ABN AMRO HOLDING N V
Form 20-F
March 27, 2009

As filed with the Securities and Exchange Commission on 27 March 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended 31 December 2008

o OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-14624

ABN AMRO HOLDING N.V.
(Exact name of registrant as specified in its charter)
THE NETHERLANDS
(Jurisdiction of incorporation or organisation)
Gustav Mahlerlaan 10, 1082 PP Amsterdam
The Netherlands
(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Guarantee of 5.90% Non-cumulative Guaranteed Trust Preferred Securities of ABN AMRO Capital Funding Trust V	New York Stock Exchange
Guarantee of 6.25% Non-cumulative Guaranteed Trust Preferred Securities of ABN AMRO Capital Funding Trust VI	New York Stock Exchange
Guarantee of 6.08% Non-cumulative Guaranteed Trust Preferred Securities of ABN AMRO Capital Funding Trust VII	New York Stock Exchange

5.90% Non-cumulative Guaranteed Trust Preferred Securities of ABN AMRO Capital Funding Trust V	New York Stock Exchange
6.25% Non-cumulative Guaranteed Trust Preferred Securities of ABN AMRO Capital Funding Trust VI	New York Stock Exchange
6.08% Non-cumulative Guaranteed Trust Preferred Securities of ABN AMRO Capital Funding Trust VII	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No o
If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Yes o No x
Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer o Non-accelerated filer o
Indicate by check mark which financial statement item the registrant has elected to follow.
Item 17 o Item 18 x
If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

The information contained in this report is incorporated by reference into the registration statements on Form F-3 with Registration Nos. 333-137691 and 333-104778 and the registration statement on Form F-4 with Registration No. 333-108304.

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CHAIRMAN'S REVIEW

Chairman's review of 2008

To comply with its filing obligations in the Netherlands and the United States of America, ABN AMRO Holding N.V. ('ABN AMRO') has prepared a report of its activities and accounts for the year ending 31 December 2008.

Following the acquisition of ABN AMRO by the Consortium in October 2007, the Royal Bank of Scotland Group plc ('RBS') has assumed the lead responsibility for managing ABN AMRO with respect to all regulatory requirements. Accordingly, ABN AMRO's financial results are also reported as a fully consolidated part of the RBS Group's Annual Report, published 26 February 2009.

Update on ownership

On 17 October 2007 ABN AMRO Holding N.V. was acquired through RFS Holdings B.V. ('RFS Holdings') by a consortium consisting of RBS, Fortis N.V., Fortis SA/NV ('Fortis') and Banco Santander S.A. ('Santander'). ABN AMRO was delisted on 25 April 2008 from the Euronext Amsterdam and the New York Stock Exchange and a 'squeeze-out' procedure to buy out minority shareholders was completed on 22 September 2008, after which RFS Holdings became the sole shareholder in ABN AMRO. On 3 October 2008, the State of the Netherlands ('Dutch State') acquired all Fortis' businesses in the Netherlands, including the Fortis share in RFS Holdings held by Fortis Bank Nederland (Holding) N.V. in the Fortis Group.

On 24 December 2008, the Dutch State purchased from Fortis Bank Nederland its investment in RFS Holdings, to become a direct shareholder in RFS Holdings.

ABN AMRO is separately governed by its Managing Board and Supervisory Board and regulated by the Dutch Central Bank.

Update on separation

The sale of Business Unit Asset Management to Fortis was concluded on 1 April 2008. The sale of Banco Real and other businesses acquired by Santander was concluded in July 2008. The transfer of business and client activities in Business Unit Asia, Business Unit Europe, and Business Unit North America to RBS began in the first half of 2008 and is well underway and many businesses have been re-branded as RBS. Group Functions have been scaled down in line with the separation of businesses.

Substantially all assets and liabilities with shared ownership by the Consortium have either been sold or economically allocated to a Consortium Member. In particular in April 2008, the majority of the Group Asset and Liability Management portfolios were economically allocated to individual Consortium Members. Remaining shared assets are included within Central Items.

The main disposal of an ABN AMRO business outside the Consortium was the sale of Banca Antonveneta to Banca Monte dei Paschi di Siena, which was concluded in May 2008. In July 2008, to comply with conditions laid down by the European Commission for the integration of Fortis and ABN AMRO in the Netherlands, ABN AMRO agreed to sell some of its commercial banking activities in the Netherlands to Deutsche Bank, subject to a number of conditions including approval by the Dutch Central Bank. At the end of the stipulated period for completing this sale, 31 October 2008, these conditions had not been fulfilled and the sale did not proceed. ABN AMRO and the Dutch State continue to review options for satisfying the concerns of the European Commission.

RBS acquired businesses post separation

The transfer of business to RBS, in line with obtaining synergies and combining risk management, will continue in 2009. This process will reduce the scope of operations conducted by ABN AMRO. The core activities expected to remain will include global transaction services and local market functions.

Update on the Fortis share acquisition by the Dutch State

The sale by Fortis of Fortis' business in the Netherlands, including its interests in RFS Holdings did not affect the capital, liquidity or performance of ABN AMRO or any of its businesses, including those that were to be acquired by Fortis. The financial consequences of the sale lie entirely with Fortis.

In November, the Dutch State announced its strategy for the acquired businesses of ABN AMRO and Fortis. Following separation, Business Unit Netherlands, Business Unit Private Clients, and the International Diamond & Jewelry Group, and the relevant central functions will integrate with Fortis Bank Nederland to form a new Dutch bank. The smooth separation of these businesses from ABN AMRO therefore remains a priority for the Managing Board and is targeted for completion by the end of 2009 in line with our original plans.

Results of operations in 2008

In 2008, ABN AMRO recorded a profit after tax of EUR 3.6 billion comprising a loss after tax of EUR 12.9 billion from continuing operations offset by a gain after tax on disposals of discontinued operations of EUR 16.5 billion. The result from continuing operations was materially impacted by difficult trading and market conditions. The majority of losses arising from market turmoil were experienced in the global markets business acquired by RBS. This is predominately reflected in the results of Business Unit Europe, which was also impacted by the transfer of business to RBS. The transfer of some business activities, along with their related assets and liabilities, has resulted in substantial disposal losses for ABN AMRO. In addition, new business is increasingly originated in RBS rather than in the RBS acquired business of ABN AMRO. For these reasons, RBS acquired businesses can not be fully evaluated on a stand alone basis.

The businesses acquired by the Dutch State were profitable for the full year. However, the level of profit was impacted by an increase in loan impairment charges and pressure on interest rate margins in Business Unit Netherlands and lower fee income in Business Unit Private Clients in line with a decline in Assets under Management.

Central Items reported a loss primarily due to valuation losses on the private equity portfolio and on other equity investments.

Capital, liquidity and funding

ABN AMRO continues to be well capitalised and funded, with a Tier 1 and a total capital ratio at the end of 2008 of 10.9% and 14.4% respectively. This reflects close and careful management of our capital and the balance sheet and exceeds the minimum ratios of 9% and 12.5% respectively, that have been set by the Dutch Central Bank during the separation period.

ABN AMRO's timely response to the dislocation of the financial markets and ABN AMRO related events, in combination with effective liquidity management and the actions of the Dutch State, enabled ABN AMRO to continue to meet the regulatory liquidity requirements throughout 2008.

We are grateful to our management and staff around the world for their continued professional focus on our business during this eventful transition and separation period.

Gerrit Zalm
Chairman of the Managing Board of ABN AMRO

Amsterdam, 24 March 2009

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SECTION 2 OPERATING REVIEW

OPERATING REVIEW

INTRODUCTION

Filing

This document contains ABN AMRO's Annual Report 2008 and will also be filed as ABN AMRO's Annual Report 2008 on Form 20-F with the United States Securities and Exchange Commission ('SEC').

Certain definitions

Throughout this document, 'Holding' means ABN AMRO Holding N.V. The terms 'ABN AMRO,' and 'the Group' refer to Holding and its consolidated subsidiaries. The 'Bank' means ABN AMRO Bank N.V. and its consolidated subsidiaries. The term 'BU' refers to Business Unit. 'EUR' refers to euros, while 'USD' refers to US dollars.

The terms 'Consortium' and 'Consortium Members' refer to the banks The Royal Bank of Scotland Group plc ('RBS'), Fortis N.V., Fortis SA/NV ('Fortis') and Banco Santander S.A. ('Santander') who jointly acquired ABN AMRO Holding N.V. on 17 October 2007 through RFS Holdings B.V. ('RFS Holdings'). On 3 October 2008 the State of the Netherlands ('Dutch State') acquired Fortis Bank Nederland (Holding) N.V., including the interest in RFS Holdings that represents the acquired activities of ABN AMRO and effectively became the successor of Fortis in the Consortium Shareholder Agreement.

Presentation of information

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRS as issued by the International Accounting Standards Board (IASB) which vary in certain significant respects from accounting principles generally accepted in the United States, or 'US GAAP'.

A body of generally accepted accounting principles such as IFRS is commonly referred to as 'GAAP'. A 'non-GAAP financial measure' is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. This report presents certain non-GAAP financial measures as a result of excluding the consolidation effects of ABN AMRO's private equity holdings. In accordance with applicable rules and regulations, ABN AMRO has presented definitions and reconciliations of non-GAAP financial measures to the most comparable GAAP measures in the paragraph 'Operating and Financial Review and Prospects' in this report. The non-GAAP financial measures described in this report are not a substitute for GAAP measures, for which management has responsibility.

All annual averages in this report are based on month-end figures. Management does not believe that these month-end averages present trends materially different from those that would be presented by daily averages.

Certain figures in this document may not sum up exactly due to rounding. In addition, certain percentages in this document have been calculated using rounded figures.

Cautionary statement on forward-looking statements

Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'should', 'intend', 'plan', 'probability', 'risk', 'Value-at-Risk ("VaR")', 'target', 'goal', 'objective', 'will', 'endea ‘outlook’, 'optimistic', 'prospects' and similar expressions or variations on such expressions.

In particular, this document includes forward-looking statements relating, but not limited, to ABN AMRO’s potential exposures to various types of market risks, such as counterparty risk, interest rate risk, foreign exchange rate risk and commodity and equity price risk. Such statements are subject to risks and uncertainties. For example, certain of the market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward looking statements contained in this document include, but are not limited to:

- the extent and nature of the financial crisis as it unfolds in Europe, the US and the other major markets where ABN AMRO operates including the effect on ABN AMRO’s capital of write downs in respect of credit market exposures;
- risks related to ABN AMRO’s transition and separation process following its acquisition by the Consortium;
- general economic conditions in the Netherlands and in other countries in which ABN AMRO has significant business activities or investments, including the United Kingdom and the United States including the impact of recessionary economic conditions on ABN AMRO's revenues, liquidity and balance sheet;
- the actions taken by governments and their agencies to support individual banks and the banking system;
- the monetary and interest rate policies of the European Central Bank, the Board of Governors of the Federal Reserve System and other G-7 central banks;
- inflation or deflation;
- unanticipated turbulence in interest rates, foreign currency exchange rates, commodity prices and equity prices;
- changes in Dutch and foreign laws, regulations and taxes;
- changes in competition and pricing environments;
- natural and other disasters;
- the inability to hedge certain risks economically;
- the adequacy of loss reserves;
- technological changes;
- changes in consumer spending and saving habits; and
- the success of ABN AMRO in managing the risks involved in the foregoing.

Factors that could also adversely affect ABN AMRO’s results or the accuracy of forward-looking statements in this report, and the factors discussed here or in the paragraph ‘Risk factors’ should not be regarded as a complete set of all potential risks or uncertainties. ABN AMRO has economic, financial market, credit, legal and other specialists who monitor economic and market conditions and government policies and actions. However, because it is difficult to predict with complete accuracy any changes in economic or market conditions or in governmental policies and actions, it is hard for ABN AMRO to anticipate the effects that such changes could have on ABN AMRO’s financial performance and business operations.

The forward-looking statements made in this report speak only as at the date of publication of this report. ABN AMRO does not intend to publicly update or revise these forward-looking statements to reflect events or circumstances after the date of this report, and ABN AMRO does not assume any responsibility to do so. The reader should, however, take into account any further disclosures of a forward-looking nature ABN AMRO may make in ABN AMRO’s interim reports.

SELECTED FINANCIAL DATA

The selected financial data set out below has been derived from ABN AMRO's audited consolidated financial statements for the periods indicated. ABN AMRO's consolidated financial statements for the year ended 31 December 2008 have been audited by Deloitte Accountants B.V., the consolidated financial statements for each of the years ended 2007, 2006, 2005 and 2004 have been audited by Ernst & Young Accountants LLP, both independent auditors. The selected financial data is only a summary and should be read in conjunction with and is qualified by reference to the consolidated financial statements and notes included elsewhere in this report and the information provided in this section.

Selected Consolidated Income Statement

	As at 31 December					
	2008 (1)	2008	2007	2006	2005 (2)	2004 (2)
	(in millions of USD)	(in millions of euros)				
Net interest income	8,516	5,783	4,595	4,223	8,785	8,525
Net fee and commission income	3,871	2,629	3,852	3,641	4,691	4,485
Net trading income	(13,730)	(9,324)	1,119	2,627	2,621	1,309
Results from financial transactions	(2,480)	(1,684)	1,134	767	1,281	905
Share of result in equity accounted investments	156	106	223	186	263	206
Other operating income	451	306	1,239	873	1,056	745
Income of consolidated private equity holdings	2,542	1,726	3,836	5,313	3,637	2,616
Operating income	(674)	(458)	15,998	17,630	22,334	18,791
Operating expenses	17,124	11,629	14,785	14,702	16,301	15,180
Loan impairment and other credit risk provisions	4,989	3,387	717	668	635	607
Total expenses	22,113	15,016	15,502	15,370	16,936	15,787
Operating profit/(loss) before tax	(22,787)	(15,474)	496	2,260	5,398	3,004
Tax	(3,800)	(2,580)	(458)	213	1,142	715
Profit/(loss) from continuing operations	(18,987)	(12,894)	954	2,047	4,256	2,289
Profit from discontinued operations net of tax	24,281	16,489	9,021	2,733	187	1,651
Profit for the year	5,294	3,595	9,975	4,780	4,443	3,940
Attributable to shareholders of the parent company	5,272	3,580	9,848	4,715	4,382	3,865
Dividends on ordinary shares	28,292	19,213	1,071	2,153	2,050	1,665

(1) Solely for the convenience of the reader, euro amounts have been translated into US dollars at an exchange rate of 1 USD = EUR 0.6791, which is the rate equal to the average of the month-end rates for 2008.

(2) Selected financial data for 2005 and 2004 has not been restated for discontinued operations arising in 2008 and 2007. Income statement figures for 2007 and 2006 have been restated for discontinued operations in accordance with International Financial Reporting Standards ('IFRS').

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Selected Consolidated Balance Sheet Data

	As at 31 December					
	2008 (1)	2008	2007	2006	2005	2004
	(in millions of USD)	(in millions of euros)				
Assets						
Financial assets held for trading	296,810	212,653	242,277	205,736	202,055	167,035
Financial investments	93,600	67,061	96,435	125,381	123,774	102,948
Loans and receivables – banks	105,471	75,566	175,696	134,819	108,635	83,858
Loans and receivables – customers	377,560	270,507	398,331	443,255	380,248	320,022
Total assets	930,709	666,817	1,025,213	987,064	880,804	727,454
Liabilities						
Financial liabilities held for trading	268,105	192,087	155,476	145,364	148,588	129,506
Due to banks	132,066	94,620	239,334	187,989	167,821	133,529
Due to customers	291,717	209,004	330,352	362,383	317,083	281,379
Issued debt securities	155,341	111,296	174,995	202,046	170,619	121,232
Capitalisation						
Equity attributable to shareholders of the parent company	23,835	17,077	29,575	23,597	22,221	14,815
Equity attributable to minority interests	64	46	1,134	2,298	1,931	1,737
Subordinated liabilities	18,911	13,549	15,616	19,213	19,072	16,687
Group capital	42,810	30,672	46,325	45,108	43,224	33,239

(1) Solely for your convenience, euro amounts have been translated into US dollars at an exchange rate of 1 USD = EUR 0.7164, which is the year-end rate for 2008.

Selected Ratios (1)

	At or for the year ended 31 December				
	2008	2007	2006	2005	2004
	(in percentages)				
Profitability ratios					
Net interest margin (2)	0.7	0.5	0.5	1.1	1.2
Non-interest income to total operating income	-	71.3	76.0	60.7	54.6
Efficiency ratio (3)	-	92.4	83.4	73.0	80.8
Capital ratios					
Average ordinary shareholders equity on average total assets	3.83	2.82	2.87	2.24	1.84
Tier 1 Capital ratio (4)	10.88	12.42	8.45	10.62	8.46
Total Capital ratio (4)	14.43	14.61	11.14	13.14	11.06
Credit quality ratios					
Provision for loan losses to private sector loans (5)	1.35	0.64	0.45	0.23	0.26
Provision for loan losses to private and public sector loans (5)	1.30	0.62	0.43	0.22	0.25
Non-performing loans to private sector loans (gross) (5) (6)	2.37	1.43	2.31	1.72	2.28
Non-performing loans to private and public sector loans (gross) (5) (6)	2.29	1.40	2.23	1.68	2.22
Allowance for loan loss to private sector loans (5)	1.82	1.12	1.15	1.09	1.36
Allowance for loan loss to private and public sector loans (5)	1.76	1.10	1.11	1.06	1.32
Allowance for loan losses to non-performing loans (gross) (6)	77.04	78.16	50.03	63.07	59.47
Write-offs to private sector loans (gross) (5)	0.35	0.52	0.36	0.39	0.53
Write-offs to private and public sector loans (gross) (5)	0.33	0.51	0.35	0.38	0.51
Consolidated ratio of earnings to fixed charges (ratio)					
Excluding interest on deposits (7)	-	1.05	1.27	1.78	1.76
Including interest on deposits (7)	0.05	1.03	1.15	1.25	1.22

(1) According to IFRS the income statement figures of 2007 and 2006 have been restated for the qualifying discontinued operations arising in 2008. In accordance with IFRS the balance sheet figures of 2007 and 2006 are not restated for the effect of discontinued operations in 2008. The 2005 and 2004 figures have not been restated for discontinued operation arising in 2008 and 2007. As a result the applicable ratios throughout the years are not comparable.

(2) Net interest income as a percentage of average interest earning assets.

(3)

Operating expenses as a percentage of net interest income and total non-interest income. Negative efficiency ratios have been excluded.

(4) Tier 1 capital and total capital as a percentage of risk-weighted assets. For more information on ABN AMRO's capital ratios, please refer to our Capital ratios discussion further on in this section

(5) Excludes professional transactions (2008: EUR 13 billion; 2007: EUR 98 billion; 2006: EUR 94 billion; 2005: EUR 75 billion; 2004: EUR 59 billion) because these primarily consist of reverse repurchase agreements with limited credit risk and balances held by multi seller conduits (2008: EUR 5 billion; 2007: EUR 29 billion; 2006: EUR 26 billion; 2005: 26 billion; 2004: 24 billion).

(6) Non-performing loans are doubtful loans for which there is objective evidence that not all contractually agreed amounts will be collected and for which an allowance for loan losses has been established. For more information on non-performing loans please refer to Section 7: 'Additional Information'.

(7) Deposits include banks and total customer accounts. Negative ratios have been excluded.

GROUP ORGANISATION STRUCTURE

Organisational Structure

From 1 January 2008 the management and control structure of ABN AMRO has been aligned with the consortium ownership of the Group. RBS acquired businesses consist of the business units Europe (which includes RBS acquired businesses in the Netherlands), and business units Americas and Asia. The Dutch State acquired businesses comprise of the Netherlands (excluding RBS acquired businesses) and Private Clients. Central Items includes head office functions and other items centrally managed. All Santander acquired businesses and the former business unit Asset Management are classified as discontinued.

In April 2008, the majority of the Group Asset and Liability Management portfolios were economically allocated to individual Consortium Members. From that date the assets and liabilities and related results are reflected in business unit Europe for the RBS allocated portfolios and business unit Netherlands for the Dutch State allocated portfolios. Since the allocation was effected on the basis of prospective agreements between Consortium Members, Group Asset and Liability Management results prior to this date are reported in Central Items.

The former regional client business unit Netherlands is no longer managed as a single component. To reflect the consortium ownership, the operating unit Netherlands within the Dutch State acquired businesses now excludes the Dutch wholesale client business. This has been added to the business unit Europe.

The redirection of client activity to RBS along with the transfer of risk positions and inventory from ABN AMRO to RBS reduces significantly the ongoing business and exposures of ABN AMRO. This redirection is facilitated through an agency agreement between RBS and ABN AMRO such that new transactions are increasingly entered into by RBS. As a result the financial performance is increasingly unrepresentative of the business performance of the originally acquired businesses.

The comparative figures of 2007 and 2006 have been restated to reflect the current organisation structure except for the Group Asset and Liability Management portfolio allocation as explained above.

The organisational business units of ABN AMRO are described as follows:

Europe

This business unit provides a range of wholesale financial products and transaction banking services to commercial and global clients. It combines activities in 28 countries: 23 countries in Europe along with Kazakhstan, Uzbekistan, Egypt, United Arab Emirates and South Africa. Dutch wholesale clients are included in this operating unit as well as the Group Asset and Liability Management portfolios allocated to the RBS acquired businesses.

Asia

This business unit operates in 16 countries and territories through branches and offices. The client base includes both commercial and consumer clients.

Americas

This business unit includes the activities of North America and RBS acquired Latin America operations. The North American activities cover a broad range of services that support a multinational client base and a limited number of specialty banking services. The core of North America was LaSalle Bank, which was sold to Bank of America

Corporation in 2007 and therefore is presented as discontinued operations.

Netherlands

This business unit serves a diverse client base comprised of consumer and commercial clients. It offers a broad range of commercial and retail banking products and services via its multi-channel service model consisting of a network of branches, internet banking facilities, customer contact centres and ATMs throughout the Netherlands and increasingly focuses on mass affluent customers and commercial mid-market clients. It also includes the ABN AMRO Hypotheken ('Mortgage') Groep and the International Diamond & Jewelry Group and the Group Asset and Liability Management portfolios allocated to the Dutch State acquired businesses.

Private Clients

This business unit offers private banking services to wealthy individuals and institutions with net investable assets of EUR 1 million or more. In the past few years, the Business Unit Private Clients built up an onshore private banking network mainly in continental Europe through organic growth in the Netherlands and France, and through the acquisition of Delbrück Bethmann Maffei in Germany and Bank Corluy in Belgium. It also includes the insurance joint venture Neuflize Vie.

Central Items

Central Items includes activities that do not qualify as a business activity including the head office functions and items that are not allocated to individual Consortium Members such as the private equity portfolio and the investment in Saudi Hollandi Bank. Interest on settlement amounts accruing to Santander are also included.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

For critical accounting policies and changes in accounting rules, refer to the accounting policies section in Section 5: Financial Statements.

The following discussion of operating results is based on, and should be read in conjunction with ABN AMRO's consolidated financial statements. The financial information contained in this review has been prepared in accordance with IFRS issued by the IASB and adopted by the EU.

This operating and financial review and prospects examines the Group results under IFRS by comparing the results of operations for the years 2008 to 2007 and for 2007 to 2006, highlighting key notes by Business Unit ('BU') for each line item. This is followed by a more detailed analysis of the results of operations for each BU, which explains significant variances in profit or losses for the year with reference to the relevant line items.

Consolidation effects of controlled private equity investments

IFRS requires consolidating investments over which ABN AMRO has control, including non-financial investments managed as private equity investments. However, as a practical matter, ABN AMRO's private equity business is managed separately from the rest of the banking business and management does not measure the performance of the banking business based on the consolidated results of operations. Private equity business involves buying equity stakes in unlisted companies over which ABN AMRO can establish influence or control, and managing these share holdings as an investor for a number of years with a view to selling them at a profit.

The companies in which ABN AMRO has these temporary holdings are active in business sectors outside the financial industry. ABN AMRO believes that combining these temporary holdings with the core banking business does not provide a meaningful basis for discussion of the financial condition and results of operations. Therefore, in the presentation of ABN AMRO's 'Group results', the effects of a line-by-line consolidation in the income statement of the private equity holdings are removed. The results excluding the consolidation effect include the 'de-consolidated' holdings based on the equity method. The measures excluding the effects of consolidation of ABN AMRO's private equity holdings are non-GAAP financial measures. Management refers to these non-GAAP financial measures when making operating decisions because the measures provide meaningful supplementary information about ABN AMRO's operational performance.

In accordance with applicable rules and regulations, ABN AMRO has presented, and investors are encouraged to review, reconciliations of non-GAAP financial measures to the most comparable IFRS measures, i.e., reconciliations of results excluding the consolidation effects of private equity holdings to results including those effects.

Discontinued operations

For 2008 Banca Antonveneta, BU Asset Management, ABN AMRO North America Holdings ('La Salle Bank'), ABN AMRO Mortgage Group, Inc. and Bouwfonds are reported as discontinued operations. BU Asset Management was reported as discontinued operations as of December 2007 due to the sale of ABN AMRO's Asset Management activities to Fortis which was completed in April 2008. Banca Antonveneta was reported as discontinued operations as of December 2007 due to the sale of Banca Antonveneta which was completed in May 2008. On 1 January 2008 all remaining Santander acquired businesses, including Banco Real, were reported as discontinued operations due to the sale of these businesses during 2008. Profits from discontinued operations include the related operating results and if applicable the gain on sale (refer to Note 45 in Section 5: 'Financial Statements'). The comparative income statement figures for the years 2007 and 2006 have been restated in accordance with IFRS. The related assets and liabilities of discontinued operations are presented as assets/liabilities of businesses held for sale as at 31 December 2008. In accordance with IFRS comparative balance sheet figures have not been restated.

Group results

The following table sets out selected information relating to the Group for the years ended 31 December 2008, 2007 and 2006 showing the results both under IFRS and excluding the consolidation effect of ABN AMRO's private equity investments.

(in millions of euros)	IFRS			Consolidation effect (1)			Excluding consolidation effect (non-GAAP measure)		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Net interest income	5,783	4,595	4,223	(45)	(220)	(342)	5,828	4,815	4,565
Net fee and commission income	2,629	3,852	3,641	-	–	–	2,629	3,852	3,641
Net trading income	(9,324)	1,119	2,627	-	3	(3)	(9,324)	1,116	2,630
Results from financial transactions	(1,684)	1,134	767	(36)	46	15	(1,648)	1,088	752
Share of results in equity accounted investments	106	223	186	-	1	–	106	222	186
Other operating income	306	1,239	873	-	–	–	306	1,239	873
Income of consolidated private equity holdings	1,726	3,836	5,313	1,726	3,836	5,313	-	–	–
Operating income	(458)	15,998	17,630	1,645	3,666	4,983	(2,103)	12,332	12,647
Operating expenses	11,629	14,785	14,702	1,635	3,634	4,939	9,994	11,151	9,763
Operating result	(12,087)	1,213	2,928	10	32	44	(12,097)	1,181	2,884
Loan impairment and other credit risk provisions	3,387	717	668	-	–	–	3,387	717	668
Operating profit/(loss) before tax	(15,474)	496	2,260	10	32	44	(15,484)	464	2,216
Tax	(2,580)	(458)	213	10	32	44	(2,590)	(490)	169
Net operating profit/(loss)	(12,894)	954	2,047	-	–	–	(12,894)	954	2,047

Profit from discontinued operations net of tax	16,489	9,021	2,733	-	–	–	16,489	9,021	2,733
Profit/(loss) for the year	3,595	9,975	4,780	-	–	–	3,595	9,975	4,780
Total assets	666,817	1,025,213	987,064	435	1,698	4,537	666,382	1,023,515	982,527
Risk-weighted assets	176,028	232,312	280,704	-	–	–	176,028	232,312	280,704
Full-time equivalent staff	59,558	72,890	85,556	2,594	13,168	30,881	56,964	59,722	54,675
Number of branches and offices (2)(3)	1,020	4,296	4,634	–	–	–	1,020	4,296	4,634

(1) This is the impact per line item of the private equity investments which are required to be consolidated under IFRS. See ‘Section 5: Financial Statements 2008, Accounting Policies’.
(2) This number includes double counting of branches and offices that serve more than one BU. Adjusted for this double counting, the actual number of branches and offices amounts to 970 (2007: 4,254; 2006: 4,532).
(3) Including numbers from operations presented as discontinued until actually sold.

