,411	11,590	12,780	7,859	3,572	39,212
Cumulative purchase cost	-	4,447	11,590	13,896	8,828	3,572	42,333
Accumulated amortisation and impairment	-	1,036	-	1,116	969	-	3,121

The development of the client relationships item was as follows:

<b>2010</b>	<b>Orffa</b>	<b>ATAG</b>	<b>Optimix</b>	<b>King Nuts</b>	<b>T.M.S.</b>	<b>Torenvalk</b>	<b>Doedijns</b>	<b>Total</b>
Balance at 1 January	-	-	-	8,444	950	11,170	-	<b>20,564</b>
- Purchases	25,009	28,831	9,941	-	-	-	2,273	<b>66,054</b>
- Disposals	-	-	-	-7,951	-	-	-	<b>7,951</b>
- Consolidations and deconsolidations	-	-	-	-	-	-	-	-
- Depreciation	-94	-	-600	-493	-496	-609	-92	<b>-2,384</b>
- Impairments	-	-	-	-	-	-	-	-
Balance at 31 December	24,915	28,831	9,341	-	454	10,561	2,181	<b>76,283</b>
Cumulative purchase cost	25,009	28,831	9,941	-	1,487	12,186	2,273	<b>79,727</b>
Accumulated amortisation and impairment	94	-	600	-	1,033	1,625	92	<b>3,444</b>

<b>2009</b>	<b>Arboned</b>	<b>King Nuts</b>	<b>T.M.S.</b>	<b>Torenvalk</b>	<b>Total</b>
Balance at 1 January	486	10,287	1,487	12,186	24,446
- Purchases	-	-	-	-	-
- Disposals	-	-	-	-	-
- Consolidations and deconsolidations	-383	-	-	-	-383
- Depreciation	-103	-1,843	-537	-1,016	-3,499
- Impairments	-	-	-	-	-
Balance at 31 December	-	8,444	950	11,170	20,564
Cumulative purchase cost	-	10,287	1,487	12,186	23,960
Cumulative amortisation and impairment	-	1,843	537	1,016	3,496

The development of the brand names item was as follows:

2010	Orffa	ATAG	Optimix	King Nuts	T.M.S.	Torenvalk	Doedijns	Total
Balance at 1 January	-	-	-	1,191	1,188	1,673	-	<b>4,052</b>
- Purchases	5,159	1,220	1,203	-	-	-	1,482	<b>9,064</b>
- Disposals	-	-	-	-1,169	-	-	-	<b>-1,169</b>
- Consolidations and deconsolidations	-	-	-	-	-	-	-	-
- Depreciation	-143	-	-36	-22	-85	-125	-247	<b>-658</b>
- Impairments	-	-	-	-	-	-	-	-
Balance at 31 December	5,016	1,220	1,167	-	1,103	1,548	1,235	<b>11,289</b>
Cumulative purchase cost	5,159	1,220	1,203	-	1,281	1,882	1,482	<b>12,227</b>
Accumulated amortisation and impairment	143	-	36	-	178	334	247	<b>938</b>

2009	Arboned	King Nuts	T.M.S.	Torenvalk	Total
Balance at 1 January	3,622	1,565	1,281	1,882	8,350
- Purchases	-	-	-	-	-
- Disposals	-	-	-	-	-
- Consolidations and deconsolidations	-3,159	-	-	-	-3,159
- Depreciation	-463	-374	-93	-209	-1,139
- Impairments	-	-	-	-	-
Balance at 31 December	-	1,191	1,188	1,673	4,052
Cumulative purchase cost	-	1,565	1,281	1,882	4,728
Cumulative amortisation and impairment	-	374	93	209	676

FBI uses two methods for the measurement of the recoverable value of cash-generating units, also for impairment testing: value in use and fair value less costs of sale.

*Value in use*

The principal assumptions are management information, growth percentages and weighted average cost of capital (WACC). Value in use is determined by making a discounted cash flow (DCF) valuation of the entity's future cash flows. These are based on forecasts by the entity itself, taking account of potential income from projects still to be started or expected acquisitions. These forecasts are then extrapolated using growth percentages of between 0% and 3%, depending on the nature of the entity. Cash flows are discounted using an entity-specific WACC. The WACC is determined by analysis of comparable businesses and the entity's specific capital structure.

*Fair value less costs to sell*

The principal factors are the EBIT((D)As of the entities for 2009 and 2010, the original acquisition multiple, the multiples for comparable entities and the debt level as at year-end 2009 and 2010. The fair value is determined by a multiple calculation based on the entity's EBIT, EBITA or EBITDA (the choice of EBIT, EBITA or EBITDA depends on the entity's capital structure). In principle, use is made of an acquisition multiple since this usually represents the most recent relevant transaction. This will be tested through an analysis of similar entities and the calculation of the value for the following year. If available and/or relevant, use is made of market prices, option rights or part transactions.

### Recoverable value

The recoverable value of the entity is determined as the value in use or the fair value less costs of sale, whichever is the higher. This also forms the basis for the impairment test. The DCF valuation is based on a conservative scenario, while the fair value calculation must be consistent with the valuation in 2009, 2010 and on the basis of comparable entities. The totality of the valuation scenarios must support the chosen valuation. The results will be put before the Investment Committee, which is responsible for approving the valuations.

The calculation used (value in use (VIU) or fair value less costs of sale (FV)) and the principal underlying assumptions of the recoverable value for the purpose of the impairment test can be summarised as follows:

2010	Orffa	ATAG	Optimix	Doedijns	T.M.S	Torenvalk
Calculation	Transaction	Transaction	VIU	FV	VIU	FV
Growth percentage			2.5%	2%	2%	2%
WACC			12%	12%	11%	11%
Acquisition multiple			-	6x	6x	7x
Period cash flows			5	8	8	8

The Orffa and ATAG transactions took place at the end of 2010. As at year end there was no reason to assume a recoverable value other than the value of the transaction.

2009	Doedijns	King Nuts	Succes	T.M.S	Torenvalk
Calculation	VIU	VIU	VIU	VIU	FV
Growth percentage	2%	2%	2%	2%	2%
WACC	12%	11%	12%	12%	11%
Acquisition multiple	6x	5x	6x	6x	7x
Period cash flows	8	8	8	8	8

## 7. Property, plant and equipment

This item includes buildings and land, machinery and installations and other operating assets such as technical and office equipment.

The development of this item was as follows:

	Property	Other assets	Total 2010	Property	Other assets	Total 2009
Balance at 1 January	66,058	27,684	<b>93,742</b>	68,892	37,234	106,126
- Investments	5,487	11,631	<b>17,118</b>	3,952	10,791	14,743
- Disposals	-446	-3,748	<b>-4,194</b>	-3,235	-679	-3,914
- Depreciation	-3,648	-9,051	<b>-12,699</b>	-3,551	-12,910	-16,461
- Other movements (including (de)consolidation)	2,168	3,459	<b>5,627</b>	-	-6,752	-6,752
Balance at 31 December	69,619	29,975	<b>99,594</b>	66,058	27,684	93,742
Cumulative purchase cost	120,707	135,358	<b>256,065</b>	113,423	122,455	235,878
Cumulative depreciation	51,088	105,383	<b>156,471</b>	47,365	94,771	142,136

## 8. Non-current assets held for sale

This item concerns non-current assets intended for sale in the short term. The balance at year-end is nil.

## 9. Tax

This item includes current and deferred tax assets and liabilities. The net amount of tax receivables and payables after deduction of impairments consists of:

	2010	2009
- Net current tax assets and liabilities	-359	285
- Net deferred tax assets	141,768	132,802
- Net deferred tax liabilities	-23,985	-7,315
	<hr/>	<hr/>
	117,424	125,772
 <i>Current tax assets and liabilities</i>		
	2010	2009
- Current tax assets	4,821	285
- Current tax liabilities	-5,180	-
	<hr/>	<hr/>
	-359	285
	2010	2009
Balance as at 1 January	285	468
Settled with tax authorities	3,565	6,878
Adjustments in finalised tax returns in previous years	55	-
Movement in reporting year	-3,763	-7,061
Reclassification and (de)consolidations	-501	-
	<hr/>	<hr/>
Balance as at 31 December	-359	285

### *Deferred tax assets and liabilities*

The deferred tax assets and liabilities are calculated at a corporation tax rate of 25.0% (2009: 25.5%), which is the most recent rate of corporation tax established by law.

The deferred tax assets and liabilities can be attributed as follows:

	Receivables		Liabilities		Total	
	2010	2009	2010	2009	2010	2009
Loans and advances	29,819	22,812	-	-	<b>29,819</b>	22,812
Other financial assets	6,076	7,218	-	-	<b>6,076</b>	7,218
Intangible assets	4,263	4,577	-22,660	-7,315	<b>-18,397</b>	-2,738
Property, plant and equipment	1,583	1,615	-1,047	-	<b>536</b>	1,615
Other liabilities	-	-	-	-	-	-
Provisions	13,036	12,845	-74	-	<b>12,962</b>	12,845
Subordinated liabilities	867	970	-	-	<b>867</b>	970
Tax loss to carry forward	83,973	80,960	-	-	<b>83,973</b>	80,960
Deferred liquidation losses	2,151	1,805	-	-	<b>2,151</b>	1,805
Other	-	-	-204	-	<b>-204</b>	-
	141,768	132,802	-23,985	-7,315	<b>117,783</b>	125,487

The development of the current and deferred tax assets and liabilities can be analysed as follows:

2010	Movements as a result of					Balance at close
	Balance at opening	to result	to equity	Offset	Other	
Current tax assets/liabilities	285	-3,708	-	3,565	-501	<b>-359</b>
Deferred tax assets/liabilities						
- Loans and advances	22,812	7,007	-	-	-	<b>29,819</b>
- Other financial assets	7,218	-	-1,142	-	-	<b>6,076</b>
- Intangible assets	-2,738	1,116	-	-	-16,775	<b>-18,397</b>
- Property, plant and equipment	1,615	-1,079	-	-	-	<b>536</b>
- Other liabilities	-	-	-	-	-	-
- Provisions	12,845	117	-	-	-	<b>12,962</b>
- Subordinate debts	970	-103	-	-	-	<b>867</b>
- Tax loss to carry forward	80,960	2,988	-	-	25	<b>83,973</b>
- Deferred liquidation losses	1,805	-35	-	-	381	<b>2,151</b>
- Other	-	-204	-	-	-	<b>-204</b>
	125,772	6,099	-1,142	3,565	-18,136	<b>117,424</b>

2009	Movements as a result of					Balance at close
	Balance at opening	to result	to equity	Offset	Other	
Current tax assets/liabilities	468	-7,679	-	7,496	-	285
Deferred tax assets/liabilities						
- Loans and advances	17,677	5,135	-	-	-	22,812
- Other financial assets	14,125	-5,526	-1,381	-	-	7,218
- Intangible assets	5,313	-736	-	-	-7,315	-2,738
- Property, plant and equipment	1,722	-107	-	-	-	1,615
- Other liabilities	128	-128	-	-	-	-
- Provisions	18,749	-5,904	-	-	-	12,845
- Subordinate debts	461	509	-	-	-	970
- Tax loss to carry forward	61,121	19,839	-	-	-	80,960
- Deferred liquidation losses	2,445	-640	-	-	-	1,805
	122,209	4,763	-1,381	7,496	-7,315	125,772

The total amount of tax recognised in the other results via the statement of comprehensive income during the reporting year (revaluation reserve and/or cash flow hedge reserve) was - €1.1 million (2009: - €1.4 million) and relates entirely to direct movements in equity relating to the revaluation of equities and bonds and the recognition of impairment in the cash flow hedges in the item 'other equity components'.

The deferred tax assets are recognised in the balance sheet to the extent it is likely that the future fiscal results will be sufficient to realise them. In a situation of recent losses, the relevant accounting standards require that there is convincing evidence that sufficient fiscal results will be realised. In order to determine the amount of the deferred tax asset, a scenario analysis of the future development of the fiscal result over a period of nine years (the statutory term over which the losses may be set off) is made at least annually. The basis for this scenario analysis is the business plan approved by the management and the resulting financial projections. Based on the most recent financial projection, the deductible losses can be set off within the statutory allotted term in full. Taking account of a stress scenario on this projection, virtually all the deductible losses can be set off within the statutory term as long as use is made of the facilities available for tax planning. On this basis, no valuation adjustment is required in 2010 (2009: ditto). A valuation adjustment was made in the 2008 financial year in an amount of €7.7 million. This also concerned the cumulative value adjustment in relation to deferred tax assets.

If there are substantial changes to the financial projection and/or other assumptions in the business plan on which the measurement of the deferred tax asset is based, this could lead to a value adjustment of the deferred tax asset in future.

At year-end 2010, the total amount of deductible losses stood at €366.1 million (2009: €347.8 million). This amount concerns deductible losses from the years 2005, 2007, 2008, 2009 and 2010. The accumulation of deductible losses per annual increment is (in millions):

	<b>Last year of set-off</b>	<b>Tax loss</b>	<b>Tax claim</b>	<b>Capitalised claim</b>
2005	2014	60.7	15.2	7.6
2007	2016	46.0	11.5	11.5
2008	2017	183.0	45.7	45.8
2009	2018	49.5	12.4	12.4
2010	2019	26.9	6.7	6.7
		<b>366.1</b>	<b>91.5</b>	<b>84.0</b>

The item 'deferred liquidation losses' relates to one private equity investment (2009: 1) which is in liquidation. The tax losses arising from the liquidation can only be recognised in the year in which final settlement takes place.

#### 10. Inventory

This item concerns the inventory maintained by group companies owned by Friesland Bank Investments.

#### 11. Trade receivables

This item concerns the trade receivables of group companies owned by Friesland Bank Investments. Any provisions are included in the balance at balance sheet date.

#### 12. Other assets

This item concerns all assets which cannot be classified under the other asset items, such as suspense accounts and accounts receivable.

#### 13. Prepayments and accrued income

This concerns advance payments of expenses, accrued interest and other receivables not yet invoiced.

	<b>2010</b>	<b>2009</b>
This item comprises:		
- Accrued interest	<b>52,229</b>	38,287
- Other payables	<b>6,795</b>	374
	<b>59,024</b>	38,661

#### 14. Banks

This item includes all accounts payable to banks associated with the bank's activities except liabilities in the form of debt securities and subordinated liabilities.

	<b>2010</b>	<b>2009</b>
This item comprises:		
- Demand deposits	<b>53,432</b>	61,015
- Time deposits	<b>943,003</b>	889,748
	<b>996,435</b>	950,763

## 15. Funds entrusted

This item includes all liabilities associated with the bank's activities except accounts payable to banks, liabilities in the form of debt securities and subordinated liabilities.

	2010	2009
This item comprises:		
- Savings	3,265,798	2,926,358
- Deposits	800,307	1,228,847
- Current accounts	697,996	833,572
- Other funds entrusted	512,613	459,505
	<b>5,276,714</b>	5,448,282

## 16. Debt securities

This item includes bonds, medium term notes and other debt securities. Also included are the notes issued as part of the securitisation programme, other than subordinated liabilities. These listed notes are issued by Stichting Eleven Cities No. 1, Stichting Eleven Cities No. 2, Stichting Eleven Cities No. 3, Stichting Eleven Cities No. 4, Stichting Eleven Cities No. 5 and Stichting Eleven Cities No. 6. Collateral has been provided for these notes in the form of residential mortgages and they have been awarded a rating by Moody's Investors Service Limited and Fitch Ratings Ltd.

In 2009 Friesland Bank securitised a portfolio of commercial and residential mortgages with a value of €2.2 billion, whereby the beneficial ownership was fully transferred to Stichting Eleven Cities No. 5 and Stichting Eleven Cities No. 6. No further securitisations occurred in 2010.

	2010	2009
This item comprises:		
- Medium term notes	1,418,126	1,467,049
- Notes issued in connection with securitisation transactions	1,680,820	1,438,107
- Other debt securities	50,754	7,126
	<b>3,149,700</b>	2,912,282

Friesland Bank holds €9.0 million in notes of Stichting Eleven Cities No. 1 (2009: €10.0 million), €66.1 million in notes of Stichting Eleven Cities No. 2 (2009: €63.0 million), €297.8 million in notes of Stichting Eleven Cities No. 3 (2009: €292.2 million), €94.4 million in notes of Stichting Eleven Cities No. 4 (2009: €49.1 million), €193.9 million in notes of Stichting Eleven Cities No. 5 (2009: €773.8 million) and €1,107.2 million in notes of Stichting Eleven Cities No. 6 (2009: €1,314.7 million). These positions are included in the bank's risk-weighted assets on the basis of the rating of the notes concerned. Since all the Eleven Cities foundations are fully consolidated, these items, including the associated interest, have been eliminated.

An overview of the notes issued in connection with securitisation transactions:

### *Stichting Eleven Cities No. 1*

Incorporated in 2002. Initial issue: €358,000,000 3-month Euribor plus 1.029% Senior Class A Notes, €13,500,000 5.75% Mezzanine Class B Notes and €3,500,000 6.30% Junior Class C Notes, all with contractual maturity in July 2062. The Class A, B and C notes have a first call option date in July 2012. Of the initial principal of €375.0 million, €108.8 million was open at year-end 2010 (2009: €120.1 million). The bank holds €9.0 million (2009: €10.0 million) of the notes for its own account. This concerns €8.5 million (2009: €9.5 million) Senior Class A and €0.5 million (2009: €0.5 million) Senior Class B.

#### *Stichting Eleven Cities No. 2*

Incorporated in 2003. Initial issue: €421,500,000 3-month Euribor plus 1.000% Senior Class A, €21,500,000 5.20% Mezzanine Class B Notes and €7,000,000 5.70% Junior Class C Notes, all with contractual maturity in October 2071. The Class A, B and C notes have a first call option date in October 2013. Of the initial principal of €450.0 million, €262.5 million was open at year-end 2010 (2009: €300.2 million). The bank holds €66.1 million (2009: €63.0 million) of the notes for its own account. This concerns €61.7 million (2009: €58.0 million) Senior Class A and €5.0 million (2009: €5.0 million) Senior Class B.

#### *Stichting Eleven Cities No. 3*

Incorporated in 2007. Initial issue: €230,000,000 3-month Euribor plus 1.041% Senior Class A1 Notes, €644,000,000 3-month Euribor plus 1.041% Senior Class A2 Notes, €18,600,000 3-month Euribor plus 1.041% Mezzanine Class B Notes, €18,500,000 3-month Euribor plus 1.041% Mezzanine Class C Notes, €8,400,000 3-month Euribor plus 1.041% Mezzanine Class D Notes, €5,500,000 3-month Euribor plus 1.041% Junior Class E Notes and €9,250,000 3-month Euribor plus 1.041% Subordinated Class F Notes, all with contractual maturity in May 2078. The Class A, B, C, D and E notes have a first call option date in May 2014. Of the initial principal of €925.0 million, €642.3 million was open at year-end 2010 (2009: €702.2 million). The bank holds €297.8 million (2009: €292.2 million) of the notes for its own account. This concerns €273.2 million (2009: €267.6 million) Senior Class A, €5.6 million (2009: €5.6 million) Mezzanine Class B, €12.3 million (€12.3 million) Mezzanine Class C, €4.4 million (2009: €4.4 million) Mezzanine Class D and €2.3 million (2009: €2.3 million) Junior Class E.