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Results of operations for the years ended 31 December 2008 and 2007

Profit for the year decreased by EUR 6,380 million, to EUR 3,595 million. Profit from continuing operations decreased by EUR 13,848 million to a loss of EUR 12,894 million. The main variances year-on-year are: BU Europe (decrease EUR 10,848 million), Central Items (decrease EUR 1,021 million), BU Asia (decrease EUR 977 million), BU Netherlands (decrease EUR 576 million) and BU Americas (decrease EUR 293 million). Profit from discontinued operations net of tax amounted to EUR 16,489 million, reflecting gains on the sale of Banco Real to Santander, Asset Management to Fortis and Banca Antonveneta to Banca Monte dei Paschi di Siena.

Operating income

Operating income decreased by EUR 16,456 million to a negative operating income of EUR 458 million (non-GAAP: operating income decreased by EUR 14,435 million to a negative operating income of EUR 2,103 million). This relates to decreases in operating income in BU Europe (EUR 11,443 million), Central Items (EUR 3,680 million; non-GAAP: EUR 1,659 million), BU Asia (EUR 712 million), BU Private Clients (EUR 279 million), BU Americas (EUR 248 million) and BU Netherlands (EUR 94 million).

The negative operating income in the global market business, predominantly attributable to BU Europe include credit market write downs against asset-backed securities (approximately EUR 1.6 billion) and credit valuation adjustment against exposures to credit insurance counterparties (approximately EUR 4.8 billion), losses arising on trading book counterparty failures (approximately EUR 1.0 billion, including losses associated with the Lehman Brothers bankruptcy and the Bernard L. Madoff fraud), losses due to a change in the valuation methodology for complex trading products (approximately EUR 0.5 billion) and approximately EUR 2.4 billion of losses on the transfer of certain portfolios to RBS. These transfers are at fair value to RBS. However, from an RBS Group perspective, the results on these transfers are eliminated as RBS Group is both the buyer and the seller.

Within Central Items the results from the Private Equity portfolio and our shareholding in Unicredit were both negative in 2008.

Further comment is provided in the discussion of the individual lines that constitute operating income and in the Business Unit commentaries.

Net interest income

Net interest income increased by EUR 1,188 million, or 25.9%, to EUR 5,783 million (non-GAAP: net interest income increased by EUR 1,013 million or 21.0%). This was predominantly due to increases in Central Items (EUR 1,022 million; non-GAAP: EUR 847 million), BU Europe (EUR 241 million) and BU Americas (EUR 126 million), partly offset by a decrease in BU Netherlands (EUR 159 million).

Key notes:

§ Net interest income in Central Items increased mainly due to the interest on the proceeds of the sale of Banca Antonveneta and the sale of Banco Real and due to the transfer of Group Asset and Liability Management portfolios to BU Europe and BU Netherlands from April 2008 onward.
§ The increase in BU Europe is mainly due to the interest on the proceeds of the sale of LaSalle, higher revenues from commercial banking and higher interest on cash balances in treasury.
§ Net interest income in BU Americas increased mainly as a result of higher revenues in the global market, credit market and the equities business.

§ The decrease in BU Netherlands resulted from the inclusion of a negative interest margin from the Group Asset and Liability Management portfolios allocated to the Dutch State. This was partly offset by interest revenues on the proceeds of the sale of Asset Management. An increase in gross interest, resulting from higher mortgage volumes and commercial loans, did not compensate for the lower margins. Margins on deposits and savings also dropped due to the migration to higher yielding saving products and deposits.

Net fee and commission income

The following table sets out the net fee and commission income for the Group for the years ended 31 December 2008, 2007 and 2006.

(in millions of euros)	2008	2007	2006
Fee and commission income			
Securities brokerage fees	876	1,399	1,671
Payment and transaction services fees	836	764	689
Asset management and trust fees	359	495	426
Fees generated on financing arrangements	130	278	163
Advisory fees	321	578	464
Other fees and commissions	546	667	634
Subtotal	3,068	4,181	4,047
Fee and commission expense			
Securities brokerage expense	103	83	321
Other fee and commission expense	336	246	85
Subtotal	439	329	406
Total	2,629	3,852	3,641

Net fee and commission income decreased by EUR 1,223 million, or 31.7%, to EUR 2,629 million. This was primarily due to a decrease in BU Asia (EUR 616 million), Central Items (EUR 255 million) and BU Private Clients (EUR 188 million).

Key notes:

§ The decrease in BU Asia is due to lower results from the merger and acquisition business and due to lower revenues from the equity derivative and strategy business.
§ Net fees and commission income in Central Items decreased, mainly due to the transfer of Group Asset and Liability Management portfolios.
§ Net fees and commission income decreased in BU Private Clients resulting from lower Assets under Management, which decreased by EUR 38 billion to EUR 102 billion. This decline reflects a reduction in net new assets due to migration to savings products and lower asset values due to deteriorated financial markets.

Net trading income

The following table sets out the net trading income for the Group for the years ended 31 December 2008, 2007 and 2006.

(in millions of euros)	2008	2007	2006
Interest instruments trading	(9,276)	(1,531)	740
Foreign exchange trading	915	1,152	859
Equity and commodity trading	(1,017)	1,438	1,042
Other	54	60	(14)
Total	(9,324)	1,119	2,627

Net trading income decreased by EUR 10,443 million to a loss of EUR 9,324 million (non GAAP: net trading income decreased by EUR 10,440 million to a loss of EUR 9,324 million). The majority of the decrease is attributable to BU Europe (EUR 10,344 million).

Key notes:

§ The decrease in net trading income in BU Europe includes credit market write-downs against asset backed securities and credit valuation adjustments against exposures to credit insurance counterparties. For further information refer to our discussion on ‘Credit market and related exposures’ within this section. The negative revenue also includes losses arising on trading book counterparty failures (approximately EUR 1.0 billion, including losses associated with the Lehman Brothers bankruptcy and the Bernard L. Madoff fraud). Furthermore, trading income was impacted by approximately EUR 500 million of losses due to a change in the valuation methodology of complex trading products that involve multiple unobservable inputs, such as correlation and interpolation, which have been adjusted to use the same estimation techniques as the ultimate parent company, RBS.

Results from financial transactions

The following table sets out the results from financial transactions for the Group for the years ended 31 December 2008, 2007 and 2006.

(in millions of euros)	2008	2007	2006
Net result on the sale of available-for-sale debt securities, loans and advances	(1,881)	134	437
Impairment of available-for-sale debt securities	(333)	-	-
Net result on available-for-sale equity investments	(67)	35	69
Fair value changes in own credit risk	490	168	-
Dividends on available-for-sale equity investments	54	9	26
Net result on other equity investments	(1,185)	669	435
Fair value changes of credit default swaps	1,330	116	(280)
Other	(92)	3	80
Total	(1,684)	1,134	767

Results from financial transactions decreased by EUR 2,818 million to a loss of EUR 1,684 million (non-GAAP: results from financial transactions decreased by EUR 2,736 million to a loss of EUR 1,648 million). The decrease was due to BU Europe (EUR 1,198 million) and Central Items (EUR 1,253 million; non GAAP: EUR 1,171 million).

Key notes:

§ The decrease in BU Europe is as a result of losses (EUR 2.4 billion operating income for the Group, of which EUR 2.3 billion is in BU Europe and EUR 0.1 billion is in BU Americas) on the transfer of certain credit portfolios to RBS. BU Europe was also impacted by losses on proprietary equity investments of approximately EUR 0.3 billion. These negative results are partly offset by gains recorded on own debt held at fair value of approximately EUR 0.6 billion.

§ Results from financial transactions in Central Items decreased, mainly due to lower results from the Private Equity portfolio (approximately EUR 0.8 billion) and losses from our shareholding in Unicredit (approximately EUR 0.8 billion) that were driven by stock price developments prior to disposal in 2008.

Share of result in equity accounted investments

Share of result in equity accounted investments decreased by EUR 117 million to EUR 106 million (non-GAAP: share of results in equity accounted investments decreased EUR 116 million to EUR 106 million). This was due to the decrease in profits generated by investments held in Central Items (EUR 55 million; non-GAAP: EUR 54 million) and BU Asia (EUR 43 million).

Other operating income

The following table sets out the other operating income for the Group for the years ended 31 December 2008, 2007 and 2006.

(in millions of euros)	2008	2007	2006
Insurance activities	45	36	45
Leasing activities	78	82	61
Disposal of operating activities and equity accounted investments	(6)	894	453
Other	189	227	314
Total	306	1,239	873

Other operating income decreased by EUR 933 million to EUR 306 million, primarily due to a decrease in Central Items (EUR 755 million).

Key notes:

§ Central Items in 2007 included the gain on the sale of ABN AMRO's stake in Capitalia which was settled in exchange for Unicredit shares (EUR 624 million) and the gain on the sale of the Latin American Private Banking operations (EUR 77 million).

Income of consolidated private equity holdings

Income of consolidated private equity holdings decreased by EUR 2,110 million to EUR 1,726 million, due to the transfer of management activities from businesses within Private Equity to an independent management company. As a result of the structural change in control, the results from the portfolio of investments managed by the independent management company were no longer consolidated as of 1 July 2007 but changes in fair value were shown within results from financial transactions as a net result on other equity investments instead.

Operating expenses

Operating expenses decreased by EUR 3,156 million, or 21.3%, to EUR 11,629 million (non-GAAP: operating expenses decreased by EUR 1,157 million, or 10.4%, to EUR 9,994 million), due to decreases in Central Items (EUR

2,928 million; non-GAAP: EUR 929 million), BU Americas (EUR 210 million), BU Europe (EUR 194 million), BU Private Clients (EUR 106 million). This was partly offset by an increase in BU Netherlands (EUR 282 million).

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In 2008, EUR 1,036 million of restructuring charges were included, compared to a net release of EUR 101 million in 2007.

Key notes:

- Operating expenses in Central Items in 2008 include a EUR 167 million restructuring charge, whereas 2007 included a restructuring release of EUR 14 million. Operating expenses in 2007 included a provision for the US Department of Justice investigation (EUR 365 million), transaction-related advisory fees (EUR 211 million), the break-up fee paid to Barclays (EUR 200 million), costs of accelerated vesting of share-based payments (EUR 117 million) and transition and integration costs (EUR 95 million).
- Operating expenses in BU Americas decreased due to the continued drive for improved cost management and lower performance related bonuses. In 2008, operating expenses included a restructuring charge of EUR 102 million, compared with EUR 9 million restructuring charge booked in 2007.
- Operating expenses in BU Europe decreased as a result of lower performance related bonuses. The 2008 operating expense included a restructuring charge of EUR 483 million, compared with a restructuring release of EUR 46 million in 2007.
- Operating expenses in BU Netherlands in 2008 include a restructuring charge of EUR 175 million, whilst in 2007 a restructuring allowance of EUR 46 million was released. The restructuring charge relates to integration and restructuring costs as well as costs related to the preparation for the possible sale resulting from the EC Remedy. Adjusted for the restructuring charge of EUR 175 million, operating expenses increase by EUR 107 million due to an increase in staff costs arising from a detailed review of staff related provisions and a provision for the estimated costs to the Group relating to the deposit guarantee scheme in the Netherlands.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions increased by EUR 2,670 million to EUR 3,387 million. The main increases were in BU Europe (EUR 1,924 million) and BU Netherlands (EUR 383 million).

Key notes:

- Loan impairment and other credit risk provisions increased in BU Europe, mainly due to a provision relating specifically to LyondellBasell Industries (approximately EUR 1.1 billion) and further provisions in the global markets business.
- The increase in BU Netherlands is mainly related to the small and medium enterprise portfolio.

Tax

Tax expense decreased by EUR 2,122 million to a net tax benefit of EUR 2,580 million (non-GAAP: tax expense decreased EUR 2,100 million to a tax benefit of EUR 2,590 million). In 2008 deferred tax assets relating to losses were not recognised due to uncertainty of recoverability in BU Europe (EUR 1.0 billion) and BU America (EUR 0.4 billion).

Included in 2007 were significant tax-exempt gains on disposals, including the gain on the sale of Capitalia (EUR 624 million, net EUR 617 million), tax credits in some countries as well as substantial releases of tax liabilities resulting from the finalisation of prior-year tax returns and conclusions on a number of additional items.

Profit from discontinued operations net of tax

Profit from discontinued operations net of tax of EUR 16,489 million in 2008 includes:

- The sale of Banco Real to Santander which was concluded in July 2008 with a gain of EUR 10,647 million.
- Asset Management which was sold to Fortis in March 2008 with a gain of EUR 3,073 million.
- Banca Antonveneta which was sold to Banca Monte dei Paschi di Siena in May 2008 with a gain of EUR 2,357 million.

Profit from discontinued operations net of tax of EUR 9,021 million in 2007 included:

- The sale of ABN AMRO Mortgage Group, Inc., ABN AMRO's US-based residential mortgage broker origination platform and residential mortgage servicing business, with a gain of EUR 110 million (net of tax results for the first two months and a gain on sale).
- The sale of ABN AMRO North America Holding Company which principally consists of the retail and commercial activities of LaSalle Corporation (LaSalle), in October 2007. The net of tax results for the first nine months were EUR 777 million, and the gain on sale amounted to EUR 7,163 million.
- The classification as discontinued operations of Banca Antonveneta (EUR 107 million losses).
- The classification as discontinued operations of Asset Management (EUR 171 million).
- The classification as discontinued operations of Banco Real (EUR 786 million).
- The gain on the sale of Interbank N.V., DMC Group (total EUR 69 million).
- The partial release of a provision recorded in connection with the sale of Bouwfonds in 2006 (EUR 52 million).

Results of operations for the years ended 31 December 2007 and 2006

Profit for the year 2007 increased by EUR 5,195 million, or 108.7%, to EUR 9,975 million. Profit from continuing operations decreased by EUR 1,093 million, or 53.4%, to EUR 954 million. The major variances year-on-year were attributable to increases in profit from discontinued operations.

Profit from discontinued operations net of tax amounted to EUR 9,021 million reflecting the divestment of ABN AMRO North America Company, which principally consisted of the retail and commercial activities of LaSalle, the divestment of ABN AMRO Mortgage Group, Inc. and the classification of Banca Antonveneta, Asset Management, Banco Real to Santander as discontinued operations.

Operating income

Operating income decreased by EUR 1,632 million, or 9.3%, to EUR 15,998 million (non-GAAP: operating income decreased by EUR 315 million or 2.5%). This relates primarily to the decreases of operating income in BU Europe (EUR 801 million) and Central Items (EUR 1,493 million; non-GAAP: EUR 176 million), partly offset by increases in BU Asia (EUR 408 million). Further comment is provided in the discussion of the individual lines that make up operating income and the BU commentaries:

Key notes:

- Operating income in BU Europe decreased due to negative fair value adjustments (EUR 1,561 million) on portfolios related to the first impacts of the credit crisis that developed from the adverse conditions in the sub-prime mortgage market in the US. BU Europe includes the hub for global markets and therefore the impact of value adjustments is concentrated in this BU. The fair value adjustments were partly offset by the gains on sale of ABN AMRO Mellon.

- Operating income in Central Items decreased, mainly due to lower proprietary trading results of the Global Markets activities and higher funding costs. This was partly offset by gains on the credit default swap portfolio that benefited from the general widening of the spread that occurred throughout the year (EUR 116 million), a gain on own credit risk (EUR 115 million), the gain on the sale of Capitalia whose shares were settled for Unicredit shares (EUR 624 million), and the gain on the sale of the Latin America Private Banking operations in Miami and Uruguay, which included the Latin America portfolios managed in Switzerland and Luxembourg (EUR 77 million).
- Operating income in BU Asia increased due to further growth in the consumer clients business as the Preferred Banking activities and credit card business continued to expand, especially in India, China, Hong Kong and Taiwan. In addition, commercial client revenue increased as a result of higher merger and acquisition advisory fees, a rise in client transactions executed and higher global markets revenues.

Net interest income

Net interest income increased by EUR 372 million, or 8.8%, to EUR 4,595 million (non-GAAP: net interest income increased by EUR 250 million, or 5.5%, to EUR 4,815 million). This was mainly due to increases in BU Europe (EUR 724 million) and BU Asia (EUR 121 million), partly offset by a decrease in Central Items (EUR 477 million; non-GAAP: EUR 599 million).

Key notes:

- The net interest income increase in BU Europe was mainly due to higher global markets income, as client income grew strongly.
- The increase in BU Asia resulted from continued growth in the consumer lending business and credit card business and the consolidation of Prime Bank and Taitung Business Bank.
- Net interest income in Central Items decreased due to higher funding costs and lower investment income following lower sales of available-for-sale bonds than in 2006.

Net fee and commission income

Net fees and commission income increased by EUR 211 million, or 5.8%, to EUR 3,852 million, primarily due to an increase in BU Asia (EUR 211 million), Central Items (EUR 112 million), partly offset by a decrease in BU Europe (EUR 197 million).

Key notes:

- The increase in BU Asia (EUR 211 million) reflected the higher merger and acquisition advisory fees following the successful closing of client transactions, higher transaction banking revenues, and further growth in the sale of investment products to the Van Gogh Preferred Banking client base.
- The decrease in BU Europe (EUR 197 million) was mainly due to a decline in securities commissions and commissions related to large corporate clients, which were partly offset by higher payments and asset management commissions.

Net trading income

Net trading income decreased by EUR 1,508 million, or 57.4%, to EUR 1,119 million (non-GAAP: net trading income decreased by EUR 1,514 million, or 57.6%, to EUR 1,116 million). This was mainly due to decreases in BU Europe (EUR 1,370 million) and Central Items (EUR 227 million; non-GAAP measure: EUR 233 million).

Key notes:

- The decrease in BU Europe was due to negative fair value adjustments (EUR 1,561 million) relating to the first impacts of the credit crisis that developed from the conditions of the sub-prime mortgage market in the US.
- The decrease of net trading income in Central Items is mainly due to lower proprietary trading income in the global market business.

Results from financial transactions

Results from financial transactions increased by EUR 367 million, or 47.8%, to EUR 1,134 million (non-GAAP: results from financial transactions increased by EUR 336 million, or 44.7%, to EUR 1,088 million). The increase was mainly due to increases in Central Items (EUR 285 million; non-GAAP: EUR 254 million) and BU Asia (EUR 54 million).

Key notes:

- Results from financial transactions of Central Items increased in total EUR 285 million (non-GAAP: EUR 254 million) due to mark-to-market gains on the credit default swap portfolios managed as part of the capital and risk hedging activities that benefited from the general widening of credit spreads which occurred throughout 2007 and gains from changes in the fair value related to own credit risk of EUR 115 million, partly offset by decreased gains on sales of available-for-sale bonds.

Share of result in equity accounted investments

Share of results in equity accounted investments increased by EUR 37 million to EUR 223 million (non-GAAP measure: EUR 36 million to EUR 222 million), mainly due to the increase in BU Asia (EUR 39 million).

Other operating income

Other operating income increased by EUR 366 million, or 41.9%, to EUR 1,239 million, mainly due to increases at Central Items (EUR 303 million) and BU Europe (EUR 74 million).

Key notes:

- The increase in Central Items (EUR 303 million) was mainly due to the gain on the sale of ABN AMRO's stake in Captialia which was settled in exchange for Unicredit shares (EUR 624 million) and due to the gain on the sale of the Latin American Private Banking operations in Miami and Uruguay, including the Latin American portfolios managed in Switzerland and Luxembourg (EUR 77 million). The 2006 figures include the gain on the sale of the Futures business (EUR 229 million) and the gain on the sale of Kereskedelmi és Hitelbank Rt. (EUR 208 million).
- The increase in BU Europe (EUR 74 million) was mainly due to the tax exempt gains on the sale of ABN AMRO's 50% share in ABN AMRO Mellon Global Securities B.V. (EUR 139 million).

Income of consolidated private equity holdings

Income from consolidated private equity holdings decreased by EUR 1,477 million, or 27.8%, to EUR 3,836 million, due to the transfer of the management of the majority of the businesses from Private Equity to an independent management company. As a result of the structural change in control, the results from the portfolio of investments managed by the independent management company were no longer consolidated as of 1 July 2007 but instead changes in fair value are shown within results from financial transactions as a net gain on other equity investments.

Operating expenses

Operating expenses increased by EUR 83 million, or 0.6%, to EUR 14,785 million (non-GAAP: operating expenses increased by EUR 1,388 million, or 14.2%, to EUR 11,151 million), due to increases in operating expenses in BU Asia (EUR 277 million), BU Europe (EUR 184 million) and Central Items (decrease of EUR 408 million; non-GAAP: increase of EUR 897 million). In 2007, EUR 101 million of restructuring costs were released compared with a charge of EUR 95 million in 2006. In 2007, EUR 272 million of accelerated vesting of share-based payment plans were recorded. The accelerated vesting of share-based payment plans was a result of the acquisition of ABN AMRO by the Consortium Members.

Key notes:

- The decrease in Central Items was caused by a decline in the operating expenses of consolidated Private Equity investments due to a change in control. On a non-GAAP basis, the operating expenses increased due to the break-up fee paid to Barclays (EUR 200 million), transaction-related advisory fees (EUR 211 million), transition and integration costs (EUR 95 million), the provision for the US Department of Justice investigation (EUR 365 million) and the costs of accelerated vesting of share-based payments (EUR 117 million).
- The operating expenses in BU Asia increased due to the acquisition of Prime Bank and Taitung Business Bank, continued investments in new branches, and higher staff levels.

Loan impairment and other credit risk provisions

Loan impairment and other credit provisions increased by EUR 49 million, or 7.3%, to EUR 717 million. The provision level increased mainly in BU Europe (EUR 96 million) and BU Americas (EUR 77 million), partly offset by lower provisions in Central Items (decrease EUR 114 million).

Key notes:

- Loan impairment and other credit risk provisions increased in BU Europe (EUR 96 million) and BU Americas (EUR 77 million) following the lower level of releases than in the prior year and a change in the credit cycle.
- Provisions in Central Items decreased (EUR 114 million) as 2006 included an impairment for the Futures business which was sold to UBS in that year.

Tax

Tax expense declined by EUR 671 million (non-GAAP: tax expenses decreased by EUR 659 million) to a benefit of EUR 458 million (non-GAAP: 490 EUR million), mainly due to significant tax-exempt gains on disposals, including the gain on sale of Capitalia (EUR 624 million, net EUR 617 million), a lower corporate tax rate in the Netherlands, tax credits in some countries as well as substantial releases of tax liabilities resulting from the finalisation of prior year tax returns.

Profit from discontinued operations net of tax

Profit from discontinued operations net of tax of EUR 9,021 million in 2007 included:

- The sale of ABN AMRO Mortgage Group, Inc., ABN AMRO's US-based residential mortgage broker origination platform and residential mortgage servicing business, with a gain of EUR 110 million (net of tax results for the first two months and a gain on sale).
- The sale of ABN AMRO North America Holding Company, which principally consisted of the retail and commercial activities of LaSalle Corporation (LaSalle), in October 2007 with a net of tax results for the first nine

months of EUR 777 million, and a gain on sale amounted to EUR 7,163 million.

- The classification as discontinued operations of Banca Antonveneta (EUR 107 million losses).
- The classification as discontinued operations of Asset Management (EUR 171 million).
- The classification as discontinued operations of Banco Real (EUR 786 million).

- The gain on the sale of Interbank N.V., DMC Group (total EUR 69 million).
- The partial release of a provision recorded in connection with the sale of Bouwfonds in 2006 (EUR 52 million).

Profit from discontinued operations net of tax of EUR 2,733 million in 2006 included:

- The Group disposed of the property development and management activities of Bouwfonds in December 2006, resulting in profits of EUR 505 million, EUR 338 million of which related to the net gain on the sale and EUR 167 million of which related results of operations.
- The classification as discontinued operations of ABN AMRO Mortgage Group, Inc. (EUR 104 million).
- The classification as discontinued operations of ABN AMRO North America Holding Company (EUR 1,019 million).
- The classification as discontinued operations of Banca Antonveneta (EUR 192 million).
- The classification as discontinued operations of Asset Management (EUR 235 million).
- The classification as discontinued operations of Banco Real (EUR 678 million).

ANALYSIS OF THE BALANCE SHEET MOVEMENTS

The following is an analysis by significant balance sheet category of movements between 31 December 2008 and 31 December 2007.

(in millions of euros)	2008	2007
Assets		
Financial assets held for trading	212,653	242,277
Financial investments	67,061	96,435
Loans and receivables – banks	75,566	175,696
Loans and receivables – customers	270,507	398,331
Total assets	666,817	1,025,213
Liabilities		
Financial liabilities held for trading	192,087	155,476
Due to banks	94,620	239,334
Due to customers	209,004	330,352
Issued debt securities	111,296	174,995
Equity		
Equity attributable to shareholders of the parent company	17,077	29,575
Equity attributable to minority interests	46	1,134
Subordinated liabilities	13,549	15,616
Group capital	30,672	46,325
Guarantees and other commitments	42,148	55,140

The Group's total assets were EUR 667 billion at 31 December 2008, a decrease of EUR 358 billion, or 35%, when compared with EUR 1,025 billion at 31 December 2007. This decrease is primarily related to the distribution of businesses from the Group to the acquiring Consortium Member and sales to third parties in relation to the transition and impact on transaction volumes and values due to effects of the dislocation in financial markets.

In July 2008, the Santander acquired businesses of the former BU Latin America, predominantly consisting of Banco Real in Brazil, were transferred to Santander resulting in a reduction of total assets by EUR 48 billion. There was also a significant decrease in the volume of reverse repurchase agreements due to the tightening of liquidity and reduction in the professional securities transactions market.

The Group's total liabilities decreased EUR 343 billion, or 35%, to EUR 636 billion for reasons related to the decreases in total assets.

Financial assets and liabilities held for trading

Financial assets held for trading decreased by EUR 29 billion, or 12%, to EUR 213 billion at 31 December 2008 when compared with the 31 December 2007 amount of EUR 242 billion. This decrease resulted mainly from positions that were transferred to RBS, decreases in values due to current market conditions and planned balance sheet reductions by certain businesses. Partially offsetting this decrease were increases in derivative balances due to increases in the fair value of credit derivatives.

Financial liabilities held for trading of EUR 192 billion at 31 December 2008 increased by EUR 37 billion, or 24%, as compared to EUR 155 billion at 31 December 2007 mainly due to the change in derivatives as referred to above.

Financial investments

At 31 December 2008, the Group held financial investments of EUR 67 billion as compared to EUR 96 billion at 31 December 2007. The decrease of EUR 29 billion, or 30%, was due in part to the sale of EUR 6.7 billion of interest earning assets in a securities arbitrage conduit to RBS, and EUR 6 billion due to the sale of Banco Real and other businesses to Santander.

Loans and receivables – banks and Due to banks

Total loans and receivables – banks decreased EUR 100 billion, or 57%, to EUR 76 billion at 31 December 2008 compared to the balance of EUR 176 billion at 31 December 2007. This decrease was primarily driven by the decreased level of professional securities transaction volume, predominantly as a result of decreases in interbank funding activity.

The decline in Due to banks of EUR 145 billion, or 60%, was the most significant decline in liabilities, decreasing to EUR 95 billion at 31 December 2008 from EUR 239 billion at 31 December 2007. The most important drivers of the decrease in Due to banks were a decrease in professional securities transactions of EUR 97 billion and a EUR 52 billion decrease in time deposits from banks reflecting the dislocation in the financial markets.

Loans and receivables – customers and Due to customers

The decline in Loans and Receivables - customers was the most significant decline in assets, as the account declined by EUR 128 billion, or 32%, to 271 billion at 31 December 2008. The decrease was predominantly driven by a decline in professional securities transactions of EUR 85 billion, a decrease of EUR 14 billion in consumer lending, and a EUR 24 billion reduction due to the transfer of several multi-seller conduits to RBS. The decrease also includes EUR 28 billion due to the sale of Banco Real and other businesses to Santander.

Due to customers decreased EUR 121 billion, or 37%, to EUR 209 billion at 31 December 2008 compared to the balance of EUR 330 billion at 31 December 2007. This decrease was primarily driven by the decreased level of reverse repurchase agreement transaction volume of EUR 69 billion, EUR 50 billion less commercial and consumer deposits due to maturities of time deposits which were not renewed as a result of dislocation in the financial markets.

Issued debt securities

At 31 December 2008, the Group had issued debt securities in the amount of EUR 111 billion as compared to EUR 175 billion at 31 December 2007. The decrease of EUR 64 billion, or 37%, was due to the redemption of certain debt corresponding to the decrease in assets as discussed above and the transfer of consolidated conduits to RBS.

Subordinated liabilities and preference shares conversion

Subordinated liabilities decreased EUR 2.1 billion, or 13%, to EUR 13.5 billion at 31 December 2008 compared to EUR 15.6 billion at 31 December 2007. EUR 0.7 billion of the decrease related to the sale of Banco Real and other Latin American businesses to Santander and EUR 0.6 billion is a result of maturities. In November, 2008, the Group converted its outstanding preference financing shares to ordinary shares, decreasing subordinated liabilities by EUR 0.8 billion.

Guarantees and other commitments

The Group has, at any time, a number of commitments to extend credit. At 31 December 2008, the Group had EUR 42 billion of guarantees and other commitments outstanding as compared to EUR 55 billion at 31 December 2007. At 31 December 2008, the Group had EUR 63 billion of committed credit facilities as compared to EUR 104 billion at 31 December 2007. Lower levels of commitments are reflective of lower overall lending volumes in 2008.

Group capital

The following table shows ABN AMRO’s capital at 31 December 2008, 2007 and 2006.

(in millions of euros)	2008	2007	2006
Ordinary share capital	1,852	1,085	1,085
Ordinary share premium reserves	5,343	5,332	5,245
Treasury shares	-	(2,640)	(1,829)
Retained earnings	11,096	25,650	18,599
Net gains/(losses) not recognised in the income statement	(1,214)	148	497
Equity attributable to shareholders of the parent company	17,077	29,575	23,597
Minority interests	46	1,134	2,298
Equity	17,123	30,709	25,895
Subordinated liabilities	13,549	15,616	19,213
Group capital	30,672	46,325	45,108

Group capital at year-end 2008 was EUR 30,672 million, a decrease of EUR 15,653 million or 33.8%, compared with 2007. This was due to:

- A decrease of EUR 12,498 million, or 42.3%, in equity attributable to the shareholder of the parent company, which is mainly resulting from a decrease in retained earnings following the dividend payments in 2008 of in total EUR 19,213 million, a decrease in treasury shares as a result of the sale of these shares to RFS Holdings and an increase of losses not recognised in the income statement. This was partially offset by a net profit attributable to the shareholder of the parent company of EUR 3,580 million and an increase in ordinary share capital following the conversion of preference financing shares and (formerly convertible) preference shares.
- A EUR 1,088 million decrease in minority interests in 2008, which is explained by net additions and disposals of EUR 996 million, EUR 107 million currency translation losses and profit attributable to minority interest of EUR 15 million.

- A decrease of subordinated liabilities by EUR 2,067 million (2007: decrease EUR 3,597 million) to EUR 13,549 million (2007: EUR 15,616 million). The decrease in 2008 is a result of the conversion of preference shares, the disposal of Banco Real and some repayments.

Group capital at year-end 2007 was EUR 46,325 million, an increase of EUR 1,217 or 2.7%, compared with 2006. This was due to:

- An increase of EUR 5,978 million, or 25.3%, in equity attributable to shareholders of the parent company, which is mainly due to an increase in retained earnings and partially offset by an increase in treasury shares
- A EUR 1,164 million decrease of minority interests in 2007, which is explained by net reductions and disposals of EUR 1,026 million, EUR 38 million currency translation losses and profit attributable to minority interest of EUR 127 million.
- A decrease of subordinated liabilities by EUR 3,597 million (2006: increase EUR 141 million) to EUR 15,616 million (2006: EUR 19,213 million). The decrease in 2007 is a result of the sale of LaSalle (EUR 1,487 million), currency translation losses (EUR 848 million), reclassifications to liabilities of businesses held for sale (EUR 1,090 million), issuances (EUR 1,496 million) and redemptions (EUR 1,537 million). Issuances in 2007 include: USD 1 billion (EUR 768 million) floating rate lower tier-2 due 2017, non callable before 2012; BRL 550 million (EUR 197 million) floating rate lower tier-2 due 2013 and 2014; and BRL 885 million (EUR 329 million) floating rate lower tier-2 due 2014. Redemptions were EUR 1,537 million and include a USD 750 million (EUR 555 million) 7.125% note issued in 1977, a NLG 750 million (EUR 340 million) 6% note issued in 1997, a NLG 500 million (EUR 227 million) 8.25% note issued in 1992 and a EUR 200 million note issued in 1997.

Credit ratings

At 31 December the credit ratings of ABN AMRO were as follows:

	2008		2007	
	Long term	Short term	Long term	Short term
Standard & Poor’s	A+	A-1	AA-	A-1+
Moody’s	Aa2	P-1	Aa2	P-1
Fitch	AA-	F1+	AA-	F1+

Capital ratios

ABN AMRO applies capital adequacy ratios based on the Bank for International Settlements’ guidelines and Dutch Central Bank (‘DNB’) directives. These ratios compare ABN AMRO’s capital with its assets and off-balance sheet exposure, weighted according to the relative risk involved. Capital is also set aside for market risk associated with ABN AMRO’s trading activities. The minimum required ratios, as determined by the DNB, have been increased in 2008 as discussed in Section 3: ‘Risk & Capital Management’. The minimum Tier 1 ratio required is 9% (2007: 4%) and the minimum total capital ratio is 12.5% (2007: 8%). ABN AMRO has met these standards throughout the year including at balance sheet date with a Tier 1 ratio of 10.88% (2007: 12.42%), of which the core Tier 1 ratio is 10.10% (2007: 10.59%). The total capital ratio is 14.43% (2007: 14.61%) at 31 December 2008.

The total capital base decreased by 25.1% (2007: increased by 8.5%) to EUR 25.4 billion at 31 December 2008 (2007: EUR 33.9 billion). Risk weighted assets amounted to EUR 176.0 billion at 31 December 2008 (2007: 232.3 billion), a decrease of EUR 56.3 billion (2007: EUR 48.4 billion), or 24.2% (2007: 17.2%) from 2007.

The following table analyses ABN AMRO's capital ratios at 31 December 2008, 2007 and 2006.

(in millions of euros)	2008	2007	2006
Tier 1 capital	19,152	28,850	23,720
Tier 2 capital	5,981	4,816	7,283
Tier 3 capital	272	272	272
Total capital base (including supervisory deductions)	25,405	33,938	31,275
Risk-weighted assets on balance	119,667	172,059	208,948
Off-balance	43,292	53,611	67,675
Market risks	13,069	6,642	4,081
Total risk-weighted assets	176,028	232,312	280,704
Tier 1 capital ratio	10.88%	12.42%	8.45%
Total capital ratio	14.43%	14.61%	11.14%

For further information on the capital ratios refer to Note 39 'Capital Adequacy' within Section 5: 'Consolidated Financial Statements'.

Liquidity and funding

Throughout the year, in response to the dislocation of the financial markets, in particular following the default of Lehman Brothers and ABN AMRO events related to the planned transition of businesses to Consortium Members, management was required to take appropriate relevant measures. Contingency funding plans were put in effect on a number of occasions to manage and to mitigate the negative effects in a coordinated manner in response to these events. In order to strengthen the liquidity buffer, an additional amount of Dutch residential mortgages were securitised as European Central Bank Eligible collateral. The timely response and effectiveness of the measures taken, together with the acquisition by the Dutch State of the interest in ABN AMRO from Fortis, enabled the Group to restore the trust of the public and to stem liquidity outflow, most of which has now been recouped.

ABN AMRO's liquidity management is also directed towards supporting the smooth transfer of ABN AMRO businesses to the Consortium Members. In this respect ABN AMRO adjusted its funding policy in 2008 to concentrate on extending the funding profile through attracting wholesale funding as the long term debt issuance market was not available to ABN AMRO in 2008.

The above measures, in combination with the completion of the transfer of certain businesses, decreased the liquidity exposure significantly and enabled ABN AMRO to manage its liquidity position without excessive stress.

The market dislocation also impacted ABN AMRO’s managed asset-backed commercial paper (ABCP) conduits, which are diversified in terms of geographical spread and asset coverage. Also the maturities of the ABCP are well spread over time. These represented the largest contingent liquidity exposure of the Group. In February 2008 one asset arbitrage conduit was no longer able to refinance itself and drew liquidity. All other major conduits have been rolled over without difficulties due to the underlying quality of the assets, with ABN AMRO in some cases temporarily being required to warehouse ABCP. By late 2008 the majority of ABN AMRO's multi-seller conduits and the related issuance and sponsorship role have been transferred to RBS. The outstanding ABCP as per 31 December 2008 was EUR 17.8 billon (2007: EUR 50.9 billion), of which EUR 4.8 billion (2007: EUR 29.3 billion) relates to multi-seller conduits.

In December 2008, the Standard & Poor’s rating agency downgraded ABN AMRO, together with a number of other international banks. As a consequence ABN AMRO was required to post more collateral in January 2009, due to its role as a cash deposit bank in securitisation transactions.

Liquidity Ratio

ABN AMRO uses the stable funding to non liquid assets ratio in its liquidity management (refer Section 3: ‘Risk & Capital Management’ for a discussion on funding liquidity management and measurement). This ratio shows the extent to which core assets (non liquid assets) are covered by core liabilities (stable funding). Non liquid assets are assets that require continuous funding and where - from a commercial perspective - the Group is not in a position to discontinue funding. Stable funding is funding which is assumed to remain available in a crisis.

	2008	2007
Stable funding/non liquid assets:		
Year end ratio	96%	102%
Average ratio	95%	99%

The Group has continued to meet its internal liquidity management limits as well as regulatory liquidity requirements in 2008.

Offices and branches

At 31 December 2008, the Group operated 615 offices and branches in the Netherlands (2007: 665) and 405 offices and branches (2007: 3,631) in 50 other countries and territories (2007: 55). Of these offices and branches, 14 (2007: 17) were in North America, 22 (2007: 2,212) in Latin America and the Caribbean, 140 (2007: 1,155) were in Europe, 9 (2007: 10) were in the Middle East and Africa and 220 (2007: 237) were in the Asia Pacific Region.

RESULTS OF OPERATIONS BY BU

Changes to reporting structure and presentation

From 1 January 2008 the management and control structure of ABN AMRO has been aligned with the consortium ownership of the Group. The results of operations for the years ended 31 December 2007 and 2006 have been restated to reflect these changes.

BU Europe

Selected information

The table below sets out selected information relating to BU Europe for the years ended 31 December 2008, 2007 and 2006.

(in millions of euros)	2008	2007	2006
Net interest income	1,461	1,220	496
Net fee and commission income	731	802	999
Net trading income	(9,835)	509	1,879
Results from financial transactions	(1,058)	140	179
Share of result in equity accounted investments	13	9	2
Other operating income	(5)	70	(4)
Operating income	(8,693)	2,750	3,551
Operating expenses	3,357	3,551	3,367
Operating result	(12,050)	(801)	184
Loan impairment and other credit risk provisions	2,025	101	5
Operating profit/(loss) before tax	(14,075)	(902)	179
Tax	(2,652)	(327)	46
Net operating profit/(loss)	(11,423)	(575)	133
Total assets	400,203	530,681	424,350
Risk-weighted assets	37,475	40,861	42,550
Full-time equivalent staff	11,233	12,150	10,416
Number of branches and offices	92	78	121
Efficiency ratio 1	-	129.1%	94.8%

1 Negative efficiency ratios have been excluded.

Results of operations for the years ended 31 December 2008 and 2007

Profit for the year decreased by EUR 10,848 million to a loss of EUR 11,423 million. This was as a result of a decrease in operating income of EUR 11,443 million, a decrease in operating expenses of EUR 194 million, an increase in loan impairment and other credit risk provisions of EUR 1,924 million and a decrease in tax expenses of EUR 2,325 million.

Operating income

Operating income decreased by EUR 11,443 million to a negative amount of EUR 8,693 million, mainly as a result of a decrease in net trading income of EUR 10,344 million and a decrease in results from financial transactions of EUR

1,198 million, partly offset by an increase in net interest income of EUR 241 million.

- Net interest income increased by EUR 241 million mainly due to the interest on the proceeds of the sale of LaSalle, higher revenues from commercial banking and higher interest on cash balances in treasury.
- The decrease in net trading income includes credit market write-downs against asset backed securities (EUR 1.6 billion) and credit valuation adjustment against exposures to credit insurance counterparties (EUR 4.8 billion). For further information refer to our discussion on 'Credit market and related exposures' in this section. The negative revenue also includes losses arising on counterparty failures (approximately EUR 1.0 billion, including losses associated with the Lehman Brothers bankruptcy and the Bernard L. Madoff fraud). Furthermore, trading income was impacted by approximately EUR 500 million of losses due to a change in the valuation methodology of complex products that involve multiple unobservable inputs, such as correlation and interpolation, which have been adjusted to use the same estimation techniques as the ultimate parent company RBS.
- The decrease in results from financial transactions is due mainly to the transfer of certain credit portfolios, including structured real estate loans and the notes held by the asset arbitrage conduit, to RBS of approximately EUR 2.3 billion. These negative results are partly offset by gains recorded on own debt held at fair value of approximately EUR 0.6 billion.
- Other operating income decreased by EUR 75 million, mainly due to the tax-exempt gains on the sale of ABN AMRO's 50% share in ABN AMRO Mellon Global Securities Services B.V. (EUR 139 million) included in the 2007 results.

Operating expenses

Operating expenses decreased by EUR 194 million, or 5.5%, to EUR 3,357 million, primarily as a result of lower performance related bonuses resulting from the decreased trading performance and a reduction in headcount. In 2008, operating expenses included a restructuring charge of EUR 483 million, compared with a restructuring release of EUR 46 million in 2007 (total increase of EUR 529 million).

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions increased by EUR 1,924 million to EUR 2,025 million, mainly due to a provision relating specifically to LyondellBasell Industries (approximately EUR 1.1 billion) and further provisions in global banking and markets.

Tax

The effective tax rate for 2008 is impacted by losses incurred in the year for which no deferred tax asset was recognised.

Results of operations for the years ended 31 December 2007 and 2006

Profit for the year decreased by EUR 708 million to a loss of EUR 575 million. This reflects a decrease in operating income of EUR 801 million, an increase in operating expenses of EUR 184 million, an increase of EUR 96 million in loan impairments and other credit risk provisions, partly offset by a decrease of EUR 373 million in tax expenses.

Operating income

Operating income decreased by EUR 801 million, or 22.6%, to EUR 2,750 million predominantly due to negative fair value adjustments taken in the second half year 2007, related to the first impacts of the credit crisis that developed from the adverse conditions in the sub-prime mortgage market in the US. The negative fair value adjustments of EUR 1,561 million (EUR 1,139 million after tax) were comprised of a negative valuation adjustment on monolines of EUR 606 million (EUR 440 million after tax); and a negative valuation adjustment of EUR 955 million on asset backed securities and collateralised debt obligation exposures (EUR 699 million after tax) offset by gains on own credit risk of EUR 267 million recorded in the trading portfolio and EUR 53 million recorded in results from financial transactions. The decrease was partly offset by the gains on the sale of ABN AMRO Mellon.

- Net interest income increased by EUR 724 million which was mainly due to higher global markets income, as client income grew strongly.
- Net fees and commission income decreased by EUR 197 million, mainly due to a decline in securities commissions and commissions related to large corporate clients, partly offset by higher payments and asset management commissions.
- Other operating income increased by EUR 74 million, mainly due to the tax-exempt gains on the sale of ABN AMRO's 50% share in ABN AMRO Mellon Global Securities Services B.V. (EUR 139 million).

Operating expenses

Operating expenses increased by EUR 184 million, or 5.5%, to EUR 3,551 million reflecting higher staff costs as a result of an increase in full time equivalents (from 10,416 in 2006 to 12,150 in 2007) and an increase in bonus related expenses of EUR 284 million following the retention initiative and true-ups for the global markets business. The operating expenses included a restructuring release of EUR 46 million in 2007, and a restructuring charge of EUR 68 million in 2006 (total decrease of EUR 114 million). Non-staff costs were lower compared to 2006 as the benefits from the savings initiatives announced in 2006 were realised.

Loan impairment and other credit risk provisions

Loan impairments and other credit risk provisions increased by EUR 96 million to EUR 101 million. This increase was mainly due to additions in the corporate clients portfolio and the change in the credit cycle, partly offset by improvements in the small and medium-sized enterprises and consumer credit portfolios.

BU Asia

Selected information

The table sets out selected information relating to BU Asia for the years ended 31 December 2008, 2007 and 2006.

(in millions of euros)	2008	2007	2006
Net interest income	748	732	611
Net fee and commission income	392	1,008	797
Net trading income	634	372	358
Results from financial transactions	(291)	47	(7)
Share of result in equity accounted investments	(4)	39	-
Other operating income	23	16	47
Operating income	1,502	2,214	1,806
Operating expenses	1,696	1,696	1,419
Operating result	(194)	518	387
Loan impairment and other credit risk provisions	453	207	214
Operating profit/(loss) before tax	(647)	311	173
Tax	125	106	106
Net operating profit/(loss)	(772)	205	67
Total assets	54,901	72,171	67,844
Risk-weighted assets	22,118	16,233	16,552
Full-time equivalent staff	19,854	18,569	14,141
Number of branches and offices	201	216	132
Efficiency ratio	112.9%	76.6%	78.6%

Results of operations for the years ended 31 December 2008 and 2007

Profit for the year decreased by EUR 977 million to a loss of EUR 772 million. This was as a result of a decrease in operating income of EUR 712 million, stable operating expenses and an increase in loan impairment and other credit risk provisions of EUR 246 million.

Operating income

Operating income decreased by EUR 712 million, or 32.2%, to EUR 1,502 million, mainly due to:

- Lower net fee and commission income (down by EUR 616 million) due to lower results from the merger and acquisition business and due to lower revenues from equity derivative and strategy business.
- Net trading income increased by EUR 262 million to EUR 634 million, mainly due to higher results from local markets and global markets.
- Results from financial transactions decreased by EUR 338 million, mainly due to negative valuation adjustments on equity investments including ABN AMRO’s investment in a fund holding shares in Korean Exchange Bank.

Operating expenses

Operating expenses remained stable at EUR 1,696 million. Higher operating expenses resulting from the business growth are offset by lower performance-related staff costs. In 2008, operating expenses included a restructuring charge of EUR 72 million, compared with a restructuring release of EUR 2 million in 2007.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions increased by EUR 246 million to EUR 453 million, mainly as a result of the global market and retail business.

Results of operations for the years ended 31 December 2007 and 2006

Profit for the year increased by EUR 138 million, or 206.0%, to EUR 205 million. This reflects an increase of EUR 408 million in operating income, an increase of EUR 277 million in operating expenses and a decrease of EUR 7 million in loan impairment and other credit risk provisions.

Operating income

Operating income increased by EUR 408 million, or 22.6%, driven by strong growth in consumer banking and higher operating income in the commercial segment.

Client growth in the consumer banking segment was mainly driven by the Van Gogh Preferred Banking business, a relationship banking approach to mass affluent clients serviced through a dedicated point of contact. The number of clients increased by 12.3% to 3.7 million and the number of credit cards in BU Asia increased by 18.1% to 3.3 million. In addition, commercial client revenue as a result of higher merger and acquisition advisory fees, client transactions executed and higher global markets revenues.

- Net fees and commission income increased by EUR 211 million, mainly due to the higher merger and acquisition advisory fees following the successful closing of client transactions, higher transaction banking revenues and further growth in the sale of investment products to the Van Gogh Preferred Banking client base.
- Net trading income and results from financial transactions increased by EUR 68 million to EUR 419 million, mainly as a result of global markets activities.

Operating expenses

Operating expenses increased by EUR 277 million, or 19.5% to EUR 1,696 million, due to higher staff and bonus accruals as a result of increased revenues, continued investments in the new branches and the acquisition of Prime Bank and Taitung Business Bank. During 2007,16 branches across China, India, Indonesia, Hong Kong and Malaysia have been opened, bringing the total number of branches in BU Asia to 186, including 91 branches from recent acquisitions. In 2007, operating expenses included a restructuring release of EUR 2 million, compared with a restructuring charge of EUR 11 million booked in 2006.

BU Americas

Selected information

The table sets out selected information relating to BU Americas for the years ended 31 December 2008, 2007 and 2006.

(in millions of euros)	2008	2007	2006
Net interest income	339	213	217
Net fee and commission income	235	297	331
Net trading income	86	208	162
Results from financial transactions	(169)	4	(31)
Other operating income	36	53	29
Operating income	527	775	708
Operating expenses	665	875	901
Operating result	(138)	(100)	(193)
Loan impairment and other credit risk provisions	131	38	(39)
Operating profit/(loss) before tax	(269)	(138)	(154)
Tax	85	(77)	(193)
Net operating profit/(loss)	(354)	(61)	39
Total assets	23,091	83,939	77,563
Risk-weighted assets	20,802	9,118	10,057
Full-time equivalent staff	1,718	2,169	2,144
Number of branches and offices	22	22	35
Efficiency ratio	126.2%	112.9%	127.3%

Results of operations for the years ended 31 December 2008 and 2007

The result for the year decreased by EUR 293 million to a loss of EUR 354 million. This reflects a decrease in operating income of EUR 248 million, a decrease in operating expenses of EUR 210 million, an increase in loan impairment and other credit risk provisions of EUR 93 million and an increase in tax of EUR 162 million.

Operating income

Operating income decreased by EUR 248 million, or 32.0%, to EUR 527 million, primarily due to the negative results of the fair value adjustment of the credit market business transferred to RBS and credit derivatives trading losses.

- Net interest income increased by EUR 126 million, mainly due to higher revenues in the global market, credit market and equities business.
- Net trading income decreased by EUR 122 million, mainly due to credit derivative trading losses on credit default swaps.
- Results from financial transactions decreased by EUR 173 million, mainly due to the negative result on the transfer at fair value of the North America multi-seller conduits to RBS.

Operating expenses

Operating expenses decreased by EUR 210 million, or 24.0%, to EUR 665 million, mainly due to the continued drive for improved cost management and the lower performance related bonuses. In 2008, operating expenses included a restructuring charge of EUR 102 million, compared with EUR 9 million restructuring charge booked in 2007.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions increased by EUR 93 million to EUR 131 million due to financial institutions as well as corporate clients.

Results of operations for the years ended 31 December 2007 and 2006

Profit for the year decreased by EUR 100 million to a loss of EUR 61 million. This was as a result of an increase in operating income of EUR 67 million, a decrease in operating expenses of EUR 26 million, an increase in loan impairment and other credit risk provisions of EUR 77 million and a decrease in tax expenses of EUR 116 million. The US dollar depreciated 8.2% on average compared with the euro in 2007 (comparing the average rate in 2007 with the average rate in 2006).

Operating income

Operating income increased by EUR 67 million, or 9.5%, to EUR 775 million, mainly as a result of the positive impact on the global markets activities of the decline in interest rates and the weakening US dollar, despite the difficult market environment created by the sub-prime and credit crisis in the second half of the year 2007.

Operating expenses

Operating expenses decreased by EUR 26 million, or 2.9%, to EUR 875 million, with the successful drive for the further improved cost management being partly offset by higher bonuses.

Loan impairment and other credit risk provisions

Provisions changed from a net release of EUR 39 million to a net charge of EUR 38 million due to developments related to a small number of corporate credits.

Tax

Net tax credits decreased by EUR 116 million to a net tax credit of EUR 77 million.

BU Netherlands

Selected information

The table sets out selected information relating to BU Netherlands, for the years ended 31 December 2008, 2007 and 2006.

(in millions of euros)	2008	2007	2006
Net interest income	2,822	2,981	2,938
Net fee and commission income	750	781	747
Net trading income	112	83	72
Results from financial transactions	194	29	1
Share of result in equity accounted investments	30	54	49
Other operating income	170	244	264
Operating income	4,078	4,172	4,071
Operating expenses	2,923	2,641	2,638
Operating result	1,155	1,531	1,433
Loan impairment and other credit risk provisions	761	378	375
Operating profit before tax	394	1,153	1,058
Tax	88	271	302
Net operating profit	306	882	756
Total assets	158,875	141,741	133,900
Risk-weighted assets	83,914	78,729	74,329
Full-time equivalent staff	19,078	20,456	20,344
Number of branches and offices	600	650	644
Efficiency ratio	71.7%	63.3%	64.8%

Results of operations for the years ended 31 December 2008 and 2007

Profit for the year decreased by EUR 576 million, or 65.3% to EUR 306 million. This was as a result of a decrease in operating income of EUR 94 million, an increase in operating expenses of EUR 282 million, an increase of EUR 383 million in loan impairments and other credit risk provisions and a decrease of EUR 183 million in tax expenses.

Operating income

Operating income decreased by EUR 94 million, or 2.3% to EUR 4,078 million, primarily due to a decrease in net interest income and other operating income, partly offset by an increase in results from financial transactions.

§ Net interest income decreased by EUR 159 million, or 5.3%, resulted from the inclusion of a negative interest margin from the Group Asset and Liability Management portfolios economically allocated to the Dutch State, partly offset by interest revenues on the proceeds of the sale of Asset Management. Increased gross interest, resulting from higher mortgage volumes and commercial loans, did not compensate for the lower margins. Margins on deposits and savings also dropped due to the migration to higher yielding saving products and deposits.
§ Results from financial transactions increased by EUR 165 million, reflecting a positive result on the unwinding of some capital management related guarantee transactions.

- Other operating income decreased by EUR 74 million, or 30.3%. The 2007 figures include the gain on the sale of some branches and offices.