#### *Stichting Eleven Cities No. 4*

Incorporated in 2008. Initial issue: €195,000,000 3-month Euribor plus 1.041% Senior Class A-NHG Notes, €560,000,000 3-month Euribor plus 1.041% Senior Class A Notes, €15,200,000 3-month Euribor plus 1.041% Mezzanine Class B Notes, €12,800,000 3-month Euribor plus 1.041% Mezzanine Class C Notes, €7,280,000 3-month Euribor plus 1.041% Mezzanine Class D Notes, €9,720,000 3-month Euribor plus 1.041% Junior Class E Notes and €8,000,000 3-month Euribor plus 1.041% Subordinated Class F Notes, all with contractual maturity in May 2080. The Class A, B, C, D and E notes have a first call option date in November 2015. Of the initial principal of €800.0 million, €660.2 million was open at year-end 2010 (2009: €725.8 million). The bank holds €94.3 million (2009: €45.0 million) of the notes for its own account. This concerns €49.4 million (2009: nil) Mezzanine Class A, €15.2 million (2009: €15.2 million) Mezzanine Class B, €12.8 million (2009: €12.8 million) Mezzanine Class C, €7.3 million (2009: €7.3 million) Mezzanine Class D and €9.7 million (2009: €9.7 million) Junior Class E. At year-end 2010, €1.5 million of the subordinated Class F note was open (2009: €4.1 million). The bank holds the subordinated Class F note for its own account, and the item is accounted for in subordinate liabilities (item 21).

#### *Stichting Eleven Cities No. 5*

Incorporated in 2009. Initial issue: €763,050,000 3-month Euribor plus 1.024% Senior Class A Notes, €17,050,000 3-month Euribor plus 1.024% Mezzanine Class B Notes, €16,200,000 3-month Euribor plus 1.024% Mezzanine Class C Notes, €7,300,000 3-month Euribor plus 1.024% Mezzanine Class D Notes 2009, €6,400,000 3-month Euribor plus 1.024% Junior Class E Notes and €28,350,000 3-month Euribor plus 1.024% Subordinated Class F Notes, all with contractual maturity in May 2090. Of the initial principal of €810.0 million, €668.1 million was open at year-end 2010 (2009: €749.0 million). The bank holds €193.9 million (2009: €749.0 million) of the notes for its own account. This concerns €146.9 million (2009: €702.1 million) Senior Class A, €17.0 million (2009: €17.0 million) Mezzanine Class B, €16.2 million (€16.2 million) Mezzanine Class C, €7.3 million (2009: €7.3 million) Mezzanine Class D and €6.4 million (2009: €6.4 million) Junior Class E. At year-end 2010, €20.6 million of the subordinated Class F note was open (2009: €24.8 million). The bank holds the subordinated Class F note for its own account, and the item is accounted for in subordinate liabilities (item 21).

### Stichting Eleven Cities No. 6

Incorporated in 2009. Initial issue: €719,450,000 3-month Euribor plus 1.024% Senior Class A Notes 2009, €588,650,000 3-month Euribor plus 1.024% Junior Class B Notes 2009 and €6,550,000 3-month Euribor plus 1.024% Subordinated Class C Notes 2009, all with contractual maturity in March 2041. Of the initial principal of €1,314.7 million, €1,107.2 million was open at year-end 2010 (2009: €1,314.7 million). The bank holds all the notes for its own account. The First Optional Redemption Date occurs in 2011. If this option is exercised, the underlying securities of Stichting Eleven Cities No. 6 may be used for a new securitisation transaction.

## 17. Financial liabilities

This item includes derivatives with fair value losses. For further specification by type of derivative and the contracted values, please refer to note 4 on other financial assets.

## 18. Other liabilities

This item consists of liabilities which cannot be classified under any of the other liability items, including funds transfer items not yet cleared and other liabilities of group companies held as private equity investments.

	2010	2009
This item comprises:		
- Other liabilities of core banking business	<b>42,890</b>	56,758
- Other liabilities of group companies held as private equity investments	<b>57,785</b>	43,740
	<b>100,675</b>	100,498

## 19. Accruals and deferred income

This item consists of amounts received in advance, accrued interest and other accounts payable.

	2010	2009
This item comprises:		
- Accrued interest	<b>137,983</b>	119,379
- Other payables	<b>13,705</b>	6,110
	<b>151,688</b>	125,489

## 20. Provisions

	2010	2009
This item comprises:		
- Pension provisions	<b>23,887</b>	21,846
- Restructuring provision	<b>1,450</b>	4,900
- Other provisions	<b>3,872</b>	3,789
	<b>29,209</b>	30,535

### Pension provision

Friesland Bank has a legacy of various pension plans with its employees, whereby the employees are allocated a pension amounting to 70% of their final salary or their average salary. The pension allocated becomes payable when the employee reaches 65 years of age. Group pension contracts are concluded for the employees with an insurer. The tables below show the pension liabilities and the fair value of the plan assets. The plan assets consist of 73.8% (2009: 18.5%) fixed-income securities, 26.1% (2009: 0.6%) equities and 0.2% (2009: 80.9%) of short-term deposits and cash, and are not invested in the shares of and/or assets owned by Friesland Bank. No plan assets are held specifically for early retirement and bonuses, which at year-end 2010 amounted to €6.5 million (2009: €8.5 million).

In calculating the amount of the pension provision, the following significant assumptions have been used:

	2010	2009
- Discount rate	4.75%	5.25%
- Expected salary increases (including inflation adjustment)	2.10%	2.50%
- Expected return on plan assets	4.50%	4.50%
- Expected indexation, active plan members	2.00%	2.00%
- Expected indexation, former plan members and pensioners until 1 January 2006	2.00%	2.00%
- Expected indexation, former plan members and pensioners from 1 January 2006	0.50%	2.00%
- Mortality table used	<b>AG forecast table 2010-2060</b>	GBM/GBV '00/'05

The above percentages are long-term expectations and are partly based on multi-year historical series. As a result of market developments, the discount rate has been reduced from 5.25% to 4.75%. This has led to an increase in the liabilities of €20 million. The expected salary development was reduced in 2010 from 2.50% to 2.10%, mainly as a result of the actual development of salaries in recent years. The effect on the liabilities is a reduction of €22 million. The expected return on plan assets is the weighted average of the returns expected on the basis of the investment strategy, which are 7.5% for equities and 3.5% for fixed-income securities. The total expected return is unchanged from the previous year. The expected indexation is in line with the long-term inflation target of the ECB. The indexation of some of the pensions (the group of former plan members and pensioners from 1 January 2006) is subject to conditions, depending on the financial buffers available within the fund. With an expected return on plan assets of 4.50%, it is expected that the indexation for this group will amount to 0.50%. The adjustment to this expectation has led to a reduction in the liabilities of €38 million. The mortality table used was updated in 2010, and this led to an increase in the liabilities of €30 million.

The development of the pension provision was as follows (in millions of euros):

2010	Liabilities	Plan assets	Corridor	Total 2010
Balance at 1 January	244.0	212.1	10.1	21.8
- Current service costs	7.9	-	-	7.9
- Curtailment due to reorganisation	-0.5	-	-	-0.5
- Actuarial interest or return on plan assets	12.9	9.9	-	3.0
- Employer's contribution for current service year	-	7.3	-	-7.3
- Employee's contribution	-	1.1	-	-1.1
- Benefit payments	-6.6	-6.6	-	-
- Administrative and other expenses	-	-1.1	-	1.1
- Actuarial gains and losses	-22.1	9.6	-30.7	-1.0
Balance at 31 December	235.6	232.3	-20.6	23.9

<b>2009</b>	<b>Liabilities</b>	<b>Plan assets</b>	<b>Corridor</b>	<b>Total 2009</b>
Balance at 1 January	230.9	184.1	12.3	34.5
- Current service costs	7.2	-	-	7.2
- Curtailment due to reorganisation	-2.8	-	-	-2.8
- Actuarial interest or return on plan assets	12.3	8.5	-	3.8
- Employer's contribution for current service year	-	21.0	-	-21.0
- Employee's contribution	-	0.9	-	-0.9
- Benefit payments	-5.7	-5.7	-	0.0
- Administrative and other expenses	-	-1.1	-	1.1
- Actuarial gains and losses	2.1	4.4	-2.2	-0.1
Balance at 31 December	244.0	212.1	10.1	21.8

<b>Long-term review</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Pension liabilities	235.6	244.0	230.9	214.4	228.2
Pension plan assets	232.3	212.1	184.1	202.0	196.1
Deficit / (Surplus)	3.3	31.9	46.8	12.4	32.1
Experience adjustments to pension liabilities	-1.4	2.1	0.7	-26.7	-48.6
Experience adjustments to pension plan assets	9.6	4.4	-34.7	-6.1	-

Until year-end 2010, a cumulative amount of €2.5 million (until year-end 2009: €3.6 million) was recognised in the income statement in respect of actuarial losses. The remittance of contribution expected for 2011 is €10.0 million (2010: €6.5 million). As in 2009, there were no past service costs in 2010.

#### *Restructuring provision*

The provision relates to a reorganisation throughout the bank with the objective of increasing efficiency. This should lead to a reduction of approximately 250 FTE, spread over 2009, 2010 and 2011. It is expected that the amounts included in the provision will be appropriated within one year.

	<b>2010</b>	<b>2009</b>
The development of this item was as follows:		
Balance at 1 January	<b>4,900</b>	-
- Additions	-	6,782
- Withdrawals	<b>-2,918</b>	-1,882
- Released	<b>-532</b>	-
Balance at 31 December	<b>1,450</b>	4,900

#### *Other provisions*

The other provisions relate mainly to a provision for insurance premiums not yet earned. Under the terms of the policies with insurers, there is a risk that premiums received may have to be refunded if a policy is terminated prematurely. The volume of the provision is calculated on the basis of historical data.

	<b>2010</b>	<b>2009</b>
The development of this item was as follows:		
Balance at 1 January	<b>3,789</b>	4,047
- Additions	<b>668</b>	1,269
- Withdrawals	<b>-975</b>	-1,527
- Consolidations and deconsolidations	<b>390</b>	-
Balance at 31 December	<b>3,872</b>	3,789

## 21. Subordinated liabilities

The liabilities included in this item are subordinated to all current and future obligations of Friesland Bank N.V., and premature or partial redemption is not permitted. The average interest rate of the subordinated liabilities was 5.6% (2009: 5.3%), the average remaining maturity is 6.6 years (2009: 6.7 years).

	2010	2009
This item comprises:		
- Subordinated MTNs	<b>205,350</b>	205,350
- Capital deposits	<b>131,172</b>	161,671
- Other subordinated loans	<b>23,979</b>	51,715
	<b>360,501</b>	418,736

## 22. Equity and capital adequacy

The authorised capital of Friesland Bank N.V. consists of 150,000 ordinary shares of €450. The issued share capital consists of 37,463 ordinary shares of €450. All the issued shares are held by Friesland Bank Holding N.V., whose ordinary shares are in turn held entirely by Vereniging Friesland Bank. There were no changes to the issued and paid-up capital during the reporting year.

In November 2004, Friesland Bank N.V. issued perpetual capital securities. This is a 'perpetual' bond loan listed on Euronext. After prior approval by the regulator, the loan may be redeemed at the bank's discretion at any time from 3 December 2014. The bonds are subordinated to all other current and future liabilities of the bank. The bond is treated as core capital for capital adequacy testing purposes. The coupon of the bond loan is linked to the yield on Dutch government bonds with a maturity of 10 years plus a margin of 0.125%, but capped at 8%. The interest rate is reviewed quarterly. Payment of interest must be suspended if payment would cause the capital ratio to fall below the minimum requirement stipulated by the regulator. The bank may also decide to suspend interest payments.

	2010	2009
The composition of equity is as follows:		
- Issued and paid-up capital	<b>16,858</b>	16,858
- Share premium reserve	<b>76,319</b>	76,319
- Revaluation reserve	<b>31,777</b>	45,100
- Cash flow hedge reserve	<b>-11,056</b>	-14,823
- Statutory reserves and reserves required by articles of association	<b>158,391</b>	168,470
- Other reserves	<b>441,634</b>	414,505
- Result for the year	<b>-43,282</b>	26,988
- Perpetual Capital Securities	<b>125,000</b>	122,831
- Third-party interests	<b>45,992</b>	26,786
	<b>841,633</b>	883,034

For full details of the development of equity, please refer to the statement of changes in equity on page 54. The statement of changes in equity gives details of all movements in equity.

*Nature and purpose of reserves:*

Share premium reserve: this comprises the amounts received in excess of nominal value at the time shares were issued.

Revaluation reserve: this reserve consists of changes in the fair value of assets and investments available for sale, less the associated deferred tax liabilities.

Cash flow hedge reserve: this includes the proportion of gains or losses on cash flow hedging instruments which have been determined to be effective.

Statutory reserves and reserves required by articles of association: this consists of the statutory reserve for undistributed profits of associates and the redenomination reserve.

Other reserves: these include profits added to equity in the past, less dividend payments.

*Capital ratio*

The Basel II framework applies to Friesland Bank with effect from 1 January 2008. This framework has three pillars. The first pillar provides directives for the definition of the minimum capital for the three principal risks, which are credit risk, operating risk and market risk. Credit risk can be determined by three methods: standardised, Foundation IRB and Advanced IRB. Friesland Bank has decided to apply the standardised method. This is based on Basel I, with certain refinements. The applicable rating and differentiation by maturity are also taken into consideration. Operating risk can also be determined using three methods, which are the basic indicator approach (BIA), the standardised approach (TSA) or the advanced measurement approach (AMA). Friesland Bank applies BIA. Friesland Bank has obtained an exemption from the regulator for the determination of market risk, since it does not have a significant trading portfolio. The second pillar provides directives for the internal calculation of the capital requirements for all risk categories, including the way these are monitored by the regulator. The third pillar sets additional disclosure requirements with the purpose of increasing market transparency.

De Nederlandsche Bank N.V. requires a minimum capital adequacy ratio of 4% for the core capital and 8% for the total capital.

The table below shows the available capital and the minimum capital required.

	<b>Minimum required 2010 Basel II</b>	<b>Available 2010 Basel II</b>	<b>Minimum required 2009 Basel II</b>	<b>Available 2009 Basel II</b>
Core capital	254,846	<b>573,770</b>	242,463	600,705
Core capital ratio	4.0%	<b>9.0%</b>	4.0%	10.0%
Total capital	509,691	<b>773,896</b>	480,804	786,764
Total capital ratio	8.0%	<b>12.1%</b>	8.0%	13.1%

The analysis of the risk-weighted assets is as follows:

	Unweighted 2010 Basel II	Weighted 2010 Basel II	Unweighted 2009 Basel II	Weighted 2009 Basel II
Credit risk				
- 0%-risk weighting	919,734	-	1,306,380	-
- 20%-risk weighting	388,923	<b>77,785</b>	236,836	47,367
- 35%-risk weighting	1,623,901	<b>568,365</b>	2,055,735	719,507
- 50%-risk weighting	28,526	<b>14,263</b>	12,266	6,133
- 75%-risk weighting	1,488,184	<b>1,086,138</b>	921,464	691,098
- 100%-risk weighting	3,763,010	<b>3,763,010</b>	3,959,403	3,959,403
- 150%-risk weighting	26,543	<b>39,815</b>	21,868	32,802
Credit equivalent of weighted items		<b>5,549,376</b>		5,456,310
Other exposure of weighted items		<b>550,263</b>		252,500
Total risk-weighted assets		<b>6,099,639</b>		5,708,810
Capital requirement for credit risk (8% of risk-weighted assets)		<b>487,971</b>		456,705
Capital requirement for market risk		-		-
Capital requirement for operating risk		<b>21,720</b>		24,099
Total pillar 1 capital requirement		<b>509,691</b>		480,804

	2010	2009
The composition of the qualifying capital is as follows:		
- Issued and paid-up capital	<b>16,858</b>	16,858
- Share premium reserve	<b>76,319</b>	76,319
- Perpetual Capital Securities	<b>125,000</b>	122,831
- Statutory reserves and reserves required by Articles of Association	<b>158,391</b>	168,470
- Other reserves	<b>441,634</b>	414,505
- Result for the year	<b>-43,282</b>	26,988
- Third-party interests	<b>2,320</b>	-
- Deductible items, including investments in banking associates	<b>-203,470</b>	-225,266
Core capital	<b>573,770</b>	600,705
- Qualifying subordinated liabilities	<b>336,081</b>	347,854
- Qualifying revaluation reserves	<b>40,970</b>	57,269
- Deductible items, including investments in banking associates	<b>-176,925</b>	-219,064
Total qualifying capital	<b>773,896</b>	786,764

*Third-party interests*

Third-party interests represent the interests of third parties in the equity of consolidated investments in associates and private equity investments.

# 1.4 Notes to the consolidated income statement

## 23. Interest

This item includes all income and expenses with the nature of interest arising from lending and borrowing funds. The item also includes the allocation of commissions with the nature of interest, such as arrangement and penalty fees.

	<b>2010</b>	<b>2009</b>
This item comprises:		
- Interest income on loans and advances	<b>276,420</b>	275,230
- Interest income on current accounts	<b>41,388</b>	43,275
- Interest income on cash	<b>24,228</b>	25,383
- Interest income on securities	<b>19,125</b>	26,653
- Other interest income	<b>11,707</b>	11,779
Total interest income	<b>372,868</b>	382,320
- Interest expense on banks and funds entrusted	<b>197,311</b>	220,600
- Interest expense on debt securities	<b>45,603</b>	55,261
- Interest expense on subordinated liabilities	<b>19,641</b>	21,399
Total interest expense	<b>262,555</b>	297,260
Interest	<b>110,313</b>	85,060

The amount of interest income recognised relating to financial assets subject to impairment is €20.6 million (2009: €21.6 million).