Operating expenses

Operating expenses increased by EUR 282 million, or 10.7%, to EUR 2,923 million. The 2008 operating expenses include a restructuring charge of EUR 175 million, whilst in 2007 a restructuring allowance of EUR 46 million was released. The restructuring charge relates to integration and restructuring costs as well as costs related to the preparation for the possible sale resulting from the EC Remedy. Adjusted for the restructuring charge of EUR 175 million, operating expenses increase by EUR 107 million due to an increase in staff costs arising from a detailed review of staff related provisions and a provision for the estimated costs to the Group relating to the deposit guarantee scheme in the Netherlands.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions increased by EUR 383 million, to EUR 761 million, mainly related to the small and medium enterprise portfolio.

Results of operations for the years ended 31 December 2007 and 2006

Profit for the year increased by EUR 126 million, or 16.7%, to EUR 882 million. This was as a result of an increase of EUR 101 million in operating income, an increase of EUR 3 million in operating expenses, an increase of EUR 3 million in loan impairments and other credit risk provisions and a decrease of EUR 31 million in tax expenses.

Operating income

Operating income increased by EUR 101 million or 2.5% to EUR 4,172 million, mainly due to an increase in net interest income, net fee and commissions and results from financial transactions.

- Net interest income increased by EUR 43 million, or 1.5%, driven by loan growth, increases in saving volumes and improved margins on saving products, partly offset by pressure on loan margins in an increasingly competitive market.
- Net trading income and results from financial transactions increased by EUR 39 million, or 53.4%, reflecting favourable market circumstances.

Operating expenses

Operating expenses increased by EUR 3 million, to EUR 2,641 million reflecting higher staff costs (EUR 159 million) as a result of an increase in full time equivalents (from 20,344 in 2006 to 20,456 in 2007), partly offset by lower internal settlements and lower costs for automation, consultancy and commercial expenses (EUR 84 million). In 2007, a restructuring allowance of EUR 46 million was released, whilst the 2006 operating expenses included a restructuring charge of EUR 31 million.

BU Private Clients

Selected information

The table sets out selected information relating to BU Private Clients for the years ended 31 December 2008, 2007 and 2006.

(in millions of euros)	2008	2007	2006
Net interest income	401	459	494
Net fee and commission income	572	760	675
Net trading income	78	72	54
Results from financial transactions	(13)	8	4
Share of result in equity accounted investments	1	-	2
Other operating income	72	91	75
Operating income	1,111	1,390	1,304
Operating expenses	863	969	916
Operating result	248	421	388
Loan impairment and other credit risk provisions	15	-	6
Operating profit before tax	233	421	382
Tax	68	123	111
Net operating profit	165	298	271
Total assets	18,239	19,594	20,498
Risk-weighted assets	7,804	8,184	7,662
Assets under Management (in billions of euros)	102	140	142
Full-time equivalent staff	3,962	3,137	3,212
Number of branches and offices	95	94	94
Efficiency ratio	77.7%	69.7%	70.2%

Results of operations for the years ended 31 December 2008 and 2007

Profit for the year decreased by EUR 133 million, or 44.6%, to EUR 165 million. This was as a result of a decrease in operating income of EUR 279 million, a decrease in operating expenses of EUR 106 million, an increase in loan impairment and other credit risk provisions of EUR 15 million, partly offset by a decrease in tax of EUR 55 million.

Operating income

Operating income decreased by EUR 279 million, or 20.1%, to EUR 1,111 million, mainly caused by lower Assets under Management levels, due to lower values of investments. The decrease was caused by the strong decline in financial markets during 2008, the divestments in the UK and Gibraltar, and the transfer of the Indian and Indonesian operations to RBS.

- Net interest income decreased by EUR 58 million, or 12.6%, mainly due to lower client balances on saving accounts combined with higher client rates, which eroded interest margins.
- Non-interest income decreased by EUR 221 million, or 23.7%, mainly driven by lower net fees and commission income, resulting from lower Assets under Management, which decreased by EUR 38 billion to EUR 102 billion. This decline reflects a reduction in net new assets and lower asset values due to deteriorated financial markets. Non-interest income includes an impairment of EUR 24 million of available for sale equity investments held in relation to insurance activities.

Operating expenses

Operating expenses decreased by EUR 106 million, or 10.9% to EUR 863 million, resulting from cost management actions throughout the year. The results in 2008 include EUR 33 million restructuring costs whereas 2007 include a restructuring release of EUR 2 million. Full time equivalents increased from 3,137 in 2007 to 3,962 in 2008, which were caused by the transfer of service and function staff from regional businesses to BU Private Clients.

Results of operations for the years ended 31 December 2007 and 2006

Profit for the year increased by EUR 27 million, or 10.0%, to EUR 298 million. This reflects an increase in operating income of EUR 86 million, an increase in operating expenses of EUR 53 million and an increase in tax expense of EUR 12 million.

Operating income

Operating income increased by EUR 86 million, or 6.6%, to EUR 1,390 million primarily driven by increases in the Netherlands and in Asia.

- Net interest income decreased EUR 35 million, or 7.1%, mainly due to strong pressure on margins resulting from the flat yield curve over 2007. This specifically impacted margins on saving accounts.
- Non-interest income increased by 14.9% or EUR 121 million mainly driven by higher net fee and commission income, reflecting higher volumes in non-interest related products such as stocks, investment funds and structured products. Assets under Management decreased by EUR 2 billion to EUR 140 billion, reflecting the sale of the Miami, Uruguay, Vermogensgroep and UK Private Banking operations. Financial market conditions, especially in the fourth quarter of 2007, resulted in portfolio value reduction which was offset by a net inflow of new money in 2007.

Operating expenses

Operating expenses increased by EUR 53 million, or 5.8%, to EUR 969 million. The results in 2006 included a restructuring release of EUR 27 million whereas 2007 included a restructuring release of EUR 2 million.

Central Items

Central Items includes head office functions and items that are not allocated to individual Consortium Members such as the private equity portfolio and the investment in Saudi Hollandi Bank. Interest on settlement amounts accruing to Santander are also included.

Selected information

The table sets out selected information relating to Central Items, for the years ended 31 December 2008, 2007 and 2006.

(in millions of euros)	IFRS			Consolidation effect (1)			Excluding consolidation effect (non-GAAP measure)		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Net interest income/(expense)	12	(1,010)	(533)	(45)	(220)	(342)	57	(790)	(191)
Net fee and commission income	(51)	204	92	-	–	–	(51)	204	92
Net trading income/(loss)	(399)	(125)	102	-	3	(3)	(399)	(128)	105
Results from financial transactions	(347)	906	621	(36)	46	15	(311)	860	606
Share of results in equity accounted investments	66	121	133	-	1	–	66	120	133
Other operating income	10	765	462	-	–	–	10	765	462
Income of consolidated private equity holdings	1,726	3,836	5,313	1,726	3,836	5,313	-	–	–
Operating income	1,017	4,697	6,190	1,645	3,666	4,983	(628)	1,031	1,207
Operating expenses	2,125	5,053	5,461	1,635	3,634	4,939	490	1,419	522
Operating result	(1,108)	(356)	729	10	32	44	(1,118)	(388)	685
Loan impairment and other credit risk provisions	2	(7)	107	-	–	–	2	(7)	107
Operating profit/(loss) before tax	(1,110)	(349)	622	10	32	44	(1,120)	(381)	578
Tax	(294)	(554)	(159)	10	32	44	(304)	(586)	(203)
Net operating profit/(loss)	(816)	205	781	-	–	–	(816)	205	781

Total assets (2)	11,508	177,087	262,909	435	1,698	4,537	11,073	175,389	258,372
Risk-weighted assets (2)	3,915	79,187	129,554				3,915	79,187	129,554
Full-time equivalent staff (2)	3,713	16,409	35,299	2,594	13,168	30,881	1,119	3,241	4,418
Number of branches and offices (2)	10	3,236	3,608				10	3,236	3,608
Efficiency ratio (3)	208.9%	107.6%	88.2%	99.4%	99.1%	99.1%	–	137.6%	43.3%

(1)This is the impact per line item of the private equity investments which are required to be consolidated under IFRS. See the accounting policies section of the financial statements.

(2)Including discontinued operations.

(3)Negative efficiency ratios have been excluded.

Results of operations for the years ended 31 December 2008 and 2007

The result for the year decreased by EUR 1,021 million to a loss of EUR 816 million. This was as a result of a decrease in operating income of EUR 3,680 million (non-GAAP: decrease EUR 1,659 million), a decrease in operating expenses of EUR 2,928 million (non-GAAP: decrease EUR 929 million) and a decrease in tax benefit of EUR 260 million (non-GAAP: decrease EUR 282 million).

The decrease in IFRS operating income and operating expenses results from the decrease of the consolidation effect. The consolidation effect decreased due to the sale of Private Equity investments in 2008 and due to a change in management control in 2007. The portfolio of investments, since the change of control managed by an independent management company, is no longer consolidated, but instead is carried at fair value with value changes directly impacting the profit and loss account.

Operating income

Operating income decreased by EUR 3,680 million, or 78.3%, to EUR 1,017 million (non-GAAP: decrease EUR 1,659 million), mainly due to lower Group Asset and Liability Management results, negative results from the Private Equity portfolio (approximately EUR 0.8 billion) and lower results from our shareholding in Unicredit (approximately EUR 0.8 billion) that was fully divested in 2008. The results from the Private Equity portfolio and the shareholding in Unicredit were both negative in 2008. This was partly offset by the interest revenue on the proceeds of the sale of Banca Antonveneta and the sale of Banco Real accruing to Santander. The 2007 figures include the gain on the sale of ABN AMRO's stake in Capitialia which was settled in exchange for Unicredit shares (EUR 624 million) and the gain on the sale of the Latin American Private Banking operations in Miami and Uruguay, including the Latin American portfolios managed in Switzerland and Luxembourg (EUR 77 million).

In the course of 2008, the majority of the Group Asset and Liability Management portfolios have been allocated to the businesses acquired by the respective Consortium Members. Consequently the majority of the Group Asset and Liability Management results are no longer recorded in Central Items.

- Net interest income increased EUR 1,022 million (non-GAAP: increased EUR 847 million), mainly due to the interest on the proceeds of the sale of Banca Antonveneta and the sale of Banco Real and due to the transfer of Group Asset and Liability Management portfolios as explained above.
- The results from net fee and commission income decreased by EUR 255 million, mainly due to the transfer of Group Asset and Liability Management portfolios as explained above.
- The results from net trading income decreased by EUR 274 million (non-GAAP: decrease EUR 271 million), mainly due to the transfer of Group Asset and Liability Management portfolios as explained above.
- Results from financial transactions decreased by EUR 1,253 million (non-GAAP: decrease EUR 1,171 million), mainly due to lower results from the Private Equity portfolio (approximately EUR 0.8 billion) and lower results from our shareholding in Unicredit (approximately EUR 0.8 billion) driven by stock price developments prior to disposal in 2008.
- Other operating income decreased by EUR 755 million to EUR 10 million. The 2007 figures include the gain on the sale of ABN AMRO's stake in Capitalia which was settled in exchange for Unicredit shares (EUR 624 million) and the gain on the sale of the Latin American Private Banking operations in Miami and Uruguay, including the Latin American portfolios managed in Switzerland and Luxembourg (EUR 77 million).

Operating expenses

Operating expenses decreased by EUR 2,928 million (non-GAAP: decrease of EUR 929 million). The results in 2008 included a EUR 167 million restructuring charge, whereas 2007 included a restructuring release of EUR 14 million. Operating expenses in 2007 included a provision for the US Department of Justice investigation (EUR 365 million), transaction-related advisory fees (EUR 211 million), the break-up fee paid to Barclays (EUR 200 million), costs of accelerated vesting of share-based payments (EUR 117 million) and transition and integration costs (EUR 95 million).

Tax

Tax expense increased by EUR 260 million (non-GAAP: increased EUR 282 million) to a benefit of EUR 294 million (non-GAAP: EUR 304 million), mainly due to deferred tax asset impairments, while 2007 included higher tax-exempt gains on disposals as well as a tax release.

Results of operations for the years ended 31 December 2007 and 2006

Profit for the year decreased by EUR 576 million to EUR 205 million. This was as a result of a decrease in operating income of EUR 1,493 million (non-GAAP: decreased EUR 176 million), a decrease in operating expenses of EUR 408 million (non-GAAP: increased EUR 897 million), a decrease in loan impairment and other credit risk provisions of EUR 114 million and an increase in tax benefit of EUR 395 million (non-GAAP: increased EUR 383 million).

Operating income

Operating income decreased by EUR 1,493 million, or 24.1%, to EUR 4,697 million; non-GAAP: decreased EUR 176 million, mainly due to lower proprietary trading results of the global markets activities reported in Central Items and higher funding costs. This was partly offset by gains on the credit default swap portfolio that benefited due to the general widening of the spread that occurred throughout the year (EUR 116 million), a gain on own credit risk (EUR 115 million), both recorded in results from financial transactions, the gain on the sale of Capitalia whose shares were settled for Unicredit shares (EUR 624 million) and the gain on the sale of the Latin American Private Banking operations in Miami and Uruguay, including the Latin American portfolios managed in Switzerland and Luxembourg (EUR 77 million), both recorded in other income.

- Net interest income decreased EUR 477 million (non-GAAP: decreased EUR 599 million), mainly due to higher funding costs and lower investment income following lower sales of available-for-sale bonds than in 2006.
- Net trading income decreased by EUR 227 million (non-GAAP: decreased EUR 233 million) to a loss of EUR 125 million (non-GAAP: loss of EUR 128 million), mainly due to lower proprietary trading income on the global market business.
- The results from financial transactions increased EUR 285 million (non-GAAP: EUR 254 million) due to mark-to-market gains on capital and risk hedging (credit default swap portfolio) that benefited from the general widening of the credit spreads that occurred throughout the year and gains from changes in the fair value related to own credit risk of EUR 115 million, partly offset by decreased gains on sales of available-for-sale bonds.
- Other operating income increased by EUR 303 million to EUR 765 million due to the gain on the sale of ABN AMRO’s stake in Capitalia which was settled in exchange for Unicredit shares (EUR 624 million) and due to the gain on the sale of the Latin American Private Banking operations in Miami and Uruguay, including the Latin American portfolios managed in Switzerland and Luxembourg (EUR 77 million). The 2006 figures include the gain on the sale of the Futures business (EUR 229 million) and the gain on the sale of Kereskedelmi és Hitelbank Rt. (EUR 208 million).

Operating expenses

Operating expenses decreased by EUR 408 million (non-GAAP: increase of EUR 897 million). Operating expenses in 2007 included a provision for the US Department of Justice investigation (EUR 365 million), transaction-related advisory fees (EUR 211 million), the break-up fee paid to Barclays (EUR 200 million), costs of accelerated vesting of share-based payments (EUR 117 million) and transition and integration costs (EUR 95 million). The results in 2006 included a EUR 5 million restructuring charge, whereas 2007 included a restructuring release of EUR 14 million.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions decreased by EUR 114 million to a release of EUR 7 million. The 2006 results included a provision for the Futures business (EUR 72 million) which was sold to UBS in that year.

Tax

Tax expense declined by EUR 395 million (non-GAAP: decreased EUR 383 million) to a benefit of EUR 554 million (non-GAAP: EUR 586 million), mainly due to higher tax-exempt gains on disposals as well as a tax release.

CREDIT MARKET AND RELATED EXPOSURES

Explanatory note

The following disclosures provide information for certain of the Group's business activities affected by the unprecedented market events of 2008 with a focus on trading and available-for-sale positions. In preparing these disclosures, the Group took into consideration the leading practice disclosure recommendations of the Financial Stability Forum issued in April 2008 and the report of the IASB Expert Advisory Panel 'Measuring and disclosing fair value of financial instruments in markets that are no longer active' issued in October 2008.

Each disclosure within this section commences with an overview of the contained topic. Further detail is then provided within the subsections and should be read in conjunction with all disclosures within this section.

Throughout this section the following abbreviations have been used:

ABCP	Asset-backed commercial paper
ABS	Asset-backed securities
CDO	Collateralised debt obligations
CDPC	Credit Derivative Product Company
CDS	Credit default swap
CLO	Collateralised loan obligations
CMBS	Commercial mortgage-backed securities
CP	Commercial paper
CVA	Credit valuation adjustment
IASB	International Accounting Standards Board
RMBS	Residential mortgage-backed securities
SIV	Structured investment vehicle
SPE	Special purpose entity

Market background

Overall, 2008 has been characterised by rapid dislocation in financial markets. In many cases, the dramatic liquidity squeeze and rise in funding costs for financial institutions has resulted in reluctance or inability of market participants to transact, and has adversely affected the performance of most financial institutions globally, including the Group. Stock markets have experienced extraordinary falls, and levels of volatility have been at record highs. Commodity prices have reduced sharply in the second half of the year and credit spreads continued to widen. Market perception of counterparty risk increased and the failure of major credit protection providers caused fair value losses and further increased the costs of mitigating credit exposure. Sustained falls globally in both residential and commercial real estate prices, fund valuations and worsening loan performance combined with a sustained lack of liquidity in the market, resulted in a greater amount of assets being valued at significantly lower prices.

The first quarter of 2008 saw a continuation of credit and liquidity shortages experienced during 2007, culminating in the near collapse of Bear Stearns in March. The centre of the credit issues remained the ABS market with worsening United States economic data supporting higher levels of default expectation in the property market. However, these default expectations started to go beyond the sub-prime market with Alt A and other non-conforming classes of loans particularly seeing significant price deterioration. In addition, wider economic concerns led to heavy fair value losses in the commercial mortgage backed securities market, in corporate debt and in leveraged loan exposures.

During the second quarter ABS prices initially rallied and steadied, however, towards the end of the quarter a negative house price trend in Europe became clear and, in the United States, market reaction to sub-prime mortgages extended to prime and near prime lending. Corporate credit spreads followed a similar pattern reacting to rising oil prices, inflationary pressures and continuing high EURIBOR/LIBOR despite base rate cuts.

Credit spreads continued to widen across the market through the third quarter and liquidity levels reduced further, resulting in pressure on banks and economies worldwide. This culminated in the demise of Lehman Brothers in September and further market consolidation and global state intervention to provide support to the banking sector.

During the fourth quarter there was a continued lack of confidence in the inter-bank market, with demand for stable investments resulting in United States treasuries reaching negative spreads. Corporate and ABS prices fell further particularly in the last two months of the year increasing pressure on banks' capital positions. The year concluded with S&P downgrading the credit ratings of eleven global banks, including ABN AMRO.

General overview

The following table provides a high level overview of the Group's net exposures.

(in millions of euros)	31 December	
	2008	2007
Net exposure(1)		
Asset-backed securities		
- held for trading	5,493	10,294
- available-for-sale	22,571	30,528
Total asset-backed securities	28,064	40,822
Net exposure monolines	2,173	1,089
Net exposure CDPCs	1,645	993
Syndication and leverage loans	2,472	5,254

(1) Net exposure is the carrying value after taking account of hedge protection purchased from monolines and other counterparties. The hedge provides protection against the notional and interest cash flows due to the holder of debt instruments in the event of default by the debt security counterparty.

The Group's total net exposure on ABS of EUR 28 billion at 31 December 2008 has decreased significantly during 2008 as a result of the transfers to RBS, fair value adjustments and foreign exchange movements. The most significant fair value loss was recognised on the super senior CDOs exposure.

EUR 23 billion of the total net exposure relates to the Group's RMBS position including mortgage covered bonds (EUR 11 billion) and RMBS positions with underlying asset mortgages guaranteed by the Dutch Government (EUR 8 billion). At 31 December 2008 97% of the total RMBS position was AAA rated.

The credit valuation adjustment on the monolines as well as on the CDPCs increased significantly during 2008 as a result of widening of the credit spreads and downgrading of some monolines.

The syndication and leverage loan portfolio position decreased significantly as a result of sales and impairments recorded.

Asset-backed exposures

Significant risk concentrations and losses

The Group's credit market activities give rise to risk concentrations that have been particularly affected by the market turmoil experienced since the second half of 2007. The following tables below summarise the net exposures and balance sheet carrying values of these securities by measurement classification, with further commentary within this section on the specific products mentioned.

(in millions of euros)	Held-for-trading		Available-for-sale		Total ABS	
	2008	2007	2008	2007	2008	2007
Net exposure(1)						
RMBS	4,039	6,132	8,011	9,143	12,050	15,275
Mortgage covered bonds	-	-	10,858	11,017	10,858	11,017
CMBS	344	-	-	918	344	918
CDOs & CLOs	853	3,504	327	2,931	1,180	6,435
Other ABS	257	658	3,375	6,519	3,632	7,177
Total	5,493	10,294	22,571	30,528	28,064	40,822
Carrying value(2)						
RMBS	4,096	6,132	8,011	9,143	12,107	15,275
Mortgage covered bonds	-	-	10,858	11,017	10,858	11,017
CMBS	592	1,339	-	918	592	2,257
CDOs & CLOs	4,224	8,060	327	2,931	4,551	10,991
Other ABS	257	659	3,375	6,519	3,632	7,178
Total	9,169	16,190	22,571	30,528	31,740	46,718

(1) Net exposure is the carrying value after taking account of hedge protection purchased from monolines and other counterparties. The hedge provides protection against the notional and interest cash flows due to the holder of debt instruments in the event of default by the debt security counterparty.

(2) Carrying value is the amount recorded on the balance sheet.

Asset-backed securities ('ABS') are securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows but are commonly pools of residential or commercial mortgages and, in the case of collateralised debt obligations ('CDOs'), the referenced pool may be ABS or other classes of assets. The process by which the risks and rewards of the pool are passed on to investors via the issuance of securities with varying seniority is commonly referred to as securitisation.

Residential mortgage-backed securities (including mortgage covered bonds)

Residential mortgage-backed securities ('RMBS') are securities that represent an interest in a portfolio of residential mortgages. Repayments made on the underlying mortgages are used to make payments to holders of the RMBS. The risk of the RMBS vary primarily depending on the quality and geographic region of the underlying mortgage assets and the credit enhancement of the securitisation structure.

Several tranches of notes are issued, each secured against the same portfolio of mortgages, but providing differing levels of seniority to match the risk appetite of investors. The most junior (or equity) notes will suffer early capital and interest losses experienced by the referenced mortgage collateral, with each more senior note benefiting from the protection provided by the subordinated notes below. Additional credit enhancements may be provided to the holder of senior RMBS notes, including guarantees over the value of the exposures, often provided by monoline insurers.

The main categories of mortgages that serve as collateral to RMBS held by the Group are described below. At 31 December 2008 97% of the total RMBS portfolio was AAA rated and are primarily European positions.

Sub-prime mortgages are loans to sub-prime borrowers typically having weakened credit histories that include payment delinquencies and potentially more severe problems such as court judgements and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, high debt-to-income ratios, or other criteria indicating heightened risk of default.

Mortgage covered bonds are debt instruments that have recourse to a pool of mortgage assets, where investors have a preferred claim if a default occurs. These underlying assets are segregated from other assets held by the issuing entity.

RMBS prime guaranteed are RMBS backed by a portfolio of mortgages which are guaranteed by the Dutch Government.

Other Prime mortgages are those of a higher credit quality than non-conforming and sub-prime mortgages, and exclude guaranteed mortgages.

The table below shows the Group’s RMBS net exposures by measurement classification and underlying asset type.

(in millions of euros)	31 December 2008					31 December 2007				
	Sub-prime	Mortgage covered bonds	Prime		Total	Sub-prime	Mortgage covered bonds	Prime		Total
			Guaranteed	Other				Guaranteed	Other	
Total										
Net exposure(1)										
Held-for-trading	257	-	48	3,734	4,039	1,192	-	-	4,940	6,132
Available-for-sale	14	10,858	7,997	-	18,869	492	11,017	8,183	468	20,160

(1) Regarding RMBS except for the sub-prime position the net exposure equals carrying value. No hedge protection was purchased on these instruments.

During 2008 a significant part of the sub-prime positions were transferred to RBS. The remaining net exposure originated in Europe and was primarily AAA rated as at 31 December 2008.

The mortgage covered bonds are all originated in Europe of which 80% were in Spain. In 2008 EUR 0.1 billion fair value loss was recorded in equity.

The EUR 8 billion of the RMBS prime guaranteed is backed by mortgages guaranteed by the Dutch Government and are AAA rated at 31 December 2008.

The other held for trading RMBS positions of EUR 3.7 billion are originated in Europe, 45% of which originated in the Netherlands. The fair value loss recognised in income on this portfolio during 2008 was 0.2 billion.

Commercial mortgage-backed securities

Commercial mortgage backed securities (‘CMBS’) are securities that are secured by mortgage loans on commercial land and buildings. The securities are structured in the same way as an RMBS but typically the underlying assets referenced will be of greater individual value. The performance of the securities is highly dependent upon the sector of commercial property referenced and the geographical region.

The net exposure of the CMBS position decreased mainly due to the migration of trades to RBS. Approximately 80% of the positions are originated in Europe.

Asset-backed collateralised debt and loan obligations

Collateralised debt obligations (CDOs) are securities of which performance is dependant on a portfolio of referenced underlying securitised assets. The referenced assets generally consist of ABS, but may also include other classes of assets. Collateralised loan obligations (CLOs) represent securities in special purpose entities (SPEs), the assets of which are primarily cash flows from underlying leveraged loans.

The Group’s ABS CDO and CLO net exposures comprise of the following:

(in millions of euros)	31 December	
	2008	2007
Super senior CDOs	636	2,139
Other CDOs	362	3,479
CLOs	182	817
	1,180	6,435

The Group’s CDO exposures comprise CDOs structured by the Group that were unable to be sold to third parties due to prevailing illiquid markets.

Super senior CDOs

Super senior CDOs represent the most senior positions in a CDO, having subordination instruments (usually represented by a combination of equity, mezzanine and senior notes) which absorb losses before the super senior note is affected. Losses will only be suffered by the super senior note holders after a certain threshold of defaults of the underlying reference assets has been reached. The threshold is usually referred to in percentage terms of defaults of the remaining pool, and known as the ‘attachment point’. These super senior instruments carry an AAA rating at point of origination or are senior to other AAA rated notes in the same structure. The level of defaults occurring on recent vintage sub-prime mortgages and other asset classes has been higher than originally expected. This has meant that the subordinate positions have diminished significantly in value, credit quality and rating and, as a result, the super senior tranches of the CDOs have a higher probability of suffering losses than at origination. The ratings of the majority of the underlying collateral are now below investment grade.

Depending on the quality of the underlying reference assets at issuance, the super senior tranches will be either classified as high grade or mezzanine. The majority of the Group’s total exposure relates to high grade super senior tranches of ABS CDOs. The table below summarises the carrying amounts and net exposures after hedge protection of the Group’s super senior CDOs as at 31 December 2008. The collateral rating is determined with reference to S&P ratings where available. Where S&P ratings are not available the lower of Moody's and Fitch ratings have been used.

(in millions of euros)	31 December	
	2008	2007
	High grade	High grade
Gross exposure	3,588	3,822
Hedges and protection	(939)	(889)
	2,649	2,934
Cumulative write downs on net open position	(2,013)	(795)
Net exposure after hedges	636	2,139
	%	%
Average price	24	73
Of which originated in:		
2005 and earlier	1	1
2006	33	33
2007	66	66
Collateral by rating(1) at reporting date :		
AAA	51	82
BBB- and above	20	3
Non-investment grade	29	15

(1) Credit ratings are based on those from rating agencies Standard & Poor's (S&P), Moody's and Fitch and have been mapped onto S&P scale. % based on gross exposure.

The change in net exposure during the year is analysed in the table below.

(in millions of euros)	2008
Net exposure at 1 January 2008	2,139
Losses through income	(1,581)
Foreign exchange and other movements	78
Net exposure at 31 December 2008	636

Other CDOs

The net exposure of the Group's other senior CDO exposures reduced significantly due to the transfer of a significant part of the available-for-sale portfolio portion to RBS and foreign exchange movements. The remaining positions are AAA rated and the fair value loss was insignificant mainly due to the early vintage, as the assets underlying these structures have not deteriorated to the same degree as more recently issued securities.

CLOs

Collateralised loan obligations represent securities in SPEs, the assets of which are primarily cash flows from underlying leveraged loans. The exposure decline is largely due to protection bought on these positions.

Other asset backed securities

The net exposure of the other asset backed securities amounts to EUR 3.6 billion (2007: 7.2 billion) of which EUR 3.3 billion is related to European covered bonds. The remaining EUR 0.3 billion include other assets backed securities issued by securitisation vehicles, similar to those in RMBS and CMBS structures, which reference cash flow generating assets other than mortgages. The wide variety of referenced underlying assets results in diverse asset performance levels. During 2008 EUR 2.4 billion other asset backed securities were transferred to RBS.

Other mortgage related exposures

The Group has a significant position in residential mortgages of EUR 94.2 billion (2007: EUR 95.5 billion). These mortgages are primarily originated in The Netherlands and are mainly prime. During 2008 the number of transactions on the Dutch mortgage market declined as result of a decline in the total volume of the Dutch mortgage market. The Group calibrates the models to determine impairment periodically. In 2008 the housing market was stable as a result the risks in the portfolio did not change significantly.

Valuation adjustment for counterparty credit risk

Credit valuation adjustments

The credit valuation adjustments ('CVAs') represent an estimate of the adjustment to fair value that a market participant would make to incorporate the credit risk inherent in counterparty derivative exposures.

The widening of credit spreads of corporate and financial institution counterparties during the year contributed to a significant increase in the level of CVA adjustments recorded across all counterparties particularly, monoline insurers and credit derivative product companies ('CDPCs') as set out in the table below.

(in millions of euros)	31 December	
	2008	2007
Monoline insurers	2,822	606
CDPCs	591	61

The monoline insurer CVA is calculated on a trade-by-trade basis, and is derived using market observable monoline credit spreads. The majority of the monoline CVA is taken against credit derivatives hedging exposures to ABS. The CDPC CVA is calculated using a similar approach. However, in the absence of market observable credit spreads, the cost of hedging the counterparty risk is estimated by analysing the underlying trades and the cost of hedging expected default losses in excess of the capital available in each vehicle.

Monoline insurers

The Group has purchased protection from monoline insurers, mainly against specific ABS, CDOs and CLOs. Monoline insurers are entities which specialise in providing credit protection against the notional and interest cash flows due to the holders of debt instruments in the event of default by the debt security counterparty. This protection is typically held in the form of derivatives such as credit default swaps ('CDS') referencing the underlying exposures held by the Group.

During the year, the market value of securities protected by monoline insurers continued to decline as markets deteriorated. As the fair value of the protected assets declined, the fair value of the CDS protection from monoline insurers increased. As the monoline insurers had concentrated their exposures to credit market risks, their perceived credit quality deteriorated as concerns increased regarding their ability to meet their contractual obligations. This resulted in increased levels of CVA being recorded on the purchased protection. The combination of greater exposure and widening credit spreads has increased the level of CVA required.

The tables below analyse the Group's holdings of CDSs with monoline counterparties.

(in millions of euros)	31 December	
	2008	2007
Gross exposure to monolines	5,278	1,695
Credit valuation adjustment	(2,822)	(606)
Hedges with bank counterparties	(283)	-
Net exposure to monolines	2,173	1,089

The change in CVA is analysed in the table below.

(in millions of euros)	2008
At 1 January 2008	606
Net loss through income	3,515
CVA utilised during 2008	(1,346)
Foreign currency and other movements	44
Balance at 31 December 2008	2,822

The following table sets out the ratings of the insured assets covered by the credit insurance contracts and a detailed overview of the related movement in the gross exposure to monoline insurers.

	31 December 2008			31 December 2007		
(in millions of euros)	Notional amount: protected assets	Fair value: protected assets	Gross exposure to monoline	Notional amount: protected assets	Fair value: protected assets	Gross exposure to monoline
AAA / AA rated						
RMBS and CDO of RMBS	-	-	-	2,043	1,388	655
CMBS	540	445	95	4,408	4,010	398
CLOs	2,888	2,196	692	5,182	5,050	132
Other ABS	1,523	993	530	4,694	4,541	153
Other	-	-	-	113	109	4
	4,951	3,634	1,317	16,440	15,098	1,342
A / BBB rated						
RMBS and CDO of RMBS	1,186	417	769	-	-	-
CMBS	3,835	1,714	2,121	-	-	-
CLOs	2,099	1,609	490	-	-	-
Other ABS	436	221	215	-	-	-
Other	277	161	116	-	-	-
	7,833	4,122	3,711	-	-	-
Sub-investment grade						
RMBS and CDO of RMBS	244	34	210	618	389	229
Other	85	45	40	124	-	124
	329	79	250	742	389	353
Total						
RMBS and CDO of RMBS	1,429	450	979	2,661	1,777	884
CMBS	4,376	2,159	2,216	4,408	4,010	398
CLOs	4,987	3,805	1,181	5,182	5,050	132
Other ABS	1,959	1,214	745	4,694	4,541	153
Other	363	206	157	237	109	128
	13,113	7,835	5,278	17,182	15,487	1,695

The Group also has some indirect exposure through wrapped securities and assets which have an intrinsic credit enhancement from monolines. These securities are traded with the benefit of this credit enhancement and therefore any deterioration in the credit rating of the monoline is reflected in the fair value of these assets. This indirect exposure declined during 2008 as most of these exposures were transferred to RBS.

Credit derivative product companies

CDPCs are companies that sell protection on credit derivatives that initially had AAA credit rating, based on models for capital allocation agreed with the rating agencies. CDPCs are similar to monoline insurers. However, unlike monoline insurers, they are not regulated as insurers.

The Group has exposures with CDPCs mainly relating to correlation trading activity. Correlation trading transactions are primarily driven by counterparties seeking credit exposure to specific baskets of underlying assets. The protection purchased from these counterparties by the Group are single name and index CDSs. As CDS spreads have widened and, credit protection has become more valuable during the year, the gross exposure to CDPC counterparties has increased.

The credit quality of CDPC counterparties has declined during the year, in particular in the second half of the year, reflecting the negative impact of credit risk concentrations in a declining market. As a result CVA adjustments to fair value taken against these derivatives have increased significantly.

The table below presents a comparison of mark to market of the credit protection purchased and the CVA on the CDPC. The rating is based on the rating of the CDPC:

	31 December 2008			31 December 2007		
(in millions of euros)	Notional amount reference assets	Mark to market	Credit valuation adjustment	Notional amount reference assets	Mark to market	Credit valuation adjustment
AAA / AA rated	6,547	1,282	256	25,942	1,054	61
A / BBB rated	4,646	954	335	-	-	-
	11,193	2,236	591	25,942	1,054	61

The notional amount decreased significantly due to the transfer of a significant part of the CDPC position to RBS during 2008.

A significant proportion of the gross exposure at 31 December 2008 comprises CDS tranches with 16% - 53% attachment-detachment points for those hedged by AAA / AA CDPCs and 16% - 38% for those hedged by lower rated CDPCs.

The year on year movement in the CDPC CVA is analysed below:

(in millions of euros)	2008
Balance at 1 January 2008	61
Losses through income	1,293
Realised CVA – transfers to RBS	(693)
Foreign currency movement	(70)
Balance at 31 December 2008	591

Syndications and leveraged loans

The Group’s syndicated loan book represent amounts retained from underwriting positions where the Group was lead manager or underwriter, in excess of the Group’s intended long term participation and includes leverage finance loans. Leveraged finance is commonly employed to facilitate corporate finance transactions, such as acquisitions or buy-outs. A bank acting as a lead manager will typically underwrite the loan, alone or with others, and then syndicate the loan to other participants. The total portfolio is valued at amortised cost from origination.

The table below shows year on year movement of the total exposure consisting of the drawn and undrawn amounts:

(in millions of euros)	2008
Exposure at 1 January 2008	5,254
Additions	108
Sales	(1,070)
Realised losses on sale	(266)
Impairment provisions	(1,305)
Foreign currency and other movements	(249)
Balance at 31 December 20081)	2,472

(1) EUR 0.4 billion is undrawn.

Since the beginning of the credit market dislocation in the second half of 2007, investor appetite for leveraged loans and similar risky assets has fallen dramatically, with secondary market prices falling due to selling pressure and margins increasing, thus also affecting the primary market. No new deals were executed in 2008, the addition relates to a bridge loan converted in an extended term loan. Concerted efforts to sell positions during the first half of 2008 were only partially successful due to the rapid change in market conditions since origination of the loans. Approximately 50% of the position is originated in the US and the other part in Europe.

SPEs and conduits

SPEs

The Group arranges securitisations to facilitate client transactions and undertakes securitisations to sell financial assets or to fund specific portfolios of assets. In a securitisation, assets, or interests in a pool of assets, are transferred generally to a special purpose entity (SPE) which then issues liabilities to third party investors. It is primarily the extent of risks and rewards assumed that determines whether these entities are consolidated in the Group's financial statements.

The Group sponsors and arranges own-asset securitisations, whereby the sale of assets or interests in a pool of assets into an SPE is financed by the issuance of securities to investors. The pool of assets held by the SPE may be originated by the Group, or purchased from third parties, and may be of varying credit quality. Investors in the debt securities issued by the SPE are rewarded through credit-linked returns, according to the credit rating of their securities. The majority of securitisations are supported through liquidity facilities, other credit enhancements and derivative hedges extended by financial institutions, some of which offer protection against initial defaults in the pool of assets.

The Group also employs synthetic structures, where assets are not sold to the SPE, but credit derivatives are used to transfer the credit risk of the assets to an SPE. Securities may then be issued by the SPE to investors, on the back of the credit protection sold to the Group by the SPE.

The Group sponsors own-asset securitisations as a way of diversifying funding sources, managing specific risk concentrations, and achieving capital efficiency. The Group purchases the securities issued in own-asset securitisations set up for funding purposes. Primarily these own asset securitisations are consolidated.

Conduits

The Group sponsors and administers a number of asset-backed commercial paper (“ABCP”) conduits. A conduit is an SPE that issues commercial paper and uses the proceeds to purchase or fund a pool of assets. The commercial paper is secured on the assets and is redeemed either by further commercial paper issuance, repayment of assets or liquidity drawings.

The Group’s conduits can be divided into multi-seller conduits and own-asset conduits. In line with market practice, the Group consolidates both types of conduits where it is exposed to the majority of risks and rewards of ownership of these entities.

Multi-seller conduits

The Group’s most significant multi-seller conduits have thus far continued to fund the vast majority of their assets solely through ABCP issuance. During 2008 the majority of the conduits were transferred to RBS leading to a significant decrease of total assets held by the Group’s conduits of EUR 24 billion to EUR 5 billion. The remaining conduits are planned to be transferred to RBS. Assets purchased or financed by the multi-seller conduits include auto loans, residential mortgages, credit card receivables, consumer loans and trade receivables. All assets held by the multi-seller conduits are recorded on the Group’s balance sheet primarily within loans and receivables.

The Group’s maximum exposure to loss on its multi-seller conduits is EUR 6 billion (2007: EUR 8 billion excluding the conduits transferred in 2008), being the total amount of the Group’s liquidity commitments plus the extent of programme-wide credit enhancements which relate to conduit assets for whom liquidity facilities were provided by third parties.

Own-asset conduits

The Group also holds own-asset conduits that fund assets that have been funded at one time by the Group. The outstanding ABCP at 31 December 2008 was EUR 13 billion (2007: EUR 14 billion). The Group’s maximum exposure to loss on its own-asset conduits is EUR 13 billion (2007: EUR 16 billion), being the total drawn and undrawn amount of the Group’s liquidity commitments to these conduits.

SECTION 3 RISK AND CAPITAL MANAGEMENT

RISK AND CAPITAL MANAGEMENT

This risk and capital management section sets out the regulatory environment faced by ABN AMRO Group worldwide, explains how the Group manages risk and describes some of the risk factors affecting ABN AMRO which should be considered before making investment decisions.

Regulation and Supervision

Regulation in the Netherlands

General

ABN AMRO and all its subsidiaries are regulated in the Netherlands by the Dutch Central Bank ('DNB') and the Netherlands Authority for the Financial Markets ('AFM').

ABN AMRO's regulatory system in the Netherlands is a comprehensive system based on the provisions of the new Financial Supervision Act which came into effect on 1 January 2007. The Financial Supervision Act has replaced, amongst others, the Act on the Supervision of the Credit System 1992 without affecting the existing supervisory system. The Financial Supervision Act sets out rules regarding prudential supervision (by the DNB) and supervision of conduct (by the AFM). Prudential supervision focuses on the solidity of financial undertakings and contributes to the stability of the financial sector. Supervision of conduct focuses on orderly and transparent financial market processes, clear relations between market participants and due care in the treatment of clients (including supervision of the securities and investment businesses).

ABN AMRO is a 'universal bank' under the terms of the Financial Supervision Act because it is engaged in the banking business as well as the securities business. Some of the provisions of the Financial Supervision Act may restrict a bank's ability to make capital contributions or loans to subsidiaries and to make distributions.

Supervision of credit institutions

In general, credit institutions are supervised by the DNB under the Financial Supervision Act. No enterprise or institution established in the Netherlands may pursue the business of a credit institution unless it has obtained prior authorisation from the DNB. Its supervisory activities under the Financial Supervision Act focus on supervision of solvency, liquidity and administrative organisation, including risk management and internal control. If, in the opinion of the DNB, a credit institution fails to comply with the rules and regulations regarding the above mentioned subjects, the DNB will notify the credit institution and may instruct the credit institution to behave in a certain manner. If the credit institution does not respond to any such instructions to the satisfaction of the DNB, the DNB is allowed to exercise additional supervisory measures that may include the imposition of fines.

The Financial Supervision Act provides that each supervised credit institution must submit periodic reports to the DNB. In accordance with this requirement the Group files quarterly and monthly reports with the DNB. At least one submission for each given year must be certified by an external auditor. The report to be certified is selected by an external auditor at his or her discretion.

On 1 July 2008 Article 20A of the Financial Supervision Act was extended to incorporate the requirements for eligibility of covered bonds. Dutch issuers of covered bonds now have the facility to register their programs with the DNB. The new legislation is designed to protect the interest of covered bondholders through special supervision by the DNB of the recognised covered bond programs. An issuer must comply with several conditions when submitting a program for recognition and demonstrate compliance to these conditions through the provision of specific documentation and information. Once a program is registered, the issuer will have ongoing administration and reporting obligations to adhere to.

Prior to the introduction of this legislation, ABN AMRO launched the first Dutch covered bond under its newly established EUR 25 billion Covered Bond Program. In the absence of a specific covered bond act, the programme replicated the typical characteristics of a covered bond issued under a legal framework. The program helps the Group to manage more effectively its debt maturity profile, credit curve and long-term liquidity position, while also bringing greater diversification to its global investor base.

Solvency supervision

Capital adequacy framework (Basel)

In 2004, the Basel Committee on Banking Supervision endorsed the publication of the 'International Convergence of Capital Measurement and Capital Standards: a Revised Framework', commonly referred to as Basel II. The Capital Requirements Directive, representing the translation of Basel II to EU legislation and replacing the Capital Adequacy Directive, was approved by the European Parliament in 2005. This acceptance by the European Parliament cleared the way in Europe for the implementation of the Capital Requirements Directive, with a published compliance date of 1 January 2008.

The implementation process of Basel II into Dutch legislation (Financial Supervision Act) and regulation was completed in December 2006 when the DNB published its supervisory rules.

Basel II provides three approaches of increasing sophistication to the calculation of credit risk capital: the Standardised Approach, the Internal Ratings Based Foundation Approach, and the Internal Ratings Based Advanced Approach. Basel II also introduces capital requirements for operational risk for the first time. Basel II is structured around three 'pillars':

Pillar 1 sets out minimum regulatory capital requirements, that is, the minimum amount of capital banks must hold against credit, operational and market risks.

Pillar 2 sets out the key principles for supervisory review of an institution's risk management framework and, ultimately, its capital adequacy. It sets out specific oversight responsibilities for the Board and senior management, thus reinforcing principles of internal control and other corporate governance practices. Pillar 2, in the new regulation, requires that the institutions conduct an internal capital adequacy assessment process.

Pillar 3 aims to bolster market discipline through enhanced disclosure by banks.

ABN AMRO's transitional agreement and current compliance with the Basel II capital adequacy framework

ABN AMRO Holding N.V. and its consolidated subsidiaries are fully owned by RFS Holdings B.V. which is controlled by The Royal Bank of Scotland Group plc, incorporated in the United Kingdom. Consequently, ABN AMRO is under the supervision of the United Kingdom Financial Services Authority (FSA) as its home regulator, and the DNB as its host regulator, for Basel II compliance. For all other matters the DNB remains the home regulator.

ABN AMRO, subsequent to its acquisition by RFS Holdings in October 2007, received approval for a transitional period from its host, as well as its home regulator, for compliance to Basel II capital rules. ABN AMRO has agreed with the DNB and the FSA to continue to report capital on the basis of Basel I until 31 December 2009. In accordance with this, revised minimum requirements have been set for the Tier 1 and total capital ratios, including the requirement to treat capital deductions in the same manner as required under Basel II. The minimum Tier 1 ratio required is 9% and the minimum total capital ratio is 12.5%.

During the agreed transition period, ABN AMRO continues to operate internally based on its economic capital guidelines which served as its capital adequacy framework prior to and in preparation of the Basel II framework, notwithstanding the fact that the underlying calculation methodologies are migrating to those of the relevant Consortium Member.

The solvency rules for Basel I require that ABN AMRO maintains a minimum level of total capital to support the risk-weighted total value of balance sheet assets and off-balance sheet items. These off–balance sheet items include guarantees, documentary credits, the credit equivalent of interest and currency-related contracts, unused portions of committed credit facilities with an original maturity of over one year, note issuance facilities and revolving underwriting facilities, as well as the market risk for financial instruments in the trading book. This minimum level of total capital is called the Capital Adequacy Ratio. The risk-weighting considers the debtor's risk, which depends on the debtor's classification, whether or not security is provided, and the country of origin of the debtor.

For ABN AMRO, total capital consists of core capital (Tier 1 capital) and secondary capital (upper and lower Tier 2 capital). ABN AMRO is also permitted to maintain an additional form of regulatory capital, Tier 3 capital, to support the market risk of financial instruments in ABN AMRO's trading book and foreign exchange risk of all business activities. The amount of lower Tier 2 capital may not exceed 50% of the amount of Tier 1 capital, and the amount of Tier 2 capital included in total capital may not exceed the amount of Tier 1 capital. In addition, Tier 3 capital may not exceed 250% of the amount of Tier 1 capital that is necessary to support market and foreign exchange risk and the sum of Tier 2 and Tier 3 capital may not exceed Tier 1 capital. Goodwill and interests of more than 10% in non-consolidated banking and financial subsidiaries are deducted from Tier 1 capital and total capital.

Exposure supervision

The DNB has issued specific rules with respect to large exposures to a single borrower or group of interconnected borrowers, or in relation to certain other businesses that involve a concentration of risk. Large exposures generally include all assets and off-balance sheet items of a credit institution with respect to a single borrower or group of interconnected borrowers which exceed 10% of a credit institution's total capital. Large exposures must be reported once every quarter to the DNB. There is a limit of 25% of total capital for a single large exposure as part of the banking book. Trading book positions may exceed this limit subject to additional solvency requirements. The aggregate amount of all large exposures of a credit institution may not exceed 800% of its total capital. In 2008, there were no exposures exceeding these thresholds.

Liquidity supervision

Banks are required to report on a consolidated level on their liquidity position to the DNB monthly, on the basis of the liquidity supervision directive. The liquidity directive seeks to ensure that banks are in a position to cope with an acute short term liquidity shortage under the assumption that banks would remain solvent. In principle, the DNB liquidity directive covers all direct domestic and foreign establishments (subsidiaries/branches), including majority participations. The regulatory report also takes into consideration the liquidity effects of derivatives and the potential drawings under committed facilities.

The directive places emphasis on the short term in testing the liquidity position over a period of up to one month with a separate test of the liquidity position in the first week. For observation purposes, several additional maturity bands are included in the liquidity report (one to three months, three to six months, six months to one year and beyond one year).

Available liquidity must always exceed required liquidity. Available liquidity and required liquidity are calculated by applying weighting factors to the relevant on- and off-balance sheet items, i.e. irrevocable commitments. The liquidity test includes all currencies. Compliance reports concerning liquidity requirements of foreign subsidiaries are submitted to the appropriate foreign regulatory authorities as required. At a consolidated level, and in every country in which ABN AMRO operates, the Group adheres to the liquidity standards imposed by the applicable regulatory authorities.

Structural supervision

Pursuant to the Financial Supervision Act, banks are prohibited to hold, acquire or increase a qualifying holding or exercise any control relating to a qualifying holding in a bank in the Netherlands, except if it has obtained a Declaration of No Objection ('DNO') from the DNB (or in certain specified cases from the Dutch Minister of Finance). Qualifying holding means a participation of at least 10% in the issued share capital of the related voting rights or similar influence. The DNO would be issued unless the qualifying holding in the bank concerned would lead to an influence which might jeopardise sound and prudent operations or the qualifying holding could or would lead to an undesirable development of the financial sector.

The DNB or the Dutch Minister of Finance can, on request, grant so-called bandwidths, umbrella and group-DNOs in respect of qualifying holdings. The DNO is not required in case of a qualifying holding by a bank in a company whose assets consist of more than 90% liquid assets.

According to Dutch regulation a DNO will not be issued regarding qualifying holdings if the value of the equity participation would exceed 15% of a bank's total capital or if the participation would cause the value of the credit institution's aggregate qualifying holdings in non-financial institutions to exceed 60% of its total capital. Certain types of participations will be approved in principle, although in certain circumstances a DNO will have a limited period of validity, such as in the case of a debt rescheduling or rescue operation or when the participation is acquired and held as part of an issue underwriting operation. Generally the approval will be given where the value of the non-financial institution concerned or the value of the participation does not exceed certain threshold amounts.

Supervision of the securities and investment businesses

The Group is also subject to supervision of its activities in the securities business. The Financial Supervision Act, which has replaced the Act on the Supervision of the Securities Trade 1995 together with the decrees and regulations promulgated thereunder, provides a comprehensive framework for the conduct of securities trading in or from the Netherlands. The AFM is charged by the Dutch Minister of Finance with supervision of the securities industry.

ABN AMRO and/or certain subsidiaries of ABN AMRO are also active as managers and/or custodians of collective investment plans, which comprise both investment funds and investment companies. Collective investment plans are subject to supervision by the DNB and the AFM.

Regulation in the European Union

The Financial Services Action Plan 1999-2005 laid the foundations for a single financial market in the EU and has brought about many changes. In its strategy on Financial Services for 2005-2010, the European Commission sets out its objectives to achieve an integrated, and competitive EU financial market by removing any remaining barriers, especially in the retail area so that financial services can be provided and capital can circulate freely throughout the EU at the lowest possible cost, resulting in high levels of financial stability, consumer benefits and consumer protection.

The financial services sector includes three major areas for which European regulatory policies apply: banking, capital markets, and asset management.

A new capital requirements framework was adopted in June 2006 as the Capital Requirements Directive. The Capital Requirements Directive is the legal vehicle pursuant to which the Basel II framework has been implemented into EU law. The Consolidated Banking Directive lays down rules concerning the taking up and pursuant to the business of credit institutions and their prudential supervision. Under this Directive, a bank can offer banking on the basis of a single banking licence ('European passport') through the establishment of a branch or cross-border provision of services in all the EU countries. The Capital Requirements Directive lays down the capital adequacy requirements applying to investment firms and credit institutions. Refer to Solvency supervision section for more information.

In October 2008, the Commission adopted proposals to amend the Capital Requirements Directive in light of the financial crisis. Proposals address items such as large exposures, supervisory arrangements and crisis management and securitisation. In another action taken in response to the crisis, in October 2008, the Commission adopted a proposal for amendments to the Deposit Guarantee Schemes Directive. In December 2008, the European Parliament adopted in first reading, 1) an increased minimum cover level from EUR 20,000 to EUR 50,000 with a further increase to EUR 100,000 by 31 December 2010 and 2) a reduction in the payout time. The amended Directive should be transposed into national law by 30 June 2009. Also refer to the Solvency supervision section for more information.

In the area of securities legislation, the Market Abuse Directive prohibits market manipulation and insider dealing in all securities admitted to trading on an EU regulated market. This Directive is likely to be reviewed in 2009. The same applies to the Prospectus Directive that regulates the process and the disclosure requirements for public offerings in and admissions to trading on an EU regulated market of securities, and allows European public offerings with one single prospectus. The Transparency Directive harmonises the transparency requirements for information about issuers whose securities are admitted to trading on an EU regulated market.

The other important piece of legislation in this area is the Markets in Financial Instruments Directive, which came into force on 1 November 2007. It regulates amongst others the cross-border provision of investment services and regulated markets and replaces the 1993 Investment Services Directive which established the single passport for investment firms. The Markets in Financial Instruments Directive provides a harmonised regime for investment services and aims at increasing competition and reinforcing investor protection. It streamlines supervision on the basis of home country control and enhances the transparency of markets. It harmonises conduct of business rules, including best execution, conflicts of interests and client order handling rules. The Directive abolishes the concentration rule, and thus leads towards a more competitive regime between order execution venues. It also imposes market transparency rules for investment firms, regulated markets and multilateral trading systems for both pre- and post-trading for equities.

For post-trading, the European Commission has directed the industry to agree on a Code of Conduct for Clearing and Settlement, which was signed by the stock exchanges in November 2006. The Code aims at enhancing price transparency and increasing competition across the EU post-trading market. In April 2008, the Commission adopted a proposal to amend the Financial Collateral Arrangements Directive and the Settlement Finality Directive. The proposal strengthens the protection of settlement systems and financial collateral arrangements and enables them to adapt to the new market conditions created by the Markets in Financial Instruments Directive and the Code of Conduct for Clearing and Settlement.

Likewise, political initiatives in the area of retail financial services and payment services have been launched. In April 2008, the EU institutions adopted a Directive on Consumer Credit. The Directive covers personal loans of between EUR 200 and 75,000 repayable after more than one month. The Directive introduces consumer protection provisions and at the same time aims at the creation of a single market for consumer credit in the EU. The most significant changes are with respect to 1) the provision of standardised pre-contractual and contractual information; 2) the right of withdrawal; 3) early repayment and 4) the standardisation of methods for calculating the annual percentage rate of charges. Mortgages and deferred debit cards are explicitly excluded from the Directive's scope. The Directive came into force on 11 June 2008 and EU Member States will have two years to incorporate the new rules into their national legislation. In respect of mortgage credit, the European Commission adopted a White Paper on the Integration of EU Mortgage Markets. The White Paper presents measures to improve the efficiency and the competitiveness of these markets. The Commission is consulting with stakeholders on the best approach to deliver the necessary added value.

In November 2008, the European Banking Industry Committee, a committee of the European Commission, adopted the industry's voluntary code of conduct for switching accounts within the same country, the Common Principles for Bank Account Switching. National banking associations are expected to implement them in each Member State by 1 November 2009.