## 24. Income from securities and associates

This item includes the income relating to investments in share capital designated as available for sale and investments accounted for on the basis of the equity method (investments in associates). The investments are presented in the balance sheet under other financial assets and investments in associates respectively. The analysis of this item is as follows:

<b>2010</b>	<b>Banking associates</b>	<b>Private equity</b>	<b>Banking operations</b>	<b>Total 2010</b>
Investments designated as available for sale				
- Dividends	1,838	160	522	<b>2,520</b>
- Results on disposal	5,597	-78	-9	<b>5,510</b>
	7,435	82	513	<b>8,030</b>
Equity method investments:				
- Share in results	13,965	12,749	-146	<b>26,568</b>
- Results on disposal	-	22,593	-606	<b>21,987</b>
	13,965	35,342	-752	<b>48,555</b>
Total	21,400	35,424	-239	<b>56,585</b>
<b>2009</b>	<b>Banking associates</b>	<b>Private equity</b>	<b>Banking operations</b>	<b>Total 2009</b>
Investments designated as available for sale:				
- Dividends	2,688	654	574	3,916
- Results on disposal	20,277	1,327	461	22,065
	22,965	1,981	1,035	25,981
Equity method investments:				
- Share in results	-5,387	18,252	-1,018	11,847
- Results on disposal	-	15,917	-	15,917
	-5,387	34,169	-1,018	27,764
Total	17,578	36,150	17	53,745

## 25. Commission

This item includes the income earned by providing services relating to lending on behalf of third parties, insurance, securities and inland and international funds transfer. Commission expense is minor.

	<b>2010</b>	<b>2009</b>
The analysis of commission is as follows:		
- Insurance	<b>14,744</b>	16,029
- Securities	<b>15,927</b>	5,057
- Funds transfer	<b>10,541</b>	9,776
- Other	<b>501</b>	472
	<b>41,713</b>	31,334

No trust office or other fiduciary management services are provided.

## 26. Result from financial transactions

This item includes the results of disposal of interest-bearing securities, the results on financial assets designated as held for trading, foreign exchange results, other trading income and the fair value gains and losses on derivatives (other than those accounted for as a cash flow hedge) and the gains and losses on hedged items which form part of an effective fair value hedge.

	<b>2010</b>	<b>2009</b>
The analysis of the result from financial transactions is as follows:		
- Results on sale of interest-bearing securities	<b>5,434</b>	6,312
- Results on purchase of proprietary SPV/MTN	<b>2,036</b>	21,004
- Realised fair value gains and losses on derivatives	<b>4,006</b>	10,217
- Unrealised fair value gains and losses on derivatives	<b>-32,511</b>	-16,234
- Fair value gains and losses on hedged items	<b>26,717</b>	15,016
- Result on the securities trading portfolio	<b>-84</b>	8
- Result on the foreign currency trading portfolio	<b>388</b>	418
	<b>5,986</b>	36,741

The Group uses hedge accounting for part of the derivatives portfolio and recognises both fair value hedges and cash flow hedges. Fair value hedge accounting is used to minimise fair value gains and losses as a result of changes to interest rates on assets (usually bonds and mortgages) or liabilities (usually long-term debts). The Group has also contracted cash flow hedges on a number of debt securities. These debt securities were issued at a variable interest rate which has been fixed by means of an interest-rate swap. A number of hedge relationships were terminated in 2009. The revaluation recognised at the time of termination is amortised over the period until the cash flow becomes effective. No gains or losses were recognised on the remaining effective cash flow hedge relationships in 2010 since as in 2009 these hedges were entirely effective. The total value of the effective cash flow hedges at year-end 2010 stood at - €1.7 million (2008: - €1.2 million), and the hedged cash flows will occur in annual instalments in December until maturity in December 2016.

The following hedge accounting fair value gains and losses have been recognised in the income statement:

<b>2010</b>	<b>Derivatives</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Balance</b>
Interest-rate swaps (fair value hedge)	-27,003	26,717	-	<b>-286</b>
Interest-rate futures (fair value hedge)	-	-	-	-
	-27,003	26,717	-	<b>-286</b>
<b>2009</b>	<b>Derivatives</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Balance</b>
Interest-rate swaps (fair value hedge)	-18,775	16,798	-	-1,977
Interest-rate futures (fair value hedge)	-	-	-	-
	-18,775	16,798	-	-1,977

In 2010, €5.6 million (2009: €2.6 million) from the cash flow hedge revaluation reserve was recognised as amortisation in the income statement in connection with hedge relationships that have been terminated.

## 27. Other income

This item includes all income that cannot be listed under the above items.

	2010	2009
This item comprises:		
- Rents received	367	489
- Various other income	546	4,371
	<hr/>	<hr/>
	913	4,860

## 28. Revenues of companies included as private equity investments

This item concerns the revenues of the group companies owned by Friesland Bank Investments.

	2010	2009
This item comprises:		
- Service providers	128,661	254,732
- Goods for resale	68,332	70,304
	<hr/>	<hr/>
	196,993	325,036

## 29. Employee expenses

	2010	2009
The analysis of the employee expenses is as follows:		
- Wages and salaries for permanent staff	60,543	59,669
- Contract staff	4,702	4,233
- Pension charges	7,139	8,348
- Social security contributions	6,101	13,707
- Other staff costs	5,780	5,565
	<hr/>	<hr/>
	84,265	91,522
- Employee expenses of group companies owned by Friesland Bank Investments	41,078	129,215
	<hr/>	<hr/>
	125,343	220,737

	2010	2009
The analysis of the employee expenses of group companies owned by Friesland Bank Investments is as follows:		
- Wages and salaries for permanent staff	31,537	109,759
- Contract staff	1,230	-
- Pension charges	2,117	4,253
- Social security contributions	3,753	12,655
- Other staff costs	2,441	2,548
	<hr/>	<hr/>
	41,078	129,215

The average number of permanent staff during the reporting year – recalculated to FTE - was:

	<b>2010</b>	<b>2009</b>
Friesland Bank	<b>807</b>	890
Friesland Bank Assurantiën	<b>100</b>	100
Friesland Bank Investments	<b>11</b>	13
Optimix Vermogensbeheer N.V.	<b>28</b>	-
	<b>946</b>	1,003
Group companies owned by Friesland Bank Investments	<b>626</b>	2,053
	<b>1,572</b>	3,056

The analysis of the pension charges is as follows (in millions of euros):

	<b>2010</b>	<b>2009</b>
- Pension costs	<b>7.9</b>	7.2
- Curtailment due to reorganisation	<b>-0.5</b>	-2.9
- Actuarial interest rate	<b>12.9</b>	12.3
- Return on plan assets	<b>-9.9</b>	-8.5
- Administrative expenses	<b>1.1</b>	1.1
- Actuarial gains and losses	<b>-1.1</b>	0.0
- Employee contributions	<b>-0.8</b>	-0.9
	<b>9.6</b>	8.3

The realised return on the pension plan assets in 2010 was €19.5 million (2009: €12.9 million).

### 30. Other administrative expenses

This item includes other operating expenses such as office supplies, premises costs, ICT and project costs, marketing and other expenses.

	<b>2010</b>	<b>2009</b>
The analysis of the other administrative expenses is as follows:		
- Office supplies	<b>7,274</b>	6,843
- ICT and project costs	<b>20,942</b>	23,142
- Outsourced services	<b>8,071</b>	6,516
- Premises costs	<b>6,303</b>	6,310
- Marketing costs	<b>5,970</b>	5,408
- Audit and consultancy costs	<b>2,279</b>	2,589
- Other expenses	<b>8,291</b>	9,340
	<b>59,130</b>	60,148
- Other administrative expenses and costs of sales of group companies owned by Friesland Bank Investments	<b>137,088</b>	158,998
	<b>196,218</b>	219,146

The other expenses item includes amounts for the deposit guarantee scheme in relation to DSB Bank of €4.2 million and €0.3 million in 2009 and 2010 respectively.

	<b>2010</b>	<b>2009</b>
The analysis of other administrative expenses and costs of sales for group companies owned by Friesland Bank Investments is as follows:		
- Costs of sales	<b>121,069</b>	118,018
- Premises costs	<b>5,453</b>	16,233
- Other expenses	<b>10,566</b>	24,747
	<b>137,088</b>	158,998

*Auditor's fee*

The costs of the external audit are included in the administrative expenses for the year:

	<b>2010</b>	<b>2009</b>
- Audit of the financial statements	<b>1,073</b>	703
- Other audit assignments	<b>29</b>	93
- Fiscal consultancy services	-	1
- Other non-audit services	<b>39</b>	19
	<b>1,141</b>	816

### **31. Depreciation and amortisation**

This item includes the depreciation charged on property, plant and equipment as well as the amortisation of intangible assets.

	<b>2010</b>	<b>2009</b>
This item comprises:		
- Depreciation of property	<b>3,711</b>	3,551
- Depreciation of equipment	<b>8,988</b>	12,910
	<b>12,699</b>	16,461
- Amortisation of intangible assets	<b>11,003</b>	10,885
	<b>23,702</b>	27,346

The item amortisation of intangible assets also includes backlog amortisation. For further details, please refer to the notes to items 6 and 7.

### 32. Impairment of loans and advances

This item includes all impairment losses in respect of loans and advances.

	2010	2009
This item comprises:		
Impairment losses on loans and advances to:		
- Large enterprises	15,665	22,761
- SMEs	15,284	10,612
- Residential mortgages	4,275	-1,285
- Other personal loans and advances	1,481	1,260
	<hr/>	<hr/>
Total impairment losses on banking loans and advances	36,705	33,348
Impairment losses on loans to group companies owned by Friesland Bank Investments	-	-
	<hr/>	<hr/>
Total impairment losses on loans and advances	36,705	33,348

€0.3 million (2009: €0.3 million) was recovered on written-off receivables during the year.

### 33. Impairment of other financial assets

This item includes the impairment losses on equities and investments in associates.

	2010	2009
This item comprises:		
- Impairment of equities designated as available for sale	6,878	3,975
- Impairment of investments in associates	69,176	4,429
- Other impairments of other financial assets	3,147	-
	<hr/>	<hr/>
	79,201	8,404

The item impairment of investments in associates includes a write-off of the interest in Van Lanschot in an amount of €61 million. See note 5 for further details.

### 34. Impairment of property, plant and equipment, and intangible assets

This item includes the impairment losses on intangible assets and property, plant and equipment. There were no impairments as at year end. There were also no impairment losses on intangible assets and property, plant and equipment as at year-end 2009.

### 35. Tax

This item includes the tax expenses for the year on the operating result recognised in the income statement. Calculation of the amount of tax takes account of tax-exempt profit components and non-deductible items.

	2010	2009
Tax credit for the year	-9,082	-4,757
Adjustments in finalised tax returns in previous years	182	- 6
Adjustment of deferred liabilities to lower tax rate	2,801	-
	<b>-6,099</b>	<b>-4,763</b>

The tax credit consists of the following movements:

	2010	2009
Current corporation tax for current year, adjustment relating to final return/assessment	-54	-
Current corporation tax for current year	3,763	7,679
Deferred value differences, adjustment relating to final return/assessment	-1,955	5,018
Deferred value differences, current year	-5,988	1,739
Deferred value differences, adjustment relating to changes in tax rates	1,087	-
Deductible loss, adjustment relating to final return/assessment	2,192	-5,024
Deductible loss, current year	-6,858	-14,815
Deductible loss, adjustment relating to changes in tax rates	1,679	-
Deferred liquidation losses, current year	-	640
Deferred liquidation losses, adjustment relating to changes in tax rates	35	-
	<b>-6,099</b>	<b>-4,763</b>

The average effective tax rate is 12.5% (2009: -17.2%). The applicable rate of tax was 25.5% (2009: 25.5%) and can be reconciled with the effective tax burden as follows:

	2010 €	2010 %	2009 €	2009 %
Operating result	-48,666		27,795	
Tax based on applicable tax rate	-12,410	25.5%	7,088	25.5%
Tax-exempt profit by virtue of substantial holding exemption	4,240	-8.7%	-10,692	-38.5%
Tax deductible in relation to perpetual capital securities	-906	1.9%	-1,237	-4.5%
Net non-deductible items	-6	0.0%	84	0.3%
Tax payable for the year	-9,082	18.7%	-4,757	-17.2%
Adjustments in finalised tax returns in previous years	182	-0.4%	-6	-0.0%
Adjustment in relation to change in tax rate	2,801	-5.8%	-	-
	<b>-6,099</b>	<b>12.5%</b>	<b>-4,763</b>	<b>-17.2%</b>

### 36. Net result attributable to third party interests

This item consists of the share of third parties in the result.

### 37. Net result attributable to shareholders of Friesland Bank N.V.

This item consists of the share of shareholders in the result.

	<b>2010</b>	<b>2009</b>
This item comprises:		
- Available to holders of Perpetual Capital Securities	<b>3,889</b>	4,852
- Available to holders of ordinary shares	<b>-47,171</b>	22,136
	<b>-43,282</b>	26,988

# 1.5 Additional disclosures

(x € 1,000) **38. Segment reporting**

The specification of the result by the various business elements is as follows:

2010	Banking operations	Private equity	Banking associates	Total 2010
Interest income	366,969	5,899	-	<b>372,868</b>
Interest expense	-201,432	-16,208	-44,915	<b>-262,555</b>
Interest	165,537	-10,309	-44,915	<b>110,313</b>
Income from securities and associates	366	35,426	20,793	<b>56,585</b>
Other income	39,049	197,249	9,307	<b>245,605</b>
Operating income	204,952	222,366	-14,815	<b>412,503</b>
Operating expenses	147,227	192,038	5,998	<b>345,236</b>
<b>Ordinary Operating result</b>	<b>57,725</b>	<b>30,328</b>	<b>-20,813</b>	<b>67,240</b>
Total impairment losses	36,705	18,320	60,881	<b>115,906</b>
<b>Operating result</b>	<b>21,020</b>	<b>12,008</b>	<b>-81,694</b>	<b>-48,666</b>
Tax debit/(credit)	6,953	-2,467	-10,585	<b>-6,099</b>
<b>Net result for financial year</b>	<b>14,067</b>	<b>14,475</b>	<b>-71,109</b>	<b>-42,567</b>
Of which attributable to funding interest *	59,314	-14,281	-45,033	-
Total assets (€ million)	10,272	414	369	<b>11,055</b>
As percentage of total assets	93%	4%	3%	<b>100%</b>
Investments in associates	343,838	87,113	-	<b>430,951</b>
Investments in property, plant and equipment	9,168	7,950	-	<b>17,118</b>
Investments in intangible assets	36,611	107,142	-	<b>143,753</b>
Depreciation of property, plant and equipment	8,549	4,150	-	<b>12,699</b>
Amortisation of intangible assets	7,635	3,368	-	<b>11,003</b>

\* Since funding is provided centrally by the banking business, funding expenses are charged to private equity and the banking associates, based on the carrying amount of the assets of these business segments. The funding mix conforms to the requirements set by the regulator. Market rates specific to Friesland Bank apply (the swap curve plus a surcharge the bank has to pay for the various instruments), calculated as the average over three years.

2009	Banking operations	Private equity	Banking associates	Total 2009
Interest income	378,654	3,666	-	382,320
Interest expense	-241,693	-16,147	-39,420	-297,260
Interest	136,961	-12,481	-39,420	85,060
Income from securities and associates	17	36,151	17,577	53,745
Other income	68,749	329,222	-	397,971
Operating income	205,727	352,892	-21,843	536,776
Operating expenses	159,603	306,624	1,002	467,229
<b>Ordinary Operating result</b>	<b>46,124</b>	<b>46,268</b>	<b>-22,845</b>	<b>69,547</b>
Total impairment losses	33,348	8,404	-	41,752
<b>Operating result</b>	<b>12,776</b>	<b>37,864</b>	<b>-22,845</b>	<b>27,795</b>
Tax credit	-2,169	-3,120	10,052	4,763
<b>Net result for financial year</b>	<b>10,607</b>	<b>34,744</b>	<b>-12,793</b>	<b>32,558</b>
Of which attributable to funding interest *	51,811	-12,391	-39,420	-
Total assets (€ million)	10,220	325	465	11,010
As percentage of total assets	93%	3%	4%	100%
Investments in associates	427,913	107,283	-	535,196
Investments in property, plant and equipment	7,242	7,501	-	14,743
Investments in intangible assets	9,007	2,121	-	11,128
Depreciation of property, plant and equipment	8,707	7,754	-	16,461
Amortisation of intangible assets	4,992	4,885	1,008	10,885

The above segmentation is internally reported, and has been chosen on the basis of the difference in the nature of the activities of the segments and the ability to adequately monitor developments within these segments. Revenue from the banking operations is mainly generated from interest flows relating to the lending and borrowing of money. Revenue from Friesland Bank Investments is generated through the realisation of capital gains at the time the investments are liquidated. The revenue from banking associates is generated by dividends received and realised changes in value. The specific difference with Friesland Bank Investments is that associates are held on a long-term basis or as strategic interests; the investments held by Friesland Bank Investments are not long term in nature.

\* Since funding is provided centrally by the banking business, funding expenses are charged to private equity and the banking associates, based on the carrying amount of the assets of these business segments. The funding mix conforms to the requirements set by the regulator. Market rates specific to Friesland Bank apply (the swap curve plus a surcharge the bank has to pay for the various instruments), calculated as the average over three years.

Intersegment revenue is not disclosed because no revenue is generated between the various segments. Since there is also no specific funding of individual segments, liabilities are not disclosed separately either.

Of the total banking assets, €8.5 billion (2009: €8.5 billion) consists of commercial loans, of which 55% (2009: 56%) relates to personal banking and 45% (2009: 44%) to corporate banking. The assets of Friesland Bank Investments consist of the carrying amount of the private equity investments and the assets of the group companies held by Friesland Bank Investments. The assets of the banking associates consist of the carrying amount of the investments concerned.

Friesland Bank mainly does business with banks and the public and private sector in the Netherlands. As a consequence, 99% (2009: 99%) of the assets are of Dutch origin. All foreign items relate to banking operations. In view of the limited size of the foreign items, no secondary segmentation has been made.

### **39. Acquisitions and disposals of group companies**

The following is an overview of the acquisitions and disposals in the reporting year where decisive influence can be exercised, including the balance sheet on acquisition and divestment, the cash flows and revenues. Unless otherwise stated, the fair values stated are virtually the same as the carrying amounts.