In October 2007, the EU institutions formally adopted the Payment Services Directive. This Directive will open up the payment services to competition from new licensed payments institutions and increase consumer protection by introducing information requirements and uniform operational rules for payment service providers. This Directive, applicable in the EU to all payments in Euro and other Member States currencies, lays the basis for the creation of a Single Market in payments and constitutes the legal framework for the Single Euro Payments Area ('SEPA'). The deadline for implementation of the Directive into national law is 1 November 2009. On 28 January 2008, the SEPA Credit Transfer Scheme went live, thus completing the first phase of the Single Euro Payments Area which is scheduled to be fully operative by 2010. In October 2008, the Commission adopted a proposal for a new regulation replacing Regulation 2560/2001 on cross-border payments in Euro. The proposal aims at extending the principle of equality of charges to direct debits, enhancing consumer protection and reducing the burden of statistical reporting.

In October 2008, the Commission proposed a new e-money Directive to facilitate take-up in the e-money market. The proposal is being debated at the European Parliament and is expected to be voted on by April 2009.

In the area of asset management, the EU has enacted legislation on pension and investment products. On investment funds, there are two Undertakings for Collective Investment in Transferable Securities Directives ('UCITS'), the first regulating the product (e.g., types of assets in which to invest) and the second one giving management companies a 'European passport' to operate throughout the EU. The Commission initiated a review of the UCITS framework with the aim of increasing the efficiency of the European investment fund industry. In the field of supplementary pensions, a Directive has liberalised the market for supplementary pension schemes by allowing pension providers to operate on an EU-wide basis and establishing 'prudent person principles' for asset allocation.

The third Anti-Money Laundering Directive, adopted in November 2005, was required to be implemented into national law of Members States by December 2007. The aim of the Directive is to transpose the Financial Action Task Force's forty recommendations. It follows a risk-based approach under which all measures aimed at preventing money laundering must be applied on a proportionate basis, depending on the type of customer, business and other considerations.

On 1 January 2007, the Regulation which transposes the Financial Action Task Force Special Recommendation VII (SR VII) on 'wire transfers' into EU legislation came into force. It lays down rules on information on the payer accompanying transfers of funds, in order to allow basic information to be immediately available to the authorities responsible for combating money laundering and terrorist financing.

Regulation in the United States

ABN AMRO's operations in the United States are subject to extensive regulation and supervision by both federal and state banking authorities. ABN AMRO is a bank holding company within the meaning of the US Bank Holding Company Act of 1956, which restricts its non-banking activities in the United States. However, ABN AMRO Holding N.V. elected to become a financial holding company on 11 March 2000, and as such is permitted to engage in an expanded range of non-banking activities subject to applicable laws and regulations.

Regulation in the rest of the world

Our operations elsewhere in the world are subject to regulation and control by local supervisory authorities, and our offices, branches and subsidiaries in such jurisdictions are subject to certain reserve, reporting and control and other requirements imposed by the relevant central banks and regulatory authorities.

RISK MANAGEMENT

Risk management and capital adequacy

ABN AMRO has implemented a combination of advanced and standardised approaches for Credit, Market and Operational risks as allowed under the regulatory framework and is using this in the management of its business. With regards to market risk, ABN AMRO uses an internal Value at Risk ("VaR") model for calculating capital requirements for the majority of the trading book market risks. Refer to the Group Risk Framework and Governance section of this report for further discussion of these risks.

Capital adequacy and risk management are closely aligned. ABN AMRO undertakes a regular assessment of its internal capital requirement based on a quantification of the material risks to which it is exposed. This assessment includes the use of stress tests to assess whether the Group's capital resources are adequate to remain above minimum requirements during specified scenarios. The results of this internal capital assessment are reviewed by the Policy Group Risk Committee ('Policy GRC') and the Group Asset and Liability Committee ('Group ALCO') and are used to ensure the adequacy of the Group's available capital resources, based on target and minimum capital requirements as set in the risk appetite framework. This framework is detailed further under the Group risk framework and governance section below.

The main risks facing the Group are:

- Credit risk: the risk arising from the possibility that the Group will incur losses from the failure of customers to meet their obligations.
- Funding liquidity risk: the risk to earnings and capital arising from the Group's potential inability to meet its obligations as they fall due.
- Market risk: the risk the Group is exposed to because of positions held in its trading portfolios and its non-trading businesses. Market risk encompasses equity, currency, interest rate and market liquidity risks.
- Operational risk: the risk arising from the Group's people, processes, systems, physical assets and external events.
- Compliance and regulatory risk: the risk arising from failing to meet the requirements and expectations of the Group's many regulators, or from a failure to address or implement any change in these requirements or expectations.
- Legal risk: the risk from failure to comply with statutory or regulatory obligations and from uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, law or regulations.
- Financial reporting risk: the risk of a lack of fair presentation and as a result of material misstatements in one or more of the financial statement amounts or disclosures.
- Reputational risk: the risk of potential losses arising from negative public opinion.
- Business risk: the risk that operating income is lower than expected because of lower than expected revenues or higher than expected costs.

The allocation of capital resources to businesses is determined as part of the annual business and financial planning process, and it is based upon an assessment of the abovementioned risks.

The Capital Management process is governed by the Group ALCO. It is responsible for the development of the Group's policies on liquidity risk, the hedging of capital invested in countries, managing capital ratios and the total capital requirement, and assessing new capital and debt issuance needs.

The Group Asset and Liability Management department is responsible for the management of the Group's asset and liability management policies and prepares a monthly capital outlook for the Group and its separate parts.

To ensure a smooth separation, management has adjusted the Group ALCO governance framework, aligning it with the planned transition of the Consortium Members' acquired businesses. It includes the allocation of appropriate capital and setting of liquidity limits for each Consortium acquired business as part of the total capital and liquidity requirements.

Capital resources and minimum capital requirement information

ABN AMRO is fully consolidated for regulatory reporting within the RBS Group. Pillar 3 information for ABN AMRO is included within the RBS Group Pillar 3 disclosures. Detailed Pillar 3 reports which include ABN AMRO are available at www.rbs.com.

The table below summarises the capital position of the ABN AMRO Holding N.V., complying with Pillar 3 disclosures for a significant subsidiary of an EU parent.

Regulatory Capital resources as at 31 December 2008

(in millions of euros)	2008
Tier 1 Capital Resources	
Permanent share capital	1,852
Profit and loss account and other reserves (taking into account interim net losses)	10,854
Share premium account	5,343
Investment in own shares	-
Intangible assets	(309)
Minority interests	38
Core Tier 1 Capital	17,778
Perpetual non-cumulative preference shares	3,318
Other Tier 1 Capital	3,318
Excess limits for non innovative Tier 1 instruments	-
Excess limits for innovative Tier 1 instruments	-
Net losses on equities held in available-for-sale financial asset category	-
Material holdings	-
50:50 Tier 1 deductions	(1,943)
Total Tier 1 capital after deductions	19,153
Tier 2 Capital Resources	
Tier 2 capital instruments	7,924
50:50 Tier 2 deductions	(1,943)
Other Tier 2 deductions	-
Total Tier 2 capital after deductions	5,981
Total Tier 3 Capital	272
Deductions for Tiers 1 & 2 capital	-
Expected loss amounts and other negative amounts	-
Total capital resources after deductions	25,405
Total Risk Weighted Assets	176,028
Tier 1 ratio	10.88%
Total Tier ratio	14.43%

The tables below set out the minimum capital requirements and associated risk weighted assets for ABN AMRO with separate disclosures for the credit risk, market risk and operational risk requirements. All figures are as at 31 December 2008, unless otherwise stated.

Minimum Capital Requirements

(in millions of euros)	
Credit risk	11,282
Market risk	1,045
Operational risk	1,756
Total	14,083

Risk Weighted Assets

(in millions of euros)	
Credit risk	141,011
Market risk	13,069
Operational risk	21,948
Total	176,028

Credit risk: Minimum Capital Requirements by approach

(in millions of euros)	2008
Basel II – Advanced IRB	-
Basel II – Standardised	-
Basel II – using Basel I as a proxy	11,282
Total	11,282

Credit risk: Standardised minimum capital requirements by standardised exposure class

(in millions of euros)	Exposure value	Risk weighted assets	Minimum required capital
Central governments and central banks	63,368	2,279	182
Institutions	129,414	10,815	865
Corporates	276,101	102,839	8,226
Retail	30,105	12,794	1,023
Secured by real estate property	66,485	22,459	1,797
Other(1)	83,431	(10,598)	(845)
Securitisation positions standardised approach	6,232	422	34
Total	655,136	141,010	11,282

(1) Includes capital relief on securitisation

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Market risk: Trading Book and other business minimum capital requirements

(in millions of euros)	2008
Total capital requirement for trading book risks	1,045
Total trading book capital requirements	1,045
Total trading book notional risk weighted assets	13,069

Operational risk: Minimum Capital Requirements calculated as per the Basic Indicator Approach

(in millions of euros)	2008
Pillar 1 operational risk minimum capital requirement	1,756

The Risk management and capital adequacy section also relates to the qualitative public disclosure as required by Basel II Pillar 3 in accordance with the Capital Requirement Directive.

Group Risk Framework and Governance

The Group's risk management framework is based on 'the principle of three lines of defence'. The first line of defence is the business, which is accountable for the ownership, day-to-day management and control of all risks at an operational level and for implementing processes and testing key controls in compliance with Group policies. The second line of defence is Group Functions, primarily consisting of Group Risk Management, Group Compliance and Group Finance including Group Asset and Liability Management. These functions are responsible for the implementation and maintenance of the operational risk framework, tools and methodologies, and for oversight and challenge on the adequacy of the risk and control processes operating in the business. The third line of defence is Group Audit, which is responsible for independently assessing the adequacy and effectiveness of key controls and ensuring compliance with Group policies.

Following its acquisition by RFS Holdings, ABN AMRO is subject to the RBS Group's high level controls and oversight by RBS's control functions. Although its risk systems are not yet integrated with those of the RBS Group, data relating to ABN AMRO is presented on a consistent basis as part of RBS Group data. ABN AMRO data is analysed between businesses acquired by RBS and those acquired by the Dutch State.

The main responsibilities of Group Risk Management and the risk management functions of the Business Units are to:

- oversee all credit, market and operational risk matters and ensure compliance with local laws;
- implement review and control policies on all risk portfolios;
- at portfolio level manage concentrations by setting limits;
- manage single event / single obligor risk by setting limits;
- set provisions for loan losses within their delegated authority; and
- establish and maintain operational risk control discipline.

A key component of risk management is ensuring that ABN AMRO's reputation is preserved and enhanced through choosing to engage responsibly in the right business activities with the right clients.

The Group Asset and Liability Management ('ALM') function is structured outside the risk management function. ALM supports the capital management process which is governed by the Group ALCO. ALM is responsible for the development of the Group's policies for liquidity risk, the hedging of foreign exchange exposures of capital investments abroad, managing capital ratios, and the Group wide capital requirement.

The compliance function within the Group performs the independent oversight role, on behalf of the Managing Board, with respect to those core processes, related policies and procedures that seek to ensure the Group is in conformity with industry specific laws and regulations in letter and spirit.

Group Finance responsibilities include the preparation of the budget, performance reporting and the process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Group uses various models to value financial instruments, and to assess and manage risks. To limit the model risk that is inherent in models, the Group has the models that are subject to material model risk validated independently from the business which uses these models. Within the governance framework of the Group, validation activities are performed by RBS for models used by RBS acquired business.

ABN AMRO's Risk Philosophy

ABN AMRO's risk philosophy is about the establishment and execution of bank wide criteria for the acceptance, monitoring, control and management of risk. Its purpose is the creation of value by ensuring:

- Risk Awareness: Risks are identified, understood and measured at all levels in the organisation.
- Defined Risk Appetite: Risk accepted by the institution is within the tolerance level set by the Managing Board in accordance with the Group Strategy, existing capital constraints, sustainable earnings and maintenance of desired credit rating for the Group.
- Clarity and Transparency: Risk decisions are clear, explicit and consistent with strategic business objectives.
- Risk-Reward Alignment: Risk decisions are based upon the appropriate risk-reward balance.
- Compliance: Decisions that may legally and morally commit the Group must be in compliance with internal approval procedures and the regulations of the countries the Group and its subsidiaries operate in.

Risk appetite framework

The risk philosophy of ABN AMRO states that risk is managed within a defined risk appetite. Risk appetite is measured as the maximum level of retained risk the Group will accept to deliver its business objectives. Risk appetite is generally defined through both quantitative and qualitative techniques including stress testing, risk concentration, Value-at-Risk and risk underwriting criteria, ensuring that appropriate principles, policies and procedures are in place and applied. The responsibility for formulating the underpinning objectives for the risk appetite framework lies with the Managing Board.

The risk appetite framework includes all risks taken by the Group. The risk limits are set at a Group level as well as at lower levels, such as Business Unit ('BU') level. BUs are free to set additional limits as they see fit as long as consistency with the overall framework is maintained.

The Managing Board's objectives include a fluent transition process with emphasis on strong control and risk management. Furthermore, in respect of the Consortium acquisition, the Group's risk appetite is as much as possible aligned with the risk appetite of the relevant Consortium Member.

In the following paragraphs a description is given of the risk types and the way ABN AMRO measures and manages these within the Group. These methods have been aligned with those of the Consortium Members.

Credit risk

Credit risk is the Group's most material risk and is managed in accordance with the Group's comprehensive risk management framework.

Credit risk and country risk

ABN AMRO defines credit risk as the risk of loss from default by debtors (including bond issuers) or counterparties. This covers actual payment defaults as well as losses in value resulting from a decrease in the credit quality of the counterparty or issuer.

ABN AMRO defines country risk as the risk of loss due to country specific events or circumstances. Country risk can materialise by way of credit, market and operational losses. With respect to credit risk, a specific country risk is that the government imposes transfer and/or convertibility measures that prevent an obligor to repay its foreign currency obligations to the Group. Hence the risk of non or late payment may be caused by the inability of an obligor (credit risk) or by government measures (transfer and convertibility risk). Given the relationship between credit and country risk the two are managed in an integrated manner.

ABN AMRO manages credit risk at two levels. Firstly at portfolio level to manage concentrations by the following dimensions: geography, industry and product or segment and, secondly at individual level to manage single event and single obligor.

Concentration risk is managed actively during the transition period based on limits, outstandings, average Probability of Default and Expected Loss by relevant country and industry cluster. Any change is discussed in Policy Group Risk Committee. Additionally, notional limits are put in place for cross-border risk and sovereign risk. Notional limits are also set on a number of portfolios as a straightforward and practical way to manage the maximum exposure in these portfolios (for example leveraged finance).

Single event or single obligor limits are individually set. Single obligor risk is managed by setting limits on Loss at Default. Loss at Default is the amount that the Group expects to lose when a counterparty defaults. Authorities for credit decisions involving commercial clients are primarily based on Global One Obligor Exposure. This is the combination of all direct and contingent credit limits to a given relationship globally.

There are lending programmes in place for standard loans granted to consumers and small-sized enterprises. A programme lending approach contains standard risk acceptance criteria and loan processing practices in order to optimise the efficiency and risk and rewards of those portfolios.

Credit risk is managed to achieve sustainable and superior risk and reward performance whilst maintaining exposures within acceptable risk appetite parameters. This is achieved through the combination of governance, policies, systems and controls, underpinned by sound commercial judgement as described below.

- Policies and risk appetite: policies provide clarity around the required bank framework for the assessment, approval, monitoring and management of credit risk where risk appetite sets the tolerance of loss. Limits are used to manage concentration risk by single name, sector and country.
- Decision makers: credit authority is granted to independent persons or committees with the appropriate experience, seniority and commercial judgement. Credit authority is not extended to relationship managers. Specialist internal credit risk departments independently oversee the credit process and make credit decisions or recommendations to the appropriate credit committee.
- Models: credit models are used to measure and assess risk decisions and to aid on-going monitoring. Measures, such as Probability of Default, Exposure at Default, Loss Given Default and Expected Loss are calculated using

duly authorised models. All credit models are subject to independent review prior to implementation and existing models are frequently reviewed.

- Mitigation techniques to reduce the potential for loss: credit risk may be mitigated by the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, risk participations, credit insurance, set off or netting.
- Risk systems and data quality: systems are well organised to produce timely, accurate and complete inputs for risk reporting and to administer key credit processes.
- Analysis and reporting: portfolio analysis and reporting are used to ensure the identification of emerging concentration risks and adverse movements in credit risk quality.
- Stress testing: stress testing forms an integral part of portfolio analysis, providing a measure of potential vulnerability to exceptional but plausible economic and geopolitical events which assists management in the identification of risk not otherwise apparent in more benign circumstances. Stress testing informs risk appetite decisions.
- Portfolio management: active management of portfolio concentrations as measured by risk reporting and stress testing, where credit risk may be mitigated through promoting asset sales, buying credit protection or curtailing risk appetite for new transactions.
- Credit stewardship: customer transaction monitoring and management is a continuous process, ensuring performance is satisfactory and that documentation, security and valuations are complete and up to date.
- Problem debt identification: policies and systems encourage the early identification of problems and the employment of specialised staff focused on collections and problem debt management.
- Provisioning: independent assessment using best practice models for collective and latent loss. Professional evaluation is applied to individual cases, to ensure that such losses are comprehensively identified and adequately provided for.
- Recovery: maximising the return to the Group through the recovery process.

Please refer to Note 38 in Section 5: 'Financial Statements' for quantitative information on maximum credit exposure and credit risk concentrations from loans and receivables.

Funding liquidity risk

Complementing the capital adequacy framework, risk appetite is also expressed through the liquidity risk framework employed by the Group. This framework is used to manage liquidity risk.

ABN AMRO defines liquidity risk as the risk arising from the Group's potential inability to meet its obligations when they become due, without incurring unacceptable losses. Conversely, liquidity risk also manifests itself in the form of opportunity losses due to holding excess liquidity relative to liabilities.

ABN AMRO's approach to liquidity is that its business as usual liquidity profile should be sufficient for the Group to continue for at least 30 days under a very severe firm specific crisis, such as no access to wholesale funding and drawings under committed facilities.

ABN AMRO takes a two-tiered approach to liquidity risk management with additional measures taken due to separation activities. Going concern liquidity management is the management of the day-to-day liquidity position within specified parameters to ensure all liabilities can be met on a timely basis. Event risk liquidity management ensures that in the event of either a firm-specific or general market event, the Group is able to generate sufficient liquidity to withstand a short term liquidity crisis. Due to the current process of separation additional objectives and restrictions have been added to ensure a smooth transition process.

The objective of the organisation is to keep the overall liquidity texture of the balance sheet at such a level, that the Group is able to survive and resume its business after a crisis. A variety of tools are used to manage this going concern liquidity management objective. They involve liquidity profile management through setting liquidity ratio limits (stable funding to non-liquid assets). Additional limits in terms of size and liquidity profile are imposed on a number of global markets product types. Trading books are required to limit any liquidity mismatch by limiting the amount of short term funding from money markets to trading desks. Funds transfer pricing and internal transactions are required to be executed at arm's length pricing and fully reflect appropriate costs, including market related liquidity premium. Diversification of funding sources complements the tools to achieve liquidity management objectives.

In response to a firm-specific or general market crisis, event risk liquidity management involves stress testing through quantitative analysis of the liquidity impact of such an event. The Group keeps a liquidity buffer which mitigates this event risk through the provision of standby liquidity in the form of unencumbered, central bank eligible, collateral. Group wide contingency funding plans describe the steps and procedures taken in the event of a crisis. Their effectiveness is tested with periodic dry-runs.

The monitoring and control of liquidity risk on an ongoing basis involves balance sheet ratio analysis and the measurement of cash flow gap and stress positions. By measuring the relationship between the sub-components of the balance sheet at a given point in time this indicates the underlying balance sheet liquidity. Measurement of the cash flow gap quantifies the gap between expected cash inflows and outflows determined within a series of time brackets. The measurement of the stress position involves an analysis of funding sources and funding needs due to a liquidity stress situation.

Liquidity regulatory compliance is detailed in the section 'Regulation and supervision'. For further details regarding liquidity risk measurement and control refer to Note 38 in Section 5: 'Financial Statements'.

Market risk in the trading book

ABN AMRO defines market risk as the risk that movements in financial market prices will decrease the value of ABN AMRO's trading portfolios. ABN AMRO is exposed to market risk through ABN AMRO's trading activities, which are carried out both for customers and on a proprietary basis. For trading related to customer facilitation ABN AMRO warehouse market risk, while for proprietary trading ABN AMRO actively positions itself in the financial markets.

There are several major sources of market risk including interest rate, foreign exchange, equity price, commodity price, credit spread, volatility risks and correlation risks. Market risk includes market liquidity risk, which is the risk that a firm cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption.

In any trading activity, market risk arises both from open (unhedged) positions and from imperfect correlation between market positions that are intended to offset one another. The overall objective of managing market risk is to avoid unexpected losses due to changes in market prices and to optimise the use of market risk capital.

ABN AMRO manages market risk primarily through the use of a set of historical and hypothetical scenarios, stressing relevant risk factors and estimating the potential profit and loss under stress, as well as through the calculation of the 99-percentile loss (or Value at Risk) on open positions. The Group then looks to manage these potential exposures on a daily basis within pre-defined limits for each of the major types of market risk.

This quantitative approach, combined with qualitative analytical approaches, is designed to control ABN AMRO's exposure to movements in the financial markets.

Other control measures used in the market risk management process include limits on net open positions in terms of their sensitivities to changes in interest rate, credit spreads, volatilities and so on. Alongside these sensitivities, ABN AMRO also monitors position concentrations and position ageing. These non-statistical measures help to monitor and control liquidity risk in trading books.

The Value at Risk ('VaR') is reported on a daily basis per trading portfolio, per product line and for the Group as a whole. It is reported daily to the senior management of the BUs, Group Risk Management and the responsible members of the Managing Board. Please refer to Note 38 in Section 5: 'Financial Statements' for the quantification of Value at Risk per risk category.

VaR is a technique that produces estimates of the potential change in the market value of a portfolio over a specified time horizon at given confidence levels. The Group uses historical simulation models in computing Value at Risk in common with most Value at Risk models. The limitations of VaR models include:
- Historical data may not provide the best estimate of the joint distribution of risk factor changes in the future and may fail to capture the risk of possible extreme adverse market movements which have not occurred in the historical window used in the calculations.
- VaR using a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or hedged within one day.
  - VaR using a 99% confidence level does not reflect the extent of potential losses beyond that percentile.

This limitation of Value at Risk models means that ABN AMRO must supplement it with other measurements of risk. These include a series of stress scenarios that shed light on the behaviour of ABN AMRO's portfolio and the impact on ABN AMRO's financial results under extreme market movements. Stress scenarios have been developed internally to reflect specific characteristics of the Group's portfolios and are performed on a daily basis for each trading portfolio and at several aggregation levels. These stress scenarios include stepped movements in one or more risk factors (e.g. parallel shifts in interest rate curves) and multiple factor tests that are based on actual historical events or plausible hypothetical scenarios.

Market risk in the banking book

The principal market risks arising from ABN AMRO's non-trading activities are interest rate risk, currency risk and equity risk.

ABN AMRO defines interest rate risk as the risk that the interest income of the Group changes due to a change of interest rates and that the change in value of the Group's financial assets in the banking book, representing financial assets other than those categorised as trading assets does not match the change in value of the Group's liabilities due to a change in interest rates. Interest rate risk arises primarily from the fact that re-pricing period of the Group's assets typically exceeds the re-pricing period of the Group's liabilities (a 'interest maturity mismatch').

Treasury activity and mismatches between the re-pricing of assets and liabilities in its retail and commercial banking operations account for most of the non-trading interest rate risk.

Several tools are used to monitor and limit the interest rate risk exposures in ABN AMRO's banking book. The methods used to measure the risk include earnings simulation, duration and the 'Present Value per Basis Point' ladder.

The Group uses estimation techniques to calculate a set of forward-looking pre-defined interest rate scenarios, such as movements in the yield curve level and shape. In combination with Balance Sheet simulation models the Group calculates 'Earnings at Risk' and the 'Change in Value of Equity'. These model-based scenario analyses require assumptions about client behaviour. ABN AMRO uses statistical and mathematical models to express this behaviour in ABN AMRO's simulation. ABN AMRO's position is managed to ensure these two metrics are within defined limits under the pre-defined scenarios. Any required corrective action is taken through steering the underlying portfolio.

Non-trading currency risk derives from the Group's investments in overseas subsidiaries, associates and branches. ABN AMRO's strategic investments are the principal sources of non-trading equity price risk. ABN AMRO does not maintain material non-trading open currency positions other than the structural foreign currency translation exposures arising from its investments in foreign subsidiaries and associated undertakings and their related currency funding.

ABN AMRO applies various hedging strategies to manage and minimise any adverse effects from these exposures. The Group's policy in relation to structural positions is to selectively hedge the structural foreign currency exposure arising from net asset value, including goodwill, in foreign subsidiaries, equity accounted investments and branches, except where doing so would materially increase the sensitivity of the Group's regulatory capital ratios to currency movements. Thus, for the US dollar exposure, the Group hedges its US dollar capital ratio. The policy requires structural and capital ratio foreign exchange positions to be reviewed regularly by the Group Asset and Liability Management committee. Foreign exchange differences arising on the translation of foreign operations are recognised directly in equity together with the effective portion of foreign exchange differences arising on hedging instruments.

Operational risk

ABN AMRO defines operational risk as the risk of loss resulting from inadequate or failed internal processes and/or systems, human behaviour or from external events. This risk includes operational risk events such as IT problems, shortcomings in the organisational structure, missing or inadequate internal controls, human error, fraud, and external threats.

The guiding principle in operational risk management is that management, at all levels in the organisation, is responsible for directing and managing operational risks. Operational risk management managers are assigned throughout ABN AMRO to assist line management in fulfilling this responsibility.

Line management needs information to enable it to identify and analyse operational risk, implement mitigating measures and determine the effectiveness of these mitigating measures. ABN AMRO has implemented a number of programmes and tools to support line management. These include:

Risk self-assessment: A structured approach that helps line management to identify and assess risks and take mitigating actions for risks which are identified as unacceptable. Risks are assessed with the assistance of facilitators, who are usually operational risk management staff.

Internal and external loss data: ABN AMRO registers operational risk loss on a firm-wide basis.

Operational risk assessment process: A comprehensive approval process that includes an explicit assessment of the operational risk associated with change, irrespective whether the change relates to a new business proposal, a change to the organisation, the implementation of a system or some other change. The process includes sign-off by relevant parties (including Group Compliance, Group Legal and Group Finance) and approval by an appropriate committee.

Key risk indicators: An approach used to indicate possible changes in the operational risk profile. Key risk indicators allow for a trend analysis over time and trigger actions if required.

Compliance and regulatory risk

ABN AMRO defines compliance risk as the risk of legal or regulatory sanctions, material financial loss, or reputational harm ABN AMRO may suffer as a result of its failure to comply with relevant laws, regulations, principles and rules, standards and codes of conduct applicable to its activities in letter and spirit.

The Group Compliance function concentrates its activities on specific elements of financial services and its associated rules, regulations, codes of conduct and market standards. These are predominantly “conduct of business" requirements.

Risk based monitoring plans are prepared through a compliance risk assessment methodology. The business obtains compliance advise where required in preparing their transactions. Senior management is regularly updated on compliance issues and their follow up.

Legal risk

ABN AMRO defines legal risk as the risk from failure to comply with statutory or regulatory obligations and from uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, law or regulations.

The Group Legal function oversees ABN AMRO’s legal risks worldwide and acts as a central reporting point for ABN AMRO’s teams of in-house lawyers. A Global Legal Mandate helps the business make the most effective use of the Group’s legal resources, specifying the areas requiring the mandatory involvement of Group Legal.

Financial reporting risk

Management must provide financial statements that fairly present the Group’s financial position, results of operations and cash flows in accordance with IFRS. ABN AMRO defines financial reporting risk as the risk of a lack of fair presentation and as a result of material misstatements in one or more of the financial statement amounts or disclosures. A material misstatement is defined as an omission or misstatement that could influence the economic decisions of users taken on the basis of the financial statements.

ABN AMRO’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

ABN AMRO’s internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of ABN AMRO and its consolidated entities.

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of ABN AMRO are being made only in accordance with authorisations of management and directors of ABN AMRO.
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of ABN AMRO's assets that could have a material effect on the financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ABN AMRO's financial statements comply with sections 404 and 302 of the Sarbanes-Oxley Act and the Act on Financial Supervision in relation to the sign off of the accounts. Please refer to Section 6: 'Other Information' for the Group's compliance statements.

ABN AMRO's management assesses the effectiveness of the Group's internal control over financial reporting. In making this assessment, ABN AMRO uses the criteria established by the Committee of Sponsoring Organisations of the Treadway Commission ('COSO') in Enterprise Risk Management - Integrated Framework. ABN AMRO's assessment includes documenting, evaluating and testing of the design and operating effectiveness of its internal control over financial reporting. Management of ABN AMRO reviews the results of its assessment with the Supervisory Board and its Audit Committee.

Reputational risk

ABN AMRO defines reputational risk as the risk of potential losses arising from negative public opinion, irrespective of whether this opinion is based on facts or merely public perception. The losses may result from incurring increased funding costs as well as from not generating expected revenues.

The Group believes that ABN AMRO's pursuit of business sustainability and value creation requires proper conduct of ABN AMRO's business activities in accordance with ABN AMRO's Corporate Values and Business Principles and with laws and regulations.

A key component of risk management is ensuring that ABN AMRO's reputation is preserved and enhanced through choosing to engage responsibly in the right business activities with the right clients.

The Group's client-facing staff has the first-line responsibility for applying sustainability criteria to business selection. The Group implemented tools to support ABN AMRO's staff to perform this task adequately.

Alongside ABN AMRO's legal and compliance policies, the Group has developed several reputational risk policies to identify, assess and manage the non-financial issues present within ABN AMRO's business engagements. These policies and standards are referred to as Environmental, Social and Ethical Risk Management policies, and currently include: Forestry and Tree plantations; Oil & Gas; Mining & Metals; Defense industry; Gambling; Human Rights, Dams, Tobacco and Animal Testing. Each of these policies contains client and transaction acceptance criteria, including appropriate filters. Such filters have been developed to assess whether an engagement could present potential environmental, social or ethical issues and thereby translate into reputational risk.

In applying this philosophy, ABN AMRO has developed an approach to policy development that is based on applicable international industry norms and conventions and which incorporates consultation with non governmental organisations, clients, peers and ABN AMRO's client-facing staff.

Business risk

ABN AMRO defines business risk as the risk that operating income is lower than expected because of lower than expected revenues (e.g. lower margins, lower market share, and market downturn) or higher than expected costs, not being caused by one of the other risk types.

Business risk is driven by the volatility of the revenue stream and the extent to which costs are fixed or vary with revenues. Business risk is managed by way of the regular budget and investment processes.

The Value at Risk model that the Group has developed to measure business risk has as its key factors the volatility of revenues and the cost structure of the BU or activity.

RISK FACTORS

Set forth below are certain risk factors that could have a material adverse effect on ABN AMRO's future business, operating results or financial condition. These risk factors and the other information in this document should be carefully considered before making investment decisions. Additional risks not currently known to ABN AMRO or that ABN AMRO now deems immaterial may also harm ABN AMRO and affect your investment.

Market Conditions Risk Factor Update

Since mid 2007, the global financial system has experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency on interbank lending rates.

In September 2008 global financial markets deteriorated sharply following the bankruptcy filing by Lehman Brothers. Thereafter it became apparent that a number of other major financial institutions, including some of the largest commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies in the United States were experiencing difficulties. In response, the United States government has intervened on an unprecedented scale to prevent the failure of some of these institutions and to provide support to the money market mutual fund industry. Governments in Europe and the United Kingdom have nationalised a number of financial institutions. The Dutch Government introduced a guarantee scheme of EUR 200 billion in October 2008 to assist banks, insurance companies and pension funds with financing problems as a result of the inadequate functioning of the market for loans without collateral. In January 2009 the United Kingdom Government has established an asset protection scheme under which it will insure, for a commercial fee, certain bank assets against losses. It is anticipated that the scheme will commence in April 2009. United Kingdom banks, including RBS Group, the parent company of ABN AMRO, have been in discussions with the Tripartite Authorities about the scheme's terms. Central banks worldwide have agreed to act in concert to increase liquidity in the financial markets by taking measures such as increasing temporary reciprocal currency arrangement (or "swap lines") by many billions of euros. Despite these measures, investor confidence remains very low.

In a further effort to bolster the financial markets and provide relief to financial institutions, on 2 October 2008 the United States legislature passed a bill giving the Secretary of the Treasury the power to use public funds to provide support to distressed financial institutions. Global government support is currently ongoing as new plans are being approved and implemented. It remains unclear whether and when this and other active measures taken by governments around the world will have their desired impact on the market. Market conditions generally, and for financial institutions in particular, are expected to remain extremely challenging for 2009.

ABN AMRO continues to remain subject to the risks posed by the impact of the credit crisis on the global financial system and the economies in which the Group operates, some of which are unknown and the vast majority of which are outside our control.

Markets may continue to experience periods of high volatility accompanied by reduced liquidity, which may lead to market risk losses and adversely influence the Group's ability to hedge its risks effectively

The financial and credit markets have been experiencing a sustained period of high volatility, severe dislocations and liquidity disruptions. Financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity.

Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading risks as they would be under more normal market conditions. Moreover, under these conditions market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, such as crowded trades. ABN AMRO's risk management and monitoring processes seek to quantify and mitigate risk to more extreme market moves. Severe market events have historically been difficult to predict, however, and ABN AMRO could realise significant losses if extreme market events were to persist for an extended period of time.

The valuation of securities and obligations may be subject to increased model risk if relevant financial markets become illiquid

The valuation of securities and obligations has, particularly in recent months, become increasingly complex and subject to significant uncertainty in light of the illiquidity of certain of the underlying obligations, with financial institutions applying different valuation models to reflect both the actual and perceived underlying risk profiles of such securities or obligations when market prices are not available. Valuations may vary significantly according to the particular valuation models and assumptions applied to holdings of such securities and obligations. Such valuation models and assumptions may need to be changed to reflect more current information relating to the underlying risk profiles of those holdings, possibly resulting in significant write downs in the value attributed to those holdings with a consequent impact on the balance sheet and income statements of such institutions.

In addition, the values of many of the other instruments ABN AMRO holds and invests in are sensitive to dislocations and disruptions in the credit markets (such as leveraged loans) and the valuation of certain of those instruments has become both more uncertain and more difficult due to volatility and lack of liquidity. As more hedge funds, financial guarantors, banks and other institutions are negatively affected by these market disruptions, ABN AMRO's results may be further affected.

ABN AMRO funds its activities in several markets: any or all of these markets may become illiquid, which could affect the Group's ability to meet expected and unexpected cash flow and collateral needs

In light of the current situation, with regards to observed disruptions in financial markets, the Group's access to these markets may be limited as investors may withdraw from these markets due to the investments no longer meeting their risk appetite. Illiquid markets could affect the Group's funding liquidity position and its ability to meet expected and unexpected cash flow and collateral needs and may have an adverse effect on ABN AMRO's operating results, financial condition and cash flows.

Defaults by another large financial institution could adversely affect financial markets and other financial institutions to which ABN AMRO is exposed

The financial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity problems, and financial losses at many financial institutions. It may even lead to further defaults of other financial institutions. This is sometimes referred to as 'systemic risk'. A systemic risk event may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, to which ABN AMRO is exposed and may, therefore, lead to material losses for ABN AMRO.

ABN AMRO is subject to credit risk: the associated credit losses may increase, in particular during an economic downturn

ABN AMRO is exposed to credit risk in its banking and trading book operations. This may result in credit losses, the magnitude of which is uncertain. In 2008 many of the world's economies have entered into a recession, including in the Netherlands and the rest of Europe. This has led to increasing numbers of companies and individuals to default on their obligations and, more in general, has increased the likelihood of default of many companies and individuals. If the economic downturn continues through 2009 then the Group's credit losses may increase due to defaulting obligors and counterparties and due to lower market values of financial instruments valued at fair value.

ABN AMRO has been assigned a rating by rating agencies; in the event of a rating downgrade, this may negatively affect the Group's earnings and increase the Group's liquidity risk

Rating agencies assess the creditworthiness of ABN AMRO and assign a rating to ABN AMRO and some of the financial instruments it has issued. This information is available to many investors and clients of the Group. Any downgrade in ABN AMRO's ratings may increase ABN AMRO's borrowing costs, limit ABN AMRO's access to capital markets and adversely affect the ability of ABN AMRO's businesses to sell or market their products, engage in business transactions – particularly longer-term and derivatives transactions – and retain ABN AMRO's current customers. This, in turn, could increase ABN AMRO's funding liquidity risks and have an adverse effect on ABN AMRO's operating results and financial condition. Resulting from a downgrade in December 2008 additional collateral has now been pledged.

Increases in ABN AMRO's allowances for loan losses may have an adverse effect on ABN AMRO's results

ABN AMRO's banking businesses establish provisions for loan losses, which are reflected in the loan impairment and other credit risk provisions on ABN AMRO's income statement, in order to maintain ABN AMRO's allowance for loan losses at a level that is deemed to be appropriate by management based upon an assessment of prior loss experiences, the volume and type of lending being conducted by each bank, industry standards, past due loans, economic conditions and other factors related to the collectability of each entity's loan portfolio. Although management uses its best efforts to establish the allowances for loan losses, that determination is subject to significant judgment, and ABN AMRO's banking businesses may have to increase or decrease their allowances for loan losses in the future as a result of increases or decreases in non-performing assets or for other reasons. For further detail please refer to the section 'Accounting Policies' in Section 5: 'Financial Statements'. Any increase in the allowances for loan losses, any loan losses in excess of the previously determined provisions with respect thereto or changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans could have an adverse effect on ABN AMRO's results of operations and financial condition.

ABN AMRO's transition and break up creates additional risks for ABN AMRO's business and stability

ABN AMRO is going through a period of transition and change, which is expected to last to the end of 2009 and which poses additional risks to ABN AMRO's business including ABN AMRO's ability and that of ABN AMRO's shareholder to manage the break up of the Group in a controlled manner while minimising the loss of business, ABN AMRO's ability to retain key personnel during the transition and enhanced operational and regulatory risks during this period.

ABN AMRO's results can be adversely affected by general economic conditions and other business conditions

Changes in general economic conditions, the performance of financial markets, interest rate levels, the policies and regulations of central banks, including the requirements of the Basel II framework or other business conditions may negatively affect ABN AMRO's financial performance by affecting the demand for ABN AMRO's products and services, reducing the credit quality of borrowers and counterparties, putting pressure on ABN AMRO's loan loss reserves, changing the interest rate margin between ABN AMRO's lending and borrowing costs, changing the value of ABN AMRO's investment and trading portfolios.

Changes in interest rate and foreign exchange rates may adversely affect ABN AMRO's results

Fluctuations in interest rates and foreign exchange rates influence ABN AMRO's performance. The results of ABN AMRO's banking operations are affected by ABN AMRO's management of interest rate sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest rates and changes in net interest income. A mismatch of interest-earning assets and interest-bearing liabilities in any given period may, in the event of changes in interest rates, have a material adverse effect on the financial condition of ABN AMRO's business or results from operations and cash flows. In addition, ABN AMRO publishes ABN AMRO's consolidated financial statements in euros. Fluctuations in the exchange rates used to translate other currencies into euros affect ABN AMRO's reported consolidated financial condition, results of operations and cash flows from year to year.

For an overview of how interest rate risk and foreign exchange rate fluctuation risk is managed, see 'Market risk in the trading book' in this section as well as Note 38 in section 5: 'Financial Statements'.

ABN AMRO's performance is subject to substantial competitive pressures that could adversely affect ABN AMRO's results of operations

There is substantial competition for the types of banking and other products and services that ABN AMRO provides in the regions in which ABN AMRO conducts large portions of ABN AMRO's business. The intensity of this competition is affected by consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. In addition, technological advances and the growth of e-commerce have made it possible for non-depositary institutions to offer products and services that were traditionally banking products and for financial institutions to compete with technology companies in providing electronic and internet-based financial solutions. If ABN AMRO is unable to provide attractive product and service offerings that are profitable, ABN AMRO may lose market share or incur losses on some or all of ABN AMRO's activities.

Regulatory changes or enforcement initiatives could adversely affect ABN AMRO's business

ABN AMRO is subject to banking and financial services laws and government regulation in each of the jurisdictions in which ABN AMRO conducts business. Banking and financial services laws, regulations and policies currently governing ABN AMRO and ABN AMRO's subsidiaries may change at any time, and as a result of the current financial crisis, there is an increased possibility of such regulatory action. Changes to the relevant regulations and policies may have an adverse effect on ABN AMRO's business. If ABN AMRO fails to address, or appear to fail to address, these changes or initiatives in an appropriate way, ABN AMRO's reputation could be harmed and ABN AMRO could be subject to additional legal risk. This could, in turn, increase the size and number of claims and damages asserted against ABN AMRO or subject ABN AMRO to enforcement actions, fines and penalties. As previously disclosed, the United States Department of Justice has been conducting a criminal investigation into the Group's dollar clearing activities, Office of Foreign Assets Control ('OFAC') compliance procedures and other Bank Secrecy Act compliance matters all relating to activities before the Consortium Members acquired ABN AMRO. Both before and after the change of control, the Group has cooperated and continues to cooperate fully with the investigation. Although no written agreement has yet been reached and negotiations are ongoing, in April 2007 the

Bank reached an agreement in principle with the Department of Justice.

The precise terms of the deferred prosecution agreement are still under negotiation. Refer to 'Ongoing Investigations'. The ultimate resolution of the Department of Justice investigation and the nature and severity of possible additional sanctions cannot be predicted, but regulatory and law enforcement authorities have been imposing severe and significant monetary and other penalties against a number of banking institutions for violations of the Bank Secrecy Act and related statutes.

There is operational risk associated with ABN AMRO's businesses which, if realised, may have an adverse impact on ABN AMRO's results

ABN AMRO, like all financial institutions, is exposed to many types of operational risk, including the risk of fraud or other misconduct by employees or outsiders, unauthorised transactions by employees and operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. ABN AMRO may also be subject to disruptions of ABN AMRO's operating systems, arising from events that are wholly or partially beyond ABN AMRO's control (including, for example, computer viruses or electrical or telecommunication outages), which may give rise to losses in service to customers and to loss or liability to ABN AMRO. ABN AMRO is further exposed to the risk that external vendors may be unable to fulfil their contractual obligations to ABN AMRO, and to the risk that their business continuity and data security systems prove to be inadequate. ABN AMRO also faces the risk that the design of ABN AMRO's controls and procedures prove to be inadequate or are circumvented. Although ABN AMRO maintains a system of controls designed to keep operational risk at appropriate levels, there can be no assurance that ABN AMRO will not suffer material losses from operational risk in the future.

ABN AMRO depends on the accuracy and completeness of information about customers and counterparties

In deciding whether to extend credit or enter into other transactions with customers and counterparties, ABN AMRO may rely on information furnished to the Group by or on behalf of the customers and counterparties, including financial statements and other financial information. ABN AMRO also may rely on the audit report covering those financial statements. ABN AMRO's financial condition and results of operations could be negatively affected by relying on financial statements that do not comply with generally accepted accounting principles or that are materially misleading.

ABN AMRO is subject to legal risk, which may have an adverse impact on our results

In the ordinary course of business ABN AMRO is involved in a number of legal proceedings. Furthermore, periods of market dislocation, characterised by sharply deteriorating financial markets, are generally accompanied by an increase in investor litigation against intermediaries such as banks and investment advisors. It is inherently difficult to predict the outcome of many of the litigations, regulatory proceedings and other adversarial proceedings involving our businesses, particularly those cases in which the matters are brought on behalf of various classes of claimants, seek damages of unspecified or indeterminate amounts or involve novel legal claims. In presenting our consolidated financial statements, management may make estimates regarding the outcome of legal, regulatory and arbitration matters and takes a charge to income when losses with respect to such matters are probable and can be reasonably estimated. Changes in our estimates may have an adverse effect on ABN AMRO's results.

There may be difficulties enforcing US civil judgments against ABN AMRO

ABN AMRO Holding N.V. is incorporated under the laws of the Netherlands and the members of its Supervisory Board, with one exception, and its Managing Board, with one exception, are residents of countries outside the United States. Substantially all of the assets of Holding and of the members of the Supervisory Board and the Managing Board are located outside the United States. As a result, it may not be possible for investors to affect service of process upon Holding or upon these persons, or to enforce judgments of US courts predicated upon the civil liability provisions of US securities laws against Holding or these persons. The United States and the Netherlands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon US federal securities laws, would not be enforceable in the Netherlands. However, a Dutch court may, under current practice, recognise the final judgment that has been rendered in the United States and may grant the same claim without rehearing the merits under certain circumstances, unless the consequences of the recognition of such judgment would contravene public policy in the Netherlands.

Legal and regulatory proceedings

ABN AMRO is involved in a number of legal proceedings in the ordinary course of ABN AMRO's business in a number of jurisdictions. In presenting ABN AMRO's consolidated financial statements, management makes estimates regarding the outcome of legal, regulatory and arbitration matters, and takes a charge to income when losses with respect to such matters are probable. Charges, other than those taken periodically for costs of defence, are not established for matters when losses cannot be reasonably estimated. ABN AMRO cannot guarantee that these proceedings will be concluded in a manner favourable to ABN AMRO and should ABN AMRO's assessment of the risk change, ABN AMRO's view on changes to income will also change.

On the basis of information currently available, and having taken legal counsel with advisors, the Group is of the opinion that the outcome of these proceedings is unlikely to have a material adverse effect on the consolidated financial position and the consolidated profit of the Group.

Regulatory sanctions

On 10 September 2008 the Board of Governors of the Federal Reserve System, the New York State Banking Department and the Illinois Department of Financial and Professional Regulation, have lifted the Cease & Desist Order dated 19 December 2005. De Nederlandsche Bank terminated their direction in relation to the Cease and Desist Order on 27 July 2007. The Cease & Desist Order included a Written Agreement, dated 23 July 2004, issued by the Federal Reserve Bank of New York, the Federal Reserve Bank of Chicago, the New York State Banking Department and the Illinois Department of Financial and Professional Regulation.

Ongoing investigations

As previously disclosed, the United States Department of Justice has been conducting a criminal investigation into ABN AMRO's dollar clearing activities, OFAC compliance procedures and other Bank Secrecy Act compliance matters. ABN AMRO has cooperated and continues to cooperate fully with the investigation. Although no written agreement has yet been reached and negotiations are ongoing, in April 2007 ABN AMRO reached an agreement in principle with the Department of Justice.

Under the terms of the agreement, in principle, ABN AMRO would also agree to continue cooperating in the United States' ongoing investigation and to settle all then known civil and criminal claims currently held by the United States for the sum of USD 500 million. A charge for USD 500 million was recorded in the first half of 2007. The precise terms of the deferred prosecution agreement are still under negotiation.

In consideration for the foregoing provisions, as well as ABN AMRO's extensive remedial actions to date and its willingness to demonstrate future good conduct and full compliance with all applicable federal laws, the United States Department of Justice would recommend to the United States District Court that the prosecution of the Bank under the information be deferred for a fixed period. At the end of that fixed period, provided ABN AMRO is in full compliance with all of its obligations under the deferred prosecution agreement, the United States would seek dismissal with prejudice of the information filed against the ABN AMRO. The precise terms of the deferred prosecution agreement and agreed factual statement are still under negotiation.

SECTION 4 GOVERNANCE

GOVERNANCE

BOARDS AND COMMITTEES

ABN AMRO Holding N.V. and ABN AMRO Bank N.V. are companies with limited liability incorporated under the laws of the Netherlands. Both companies have a two-tier system of corporate governance; consisting of a Supervisory Board and a Managing Board. The day to day management of the companies is vested with the Managing Board.

The memberships of the Supervisory Boards of ABN AMRO Holding N.V. and ABN AMRO Bank N.V. are the same, as are the memberships of the Managing Boards of ABN AMRO Holding N.V. and ABN AMRO Bank N.V.

ABN AMRO Bank N.V. and ABN AMRO Bank Holding N.V. are not obliged to comply with the principles of the Dutch Corporate Governance Code, but do so in accordance with market practice.

Supervisory Board

Responsibilities of the Supervisory Board

ABN AMRO Holding N.V.'s Supervisory Board supervises the Managing Board, as well as the Company's general course of affairs and its business. In addition, it is charged with assisting and advising management. In performing their duties, the members of the Supervisory Board are guided by the interests of the Company and the enterprise connected with it and shall take into account the relevant interests of the Company's shareholder. Certain powers are vested with the Supervisory Board, including the approval of certain resolutions by the Managing Board.

The Supervisory Board is an independent body. Members of the Supervisory Board are appointed by the General Meeting of Shareholders. The Supervisory Board nominates one or more candidates for each vacant seat.

Under the Dutch Corporate Governance Code, all members of the Supervisory Board must be independent. ABN AMRO is currently deviating from that standard. ABN AMRO has three Supervisory Board members who can not be considered to be independent within the scope of the Dutch Corporate Governance Code: Juan Rodriguez-Inciarte, Michael Enthoven and Miller McLean. For more information refer to page 94.

Supervisory Board members are appointed for a term of four years and may be re-appointed after that term. Members of the Supervisory Board may serve a maximum term of 12 years from the date of their first appointment. As a principle, each member agrees to retire by the day on which the annual General Meeting of Shareholders is held in the year in which he or she reaches the age of 70.

Candidates recommended for appointment or re-appointment to the Supervisory Board should meet the criteria of the membership profile, which are set out in the Rules Governing the Supervisory Board's Principles and Best Practices of ABN AMRO Holding N.V.

In case of a (potential) conflict of interest of material significance between a member of the Supervisory Board and the Company, the Chairman of the Supervisory Board shall be notified.

Details of the Supervisory Board's remuneration package can be found in Note 43 in Section 5: 'Financial Statements'.

The Chairman and Vice Chairman are appointed by the Supervisory Board from among its members. The Supervisory Board also appoints from its members the Audit Committee of at least four members, the Nomination & Compensation Committee of at least three members and the Compliance Oversight Committee of at least three members. The committee members are appointed until further notice.

The Rules Governing the Supervisory Board's Principles and Best Practices of ABN AMRO Holding N.V. are available on ABN AMRO's website at www.abnamro.com. These rules also include the terms of reference of the Audit Committee, the Nomination & Compensation Committee and the Compliance Oversight Committee.

Composition of the Supervisory Board

The members of the Supervisory Board, and their respective Supervisory Board committee membership, as at 24 March 2009 are as follows:

Arthur Martinez (Chairman)	A, N, C (Chairman)
André Olijslager (Vice Chairman)	A (Chairman)
Trude Maas–de Brouwer	N (Madam Chair), C
Rob van den Bergh	C
Anthony Ruys	N
Gert-Jan Kramer	A
Ana Maria Llopis Rivas	A
Juan Rodriguez-Inciarte	
Michael Enthoven	A, N, C
Miller McLean	

A member of the Audit Committee
N member of the Nomination & Compensation Committee
C member of the Compliance Oversight Committee

At the Annual General Meeting of shareholders on 11 April 2008 Trude Maas-de Brouwer and André Olijslager were re-appointed for a term of four years. On 1 July 2008 Jean Paul Votron resigned as a member of the Supervisory Board. At the Extraordinary General Meeting of shareholders on 22 September 2008 Herman Verwilst was appointed to the Supervisory Board for a term of four years. On 17 October 2008 he stepped down as a result of the decisions taken by the Ministry of Finance concerning the divestment of the ABN AMRO business acquired by Fortis. At the Extraordinary General Meeting of shareholders on 21 November 2008 Michael Enthoven was appointed to the Supervisory Board for a term of four years. He succeeded Herman Verwilst. On 5 February 2009 Sir Fred Goodwin resigned as a member of the Supervisory Board. On 16 February 2009 the shareholder appointed Miller McLean as a member of the Supervisory Board.

Activities of the Supervisory Board

The Supervisory Board met on 13 occasions during the period under review. Meetings took place in person, by telephone and the members were also asked to give their approval on a few matters via email procedure.

During its executive sessions, the Supervisory Board evaluated the functioning of the Managing Board.

The Chairman and the Company Secretary prepared the agenda for the meetings of the Supervisory Board in close cooperation with the Chairman of the Managing Board.

The Supervisory Board reviewed and adopted the 2007 results and the dividend proposal at its February meeting and reviewed and approved the half-year financial report 2008 in August. Next to that the Board reviewed in these meetings regulatory, control and audit issues, including Sarbanes-Oxley Act Section 404 compliance.

The financial performance of ABN AMRO was extensively discussed in a number of Supervisory Board meetings. Relevant executives discussed findings of internal and external auditors. These meetings were preceded by meetings of the Audit Committee, which advised the full Supervisory Board on the approval of the financial results. Comprehensive information provided by the Managing Board and reviewed by the Audit Committee gave the Supervisory Board a clear picture of the Bank's risks, results, and capital and liquidity position. All Supervisory Board committees continued to report their deliberations and findings to the full Board for further discussion and, where appropriate, decisions.

The Board nominated new Managing and Supervisory Board members. At the Annual General Meeting of Shareholders on 11 April 2008 and the Extraordinary General Meetings of shareholders on 22 September 2008 and 21 November 2008 these nominations were adopted by the shareholders.

The Annual General Meeting of shareholders has withdrawn Ernst & Young Accountants LLP as the external accountant of ABN AMRO Holding N.V. for the 2008 financial year. At the same meeting Deloitte Accountants B.V. were appointed as the external accountant of ABN AMRO Holding N.V. for the 2008 financial year.

The Board received regular updates on the transition program, discussed and approved the demerger of a number of assets, disposals and requests for Declaration of No Objection ('DNO') connected to the transition.

Contacts with Dutch Central Works Council

Contrary to the covenant concluded in 2003 with the Dutch Central Works council, members of the Supervisory Board did not attend by rotation meetings of the Central Works Council in 2008. On 18 September 2008, the Central Works Council agreed that a discussion on the appointment of Herman Verwilst would take place after 22 September 2008. As he stepped down on 17 October 2008, the actual discussion did not take place due to the short time span between the date on which the above agreement was made and his subsequent resignation. In relation to the appointment of Michael Enthoven, discussions with both the Dutch Central Works Council and the European Staff Council took place on 12 and 18 November 2008 respectively, prior to his appointment on 21 November 2008. The Dutch Central Works council was consulted on the nomination of the following new Managing Board members: David Cole, Johan van Hall and Chris Vogelzang in October 2008, Gerrit Zalm in December 2008 and Ron Teerlink in February 2009.