Transactions in 2010

**Purchases in 2010**

Name	Optimix Vermogens- beheer NV	ATAG Heating Group	Orffa Holding B.V.	Doedijns International Holding B.V.	Total
Principal activity	Asset management	Supplier of heating elements	Supplier of animal feed additives	Supplier of power motion control systems	
Transaction date	23-12-2010	15-12-2010	22-11-2010	1-1-2010	
Interest	70%	67%	50%	85%	
Percentage of control	70%	67%	50%	85%	
<b>Assets</b>					
Cash and cash equivalents	1,002	748	1,338	1	<b>3,089</b>
Financial assets and investments in associates	164	764	23	-	<b>951</b>
Intangible assets	11,279	31,973	30,786	4,083	<b>78,121</b>
Property, plant and equipment	4,000	1,853	277	-	<b>6,130</b>
Inventory	-	4,411	12,914	2,026	<b>19,351</b>
Debtors and other short-term assets	9,632	8,685	26,352	2,371	<b>47,040</b>
Total assets	26,077	48,434	71,690	8,481	<b>154,682</b>
<b>Liabilities</b>					
Bank	-	-	5,630	-	<b>5,630</b>
Creditors and other short-term liabilities	4,329	12,112	24,393	2,354	<b>43,198</b>
Non-current liabilities	908	31,756	50	6	<b>32,720</b>
Provisions	-	249	-	67	<b>316</b>
Total equity and liabilities	5,237	44,127	30,073	2,427	<b>81,864</b>
Net assets	20,840	4,307	41,617	6,054	<b>72,818</b>
Capitalised goodwill	16,738	26,623	10,952	2,562	<b>56,875</b>
The purchase price consists of:					
- equities (at fair value)	-	-	-	-	-
- cash	10,403	19,900	3,007	5,391	<b>38,701</b>
- acquisition costs	-	-	-	-	-
<b>Total</b>	<b>10,403</b>	<b>19,900</b>	<b>3,007</b>	<b>5,391</b>	<b>38,701</b>
Cash flows associated with acquisitions:					
- Cash in entity acquired	1,002	748	-4,292	1	<b>-2,541</b>
- Purchase price	-10,403	-19,900	-3,007	-5,391	<b>-38,701</b>
- Costs of acquisition	-	-	-	-	-
Net cash flow	-9,401	-19,152	-7,299	-5,390	<b>-41,242</b>
Revenue if acquisition had taken place					
at beginning of the year	9,425	47,779	192,735	-	<b>249,939</b>
Profit/loss if acquisition had taken place					
at beginning of the year	2,129	1,995	2,161	-	<b>6,285</b>
Profit/loss since transaction date	1,707	-	-5	-	<b>1,702</b>

Friesland Bank acquired decisive control in January, and in December expanded its interest in Optimix Vermogensbeheer N.V. from 45% to 70%. The cost of this acquisition is partly allocated to the fair value of the identifiable assets, liabilities and contingent liabilities and partly recognised as a direct movement in equity (-€6.4 million). The interest of third parties is recognised at fair value at the time of obtaining control. Goodwill of €16.7 million was recognised in the acquisition, which mainly relates to future business potential. In January 2010, Friesland Bank Investments acquired an indirect interest of 70% in Site Valve Automation Center and Site Tork for a pro-rata sum of €5.4 million through its 85% interest in Doedijns International Holding. Goodwill of €2.6 million was recognised in the acquisition, which mainly relates to future business potential. In November 2010, Friesland Bank Investments expanded its interest in Orffa Holding B.V. from 45% to 50% for €3.0 million. Goodwill of €11.0 million was recognised in the acquisition, which mainly relates to future business potential. In December 2010, Friesland Bank Investments acquired a 67% interest in ATAG Heating Corporation B.V. for €19.9 million. Goodwill of €26.6 million was recognised in the acquisition, which mainly relates to future business potential. The interests of third parties in ATAG, Orffa, Site Valve Automation Center and Site Tork is recognised at the proportional share in the identifiable assets and liabilities of the business acquired.

#### Disposals in 2010

The interests in King Nuts and Succes Holding were disposed of on 2 November 2010 and 10 November 2010 respectively. For the financial statements, the following cash flows arising from the sale are material:

	Succes	King Nuts	Total
- Deconsolidation cash on transaction date	371	-6	<b>365</b>
- Disposal price	6,155	9,055	<b>15,210</b>
- Costs of sale	-	-	-
<b>Total cash flow from sale</b>	<b>6,526</b>	<b>9,049</b>	<b>15,575</b>

#### Transactions in 2009

Part of Arboned Holding B.V. was disposed of on 23 November 2009, reducing the interest in Arboned Holding B.V. from 71.7% to 49.0%. As a result of this transaction, as of 23 November 2009 Friesland Bank no longer has control over Arboned Holding B.V. Arboned Holding is therefore deconsolidated from the financial statements of the Group as of the transaction date.

For the financial statements, the following cash flows arising from the sale are material:

- Deconsolidation cash on transaction date	2,488
- Disposal price	15,174
- Costs of sale	-302
<b>Total cash flow from sale</b>	<b>17,360</b>

No business combinations were acquired during 2009.

## 40. Risk management

### 40.1 Introduction

There are certain risks inherent in the bank's operations which mean that the results of Friesland Bank cannot be predicted with certainty. The fact that Friesland Bank is exposed to risks should be acknowledged, but is not necessarily a cause for concern. Risks are unavoidable. Those who are willing and able to accept risks can demand compensation for this and thus make a profit. Without incurring risks, making a sustainable profit is impossible. The bank has set up an internal risk management framework to manage these risks. The risks for the bank can be classified into various types of risk. Further explanation of market risk, credit risk, liquidity risk and operational risk is given below. This section relates specifically to the bank, and not to Friesland Bank Investments. Friesland Bank Investments has its own internal system for identification and monitoring of risk. The market and credit risks of Friesland Bank Investments are explained in the Group's risk reporting.

The increased attention to integrated risk management is an important theme in various published assessments, reports and codes, particularly as a result of the credit crisis and the resulting lack of liquidity in the Dutch banking system. As a result, risk management activities are closely monitored by various stakeholders, such as external and internal supervisory bodies (DNB, AFM, and the Supervisory Board), and also by politicians.

#### 40.1.1 Objectives

The risk management process places risks in context, and identifies, analyses, evaluates and covers risks. The effect of risk management is monitored continuously and discussed with all stakeholders in the organisation. This enables Friesland Bank to weigh risks against costs and expected returns in a controlled way.

Friesland Bank's risk management aims to support growth by:

- ensuring that Friesland Bank receives adequate rewards for all the risks it accepts;
- lowering the capital and funding cost by optimising the capital structure;
- simplifying decisions by making the relationship between risk, expense and return more transparent.

#### 40.1.2 Policy

A generic risk appetite statement is formulated for the bank each year, which is expressed in a measure of risk appetite for each type of risk. The risk appetite was approved by the Executive Board at the beginning of 2010, and was subsequently discussed by the Risk Committee, a sub-committee of the Supervisory Board. There was no reason to adjust the risk appetite in 2010.

To safeguard its long-term continuity, Friesland Bank strives to achieve a rating of single A. This means that Friesland Bank wishes to hold sufficient capital to ensure that it can meet its financial obligations with a degree of probability of at least 99.91%. It is a basic principle for Friesland Bank that potential return is an explicit factor in the consideration of risk. The bank strives to maintain sufficient knowledge and capacity in order to manage risk in a controlled manner.

#### 40.1.3 Organisation and control

Friesland Bank distinguishes three areas in its risk management structure: supervision, policy and implementation. Responsibility for supervision rests with the Supervisory Board and the two committees it has formed, the Audit & Compliance Committee and the Risk Committee. The Executive Board is responsible for approving the risk policy proposed by a number of committees, which are:

- *Asset and Liability Committee (ALCO)*: this committee focuses on balance sheet management and the risk categories of market, interest-rate and liquidity risk, and meets at least once a month (chair: member of the Executive Board).

- *Lending Policy Committee*: this committee focuses on lending and operating risk, and meets at least once a quarter (chair: member of the Executive Board).
- *Legislation and Regulation Committee*: this committee focuses on integrity, legal and compliance risk, and meets at least once a month (chair: Director of Legal Affairs).

The process owners are members of the senior management of Friesland Bank.

The implementation of policy is delegated as follows:

- *Lending Policy Committee*: For lending, the authority of approval is to a significant extent delegated by the Executive Board to the Lending Policy Committee. This committee meets twice a week and assesses and approves proposed loans and advances with recommendations by the Credit Risk Management and Legal Affairs departments. This committee is chaired in rotation by a member of the Executive Board, the Director of Credit Risk Management and an officer delegated by the Executive Board.
- *Investment Committee*: The authority to approve investments in companies (the Friesland Bank Investments segment) is delegated to the Investment Committee, which meets once every four weeks. The chair of this committee is appointed by the committee.
- *Product Scan Committee*: the Product Scan Committee is responsible for the product approval process and deals with product-specific risks relating to existing and new products, and meets once every four weeks. The chairman is the Director of Risk Management.
- *Crisis Management Plan Unit (CMP)*: the CMP unit addresses continuity risk. It considers exceptional events which could affect the bank. The CMP unit meets once every six weeks and more frequently if necessary. The chairman is the Director of Facility Operations.
- *Liquidity Contingency Team (LCT)*: the LCT was still operational at the beginning of 2009, but its activities were thereafter transferred to the normal liquidity management organisation. Its monitoring status remains at an increased level, meaning that the LCT is kept regularly informed regarding the situation in the money and capital markets. The chairman of the LCT is the Director of Risk Management.

A number of departments of Friesland Bank have specific duties in respect of risk management:

- *Risk Management*: the Risk Management department supports the Executive Board and unit managers in deciding on the desired risk profile, the portfolio mix for managing value creation, the pricing of products and services, funding and capitalisation, the quantitative and/or qualitative modelling and identification of risks. The inspection team which focuses on the enforcement of procedures through detailed checks forms part of the Risk Management department. This concerns the lending process as well as the operational and compliance processes.
- *Credit Risk Management (CRM)*: The CRM Department is responsible for the management of portfolio risk, and supports the Lending Policy Committee in the approval of lending proposals. The Special Management department, which manages accounts in arrears or requiring specific attention, is part of CRM.
- *Compliance*: the Compliance department advises the Executive Board and the unit managers on compliance issues and the risks associated with the various banking processes. This department focuses especially on the fulfilment of the bank's duty of care to our clients. It is also responsible for overseeing the implementation of parts of the Financial Supervision Act (Wet op het financieel toezicht, or Wft) and the Disclosure of Unusual Transactions (Financial Services) Act (Wet Melding Ongebruikelijke Transacties, or MOT).

- *Legal Affairs*: this department looks after legal risks. Its tasks include both preparing policy and providing operational support, most especially identifying and advising on future legislation and regulation and implementation of existing legislation. It also supports lending operations with recommendations on individual lending proposals.
- *Treasury and Financial Markets (TFM)*: the TFM department executes the instructions of the ALCO and the Executive Board. It monitors the limits of its positions.
- *Internal Audit*: this department conducts audits to form an opinion on the design, existence and effectiveness of the risk management measures.

#### 40.1.4 Risk reporting

To assist with policy preparation, determination and execution, the committees and line managers provide various regular risk reports, generally on a monthly basis, but in some cases daily, weekly, quarterly and annually. The following reports are recognised:

- *Economic capital*: the volume of the exposure, economic capital, capital adequacy ratio, risk-adjusted return on economic capital.
- *Credit risk*: the extent of the exposure, risk class (PD and LGD), arrears, review calendar, concentration.
- *Interest-rate risk*: the extent of the exposure, maturity calendar analysed by interest rate, duration, earnings at risk, sensitivity to changes in short-term and long-term interest rates.
- *Market risk*: the size of the portfolio per currency, value at risk and the contract maturity dates.
- *Equities risk*: the size of the portfolio and the value at risk.
- *Liquidity risk*: the liquidity maturity calendar and the funding plan.
- *Compliance and integrity risk*: new legislation and regulation, gap analyses, progress and status of implementation and incidents.
- *Operational risk*: the results of the risk and control, self-assessments and residual risks.

A separate report discusses the effects of stress scenarios, analysing whether the existing capital is adequate to safeguard continuity.

#### 40.1.5 Mitigation of risks

Friesland Bank can deal with the risks inherent in its business activities in various ways. These include avoidance, acceptance, reduction or sharing of risk. These methods are deployed depending on the situation. For instance, insurance can be concluded for certain operational risks, while other risks are accepted. In the case of credit risk, the primary strategy is to obtain collateral and/or guarantees. In certain cases, however, all or part of the risk is accepted. Derivative instruments can also be used to mitigate risk (such as interest-rate risk).

#### 40.1.6 Concentration of large risks

Concentration risk is managed explicitly by Friesland Bank as regards both assets and liabilities. The maximum acceptable limit is established in the Risk Appetite. This is then elaborated into more operational limits, which may for example relate to the maximum amount lent to an individual borrower, but also to the total exposure within a certain type of business.

#### 40.1.7 Continuity risk

The continuity of Friesland Bank depends on the development of three significant elements: liquidity, profitability and capital adequacy. In order to ensure sufficient liquidity, profitability and capital adequacy, the bank has taken various measures to mitigate risks and formulated plans to achieve these goals.

In order to ensure an adequate degree of liquidity, Treasury & Financial Markets and Planning & Control have prepared a funding plan. In addition to the necessary planning, the plan contains alternative measures in the event that extraordinary circumstances occur. An extensive committed liquidity facility has moreover been agreed with a third party in 2011.

The profitability of the bank is important in order to increase the capital required for autonomous growth without having to resort to the market to raise additional capital. The bank has prepared a plan designed to increase its profitability. The plan has been implemented and the bank is directing its policy towards the realisation of the goals it contains.

The new rules under Basel III (effective from 2013) and the growth of the assets affect the bank's capital adequacy. The capital adequacy is expressed in BIS ratios, in which a Tier 1 ratio is also distinguished. In order to continue to meet the required ratios in future, the interest in Van Lanschot will be disposed of over time.

#### **40.2 Market risk**

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market-related variables, for example as a result of changes in interest rates, exchange rates, share prices and premature redemptions. These risks will be described in further detail below.

##### *40.2.1 Interest-rate risk*

Interest-rate risk includes all the risks incurred by Friesland Bank associated with the development of the interest-rate term structure, or yield curve. These include risks due to mismatch of funding, interest-rate options products (such as an interest-rate cooling off period) and behavioural reactions by clients to interest-rate changes (such as prepayment risk).

Interest-rate risk is discussed by the Risk Committee of the Supervisory Board and the Executive Board. The Executive Board has delegated the power of decision regarding net interest exposure to the ALCO. As part of the asset-liability management process, Friesland Bank continuously monitors the yield curve and notifies the ALCO of developments that could substantially affect Friesland Bank's position. The ALCO compares the results of measuring instruments with the internal norm, and establishes whether the interest-rate risk is within the norms on a regular basis, and takes corrective action if necessary.

Friesland Bank obtains its interest rate result partly by taking a managed mismatch position, for example by providing products with interest options to customers. To customers in the upper segment of the corporate market, Friesland Bank offers interest-rate options, including swaps, FRAs, caps and collars. The overall mismatch position is managed using swaps. The yield curve for Friesland Bank consists of the euro yield curve for parties with no credit risk, such as public authorities, and a spread that the market calculates specifically for Friesland Bank. The variation in the first component is the interest-rate risk. The second component is part of the liquidity risk.

The interest-rate risk is reported internally each month, using the instruments stated in the table below:

- *Duration of equity*: the duration indicates the percentage decline in the market value of the total equity in the event of a parallel increase in the yield curve of 1%.
- *Sensitivity of the result*: if the short or long-term interest rate increases by 1% (compared to the prevailing interest-rate view), the interest rate result will fall or rise by a certain percentage.
- *Earnings at risk forecast for the interest-rate result*: this figure indicates with a probability of 99.91% that the actual interest-rate result over the coming 12 months will not differ from the predicted value by more than the Earnings at risk (in %) as a consequence of movements in the yield curve.

- *Outlier criterion*: the movement in the market value of the equity as a result of a sudden parallel shift of the yield curve by 200 basis points, divided by the qualifying capital.

	<b>2010</b>	<b>2009</b>
Risk management instrument:		
- Duration of equity	<b>7.8</b>	5.6
- Sensitivity of the result:		
- short-term interest	<b>-1.18%</b>	0.84%
- long-term interest	<b>2.40%</b>	4.04%
- Outlier criterion	<b>16.03%</b>	12.66%
- Economic capital for interest-rate risk (in millions of euros)	<b>7.6</b>	26.1
- Sensitivity to a rise (fall) in basis points:		
- on the result for + 200/(200) bp (in millions of euros)	<b>4.5/(0.7)</b>	9.5/(1.3)
- on equity for + 200/(200) bp (in millions of euros)	<b>(123.6)/341.1</b>	(99.6)/126.6

The interest-rate risk is quantified every quarter using the economic capital model for interest-rate risk. This model generates the three-month 99.91% Value at Risk (VaR). The rationale for using a three-month period is that the volume of the mismatch/gaps in the interest-rate positions is such that it can be realistically assumed that the positions can be completely closed within 90 days. The method is based on a historical simulation using the interest-rate levels of the last four years. The economic capital for interest-rate risk did not exceed €27 million in 2010 (2009: €30 million). It is explicitly assumed that future changes will fall within the range of the last four years.

The table below shows the interest-rate risk on interest-bearing financial assets and liabilities not held for trading purposes. The assets and liabilities are shown on the basis of carrying amounts and contractual maturities.

<b>2010</b>	<b>&lt; 1 month</b>	<b>1 month - 3 months</b>	<b>3 months - 1 year</b>	<b>1 year - 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
<b>Assets</b>						
Banks	511	-	-	22	-	<b>533</b>
Loans and advances	1,125	18	78	521	6,804	<b>8,546</b>
Bonds	115	15	54	273	165	<b>622</b>
<b>Total assets</b>	<b>1,751</b>	<b>33</b>	<b>132</b>	<b>816</b>	<b>6,969</b>	<b>9,701</b>
<b>Liabilities</b>						
Banks	53	903	8	32	-	<b>996</b>
Funds entrusted	2,437	113	201	2,418	108	<b>5,277</b>
Debt securities	1	100	500	738	1,811	<b>3,150</b>
Subordinated liabilities	1	2	4	82	271	<b>360</b>
<b>Total equity and liabilities</b>	<b>2,492</b>	<b>1,118</b>	<b>713</b>	<b>3,270</b>	<b>2,190</b>	<b>9,783</b>
<b>Total room in interest-rate sensitivity</b>	<b>-741</b>	<b>-1,085</b>	<b>-581</b>	<b>-2,454</b>	<b>4,779</b>	<b>-82</b>

2009	< 1 month	1 month - 3 months	3 months - 1 year	1 year - 5 years	> 5 years	Total
<b>Assets</b>						
Banks	681	-	-	-	-	681
Loans and advances	1,179	75	386	1,137	5,674	8,451
Bonds	12	-	5	583	76	676
Total assets	1,872	75	391	1,720	5,750	9,808
<b>Liabilities</b>						
Banks	81	77	759	23	10	950
Funds entrusted	2,817	457	279	1,807	88	5,448
Debt securities	-	100	15	1,247	1,551	2,913
Subordinated liabilities	26	5	49	52	286	418
Total equity and liabilities	2,924	639	1,102	3,129	1,935	9,729
Total room in interest-rate sensitivity	-1,052	-564	-711	-1,409	3,815	79

#### 40.2.2 Currency risk

Currency risk is the risk that the value of financial instruments will change due to changes in exchange rates. Friesland Bank is subject to currency risk relating to its investments, the products it offers its customers and, indirectly, the correlation between currency risk and the credit quality of its credit relations. The maximum position in foreign currency has been set by the ALCO at €1.0 million (2009: €1.0 million). This amount was not exceeded in either 2010 or 2009.

The bank's policy is to hedge currency risk, using derivative instruments such as forward currency contracts. The foreign currency position can be analysed as follows (in millions of euros):

2010	Assets	Liabilities	Balance	Derivatives	Position
US dollar	78.8	5.4	73.4	-73.3	0.1
British pound	4.9	3.2	1.7	-1.8	-0.1
Swedish krona	5.1	0.0	5.1	-5.1	0.0
Canadian dollar	7.6	0.5	7.1	-6.9	0.2
Danish krone	0.9	0.1	0.8	-0.7	0.1
Other	9.7	0.8	8.9	-8.9	0.0
Total	107.0	10.0	97.0	96.7	0.3
<b>2009</b>					
US dollar	49.4	5.7	43.7	-43.8	-0.1
British pound	2.8	0.9	1.9	-2.0	-0.1
Danish krone	8.9	0.1	8.8	-8.8	0.0
Other	20.8	2.7	18.1	-17.7	0.4
Total	81.9	9.4	72.5	-72.3	0.2

No further disclosure is given regarding the sensitivity to interest-rate risk, since due to the very limited net exposure as a result of the bank's policy, movements in foreign currencies will not materially affect either the result or the equity.

#### *40.2.3 Equities risk*

Equities risk is the risk that the fair value of equities will change as a result of movements in stock indices or individual stocks. For equities not held for trading purposes, this risk will initially be expressed in equity and potentially, in case of impairment losses, in the result. If the market prices of equities held as available for sale were to rise by 5%, this would have a positive effect on equity of €3.8 million (2009: €4.5 million). A similar decline would have a similarly negative effect on equity. As in 2009, there was no indication of an impairment loss to the detriment of the result at year-end 2010.

#### *40.2.4 Prepayment risk*

Prepayment risk is the risk that clients or other counterparties will redeem positions earlier or later. Internal calculations based on historical data indicate that the prepayment risk for mortgages lies between 0% and 10% of the outstanding exposure, depending on the development of interest rates. In practical terms these data are used to determine the average maturities of our loans.

### **40.3 Credit risk**

Credit risk is the possibility that a counterparty of Friesland Bank is unable to meet its obligations. The majority of the credit risk relates to lending to personal and corporate clients. Credit risk is also incurred as a result of the investments in the investment portfolio and inter-bank positions. Most of the loans and advances granted by Friesland Bank are in the Netherlands; the portfolio does, however, contain some international positions.

The next table shows the maximum credit risk for the various components of the balance sheet, including derivatives. The maximum credit risk is shown gross, i.e. without taking account of the moderating effect (on the credit risk) obtained from the assets provided as collateral or other risk-mitigating factors. The amount of the financial instruments presented in this table at fair value represents the existing credit risk but not the maximum potential future risk due to changes in fair value.

	Note	<b>Gross maximum credit risk 2010</b>	Gross maximum credit risk 2009
Deposits at the central bank	1	<b>56,768</b>	49,501
Receivables from banks	2	<b>533,683</b>	680,538
Loans and advances	3	<b>8,545,832</b>	8,450,974
Other financial assets	4	<b>761,705</b>	762,595
Associates	5	<b>99,302</b>	146,024
Current tax	9	<b>4,821</b>	285
Trade receivables	11	<b>56,655</b>	34,983
Other assets	12	<b>38,675</b>	26,533
Prepayments and accrued income	13	<b>59,024</b>	38,661
Sub-total		<b>10,156,765</b>	10,190,094
Contingent liabilities	43	<b>121,103</b>	109,333
Revocable facilities	43	<b>691,012</b>	642,803
Irrevocable facilities	43	<b>270,216</b>	175,865
Total credit risk		<b>11,239,096</b>	11,118,095

The reported BIS ratio is based on the Standardised Approach for credit risk. Use is made of risk considerations and credit risk mitigation techniques as indicated by the regulator.

The policy regarding credit risk is conservative and cautious. The policy is that a customer should not be given a loan which is beyond his means to pay, so that the level of credit risk remains acceptable. In the authorisation process, common sense is applied as well as the risk profile generated by the models.

Credit risk is managed at two levels: at portfolio level and at the level of individual items. Management at portfolio level is conducted on the basis of several indicators, including:

- Economic capital
- Earnings at Risk
- Limits relating to concentration in the portfolio
- Expected loss in the portfolio
- Current account overdrafts
- Acceptance criteria for retail products
- Rating migration

The concentration per sector of the risk-weighted exposure of Friesland Bank at year end is shown in the table below:

	<b>2010</b>	<b>2009</b>
Sectors:		
Private individuals	<b>6%</b>	6%
Corporate clients		
- Banks and financial intermediaries	<b>33%</b>	32%
- Real estate	<b>14%</b>	14%
- Service providers	<b>13%</b>	18%
- Agriculture, animal husbandry and fisheries	<b>9%</b>	8%
- Construction and infrastructure	<b>2%</b>	3%
- Transport and logistics	<b>2%</b>	2%
- Health and social care	<b>2%</b>	2%
- Tourism and leisure	<b>2%</b>	1%
- Other	<b>17%</b>	14%
	<hr/>	<hr/>
Total	<b>100%</b>	100%

The percentage of the portfolio represented by receivables from private individuals is relatively low on the basis of risk-weighted exposure. These receivables have a lower risk profile than receivables from corporate clients. Among receivables from corporates, the largest concentrations are in real estate, financial holdings/financial intermediaries and service providers. Real estate and the primary sector provide a high level of collateral through mortgages on buildings and land. The exposure to financial holdings and financial intermediaries includes deposits with banks and the investment portfolio. The Other item is a combination of various sectors that individually account for less than 2% of the total.

Country risk is concentrated in the Netherlands: 0.7% (2009: 1.0%) of the risk-weighted assets was lent to parties outside the Netherlands.

Since 2005, Friesland Bank has used internally developed risk models which estimate the probability of default (PD) and the loss given default (LGD) for clients. No internal rating is available for the receivables from banks and public authorities or for the RMBS portfolio, given the size of the portfolio; the external ratings of Moody's, Fitch or S&P are used here. Rating models are not used for private equity investments.

A governance process has been formulated for internal models. The model governance process consists of four stages. In chronological order, these are:

- development of the model
- pre-validation
- implementation
- validation

The next summary presents the portfolio divided into PD rating classes. According to the simple IRB approach, the Corporate item includes large and medium-sized corporate lending and the Retail item consists of personal loans and lending to SMEs. A total of €520 million (2009: €422 million) is in default, for which a provision has been made. The definition of default at Friesland Bank is the same as the definition of non-payment in section 3:40 of the Supervisory Regulation on Solvency Requirements for Credit Risk (Regeling solvabiliteitseisen voor het kredietrisico).

	<b>FB01</b>	<b>FB06</b>	<b>FB09</b>	<b>FB11</b>	<b>D1</b>	<b>Unrated</b>	<b>Total</b>
<b>2010</b>	<b>FB05</b>	<b>FB08</b>	<b>FB10</b>	<b>FB12</b>	<b>D2</b>		
Historical default rates	0.34%	2.20%	6.16%	15.48%	-	-	<b>1.02%</b>
Loans and advances							
- Large enterprises	4.3%	10.8%	7.2%	1.6%	2.6%	-	<b>26.5%</b>
- SMEs	6.5%	9.7%	3.2%	0.5%	2.3%	-	<b>22.2%</b>
- Residential mortgages	36.2%	6.4%	1.6%	1.0%	1.3%	-	<b>46.5%</b>
- Other personal loans and advances	1.7%	2.1%	0.4%	0.1%	0.5%	-	<b>4.8%</b>
Total	48.7%	29.0%	12.4%	3.2%	6.7%	-	<b>100.0%</b>
	<b>FB01</b>	<b>FB06</b>	<b>FB09</b>	<b>FB11</b>	<b>D1</b>	<b>Unrated</b>	<b>Total</b>
<b>2009</b>	<b>FB05</b>	<b>FB08</b>	<b>FB10</b>	<b>FB12</b>	<b>D2</b>		
Historical default rates	0.32%	2.73%	8.41%	17.69%	-	-	1.19%
Loans and advances							
- Large enterprises	3.1%	11.3%	8.2%	2.6%	2.0%	-	27.2%
- SMEs	5.9%	8.7%	3.9%	1.1%	2.2%	-	21.8%
- Residential mortgages	35.7%	7.0%	1.8%	0.8%	1.3%	-	46.6%
- Other personal loans and advances	1.6%	2.1%	0.3%	0.1%	0.3%	-	4.4%
Total	46.3%	29.1%	14.2%	4.6%	5.8%	-	100.0%

The analysis of accounts in arrears for which impairment losses have not been recognised is as follows (in millions of euros):

<b>2010</b>	<b>=&lt; 30 days</b>	<b>&gt;30 and =&lt;60 days</b>	<b>&gt;60 and =&lt;90 days</b>	<b>&gt;90 days</b>	<b>Total 2010</b>
Receivables from banks	-	-	-	-	-
Loans and advances:					
- Large enterprises	-	-	0.1	-	<b>0.1</b>
- SMEs	2.6	1.1	0.3	2.0	<b>6.0</b>
- Residential mortgages	0.3	0.1	-	-	<b>0.4</b>
- Other personal loans and advances	0.3	0.1	0.1	-	<b>0.5</b>
Other receivables	-	-	-	-	-
Total	3.2	1.3	0.5	2.0	<b>7.0</b>

2009	=< 30 days	>30 and =<60 days	>60 and =<90 days	>90 days	Total 2009
Receivables from banks	-	-	-	-	-
Loans and advances:					
- Large enterprises	6.4	0.4	-	-	6.8
- SMEs	2.3	1.0	0.7	2.3	6.3
- Residential mortgages	0.5	0.1	-	-	0.6
- Other personal loans and advances	1.4	0.1	-	-	1.5
Other receivables	-	-	-	-	-
<b>Total</b>	<b>10.6</b>	<b>1.6</b>	<b>0.7</b>	<b>2.3</b>	<b>15.2</b>

In both 2010 and 2009 sufficient collateral was available not to recognise an impairment loss. The collateral provided concerns mainly residential and commercial property.

#### 40.4 Liquidity risk

Liquidity risk relates to both the potential mismatch between required and existing liquidity in normal and exceptional situations, and the possibility that the bank is not able to raise sufficient liquidity for its needs. The objective of the liquidity risk process is to ensure that Friesland Bank has sufficient liquidity to meet its obligations, at a reasonable rate.

The liquidity risk of derivatives consists of the inability to obtain the cash required to be able to pay the interest flows. Friesland Bank uses margin calls in the form of book-entry credits or collateral provided. In the summaries below, the derivatives are presented in net form, since no net cash flow will occur on the contractual maturity date. On a net basis, therefore, the positions are nil.

The bank has a strategy that is supported by the organisation for the management of its liquidity position and the recognised risks. This is elaborated in the liquidity policy and the Liquidity Contingency Plan, which lists the actions that Friesland Bank will take in situations of emergency as regards liquidity.

The bank has an information system for the measurement, monitoring, management and reporting of liquidity risk. A liquidity maturity calendar is prepared on a weekly basis that shows the expected development of the liquidity position over the coming 15 months. In addition, a weekly liquidity dashboard is compiled, which describes the development of market and bank-related factors that could affect the future liquidity position of Friesland Bank. Moreover, the monthly and annual liquidity is calculated on a monthly basis and reported to the ALCO each month.

The ratios at year end are shown below:

	2010	2009
Risk management instrument:		
- Monthly liquidity	<b>1.20</b>	2.03
- Annual liquidity	<b>0.56</b>	0.57

The monthly liquidity fluctuated between the opening and closing balances in 2010 and remained above the DNB standard level at all times. The high balance at year-end 2009 was due to a non-recurring large cash inflow in December 2009.

The monthly liquidity is the quotient of the balance of incoming and outgoing flows of funds for the subsequent month and the balance required by DNB. This is calculated using weighting percentages ( $\leq 100\%$ ) issued by DNB. The annual liquidity is the ratio between the sum of the assets and the sum of the liabilities that will contractually mature in cash in the subsequent 12 months.

The ALCO monitors the liquidity position and determines the liquidity focus level. The degree of monitoring of the liquidity position under the Liquidity Contingency Plan coordinated by the Liquidity Contingency Team (LCT) was heightened in 2010 as a result of the situation in the money and capital markets. The LCT monitors the liquidity position on the basis of the weekly liquidity information: the target set depends on developments and the degree of uncertainty in the money and capital markets, among other factors. The transactions used to bring the liquidity position to the desired level and maintain the desired level of liquidity are executed by the Treasury & Financial Markets Department.

The following table shows the financial liabilities classified by contractual liquidity term to maturity (in millions of euros). The amounts shown are not discounted.

<b>2010</b>	<b>&lt; 1 month</b>	<b>1 month - 3 months</b>	<b>3 months - 1 year</b>	<b>1 year - 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Banks	53	903	8	32	-	<b>996</b>
Funds entrusted	2,437	113	201	2,418	108	<b>5,277</b>
Debt securities	1	100	500	738	1,811	<b>3,150</b>
Subordinated liabilities	1	2	4	82	271	<b>360</b>
Financial liabilities	-	-	-	-	-	-
Other payables and accruals	166	36	33	-	-	<b>235</b>
Interest	23	30	93	416	119	<b>681</b>
<b>Total financial liabilities</b>	<b>2,681</b>	<b>1,184</b>	<b>839</b>	<b>3,686</b>	<b>2,309</b>	<b>10,699</b>
<b>2009</b>	<b>&lt; 1 month</b>	<b>1 month - 3 months</b>	<b>3 months - 1 year</b>	<b>1 year - 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Banks	81	77	759	23	10	950
Funds entrusted	2,817	457	279	1,807	88	5,448
Debt securities	-	100	15	1,247	1,551	2,913
Subordinated liabilities	26	5	49	52	286	418
Financial liabilities	-	-	-	-	-	-
Other payables and accruals	156	26	33	-	-	215
Interest	25	34	122	704	182	1,067
<b>Total financial liabilities</b>	<b>3,105</b>	<b>699</b>	<b>1,257</b>	<b>3,833</b>	<b>2,117</b>	<b>11,011</b>

The 'banks' item in the above tables include withdrawals made by Friesland Bank from the European Central Bank. The financial liabilities are presented as nil as they will settle on a net basis on the contractual maturity date. Liquidity risk is managed using expected remaining terms to maturity. For this purpose the contractual maturities are corrected for certain effects:

- Modelling of fixed cores in current accounts (debit and credit) and instant access savings accounts. Despite their instant access nature, there is always a certain volume continually available in these products. This is determined on the basis of historical data, with a distinction made between the treatment on the debit side and the credit side, due to the various reasons for holding cash balances (the difference in the motive for saving or for borrowing). The fixed core terms are up to 5 years for debit products and up to 15 years for credit products.

- Modelling of early repayment of personal mortgages. A model has been developed for personal mortgages based on the competition rates and the level of the interest rate which determines the probability of early repayment for each mortgage. The model calculates a cumulative correction on the contractual term to maturity for the entire personal mortgages portfolio.

The table below shows the contractual maturities for the contingent liabilities and revocable and irrevocable facilities (in millions of euros):

<b>2010</b>	<b>&lt; 1 month</b>	<b>1 month - 3 months</b>	<b>3 months - 1 year</b>	<b>1 year - 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Contingent liabilities and revocable and irrevocable facilities	810	1	12	39	220	<b>1,082</b>
<b>2009</b>	<b>&lt; 1 month</b>	<b>1 month - 3 months</b>	<b>3 months - 1 year</b>	<b>1 year - 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Contingent liabilities and revocable and irrevocable facilities	758	9	21	127	13	928

The expectation is that not all contingent liabilities and revocable and irrevocable facilities will actually generate cash flows.

#### **40.5 Operational risk**

In its business activities, Friesland Bank is exposed to the risk that processes or systems will be inadequate or fail, or that employees will make errors or fail to perform their duties. There is also the threat of unforeseen external events such as power cuts. The extensive usage of and high dependency on automated data systems and the wide range of products on offer are contributing factors. Operational risk relates to all of Friesland Bank, and is explicitly defined as the risk of losses resulting from inadequate or failing internal processes, people, systems or due to external events. The bank cannot and does not wish to completely eliminate all operational risks; it manages these risks using procedural measures of internal control in its administrative organisation and technical measures in its systems. These are measures followed by the line organisation and also measures followed by the change organisation (projects) that are designed to mitigate operational risks, including measures to safeguard the security of information and prevent fraud. Regular reports on the status of operational risk management are prepared which focus on the degree to which risks are controlled and actual losses (classified by risk area) within the context of Friesland Bank.

#### **40.6 Capital management**

The capital requirement for Friesland Bank at 31-12-2010 is, as in the previous year, calculated using the Standard approach for credit risk, the Capital Adequacy Directive for market risk and the Basic Indicator approach for operational risk. The norms applied by Friesland Bank for the establishment of capital adequacy have not led to prudential allowances. At year-end 2010, the BIS ratio stood at 12.1% (2009: 13.1%). The bank thus has a buffer which amply meets the minimum requirements of De Nederlandsche Bank.

In the internal capital adequacy assessment process (ICAAP) the quantifiable risks are compared with the amount of available capital using the capital adequacy ratio (CAR) and the BIS ratio. The CAR is the ratio of the economic capital for diversification to the total assets. Friesland Bank has decided to maintain its CAR in a range between 60% and 80%. This means that between 20% and 40% of Friesland Bank's total assets will not be used to take risks requiring economic capital and will be retained as a buffer.

If underspending or overspending occurs, action will be taken to reduce the risk profile of the assets or raise additional capital. The CAR remained within the stated range in both 2010 and 2009.

Friesland Bank conducts regular stress tests at set intervals, but also more in the form of scenario analyses, such as in the context of the stress scenarios set by DNB. These show that in the defined stress situations Friesland Bank has sufficient capital, and that its ratios, after running the scenarios, are sufficiently robust. Various stress situations are defined in these scenarios, including macroeconomic developments (decline in value of underlying securities), bank-specific factors (such as a large number of clients defaulting), technical crises and natural disasters.

#### 41. Fair value of financial instruments

The following table presents the carrying amounts and fair values for all financial assets and liabilities. The fair values of the assets and liabilities are presented excluding accrued interest and in millions of euros.

	Carrying amount 2010	Fair value 2010	Difference 2010	Carrying amount 2009	Fair value 2009	Difference 2009
<b>Assets</b>						
Cash	66	66	-	60	60	-
Banks	534	534	-	681	681	-
Loans and advances	8,546	8,948	402	8,451	8,874	423
Other financial assets – at fair value	504	504	-	489	489	-
Other financial assets - RMBS	344	324	-20	365	292	-73
Associates	431	396	-35	535	583	48
Other assets, prepayments and accrued income	302	302	-	270	270	-
	10,727	11,074	347	10,851	11,249	398
<b>Liabilities</b>						
Banks	996	996	-	951	953	2
Funds entrusted	5,277	5,527	250	5,448	5,658	210
Debt securities	3,150	3,189	39	2,912	2,948	36
Financial liabilities	120	120	-	133	133	-
Other liabilities, accruals and deferred income	126	126	-	226	226	-
Subordinated liabilities	361	365	4	418	426	8
	10,030	10,323	293	10,088	10,344	256

The fair value of a financial instrument is the amount for which it can be exchanged or settled between well-informed, willing parties in an independent transaction.

The following describes the method of determination of fair value for each balance sheet category.

##### 41.1. Cash

The balance sheet value of cash is considered to be a reasonable representation of fair value.

#### *41.2 Banks (debit and credit)*

The balance sheet values of demand deposits at banks and receivables with no agreed maturity are considered to be a reasonable representation of fair value. For receivables from banks with an agreed maturity, the fair value is determined on the basis of discounted future cash flows using the interest rate applying on the balance sheet date to receivables from banks with the same remaining term to maturity.

#### *41.3 Loans and advances*

The fair value of fixed-income loans and mortgages is estimated by discounting the future cash flows setting the market interest rate prevailing at the time the loan was granted against the current market interest rate for similar loans and advances on the balance sheet date.

The determination of future cash flows takes account of the effect of possible early repayments.

The balance sheet value of variable interest loans is considered to be a reasonable representation of fair value. Changes to the creditworthiness of clients, the credit spread and the liquidity spread are taken into account in the determination of fair value by applying an adjustment to the spread. This valuation model uses cash value calculations to approximate the fair value. The input for the model is as far as possible derived from observable market data in preference to estimates not based on observable market data. The market data used include interest rates, volatilities, correlations and credit spreads. A number of additional factors such as the bid-offer spread, counterparty risk and model uncertainty are also taken into account where necessary.

#### *41.4 Other financial assets at fair value and financial liabilities*

For financial instruments trading in active markets, fair value is based on the market price (fair value level I). Assets are measured at the bid price, liabilities at the offer price. For financial instruments in inactive markets or for which no market prices are available, the fair value is determined using valuation techniques based on observable market data (fair value level II) or internal valuation techniques not based on observable market data (fair value level III). Valuation techniques based on observable market data include, for example, quoted prices of similar instruments or valuation models which use data such as market interest rates and credit spreads. Estimation methods not based on observable market data are estimation models based on estimates and assumptions by the company management.

Estimation techniques are generally used for the determination of fair value of OTC derivatives, unlisted shares and interests in non-financial private equity investments. The methods used include comparison with similar instruments for which observable market data are available, forward pricing and swap models with cash value calculations, option models such as the Black & Scholes model and credit models such as default rate and credit spread. The input for estimation model is as far as possible derived from observable market data in preference to estimates not based on observable market data. The market data used include interest rates, volatilities, correlations and credit spreads. A number of additional factors such as the bid-offer spread, counterparty risk and model uncertainty are also taken into account where necessary.

For equity interests held by Friesland Bank Investments of which the shares are traded in active markets, the fair value is measured at the quoted market price. Other interests are measured using an estimation model based on multiples which were also used as the input variables at the time of the initial investment.

The table below shows the financial instruments measured at fair value in the financial statements specified by fair value level (in thousands of euros):

	Level I 2010	Level II 2010	Level III 2010	Total 2010
<b>Assets</b>				
<i>Trading portfolio</i>				
- equities	-	-	-	-
<i>Available for sale</i>				
- equities	20,306	50,218	1,620	<b>72,144</b>
- financial instruments held by Friesland Bank Investments	2,126	-	12,384	<b>14,510</b>
- bonds	295,433	2,828	73,319	<b>371,580</b>
<i>Derivatives</i>				
- held for trading	-	42,953	-	<b>42,953</b>
- designated as hedge-instrument	-	2,742	-	<b>2,742</b>
<b>Total</b>	<b>317,865</b>	<b>98,741</b>	<b>87,323</b>	<b>503,929</b>
<b>Liabilities</b>				
<i>Derivatives</i>				
- held for trading	-	88,588	-	<b>88,588</b>
- held for hedging	-	31,066	-	<b>31,066</b>
<b>Total</b>	<b>-</b>	<b>119,654</b>	<b>-</b>	<b>119,654</b>
	Level I 2009	Level II 2009	Level III 2009	Total 2009
<b>Assets</b>				
<i>Trading portfolio</i>				
- equities	-	-	-	-
<i>Available for sale</i>				
- equities	33,056	44,349	1,620	79,025
- financial instruments held by Friesland Bank Investments	2,445	-	10,299	12,744
- bonds	242,531	37,182	85,529	365,242
<i>Derivatives</i>				
- held for trading	-	29,885	-	29,885
- designated as hedge-instrument	-	2,311	-	2,311
<b>Total</b>	<b>278,032</b>	<b>113,727</b>	<b>97,448</b>	<b>489,207</b>
<b>Liabilities</b>				
<i>Derivatives</i>				
- held for trading	-	64,510	-	64,510
- held for hedging	-	68,092	-	68,092
<b>Total</b>	<b>-</b>	<b>132,602</b>	<b>-</b>	<b>132,602</b>

The investment portfolio concerns current bonds that are mainly traded between professional market participants without the intermediation of a regulated market. Prices are available from brokers on request. Transactions in these bonds are not centrally registered or published by a stock exchange, and Friesland Bank is thus of the opinion that there is not a demonstrably active market. The comparative figures for 2009 have been adjusted, whereby a reclassification has occurred in the

category of bonds in an amount of €25.6 million from level II to level III. The financial instruments in fair value level III consist mainly of interest-rate related products. The interest on these products is usually contractually agreed. This interest rate is however not observable in the market and these instruments are only traded to a limited extent. The measurement of these instruments can be reliably established. The other products in the level III category, mainly concerning interests of less than 20%, are of limited size. Different assumptions in this category would therefore not lead to a significantly different total fair value.

There was no reclassification between level I and level II during the year. The development of the level III instruments can be shown as follows:

	<b>2010</b>	<b>2009</b>
Balance at 1 January	<b>97,448</b>	74,728
- Purchases	<b>970</b>	17,435
- Sales	<b>-11,351</b>	-
- Revaluations	<b>4,864</b>	1,822
- Results	<b>5,141</b>	3,428
- Dividends	<b>-1,861</b>	-758
- Impairments	<b>-6,878</b>	-3,973
- Consolidations and deconsolidations	<b>-1,010</b>	4,766
	<hr/>	<hr/>
Balance at 31 December	<b>87,323</b>	97,448

The revaluations are included in the unrealised results in the consolidated statement of comprehensive income. Results and dividends are recognised in the consolidated income statement in the item Income from securities. Impairment losses are also recognised in the consolidated income statement in the item Impairment of other financial assets. Of the total reported result, -€0.9 million (2009: €0.3 million) relates to assets available on the balance sheet date.

#### *41.5 Other financial assets - RMBS*

In 2008, the method of fair value estimation of the RMBS (Residential Mortgage Backed Securities) portfolio changed from quoted market prices to an estimation model based on observable market data. The market for such instruments became inactive in 2008, and as a consequence the quoted market prices are either no longer available or no longer accurately reflect the current underlying value. In the estimation model used, the cash value of the cash flows is calculated using observable market data such as maturities, coupon interest and redemption schedules.

#### *41.6 Investments in associates*

For investments in associates whose shares are traded in active markets, the fair value is measured at the quoted market price. Other interests are measured using an estimation model based on multiples which were also used as the input variables at the time of the initial investment.

#### *41.7 Other assets, prepayments and accrued income*

The balance sheet value of other assets, prepayments and accrued income is considered to be a reasonable representation of fair value.

#### *41.8. Funds entrusted*

The balance sheet values of instant access deposits of clients and deposits with no agreed maturity are considered to be a reasonable representation of fair value. For deposits with an agreed maturity, the fair value is determined on the basis of discounted future cash flows using the interest rate applying on the balance sheet date to deposits with the same remaining term to maturity.

#### *41.9 Debt securities*

The fair value of debt securities is approximated by discounting future cash flows using the interest rate applying to similar instruments. The fair values of the Notes issued by Stichting Eleven Cities No 1, No 2, No 3, No 4, No 5 and No 6 are approximated using an internally developed RMBS estimation model. This valuation model uses cash value calculations to approximate the fair value. The input for the model is as far as possible derived from observable market data in preference to estimates not based on observable market data. The market data used include interest rates, volatilities, correlations and credit spreads. A number of additional factors such as the bid-offer spread, counterparty risk and model uncertainty are also taken into account where necessary.

#### *41.10 Financial liabilities*

The determination of the fair value of derivatives not publicly traded depends on the type of instrument and is based on a cash value model of future cash flows. The discount rate is based on the market interest-rate curves on the balance sheet date.

#### *41.11 Other liabilities, accruals and deferred income*

The balance sheet value of other liabilities, accruals and deferred income is considered to be a reasonable approximation of the fair value.

#### *41.12 Subordinated liabilities*

The fair value of subordinated liabilities is approximated by discounting future cash flows using the interest rate applying to similar instruments on the balance sheet date.

## **42. Derivatives and hedge accounting**

Derivatives are financial instruments represented in contracts whose value depends on one or more underlying assets, reference prices or indices. Examples of derivatives include forward currency contracts, interest-rate swaps, options and forward rate agreements. The bank uses transactions in derivatives to manage its own interest-rate and currency risk, and also executes such transactions on behalf of its clients. In most cases the amount, maturity and price of derivatives contracts are agreed upon directly with a counterparty in the over-the-counter (OTC) market.

In addition to market risk (the risk due to a change in the interest rate or exchange rate for example) derivatives also involve credit risk. The credit risk concerns the potential loss if a counterparty defaults. The credit risk is measured by adding a percentage of the notional amount (defined by the maturity and nature of the contracts) to the positive replacement value of the derivatives contracts. The weighted credit equivalent is obtained by weighting this (unweighted) credit equivalent against the counterparty risk (generally banks).

The positions in derivatives can be analysed as follows (in millions of euros):

<b>Year-end 2010</b>	<b>=&lt; 1 year</b>	<b>&gt; 1 year =&lt; 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>	<b>Positive market value</b>	<b>Negative market value</b>
<i>Interest-rate contracts</i>						
OTC, swaps	51	1,918	804	<b>2,773</b>	37	112
OTC, options	131	302	77	<b>510</b>	7	7
OTC, forwards	-	-	-	-	-	-
	182	2,220	881	<b>3,283</b>	44	119
<i>Currency contracts</i>						
OTC, options	-	-	-	-	-	-
OTC, forwards	126	-	-	<b>126</b>	2	1
<b>Total</b>	<b>308</b>	<b>2,220</b>	<b>881</b>	<b>3,409</b>	<b>46</b>	<b>120</b>

<b>Year-end 2009</b>	<b>=&lt; 1 year</b>	<b>&gt; 1 year =&lt; 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>	<b>Positive market value</b>	<b>Negative market value</b>
<i>Interest-rate contracts</i>						
OTC, swaps	80	902	961	1,943	23	122
OTC, options	87	229	50	366	4	4
OTC, forwards	-	-	-	-	-	-
	167	1,131	1,011	2,309	27	126
<i>Currency contracts</i>						
OTC, options	-	-	-	-	-	-
OTC, forwards	162	-	-	162	2	3
<b>Total</b>	<b>329</b>	<b>1,131</b>	<b>1,011</b>	<b>2,471</b>	<b>29</b>	<b>129</b>

#### 43. Liabilities not shown in the balance sheet

This item includes contingent liabilities arising from transactions in which the bank has given guarantees for the liabilities of third parties and irrevocable facilities which could lead to credit risk, for example unused current account overdraft facilities.

	<b>2010</b>	<b>2009</b>
Contingent liabilities in respect of guarantees etc.	<b>116,218</b>	102,323
Contingent liabilities in respect of irrevocable letters of credit	<b>4,885</b>	7,010
Contingent liabilities	<b>121,103</b>	109,333
Revocable facilities	<b>691,012</b>	642,803
Irrevocable facilities	<b>270,216</b>	175,865
<b>Total</b>	<b>1,082,331</b>	928,001

For the maturities of the contingent liabilities and the revocable and irrevocable facilities, see note 40.4.

A small number of lawsuits against Friesland Bank N.V. are pending. On the basis of the currently available information and on the strength of advice from legal counsel, the Executive Board does not expect the outcome of these proceedings to have any material adverse effect on the financial position of Friesland Bank N.V. Provisions have been formed for some of these proceedings where there is a probability that a payment will be required.

The commitments arising from long-term rental and lease contracts (rent of premises and operating vehicle lease contracts) at year end amounted to:

- less than one year                    €3.9 million (2009: €3.7 million)
- between one and five years        €7.0 million (2009: €5.7 million)
- five years or more                    €0.2 million (2009: €0.5 million)

An amount of €3.3 million (2009: €3.2 million) was charged to the result for long-term rental and lease contracts during the reporting year. During the year, Friesland Bank committed itself to investments in property, plant and equipment amounting to €1.2 million (2009: €2.4 million).

#### **44. Collateral security**

In connection with security provided for certain liabilities and off-balance sheet contingent liabilities, as well as in connection with transactions in financial markets, certain assets are not freely available. This concerns cash, which in the period around the balance sheet date has to be retained in an amount of on average €52.4 million (2009: €65.6 million) and other financial assets in an amount of €1.3 billion (2009: €1.3 billion).

Credit institutions located in the Netherlands are obliged to hold minimum reserves at DNB as part of the system of reserve requirements in the Eurosystem. The amount of minimum reserves to be held by each institution is determined in relation to the reserve base of the institution. DNB sets the amount of cash reserves to be held. This requirement is met if over a certain period the average balance held meets the balance required by DNB. Interest is paid on the reserves held by institutions at the average marginal rate for main refinancing operations in the Eurosystem during the holding period. The carrying amount of the cash funds at balance sheet date was €56.8 million (2009: €49.5 million).

Marketable and non-marketable assets meeting the criteria applying throughout the eurozone established and published by the ECB qualify as collateral for monetary policy transactions (and also for intraday credit). To calculate the value qualifying as collateral, a percentage is deducted from the market value of the assets. This percentage (known as the 'valuation haircut') depends on the asset in question and the remaining term to maturity. Both marketable and non-marketable assets are classified into various liquidity categories. The carrying amount of the other financial assets, mainly bonds and RMBS, at the balance sheet date was €1.5 billion (2009: €1.5 billion).

#### **45. Related party disclosures**

To a limited extent, ordinary banking transactions such as lending and funds transfer are executed on market terms and conditions with related parties.

	<b>Bank assets</b>	<b>Loans and advances</b>	<b>Bank liabilities</b>	<b>Funds entrusted</b>
<b>2010</b>				
Associates	1,213	6,950	-	515
Key Management	14	2,653	150	1,329
<b>2009</b>				
Associates	7,352	11,239	30,629	7,565
Key Management	12	3,892	133	1,994

Within the Group, the members of the Executive Board and the Supervisory Board are considered to be Key Management, since they are responsible respectively for the determination and supervision of operating and financial policy.

### Executive Board

The conditions of employment of the members of the Executive Board are established by the Supervisory Board on the recommendation of the Remuneration Committee. In accordance with a sustainable policy, the remuneration of the members of the Executive Board is reviewed every two years on the basis of an independent external market comparison. The remuneration of the members of the Executive Board for 2009 and 2010 was established in January 2009. Their pension is based on an average salary plan with indexation and an accrual percentage of 2.25% per service year. The pensionable salary is equal to the annual salary including holiday allowance and the 13th month. The retirement age is 65 years. The minimum permitted offset for state retirement pension under the tax regulations is applied. 2.5% of the pension base is withheld from the member of the Executive Board as an employee contribution.

In addition to their fixed salary, the members of the Executive Board are eligible for a variable bonus. No variable bonus was allocated to the existing members of the Executive Board for 2010. The remuneration policy for members of the Executive Board will be amended with effect from 2011. See page 48 of this annual report for further details.

The remuneration (including pension costs) of the members and former members of the Executive Board amounted to €2,913,000 (2009: €3,036,000). The specification is as follows:

<b>2010</b>	<b>Fixed remuneration</b>	<b>Variable remuneration</b>	<b>Other</b>	<b>Pension</b>	<b>Total</b>
C.J. Beuving	199,000	-	9,000	-	208,000
A. Vlaskamp	324,000	-	20,000	95,000	439,000
G.T. van Wakeren RBA	313,000	-	20,000	72,000	405,000
R. Klaasman	270,000	-	605,000*	64,000	939,000
E.H.M.M. Krijnsen RA	330,000	-	539,000*	53,000	922,000

\* Includes sums of €590,000 (R. Klaasman) and €519,000 (E.H.M.M. Krijnsen RA) contractually agreed in relation to the termination of the employment agreement. The severance payment consists of a payment based on the fixed salary (R. Klaasman €450,000, E.H.M.M. Krijnsen RA €313,000), the average variable bonus over the previous three years (R. Klaasman €126,000, E.H.M.M. Krijnsen RA €59,000), and the settlement of other entitlements and claims (R. Klaasman €14,000, E.H.M.M. Krijnsen RA €147,000).

In addition, the 'Other' item for all members of the Executive Board concerns compensation for the addition to taxable income for the private use of a company car of €20,000 on an annual basis.

2009	Fixed remuneration	Variable remuneration	Other	Pension	Total
R. Klaasman	346,000	100,000	20,000	82,000	548,000
A. Vlaskamp	313,000	87,000	20,000	145,000	565,000
E.H.M.M. Krijnsen RA	313,000	100,000	20,000	52,000	485,000
G.T. van Wakeren RBA	313,000	87,000	20,000	80,000	500,000
W.F.C. Cramer	239,000	100,000	500,000*	99,000	938,000

\* Concerns a severance payment consisting of one year's salary of €400,000 and the settlement of other entitlements and claims.

Outstanding amounts relating to loans etc. granted to members of the Executive Board as at balance sheet date amounted to €1,032,000 (2009: €2,448,000). The specification is as follows:

	2010	ave %	2009	ave %
R. Klaasman	-	-	1,308,000	3.3%
A. Vlaskamp	640,000	3.9%	748,000	4.0%
G.T. van Wakeren RBA	392,000	3.7%	392,000	3.7%

### Supervisory Board

In accordance with a sustainable policy, the remuneration of the members of the Supervisory Board is reviewed every two years on the basis of an independent external market comparison. The remuneration of the members of the Supervisory Board for 2009 and 2010 was established in January 2009. Based on the results of the market comparison, it was decided to keep the remuneration unchanged, whereby there has been no increase since 2007.

The fixed salaries of the chairman and vice-chairman are €35,000 and €28,000 per year respectively. The other supervisory directors receive a fixed salary of €24,000 per year. All committee members receive an attendance allowance per committee meeting of €1,500.

A number of supervisory directors participated in a working group composed of members of the Executive Board and the Supervisory Board, and accordingly attended various additional meetings in 2010. The analysis of the remuneration of €336,000 (2009: €265,000) and the outstanding amounts relating to loans etc. for members of the Supervisory Board of €1,296,000 (2009: €1,444,000) is as follows:

	Remuneration		2010	Outstanding sums		ave %
	2010	2009		ave %	2009	
R.J. Meuter	75,000	32,000	-	-	-	-
K. Wezeman	58,000	58,000	-	-	-	-
J. Keijzer	52,000	42,000	-	-	-	-
G. Benedictus	30,000	33,000	102,000	3.7%	160,000	3.8%
A. Oosterhof	33,000	32,000	1,194,000	4.1%	1,218,000	3.9%
L. Lindner	55,000	41,000	-	-	66,000	5.3%
B.R.I.M. Gerner	33,000	27,000	-	-	-	-

#### 46. Events after balance sheet date

Since 1994 all the shares in Friesland Bank N.V. have been held by Vereniging Friesland Bank through Friesland Bank Holding N.V. The governance of Friesland Bank Group has been regularly evaluated since then, most recently in 2010. As a result of this evaluation, the Executive Board and the General Meeting of Vereniging Friesland Bank decided to convert the Vereniging into Stichting Friesland Bank (the Friesland Bank Foundation, hereinafter “the Foundation”). The conversion was effected on 1 April 2011. The Foundation is managed by a board with a maximum of seven directors. The effectiveness of the shareholder of Friesland Bank will thus be further strengthened. The objectives under the articles of association remain unchanged. The governance of Friesland Bank Group has thus been brought in line with the requirements arising from the most recent perceptions regarding good governance.

There have been no further events since the balance sheet date that would significantly affect the view obtained by users of these financial statements.

Leeuwarden, 20 April 2011

Friesland Bank N.V.  
The Executive Board

C.J. Beuving  
A. Vlaskamp  
G.T. van Wakeren RBA

## 1.6 Principal investments

The principal investments held by Friesland Bank are shown below.

The interests held are the same as the voting rights, unless otherwise stated. The interests are rounded off to the nearest whole percentage point. For investments marked with an asterisk (\*), a notice of liability has been issued in accordance with Section 2:403 BW.

		2010	2009
<b>Group companies</b>			
FBA Holding B.V.*	Leeuwarden	100%	100%
Friesland Bank Assurantiën B.V.*	Leeuwarden	100%	100%
Friesland Bank Assuradeuren B.V.*	Leeuwarden	100%	100%
Friesland Bank Investments B.V.*	Leeuwarden	100%	100%
Friesland Bank Participaties B.V.*	Leeuwarden	100%	100%
BV Bewaarbedrijf Friesland Bank	Leeuwarden	100%	100%
Holding- en Beleggingsmaatschappij Kring Noord B.V.	Leeuwarden	100%	100%
Beheersmaatschappij Het Noorden B.V.	Leeuwarden	100%	100%
Stichting Eleven Cities No 1	Amsterdam	100%	100%
Stichting Eleven Cities No 2	Amsterdam	100%	100%
Stichting Eleven Cities No 3	Amsterdam	100%	100%
Stichting Eleven Cities No 4	Amsterdam	100%	100%
Stichting Eleven Cities No 5	Amsterdam	100%	100%
Stichting Eleven Cities No 6	Amsterdam	100%	100%
Optimix Vermogensbeheer N.V.	Amsterdam	70%	-

### Group companies held by Friesland Bank Investments

Aandelenbeurs Fritom N.V.	Leeuwarden	100%	100%
Doedijns International Holding B.V.	Waddinxveen	85%	70%
Torenvalk Holding B.V.	Poeldijk	70%	70%
Troost Mechanical Services B.V.	Klundert	68%	68%
ATAG Heating Group	Lichtenvoorde	67%	-
Succes Holding B.V.	Rijswijk	-	60%
King Nuts Holding B.V.	Bodegraven	-	55%
Houdstermaatschappij Preferente Aandelen NDC B.V.	Leeuwarden	51%	51%
Orffa Holding B.V.	Werkendam	50%	-

2010 2009

**Associates**

Frieschriedt B.V.	Leeuwarden	50%	50%
Optimix Vermogensbeheer N.V.	Amsterdam	-	45%
Van Lanschot N.V.	's Hertogenbosch	23%	25%

**Associates held by Friesland Bank Investments**

Visual Identity Management Group B.V.	Oldenzaal	50%	50%
Damheer B.V.	Heerenveen	50%	50%
NVA Capital B.V.	Oldenzaal	50%	50%
Arboned Holding B.V.	Utrecht	49%	49%
Orffa Holding B.V.	Werkendam	-	45%
D.O.R.C Holding B.V.	Utrecht	43%	43%
De Drie Eiken B.V.	Amsterdam	43%	43%
Triade Holding B.V.	Amsterdam	-	41%
Halcyon Holding B.V.	Enschede	50%	50%
Berghave N.V.	Naarden	38%	38%
Alrec Instore Communication Group B.V.	Leeuwarden	34%	34%
Excent Participaties B.V.	Gouda	30%	30%
The Institute of Travel Holding B.V.	Amsterdam	29%	29%
Twentures Holding B.V.	Enschede	-	28%
Main Entertainment I	Den Haag	26%	26%
Jongbloed B.V.	Heerenveen	-	25%
Ophtec Holding B.V.	Groningen	25%	25%
Prins Holding B.V.	Dokkum	21%	21%
Actuera Holding B.V.	Rotterdam	20%	20%

## **2. Separate financial statements**

## 2.1.1 Separate balance sheet at 31 December 2010

(x € 1,000) ASSETS	Note	2010	2009
Cash	1	<b>65,832</b>	60,216
Short-dated government paper	2	-	-
Banks	3	<b>295,106</b>	562,215
Loans and advances to public sector		<b>14,092</b>	72,641
Loans and advances to private sector		<b>6,220,070</b>	6,587,437
Loans and advances	4	<b>6,234,162</b>	6,660,078
Interest-bearing securities	5	<b>1,353,693</b>	1,084,743
Equities	6	<b>72,103</b>	79,025
Investments in group companies	7	<b>286,142</b>	292,595
Other associates	8	<b>343,838</b>	427,913
Intangible assets	9	<b>45,209</b>	16,234
Property, plant and equipment	10	<b>75,271</b>	75,165
Other assets	11	<b>346,722</b>	181,989
Prepayments and accrued income	12	<b>57,001</b>	35,099
<b>Total assets</b>		<b>9,175,079</b>	<b>9,475,272</b>

(x € 1,000) LIABILITIES	Note	2010	2009
Banks	13	<b>987,856</b>	933,330
Savings accounts		<b>3,265,798</b>	2,926,358
Other funds entrusted		<b>2,027,108</b>	2,582,803
Funds entrusted	14	<b>5,292,906</b>	5,509,161
Debt securities	15	<b>1,419,192</b>	1,468,122
Other liabilities	16	<b>171,742</b>	155,655
Accruals and deferred income	17	<b>127,139</b>	119,362
Provisions	18	<b>25,562</b>	27,016
		<b>8,024,397</b>	8,212,646
Subordinated liabilities	19	<b>355,041</b>	406,378
Share capital		<b>16,858</b>	16,858
Share premium reserve		<b>76,319</b>	76,319
Revaluation reserve		<b>20,721</b>	30,277
Statutory reserves and reserves required by articles of association		<b>158,391</b>	168,470
Other reserves		<b>445,523</b>	419,357
Result for the year		<b>-43,282</b>	26,988
Interim dividend		<b>-3,889</b>	-4,852
Share capital and reserves attributable to shareholders in Friesland Bank	20	<b>670,641</b>	733,417
Perpetual Capital Securities		<b>125,000</b>	122,831
Capital base		<b>1,150,682</b>	1,262,626
<b>Total equity and liabilities</b>		<b>9,175,079</b>	<b>9,475,272</b>
Contingent liabilities	21	<b>121,103</b>	109,333
Revocable and irrevocable facilities	21	<b>961,228</b>	818,668

## 2.1.2 Separate profit and loss account 2010<sup>1</sup>

(x € 1,000)	2010	2009
Result from associates after tax	<b>44,471</b>	33,394
Other results after tax	<b>-87,753</b>	-6,406
<b>Net profit</b>	<b>-43,282</b>	26,988

<sup>1</sup> the separate income statement is prepared using the provision of Section 402, Book 2 of the Dutch Civil Code

## 2.2 Accounting policies

The separate financial statements are prepared in accordance with the provisions of Book 2, Title 9 of the Dutch Civil Code, making use of the facility allowing for application of the accounting policies used in the consolidated financial statements to the separate financial statements. In its consolidated financial statements, Friesland Bank N.V. applies the International Financial Reporting Standards (IFRS) as endorsed within the European Union. Since Friesland Bank has elected to use the same accounting policies as applied in the consolidated financial statements for its separate financial statements, the equity and net profit presented in the consolidated financial statements are the same as those presented in the separate financial statements.

Reference is therefore made to the accounting policies described in section 1.5 Accounting policies in the consolidated financial statements, except for the carrying amounts of investments in group companies, (equity investments in which significant influence can be exercised), which are measured using the equity method.

## 2.3 Notes to the separate financial statements

(x € 1,000) **1. Cash**

This item includes legal tender, including foreign currency bank notes and coins, as well as demand deposits at the central bank.

	<b>2010</b>	<b>2009</b>
This item comprises:		
- Cash	<b>9,063</b>	10,715
- Deposits at the central bank	<b>56,769</b>	49,501
	<b>65,832</b>	60,216

### 2. Short-dated government paper

This item includes debt securities issued by public authorities with maturities of less than two years.

### 3. Banks

This item comprises all amounts receivable from banks relating to the activities of the bank, regardless of form, except securities.

	<b>2010</b>	<b>2009</b>
This item comprises:		
- Demand deposits	<b>272,943</b>	562,215
- Time deposits	<b>22,163</b>	-
	<b>295,106</b>	562,215

There is no provision for default for the receivables in this item. The time deposits include a receivable in an amount of €22.1 million on DSB in connection with the deposit guarantee scheme. The receivable consists of an advance payment of €26.6 million and the provision formed in 2009 and 2010 of €4.5 million.

The analysis by maturity is as follows:

	<b>&lt; 3 months</b>	<b>3 months - 1 year</b>	<b>1 year - 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
2010	273	-	22	-	<b>295</b>
2009	562	-	-	-	<b>562</b>

#### 4. Loans and advances

This item includes all amounts receivable relating to the activities of the bank, other than receivables from banks and in the form of securities.

	2010	2009
This item comprises:		
- Loans and advances to the public sector	14,092	72,641
- Loans and advances to the private sector, personal	2,407,479	2,840,842
- Loans and advances to the private sector, corporate	3,942,410	3,857,397
- Provision for default	-129,819	-110,802
	<b>6,234,162</b>	6,660,078

The analysis of the loans and advances by maturity is as follows:

	< 3 months	3 months - 1 year	1 year - 5 years	> 5 years	Total
2010	1,141	69	484	4,540	<b>6,234</b>
2009	1,231	297	812	4,320	<b>6,660</b>

The analysis of loans and advances to corporate customers is as follows:

	2010	2009
- agriculture	16%	14%
- manufacturing and construction	7%	7%
- commerce	6%	6%
- business and financial services	57%	58%
- other services	5%	5%
- other	9%	10%
	<b>100%</b>	100%

The analysis of loans and advances by type of collateral is as follows:

	2010	2009
- public sector guarantee	5%	5%
- mortgage	33%	40%
- other collateral (including unsecured)	62%	55%
	<b>100%</b>	100%

The development of the provision for default was as follows:

	Corporate lending	Personal lending	Total 2010	Corporate lending	Personal lending	Total 2009
Balance at 1 January	97,493	13,309	110,802	66,647	19,168	85,815
Write-offs	-10,169	-3,056	-13,225	-6,029	-2,614	-8,643
Releases	-6,945	-2,141	-9,086	-13,434	-7,456	-20,890
Additions	39,020	1,994	41,014	50,309	3,929	54,238
Receipts	-	314	314	-	282	282
Balance at 31 December	119,399	10,420	129,819	97,493	13,309	110,802

## 5. Interest-bearing securities

This item includes interest-bearing securities issued by public-law bodies, banks and other entities, except for government paper eligible for refinancing with the central bank.

	2010	2009
Movements in the investment portfolio were as follows:		
Balance at 1 January	<b>1,084,743</b>	1,772,239
- Purchases	<b>1,478,206</b>	1,518,988
- Sales	<b>-1,857,904</b>	-2,093,645
- Redemptions	<b>-124,431</b>	-142,364
- Revaluations	<b>-704</b>	29,525
- Impairments	-	-
- Other movements	<b>773,783</b>	-
	<hr/>	<hr/>
Balance at 31 December	<b>1,353,693</b>	1,084,743
	<hr/>	<hr/>
	2010	2009
The analysis by issuer is as follows:		
- Dutch government	<b>278,829</b>	194,276
- Private sector	<b>1,074,864</b>	890,467
	<hr/>	<hr/>
	<b>1,353,693</b>	1,084,743
	<hr/>	<hr/>
	2010	2009
The analysis by marketability is as follows:		
- Listed	<b>295,433</b>	265,512
- Unlisted	<b>1,058,260</b>	819,231
	<hr/>	<hr/>
	<b>1,353,693</b>	1,084,743

The not yet amortised difference between cost and redemption value of the interest-bearing securities in the investment portfolio amounted to €6.1 million (2009: €1.7 million). The amount of interest-bearing securities falling due in the following year is €183.4 million (2009: €17.0 million).

## 6. Equities

This item includes shares issued by credit institutions and other companies, except for investments recognised as investments in group companies or other investments.

	2010	2009
The analysis according to portfolio purpose is as follows:		
- Equities held in the investment portfolio	<b>72,103</b>	79,025
- Equities held in the trading portfolio	-	-
	<hr/>	<hr/>
	<b>72,103</b>	79,025
	<hr/>	<hr/>
Movements in the investment portfolio were as follows:		
Balance at 1 January	<b>79,025</b>	87,573
- Purchases	<b>1,111</b>	5,652
- Sales	<b>-10,460</b>	-59,269
- Revaluations	<b>2,427</b>	45,069
- Impairments	-	-
	<hr/>	<hr/>
Balance at 31 December	<b>72,103</b>	79,025

	<b>2010</b>	<b>2009</b>
The analysis by marketability is as follows:		
- Listed	<b>20,267</b>	33,054
- Unlisted	<b>51,836</b>	45,971
	<b>72,103</b>	79,025

The total revaluation of the equities in the investment portfolio amounted to €11.7 million (2009: €15.1 million). The cost of the equities in the trading portfolio was nil (2009: nil).

### 7. Investments in group companies

This item includes all investments in the share capital of companies over which significant influence can be exercised and which also qualify as group companies according to Section 24b Book 2 of the Dutch Civil Code.

	<b>2010</b>	<b>2009</b>
The development of this item was as follows:		
Balance at 1 January	<b>292,595</b>	293,989
- Purchases	-	-
- Result	<b>30,652</b>	39,799
- Revaluations	<b>2,456</b>	-10,214
- Dividends	<b>-44,273</b>	-30,979
- Other movements	<b>4,712</b>	-
Balance at 31 December	<b>286,142</b>	292,595

As at balance sheet date, there are no group companies which qualify as credit institutions and all group companies are unlisted.

### 8. Other associates

This item includes all the investments in the share capital of companies over which significant influence can be exercised but which do not qualify as group companies.

	<b>2010</b>	<b>2009</b>
This concerns investments in:		
- Credit institutions	<b>331,649</b>	387,569
- Other entities	<b>12,189</b>	40,344
	<b>343,838</b>	427,913
	<b>2010</b>	<b>2009</b>
The development of this item was as follows:		
Balance at 1 January	<b>427,913</b>	428,217
- Purchases	<b>353</b>	-
- Sales	-	-489
- Result	<b>13,819</b>	-6,405
- Revaluations	<b>-10,918</b>	11,639
- Dividends	-	-5,049
- Impairments	<b>-60,881</b>	-
- Other movements	<b>-26,448</b>	-
Balance at 31 December	<b>343,838</b>	427,913

	<b>2010</b>	<b>2009</b>
The analysis by marketability is as follows:		
- Listed	<b>175,558</b>	114,120
- Unlisted	<b>168,280</b>	313,793
	<b>343,838</b>	427,913

### 9. Intangible assets

This item consists of capitalised goodwill relating to group companies and other intangible assets such as software and purchased client relationships, brand names and insurance portfolios.

	<b>2010</b>	<b>2009</b>
These concern:		
- Goodwill	<b>16,737</b>	-
- Client relationships and brand names	<b>10,508</b>	-
- Software	<b>17,964</b>	16,234
Balance at 31 December	<b>45,209</b>	16,234

The development of this item was as follows:

	<b>Goodwill</b>	<b>Client relation- ships</b>	<b>Brand names</b>	<b>Total 2010</b>	<b>Goodwill</b>	<b>Client relation- ships</b>	<b>Brand names</b>	<b>Total 2009</b>
Balance at 1 January	-	-	-	-	-	-	-	-
- Purchases	16,737	9,941	1,203	<b>27,881</b>	-	-	-	-
- Disposals	-	-	-	-	-	-	-	-
- Consolidations and deconsolidations	-	-	-	-	-	-	-	-
- Amortisation	-	-600	-36	<b>-636</b>	-	-	-	-
- Impairments	-	-	-	-	-	-	-	-
Balance at 31 December	16,737	9,341	1,167	<b>27,245</b>	-	-	-	-
Cumulative purchase cost	16,737	9,941	1,203	<b>27,881</b>	-	-	-	-
Accumulated amortisation	-	600	36	<b>636</b>	-	-	-	-

The development of the software item was as follows:

	<b>2010</b>	<b>2009</b>
Balance at 1 January	<b>16,234</b>	12,052
- Purchases	<b>8,729</b>	8,998
- Amortisation	<b>-6,999</b>	-4,816
Balance at 31 December	<b>17,964</b>	16,234
Cumulative purchase cost	<b>34,869</b>	27,498
Cumulative amortisation	<b>16,905</b>	11,264

## 10. Property, plant and equipment

This item includes buildings and land, machinery and installations and other operating assets such as technical and office equipment.

The development of this item was as follows:

	Property	Other assets	Total 2010	Property	Other assets	Total 2009
Balance at 1 January	62,735	12,430	<b>75,165</b>	65,350	14,369	79,719
- Investments	4,082	5,086	<b>9,168</b>	3,952	3,288	7,240
- Disposals	-446	-67	<b>-513</b>	-3,234	-45	-3,279
- Depreciation	-3,307	-5,242	<b>-8,549</b>	-3,333	-5,182	-8,515
Balance at 31 December	63,064	12,207	<b>75,271</b>	62,735	12,430	75,165
Cumulative purchase cost	107,792	76,496	<b>184,288</b>	104,335	71,516	175,851
Cumulative depreciation	44,728	64,289	<b>109,017</b>	41,600	59,086	100,686

## 11. Other assets

This item includes precious metals, coins and medals, tax assets and all other assets which cannot be classified under one of the other asset categories. This item includes an amount of €146.6 million (2009: €132.8 million) in deferred and current corporation tax.

## 12. Prepayments and accrued income

This concerns advance payments of expenses, accrued interest and other receivables not yet invoiced.

## 13. Banks

This item includes all accounts payable to banks associated with the bank's activities except liabilities in the form of debt securities and subordinated liabilities.

	2010	2009
This item comprises:		
- Demand deposits	<b>44,853</b>	63,630
- Time deposits	<b>943,003</b>	869,700
	<b>987,856</b>	933,330

The analysis by maturity is as follows:

	< 3 months	3 months - 1 year	1 year - 5 years	> 5 years	Total
2010	948	8	32	-	<b>988</b>
2009	141	759	23	10	<b>933</b>

#### 14. Funds entrusted

This item includes all liabilities associated with the bank's activities except accounts payable to banks, liabilities in the form of debt securities and subordinated liabilities.

	2010	2009
This item comprises:		
- Savings	<b>3,265,798</b>	2,926,358
- Other funds entrusted	<b>2,027,108</b>	2,582,803
	<b>5,292,906</b>	5,509,161

The analysis of the funds entrusted by maturity is as follows:

	< 3 months	3 months - 1 year	1 year - 5 years	> 5 years	Total
2010	2,609	201	2,375	108	<b>5,293</b>
2009	3,355	279	1,787	88	<b>5,509</b>

#### 15. Debt securities

This item includes bonds, medium term notes and other debt securities.

	2010	2009
This item comprises:		
- Medium term notes	<b>1,418,126</b>	1,467,049
- Other debt securities	<b>1,066</b>	1,073
	<b>1,419,192</b>	1,468,122

#### 16. Other liabilities

This item includes the liabilities that cannot be classified under the other liability categories, including funds transfer items not yet cleared.

#### 17. Accruals and deferred income

This item consists of amounts received in advance, accrued interest and other accounts payable.

#### 18. Provisions

	2010	2009
This item comprises:		
- Pension provisions	<b>23,887</b>	21,846
- Reorganisation provision	<b>1,450</b>	4,900
- Other provisions	<b>225</b>	270
	<b>25,562</b>	27,016

##### *Pension provision*

Friesland Bank has a legacy of various pension plans with its employees, whereby the employees are allocated a pension amounting to 70% of their final salary or their average salary. The pension allocated becomes payable when the employee reaches 65 years of age. Group pension contracts are concluded for the employees with an insurer. The tables below show the pension liabilities and

the fair value of the plan assets. The plan assets consist of 73.8% (2009: 18.5%) fixed-income securities, 26.1% (2009: 0.6%) equities and 0.2% (2009: 80.9%) of short-term deposits and cash, and are not invested in the shares of and/or assets owned by Friesland Bank. No plan assets are held specifically for early retirement and bonuses, which at year-end 2010 amounted to €6.5 million (2009: €8.5 million).

In calculating the amount of the pension provision, the following significant assumptions have been used:

	<b>2010</b>	<b>2009</b>
- Discount rate	<b>4.75%</b>	5.25%
- Expected salary increases (including inflation adjustment)	<b>2.10%</b>	2.50%
- Expected return on investments	<b>4.50%</b>	4.50%
- Expected indexation, active plan members	<b>2.00%</b>	2.00%
- Expected indexation, former plan members and pensioners until 1 January 2006	<b>2.00%</b>	2.00%
- Expected indexation, former plan members and pensioners from 1 January 2006	<b>0.50%</b>	2.00%
- Mortality table used	<b>AG forecast table 2010-2060</b>	GBM/GBV '00/'05

The above percentages are long-term expectations and are partly based on multi-year historical series. As a result of market developments, the discount rate has been reduced from 5.25% to 4.75%. This has led to an increase in the liabilities of €20 million. The expected salary development was reduced in 2010 from 2.50% to 2.10%, mainly as a result of the actual development of salaries in recent years. The effect on the liabilities is a reduction of €22 million. The expected return on plan assets is the weighted average of the returns expected on the basis of the investment strategy, which are 7.5% for equities and 3.5% for fixed-income securities. The total expected return is unchanged from the previous year. The expected indexation is in line with the long-term inflation target of the ECB. The indexation of some of the pensions (the group of former plan members and pensioners from 1 January 2006) is subject to conditions, depending on the financial buffers available within the fund. With an expected return on plan assets of 4.50%, it is expected that the indexation for this group will amount to 0.50%. The adjustment to this expectation has led to a reduction in the liabilities of €38 million. The mortality table used was updated in 2010, which has led to an increase in the liabilities of €30 million.

The development of the pension provision was as follows (in millions of euros):

<b>2010</b>	<b>Liabilities</b>	<b>Plan assets</b>	<b>Corridor</b>	<b>Total 2010</b>
Balance at 1 January	244.0	212.1	10.1	<b>21.8</b>
- Current service costs	7.9	-	-	<b>7.9</b>
- Curtailment due to reorganisation	-0.5	-	-	<b>-0.5</b>
- Actuarial interest or return on plan assets	12.9	9.9	-	<b>3.0</b>
- Employer's contribution for current service year	-	7.3	-	<b>-7.3</b>
- Employee contributions	-	1.1	-	<b>-1.1</b>
- Benefit payments	-6.6	-6.6	-	<b>-</b>
- Administrative and other expenses	-	-1.1	-	<b>1.1</b>
- Actuarial gains and losses	-22.1	9.6	-30.7	<b>-1.0</b>
Balance at 31 December	235.6	232.3	-20.6	<b>23.9</b>

<b>2009</b>	<b>Liabilities</b>	<b>Plan assets</b>	<b>Corridor</b>	<b>Total 2009</b>
Balance at 1 January	230.9	184.1	12.3	34.5
- Current service costs	7.2	-	-	7.2
- Curtailment due to reorganisation	-2.8	-	-	-2.8
- Actuarial interest or return on plan assets	12.3	8.5	-	3.8
- Employer's contribution for current service year	-	21.0	-	-21.0
- Employee contributions	-	0.9	-	-0.9
- Benefit payments	-5.7	-5.7	-	0.0
- Administrative and other expenses	-	-1.1	-	1.1
- Actuarial gains and losses	2.1	4.4	-2.2	-0.1
Balance at 31 December	244.0	212.1	10.1	21.8

<b>Long-term review</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Pension liabilities	<b>235.6</b>	244.0	230.9	214.4	228.2
Pension plan assets	<b>232.3</b>	212.1	184.1	202.0	196.1
Deficit	<b>3.3</b>	31.9	46.8	12.4	32.1
Experience adjustments to pension liabilities	<b>-1.4</b>	2.1	0.7	-26.7	-48.6
Experience adjustments to pension plan assets	<b>9.6</b>	4.4	-34.7	-6.1	-

Until year-end 2010, a cumulative amount of €2.5 million (until year-end 2009: €3.6 million) had been recognised in the income statement in respect of actuarial losses. The remittance of contribution expected for 2011 is €10.0 million (2010: €6.5 million). As in 2009, there were no past service costs in 2010.

#### *Restructuring provision*

The provision relates to a reorganisation throughout the bank with the objective of increasing efficiency. This should lead to a reduction of approximately 250 FTE, spread over 2009, 2010 and 2011. It is expected that the amounts included in the provision will be appropriated within one year.

	<b>2010</b>	<b>2009</b>
The development of this item was as follows:		
Balance at 1 January	<b>4,900</b>	-
- Additions	-	6,782
- Withdrawals	<b>-2,918</b>	-1,882
- Released	<b>-532</b>	-
Balance at 31 December	<b>1,450</b>	4,900

#### *Other provisions*

The other provisions relate mainly to technical insurance reserves, mainly for premiums not yet earned. Under the terms of the insurance policies, there is a risk that premiums received may have to be refunded if a policy is terminated prematurely. The volume of the provision is calculated on the basis of historical data.

	<b>2010</b>	<b>2009</b>
The development of this item was as follows:		
Balance at 1 January	<b>270</b>	320
- Additions	<b>10</b>	-
- Release	<b>-55</b>	-50
	<hr/>	<hr/>
Balance at 31 December	<b>225</b>	270

### **19. Subordinated liabilities**

The liabilities included in this item are subordinated to all current and future obligations of Friesland Bank N.V., and premature or partial redemption is not permitted. The average interest rate of the subordinated liabilities was 5.6% (2009: 5.3%), the average remaining maturity is 6.6 years (2009: 6.7 years).

### **20. Equity**

The consolidated and separate equity is the same. For further information, see the notes to the consolidated balance sheet.

### **21. Contingent liabilities and irrevocable facilities**

This item includes contingent liabilities arising from transactions in which the bank has given guarantees for the liabilities of third parties and irrevocable facilities which could lead to credit risk, for example unused current account overdraft facilities.

	<b>2010</b>	<b>2009</b>
Contingent liabilities in respect of guarantees etc.	<b>116,218</b>	102,323
Contingent liabilities in respect of irrevocable letters of credit	<b>4,885</b>	7,010
	<hr/>	<hr/>
Contingent liabilities	<b>121,103</b>	109,333
Revocable facilities	<b>691,012</b>	642,803
Irrevocable facilities	<b>270,216</b>	175,865
	<hr/>	<hr/>
Total	<b>1,082,331</b>	928,001

### **Executive Board and Supervisory Board**

For details of the remuneration of and loans granted to members of the Executive Board and the Supervisory Board, see note 45 to the consolidated financial statements.

Leeuwarden, 20 April 2011

Friesland Bank N.V.  
The Executive Board

C.J. Beuving  
A. Vlaskamp  
G.T. van Wakeren RBA

## 3 Other data

### Provisions of the Articles of Association regarding profit appropriation

Profit is appropriated in accordance with Articles 25 and 26 of the Articles of Association of Friesland Bank N.V. the essential provisions of which are as follows:

Of the profit as shown by the duly adopted financial statements, such amounts shall be added to the reserves as determined by the Executive Board, with the approval of the Supervisory Board. The remaining profit shall be at the disposal of the General Meeting of Shareholders.

The company may only make distributions to shareholders to the extent that its equity exceeds the amount of the company's issued share capital, plus the reserves that must be held in accordance with statutory requirements.

A deficit may only be offset against the statutory reserves to the extent permitted by statute.

### Profit appropriation

The proposed profit appropriation is as follows:

	<b>2010</b>	<b>2009</b>
Result for the year	<b>-43,282</b>	26,988
Interim dividend on perpetual bonds	<b>-3,889</b>	-4,852
	<b>-47,171</b>	22,136
To be appropriated as follows:		
- Addition to/(withdrawal from) the statutory reserves and reserves pursuant to articles	<b>21,322</b>	-10,079
- Addition to/(withdrawal from) other reserves	<b>-68,493</b>	32,215
	<b>-47,171</b>	22,136

# Independent auditor's report

To: The Supervisory Board of Friesland Bank N.V.

## Report on the financial statements

We have audited the accompanying financial statements 2010 of Friesland Bank N.V., Leeuwarden. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2010 the company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

### *Executive Board's responsibility*

The Executive 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 Executive Board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore the Executive 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 entity'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 entity'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.

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 Friesland Bank N.V. as at December 31, 2010 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 Friesland Bank N.V. as at December 31, 2010 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 executive board report, 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 Executive Board report, 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, 20 April 2011

Ernst & Young Accountants LLP

A.B. Roeders RA

# Personal data

## Supervisory Board

### **R.J. Meuter (1947), chairman** (from 01-10-2010)

Appointed in 2008, term ends in 2012

Former principal occupation: Managing Director ABN AMRO Bank N.V.

#### *Other positions:*

Chairman of the pension fund of ABN AMRO Bank N.V.

Member of the Supervisory Board and Member of the Audit Committee TD Waterhouse Bank N.V.

Member of the Board of Ubbo Emmiusfonds, University of Groningen

Member of the Supervisory Board of Koninklijke Nederlandse Reddingmaatschappij

Chairman of Stichting Vistaprint

### **L. Lindner (1944), secretary**

Appointed in 2005, term ends in 2013

Former principal occupation: General Manager at Koninklijke Friesland Foods N.V.

#### *Other positions:*

Member of the Supervisory Board of Neerlands Glorie Conserven B.V.

Member of the Supervisory Board of Buitenfood B.V.

Member of the Supervisory Board of Koninklijke Tichelaar N.V.

Member of the Supervisory Board of the University Medical Centre, Groningen

### **J. Keijzer (1942), vice-chairman**

Appointed in 2000, term ends in 2012

Former principal occupation: Member of the Executive Board of NPM Capital N.V.

#### *Other positions:*

Director of Bosplaat Advies

Adviser to the National Register of Supervisory Directors

Chairman of the Supervisory Board of Koopmans Koninklijke Meelfabrieken N.V.

Member of the Supervisory Board of Wadinko Beheer B.V.

Chairman of the Executive Committee of Stichting Arbo Unie Nederland

Member of the Executive Committee of Het Internationaal Danstheater

Member of the Executive Committee of De Doelenzaal

### **G. Benedictus (1952)**

Appointed in 2004, term ends in 2012

Principal occupation: Owner/director of management consultancy (veterinary consultant)

#### *Other positions:*

Member Senate of the States General

Chairman of Bond van Friese VogelWachten BFVW

Chairman of the Supervisory Board of LTO Vastgoed

Member of the Executive Committee of Stichting Hapin

Member of the Noordelijk Lanbouwberraad

Adviser to the Steatekomitee Frysk

Chairman of the Stichting Genomische Evaluatie

Chairman of Stichting Veepro

### **A. Oosterhof (1947)**

Appointed in 2004, term ends in 2012

Principal occupation: Farmer

#### *Other positions:*

Member of the Supervisory Board of HZPC Holland B.V.

Chairman of Museumfederatie Markant

Chairman of Stichting Theater Dokkum

Chairman of Stichting Skûtsjesilen Noard

### **B.R.I.M. Gerner (1951)**

Appointed in 2008, term ends in 2012

Principal occupation: Chief Financial Officer/Member of the Executive Board of Imtech N.V.

#### *Other positions:*

Vice-chairman of the International Chamber of Commerce Netherlands

### **K. Wezeman (1940)**

Appointed in 1999, stepped down on 01-10-2010

Former principal occupation: Professor of Administrative Organisation, University of Groningen

#### *Other positions:*

Chairman of Supervisory Board of Hordijk Holding B.V.

Chairman of Supervisory Board of Koopman Holding B.V.

Chairman of board of Stichting Woningmaatschappen VSN

## The Executive Board

### **C.J. Beuving (1951)**

Chairman of Executive Board since: 15-07-2010

*Responsibilities:*

- Secretarial services for the Executive Board
- Legal Affairs
- Compliance
- Human Resource Management
- Internal Audit
- Corporate Clients
- Retail & Advice

### **A. Vlaskamp (1956)**

Member of Executive Board since: 01-07-2004

*Responsibilities:*

- Treasury & Financial Markets
- Risk Management
- Planning & Control
- Friesland Bank Investments

### **G.T. van Wakeren RBA (1960)**

Member of Executive Board since: 15-09-2007

*Responsibilities:*

- Operational Support
- Marketing & Product Management
- ICT
- Friesland Bank Assurantiën

### **E.H.M.M. Krijnsen RA (1968)**

Member of Executive Board from: 01-01-2007 to 31-12-2010

### **R. Klaasman (1959)**

Member of Executive Board from: 01-01-2009 to 21-04-2010

Chairman of Executive Board from 01-04-2009 to 21-04-2010

## Management Team

A new management structure for the bank was introduced with effect from 01-10-2010. The conduct of policy with regard to the banking operations is placed in the hands of the Management Team.

In addition to the members of the Executive Board, the team includes the following directors (as at 31-12-2010):

**W.J.M. van Slobbe**, Corporate Clients

**F. Fennema**, Retail & Advies

**E.A. de Boer MBA**, Treasury & Financiële Markten

**N.J. Kronemeijer**, ICT Services

**E.F. Bos**, Operational Support

**A. Stougie**, Planning & Control

## Directors of other departments

(as at 31-12-2010)

**G. Ensing**, Credit Risk Management

**J. Olivier**, Internal Audit

**I.L.G.M. Hermans**, Legal Affairs

**P.A. Jellema**, Compliance

**M. Patist**, Human Resource Management

**H.G. Ellemers**, Secretary to the Executive Board

**G.J. de Vries**, Operations and Facility Services

**A.R. Timmermans**, Marketing & Communication

**J. Vroegh**, Payments, Savings and Funding

**K.L. Leijendekker RE RA CISA**, Risk Management

**G.L. Sirks (acting)**, Securities Business

**R. Verdam**, Strategy

**I.P.R. van der Weij**, Friesland Bank Investments B.V.

**M.H.A. Perquin**, FBA Holding B.V.

**W. Nijboer**, Vereniging voor Arts en Auto

# Branches

## Region Friesland

Buitenpost	Kuipersweg 32
Dokkum	De Dijk 4
Drachten	Burg. Wuiteweg 27
Franeker	Voorstraat 2
Harlingen	Noorderhaven 114
Heerenveen	Nieuwstraat 4
Joure	Midstraat 20
Koudum	Hoofdstraat 1
Leeuwarden	Wiardaplantage 17
Leeuwarden	Zaailand 108
Lemmer	Vissersburen 88
Oldeberkoop	Willinge Prinsstraat 20
Sint Annaparochie	Statenweg 11
Sneek	Hegedyk 9
Surhuisterveen	Torenplein 7
Wolvega	Hoofdstraat Oost 57

## Region Alkmaar

Alkmaar	Kennemerstraatweg 31-33
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## Region Amsterdam

Amsterdam	Museumplein 17
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## Region Enschede

Enschede	M. Harpertsz Tromplaan 52
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## Region Groningen/Assen

Assen	Oostersingel 11
Groningen	Paterswoldseweg 811

## Region Rotterdam

Rotterdam	Veerkade 1
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## Region Utrecht

Utrecht	Maliebaan 22
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## Region Zwolle

Zwolle	Burg. Van Royensingel 10
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## FBA Holding B.V.

Leeuwarden	Zuiderstraat 2
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## Friesland Bank Investments B.V.

Amsterdam	Museumplein 17
Enschede	M. Harpertsz Tromplaan 52
Leeuwarden	Beursplein 1

The English version of the 2010 annual report is a translation of the Dutch annual report.  
The Dutch text will prevail over the English version.