Supervisory Board committees

The Supervisory Board has three standing committees: the Audit Committee, the Nomination and Compensation Committee and the Compliance Oversight Committee.

Audit Committee

Responsibilities of the Audit Committee

The Audit Committee is appointed by the Supervisory Board from its own members. The responsibilities of the Audit Committee include supervising and monitoring and advising the Supervisory Board on the effectiveness of internal risk management and control systems and reviewing and advising the Supervisory Board on the disclosure of financial information. The Committee derives its authority from the Supervisory Board and its Terms of Reference are set out in annex C of the Rules Governing the Supervisory Board's Principles and Best Practices.

In line with good corporate governance, the Rules governing the ABN AMRO Supervisory Board's Audit Committee have been reviewed to ensure that the objectives of the ABN AMRO Group Audit Committee are, where possible, fully aligned and consistent with the Terms of Reference of the RBS Group Audit Committee and adequate and appropriate oversight and escalation mechanisms are implemented.

The external audit firm is appointed or reappointed by the General Meeting of Shareholders for a period of five years on the advice of the Supervisory Board. The Audit Committee has the delegated responsibility for the engagement of the external auditors. For this purpose it evaluates the independence of the external auditor, the measures used to control the quality of the external auditor's work, and the annual audit budget. The Audit Committee's policy on auditor independence governs the appointments, compensation, and oversight of the external auditor. To ensure the external auditors independence, the Auditor Independence Policy prohibits the external auditors from providing certain non-audit services to the Bank.

The Audit Committee is furthermore responsible for pre-approving audit, audit-related and permitted non-audit services provided by the external auditor. In exercising its pre-approval authority, the Audit Committee considers whether the proposed services are consistent with the continued independence of the external auditor. Both the Auditor Independence Policy and the Audit Committee Pre-Approval Policy for External Audit Firm Services can be viewed on ABN AMRO's website at www.abnamro.com.

Composition of the Audit Committee

In 2008, the Audit Committee of the Supervisory Board was chaired by André Olijslager. Other members included Arthur Martinez, Gert-Jan Kramer, Ana Maria Llopis Rivas and Michael Enthoven.

The members of the Audit Committee collectively have sufficient accounting and financial management expertise to understand the company's business, financial statements and risk profile. Furthermore, the Supervisory Board has determined that Arthur Martinez possesses the necessary relevant expertise in financial administration and accounting for listed companies and other large companies and therefore qualifies as financial expert within the meaning of the Dutch Corporate Governance Code. It has also determined that Arthur Martinez qualifies as audit committee financial expert in accordance with Section 407 of the Sarbanes-Oxley Act and that he is independent under the applicable US standards.

Activities of the Audit Committee

The Audit Committee convened seven times during the course of 2008. Three of these meetings were regular meetings, while four were extraordinary meetings.

The Audit Committee reviewed, discussed and advised the Supervisory Board with regards to the interim financial statements, the Annual Report, the external auditors' long-form report, the internal auditors' management letter including the Managing Board's related comments, the evaluation of the design and operating effectiveness of the internal risk management and control systems, the Capital Adequacy Framework and the application of the US Sarbanes-Oxley Act, in particular as to ABN AMRO's compliance with the requirements of Section 404 of this Act.

Deloitte Accountants reported on its independence to the Audit Committee. Deloitte has reviewed its engagements with ABN AMRO and confirmed to the Audit Committee that these have not impaired Deloitte's ability to act as independent auditors of ABN AMRO. The Audit Committee reviewed its pre-approval policy for audit and non-audit services provided by the external auditors. Following this review the Audit Committee pre-approved the nature and the budget for audit, audit-related and non-audit services, in line with this policy.

Throughout the period, representatives of the ABN AMRO Managing Board, Finance Officers, the Committee Secretary, representatives from Group Internal Audit, Risk Management and the external auditors have been in attendance by standing invitation and were provided with copies of the agendas, papers and minutes.

The Chairman of the Audit Committee has met with the external auditors independently of the members of the Managing Board and the internal auditors.

The Audit Committee, in the presence of senior representatives from Group Risk Management, also reviewed and discussed ABN AMRO's overall risk profile, the quality of the loan portfolio and the bank's large exposures and provisioning for loan losses. It also reviewed the Enterprise Risk Management Framework and related reporting. In addition, the Committee reviewed various risk reports, produced both internally and by third parties, outlining the unique risk profile arising directly as a result of the transition and separation activities.

The Audit Committee reviewed, discussed and approved the 2008 Audit Plan prepared by Group Audit, as well as staff matters including training and recruitment. In addition, the Audit Committee discussed the operational and internal control aspects covered by Group Audit in its audit. In the middle of the year, Group Audit presented an assessment of the audit risks which reflected the impact of corporate activities. This was reviewed and approved by the Audit Committee.

Nomination & Compensation Committee

Responsibilities of the Nomination & Compensation Committee

The Nomination & Compensation Committee is a combined remuneration, selection and appointment committee as defined in the Dutch Corporate Governance Code. The tasks and responsibilities of the Nomination & Compensation Committee of the Supervisory Board can be divided into tasks related to nomination and to compensation.

The nomination responsibilities include preparing for the selection and nomination of members of the Supervisory and Managing Boards by preparing and periodically reviewing the succession plans of these Boards on the basis of agreed profiles. The granting of the title of Senior Executive Vice President to eligible persons and the management development programs for top executives are also discussed in the Nomination & Compensation Committee. Where relevant, the Nomination & Compensation Committee informs the full Supervisory Board.

The Nomination & Compensation Committee also acts on reward and performance issues. Standards and criteria for performance are defined, and on that basis the performance of the members of both Boards is reviewed periodically. The framework, concept and content of compensation and benefits, pension schemes and other relevant schemes are discussed and decided. Resolutions concerning the remuneration policies for the Managing Board are submitted to the full Supervisory Board and are then put forward for adoption by the General Meeting of Shareholders.

Composition of the Nomination & Compensation Committee

The membership of the Nomination & Compensation Committee of the Supervisory Board remained unchanged in 2008. The Committee consists of the following members: Trude Maas-de Brouwer (Madam Chair), Arthur Martinez, Anthony Ruys and, as of January 2009, Michael Enthoven.

The Chairman of the Managing Board and the head of Group Human Resources were invited to the Nomination and Compensation Committee's meetings to discuss relevant issues, such as the Managing Board's composition and compensation.

Activities of the Nomination & Compensation Committee

The Nomination & Compensation Committee met four times in 2008.

For a description of the Bank's reward philosophy and principles as well as a detailed description of the relevant aspects of Managing Board compensation in 2008 please refer to Note 43 'Remuneration of the Managing Board and Supervisory Board' in Section 5: 'Financial Statements'.

Compliance Oversight Committee

Responsibilities of the Compliance Oversight Committee

The role of the Compliance Oversight Committee is to supervise ABN AMRO's compliance organisation, activities and risk profile. More specifically, the committee is responsible for supervising, monitoring and advising the Managing Board on the effects of internal risk management and control systems relating to compliance. These duties include supervising the enforcement of the relevant legislation and regulations, and overseeing compliance with the codes of conduct. The Compliance Oversight Committee is also responsible, along with the full Supervisory Board, for setting the right tone from the top by communicating the importance of compliance to the Managing Board and ABN AMRO as a whole, and by overseeing the Managing Board's communications about the importance of compliance.

Composition of the Compliance Oversight Committee

The Compliance Oversight Committee consists of four members all of whom are members of the Supervisory Board. In 2008 the members were Arthur Martinez (Chairman), Trude Maas-de Brouwer, Rob van den Bergh and as of January 2009 Michael Enthoven.

Activities of the Compliance Oversight Committee

In line with its Charter, as set out in the Rules Governing the Supervisory Board's Principles and Best Practices, the Compliance Oversight Committee met three times in 2008. During its meetings in 2008, the Committee reviewed and closely monitored the implementation of the annual Group Compliance plan with a particular focus on ensuring that Group Compliance remains appropriately staffed, compensated, resourced and supported during the transition phase. At each of these meetings the Committee further discussed the relevant quarterly Group Compliance Reports, elaborating on global regulatory developments and key Group Compliance initiatives during those quarters.

Managing Board

Responsibilities of the Managing Board

The members of the Managing Board of ABN AMRO Holding N.V. collectively manage the Company and are responsible for its strategy, structure and performance. The members are appointed by the General Meeting of Shareholders. The Supervisory Board nominates one or more candidates for each vacant seat. If the Supervisory Board nominates two or more candidates for a vacant seat, the nomination list is binding. The members of the Managing Board are accountable both collectively and individually for all decisions taken by the Managing Board.

The Chairman of the Managing Board leads the Board in its overall management of the Company to achieve its performance goals and ambitions. The Chairman is the main point of liaison with the Supervisory Board. The Chief Financial Officer is responsible for the financial affairs of the Company, and the Chief Risk Officer is responsible for the Company's risk management and operational risk control. Alongside their overall corporate responsibilities, the members of the Managing Board are responsible for the management of the BUs, Group Functions and Services. The Managing Board has delegated certain tasks to committees.

Composition of the Managing Board

The members of the Managing Board and their responsibilities as at 24 March 2009 are as follows:

Gerrit Zalm	Chairman and responsible for Human Resources, Communications and Audit
Ron Teerlink	Vice Chairman and responsible for Transition Management
David Cole	Chief Finance Officer, Chief Risk Officer and responsible for Risk, Finance, Legal and Compliance
Johan van Hall	responsible for Integration and Services
Chris Vogelzang	responsible for BU Netherlands and BU Private Clients and International Diamond & Jewelry Group
Donald Workman	responsible for the global markets business
Brad Kopp	responsible for BU Americas
Michiel de Jong	responsible for Global Transaction Services and regional markets Asia and Europe
Javier Maldonado	responsible for the shared assets included in Central Items

At the Annual General Meeting of shareholders on 11 April 2008 Michiel de Jong and Brad Kopp were appointed as members of the Managing Board for a period of four years. On 1 April 2008 Ron Teerlink stepped down as member of the Managing Board. Wilco Jiskoot and Brian Crowe both stepped down from the Managing Board on 1 June 2008 and 10 June 2008 respectively. On 29 July 2008 Marta Elorza Trueba stepped down as a member of the Managing Board.

At the Extraordinary General Meeting of shareholders on 22 September 2008 Donald Workman was appointed to the Managing Board for a term of four years. Karel De Boeck and Paul Dor stepped down from the Managing Board on 4 October 2008 and John Hourican stepped down as a member of the Managing Board on 14 October 2008.

Gerrit Zalm was appointed as Vice Chairman of the Managing Board at the Extraordinary General Meeting of shareholders held on 23 December 2008. On 30 December 2008 Jan Peter Schmittmann stepped down as a member of the Managing Board. On 27 February 2009 Mark Fisher resigned as the Chairman of Managing Board. On 28 February 2009 the shareholder appointed Ron Teerlink as Vice-Chairman of the Managing Board. In addition, David Cole, Johan van Hall and Chris Vogelzang were appointed as members of the Managing Board. On 28 February 2009 Gerrit Zalm succeeded Mark Fisher and became the Chairman of the Managing Board.

According to the Consortium Shareholder Agreement RBS had the right to put forward a candidate for the Managing Board after Mark Fisher decided to resign from the Managing Board. RBS nominated Ron Teerlink in the role of Vice Chairman of ABN AMRO. Ron Teerlink will also remain as Chief Executive Group Manufacturing RBS.

Senior Executive Vice Presidents

The Managing Board consulted the Supervisory Board on the appointment of Petri Hofsté as Senior Executive Vice President and deputy CFO heading the Finance function with effect from 14 October 2008. As a result of the organisational changes and retirements, the number of Senior Executive Vice Presidents decreased by 16 to 2 at 24 March 2009.

CORPORATE GOVERNANCE CODES

ABN AMRO’s approach

The Articles of Association of ABN AMRO Holding N.V. have been amended to reflect the change in status and were adopted by the Extraordinary Meeting of Shareholders on 22 September 2008.

On 25 March 2008 ABN AMRO announced that the Company had resolved to apply for delisting of its ordinary shares and the (formerly convertible) preference shares from Euronext Amsterdam by NYSE Euronext, the regulated market of Euronext Amsterdam N.V. (‘Euronext Amsterdam’) and to apply for the delisting of its American Depositary Shares (‘ADSs’) from the New York Stock Exchange (‘NYSE’). Its ordinary shares and its ADSs were delisted from Euronext Amsterdam and the NYSE respectively, effective 25 April 2008. The (formerly convertible) preference shares were delisted shortly after finalisation of the squeeze-out proceedings on 22 September 2008. As a result of the delisting, ABN AMRO is no longer required to adhere to the Dutch Corporate Governance Code.

ABN AMRO has always maintained high corporate governance standards and the Consortium Members are committed to continue this through the transition period. For ABN AMRO, good corporate governance is critical to the Company’s ability to realise ABN AMRO’s strategic goal of creating sustainable long-term value for all ABN AMRO’s stakeholders – including ABN AMRO’s shareholder, ABN AMRO’s clients, ABN AMRO’s employees and society at large. It is the foundation of ABN AMRO’s license to operate.

In order to achieve good corporate governance, ABN AMRO organises the Company in a way that promotes first-class stewardship by the Managing Board and effective supervision by the Supervisory Board. Integrity, transparency and accountability are key elements of ABN AMRO’s corporate governance, as they are in ABN AMRO’s business as a whole. These key elements ensure that the controls and oversight necessary for effective risk management, proper compliance with regulations, and accurate and complete disclosure of information to the market are in place and functioning well.

ABN AMRO’s guiding compass in these matters is provided by ABN AMRO’s Corporate Values and Business Principles, which constitute ABN AMRO’s ‘code of ethics’.

Even though ABN AMRO does not have to adhere to the Dutch Corporate Governance Code, ABN AMRO continues to place importance on a transparent governance structure and chooses to substantially adhere to the Dutch Corporate Governance Code. Also, as a company registered with the US Securities and Exchange Commission (SEC) ABN AMRO is subject to US securities laws and the applicable corporate governance rules in connection with the Group’s listing of NYSE Alternext debt.

Corporate governance in the Netherlands

ABN AMRO Holding N.V. and ABN AMRO Bank N.V. are public companies with limited liability incorporated under the laws of the Netherlands. Both companies have a two-tier system of corporate governance, consisting of a Supervisory Board and a Managing Board. The day-to-day management of the Companies is vested with the Managing Board.

The memberships of the Supervisory Boards of ABN AMRO Holding N.V. and ABN AMRO Bank N.V. are the same, as are the memberships of the Managing Boards of ABN AMRO Holding N.V. and ABN AMRO Bank N.V.

The Dutch Corporate Governance Code took effect on 1 January 2004 and was amended on 10 December 2008. The amended code will come into force with effect from the financial year starting on or after 1 January 2009. Therefore, reference in this 2008 annual report made to the Dutch Corporate Governance refers to the code of 2004. Even though the Company is not required to adhere to the Dutch Corporate Governance Code, ABN AMRO confirms that it applies the principles and (applicable) best practice provisions of the Dutch Corporate Governance Code, with the exception of the following best practice provisions: II.2.7, II.3.3, III.2.1, III.5.11, III.6.2 and IV.1.1.

Best practice provision II.2.7 states that the maximum remuneration in the event of dismissal is one year's salary (the 'fixed' remuneration component). If the maximum of one year's salary would be manifestly unreasonable for a managing board member who is dismissed during his first term of office, this board member shall be eligible for a severance payment not exceeding twice the annual salary.

The employment contracts of those members of ABN AMRO's Managing Board that were already in place as at 1 January 2004 (the date on which the Dutch Corporate Governance Code took effect) remain unchanged. The Supervisory Board intends to interpret the redundancy scheme as set out in these employment contracts in accordance with best practice provision II.2.7.

For some members of the Managing Board originating from ABN AMRO that have been appointed since 2006, ABN AMRO does not fully apply this best practice provision. The underlying ABN AMRO employment contracts of such members, which are Senior Executive Vice President Employment contracts under Dutch law, continue. However, all entitlements under these contracts, including the entitlements under the redundancy clause, have been suspended during membership of the Managing Board, and replaced by another employment contract applicable to Managing Board members. ABN AMRO has not included a redundancy clause in these contracts and shall apply best practice provision II.2.7 as follows: in the event of a termination of the Managing Board membership, the suspended employment contract will be reinstated. If it is deemed necessary to terminate that contract in the future, this will happen in accordance with Dutch labour law.

Principle II.3 states that any conflict of interest or apparent conflict of interest between the company and managing board members shall be avoided.

This principle has been elaborated in best practice provisions II.3.1 to II.3.4.

Several new members of the Managing Board also serve in a number of managing and supervising capacities at the various Consortium Members. They have taken part and will take part in discussions or decision making that involves or will involve a subject or transaction relating to the separation and transfer of the ABN AMRO businesses to the respective Consortium Members. This could constitute a conflict of interest within the scope of best practice provision II.3.2. In this respect ABN AMRO does not apply best practice provision II.3.3 with respect to these subjects and transactions, but otherwise ABN AMRO reports that best practice provisions II.3.2 to II.3.4 inclusive, have been complied with, where applicable.

Best practice provision III.2.1 states that all supervisory board members, with the exception of not more than one person, shall be independent within the meaning of best practice provision III.2.2.

A description of independence is given in best practice provision III.2.2. As mentioned under principle II.3 above, following the acquisition by the Consortium Members of RFS Holdings, the sole shareholder of ABN AMRO, a new structure and membership for the Supervisory Board was put in place. Michael Enthoven, Public Prosecutor of the Ministry of Finance and Miller McLean, Group Legal Counsel and Company Secretary of RBS, have been nominated alongside Juan Rodriguez-Inciarte of Santander to reflect the change in ownership.

In view of the criteria for independence mentioned in best practice provision III.2.2. these three Supervisory Board members cannot be considered to be independent. Therefore, ABN AMRO does not apply best practice provision III.2.1. In accordance with best practice provision III.2.3 the Supervisory Board members who cannot be considered to be independent are listed in the report of the Supervisory Board.

Principle III.6 states that any conflict of interest or apparent conflict of interest between the company and supervisory board members shall be avoided.

This principle has been elaborated in best practice provision III.6.1 to III.6.7. ABN AMRO's explanation of principle II.3 applies mutatis mutandis to the three Supervisory Board members: Juan Rodriguez-Inciarte, and the two new members, Michael Enthoven and Miller McLean, who likewise have taken and will take part in discussions or decision-making that involves or will involve a subject or transaction relating to the separation and transfer of the ABN AMRO businesses to the respective Consortium Members. As this may constitute a conflict of interest within the scope of best practice provision III.6.1, ABN AMRO does not apply best practice provision III.6.2 with respect to these subjects and transactions, but otherwise ABN AMRO reports that best practice provisions III.6.1 to III.6.3 inclusive have been complied with, where applicable.

Similarly the transactions relating to the separation and transfer of the ABN AMRO businesses to the respective Consortium Members can fall within the scope of best practice provision III.6.4 in view of the holding by the Consortium Members of all of the ABN AMRO shares. For this reason ABN AMRO hereby confirms that best practice provision III.6.4 has been observed, where applicable.

Best practice provision IV.1.1 states that the general meeting of shareholders of a company not having a statutory two-tier status ('structuurregime') may pass a resolution to cancel the binding nature of a nomination for the appointment of a member of the managing board or of the supervisory board, and/or a resolution to dismiss a member of the managing board or of the supervisory board by an absolute majority of the votes cast. It may be provided that this majority should represent a given proportion of the issued capital, which proportion may not exceed one third. If the given proportion of the capital is not represented at the meeting, but an absolute majority of the votes cast is in favour of a resolution to cancel the binding nature of a nomination, or to dismiss a board member, a new meeting may be convened at which the resolution may be passed by an absolute majority of the votes cast, regardless of the proportion of the capital represented at the meeting.

ABN AMRO has one shareholder, RFS Holdings. In accordance with ABN AMRO's Articles of Association, the following procedure has to be followed for the dismissal of members of the Managing Board and Supervisory Board. A distinction has been made between situations in which the Supervisory Board submits a proposal to the General Meeting of Shareholders to dismiss a member of the Managing Board or Supervisory Board and situations in which the proposal to dismiss a member of the Managing or Supervisory Board is submitted at the initiative of shareholders. The first of these situations requires an absolute majority of the General Meeting of Shareholder, and in this case ABN AMRO applies best practice provision IV.1.1. In the event of the second situation arising, a two-third majority of the votes cast is required. For this reason, ABN AMRO will continue to apply these procedures with regard to the nominations for the appointment and dismissal of Supervisory Board and Managing Board members.

Corporate governance in the United States

As an SEC-registered company, ABN AMRO is subject to US securities laws, including the Sarbanes-Oxley Act, as well as certain corporate governance rules in connection with the Group's listing of NYSE Alternext debt. Following the introduction of the Sarbanes-Oxley Act, ABN AMRO established a Disclosure Committee that formalised the roles, tasks and disciplines that were already in place for ensuring the accuracy and completeness of information disclosed to the market.

ABN AMRO's report on internal control over financial reporting under section 404 of the US Sarbanes-Oxley Act is included in this Annual Report 2008 that is also a Form 20-F as filed with the SEC.

ABN AMRO proposes to its shareholder that it adopts the 2008 financial statements, as included in this annual report, and discharges the Managing Board and Supervisory Board in respect of their management and supervision respectively. In view of the acquisition by the Consortium no further dividend will be declared.

ABN AMRO'S EMPLOYEES

As at 31 December 2008, ABN AMRO employed 57,000 people working in over 50 countries.

Following the acquisition of ABN AMRO in 2007, the primary focus of Human Resources in 2008 has been to drive forward the people change agenda to help deliver the separation and integration of the ABN AMRO business divisions to the appropriate Consortium Member. During 2008 43,000 employees have separated from ABN AMRO and integrated with their assigned Consortium Member.

Despite the primary focus on separation and integration activity ABN AMRO has continued to review the Human Resources policies and processes in place to ensure they are robust and support a strong employment proposition. In September 2008, the ABN AMRO employees allocated to RBS were invited to participate in an Employee Opinion Survey with more than 26,000 employees participating. This translates to a response rate of 85%.

Also, throughout the year there has been ongoing engagement and consultation between ABN AMRO and our Social Partners ensuring that there is an open dialogue in relation to separation and integration activity.

SUSTAINABILITY

ABN AMRO embraces the concept of sustainability by placing environmental, social and ethical (ESE) matters at the heart of its business. In 2008, following the acquisition by the Consortium, Fortis, RBS and Santander each worked to combine their own best practices with those of the ABN AMRO businesses they had acquired. The ABN AMRO Sustainability Review 2007 was a joint effort between ABN AMRO, Fortis, RBS and Santander, recording ABN AMRO's sustainability activities of the past and present, and outlining the new future.

SECTION 5 FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Accounting policies

Corporate Information

ABN AMRO Holding N.V. is the parent company of the ABN AMRO consolidated group of companies (referred to as the ‘Group’, ‘ABN AMRO’ or ‘ABN AMRO Group’). ABN AMRO Holding N.V. is a public limited liability company, incorporated under Dutch law on 30 May 1990, and registered at Gustav Mahlerlaan 10, 1082 PP Amsterdam, the Netherlands. The Group provides a broad range of financial services on a worldwide basis, including consumer, commercial and investment banking.

On 17 October 2007 RFS Holdings B.V. (‘RFS Holdings’), a company incorporated by RBS, Fortis and Santander acquired 85.6% of ABN AMRO Holding N.V. ABN AMRO applied for de-listing of its ordinary shares from Euronext Amsterdam and the New York Stock Exchange. The de-listing of the ABN AMRO Holding N.V. ordinary shares and the (formerly convertible) preference shares with a nominal value of €2.24 each from Euronext Amsterdam and the de-listing of its American Depositary Shares (‘ADSs’) from the New York Stock Exchange was effected on 25 April 2008. Through subsequent purchases RFS Holdings increased its stake in ABN AMRO to 99.3% as at 31 December 2007. RFS Holdings started squeeze-out proceedings in order to acquire the remainder of the shares in ABN AMRO from minority shareholders and this procedure was completed on 22 September 2008. As a result RFS Holdings has now become the sole shareholder of ABN AMRO Holding N.V.

RFS Holdings B.V. is controlled by RBS Group plc, which is incorporated in the UK and registered at 36 St. Andrew Square, Edinburgh, Scotland. RBS is the ultimate parent company of ABN AMRO Holding N.V. The consolidated financial statements of the Group are included in the consolidated financial statements of RBS.

On 3 October 2008, the Dutch State acquired all Fortis’ businesses in The Netherlands, including the Fortis share in RFS Holdings. On 24 December 2008, the Dutch State purchased from Fortis Bank Nederland (Holding) N.V. its investment in RFS Holdings, to become a direct shareholder in RFS Holdings.

Debt securities of ABN AMRO Holding N.V. are listed on the New York Stock Exchange and Euronext. As the rules of the Securities and Exchange Commission (‘SEC’) are applicable to foreign registrants, this annual report complies with the SEC rules and a cross reference table to the sections of the Form 20-F is included on page 225 of this report.

The consolidated financial statements of the Group for the year ended 31 December 2008 incorporate financial information of ABN AMRO Holding N.V., its controlled entities, interests in associates and joint ventures. The consolidated financial statements were signed and authorised for issue by the Supervisory Board and Managing Board on 20 March 2009. The right to request an amendment of the financial statements is embedded in the Netherlands Civil Code. Interested parties have the right to ask the Enterprise Chamber of the Amsterdam Court of Appeal for a revision of the financial statements.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Group does not utilise the portfolio hedging ‘carve out’ permitted by the EU. Accordingly, the accounting policies applied by the Group comply fully with IFRS issued by the International Accounting Standards Board (IASB).

Summary significant accounting policies

Basis of preparation

The consolidated financial statements are prepared in accordance with IFRS on a mixed model valuation basis as follows:

- Fair value is used for: derivative financial instruments, financial assets and liabilities held for trading or designated as measured at fair value through income, and available-for-sale financial assets,
- Other financial assets (including 'loans and receivables') and liabilities are valued at amortised cost,
- The carrying value of assets and liabilities measured at amortised cost included in a fair value hedge relationship is adjusted with respect to fair value changes resulting from the hedged risk,
- Non-financial assets and liabilities are generally stated at historical cost.

The consolidated financial statements are presented in euros, which is the presentation currency of the Group, rounded to the nearest million (unless otherwise noted).

Certain amounts in the prior periods have been reclassified to conform to the current presentation. This includes the restatement for the classification of the Banco Real and other Santander acquired businesses as discontinued operation.

Adoption of IFRS standards and interpretations

IFRIC interpretation 11 'Group & Treasury Share Transactions' was issued in November 2006 and became effective for the Group on 1 January 2008. The interpretation provides further guidance on the implementation of IFRS 2 'Share-based Payment'. The adoption of this interpretation has no impact on the financial position or results of the Group.

IFRIC Interpretation 12 'Service Concession Arrangements' was issued in November 2006 and became effective for the Group on 1 January 2008. The interpretation gives guidance on the accounting by operators for public-to-private concession arrangements. The adoption of this interpretation has no impact on the financial position or results of the Group.

IFRIC Interpretation 14 IAS 19 'The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' addresses how entities should determine the amount of a surplus in a pension fund that can be recognised as an asset, how a minimum funding requirement affects that limit, and when a minimum funding requirement creates an onerous obligation that should be recognised as a liability in addition to that otherwise recognised under IAS 19. This interpretation became effective on 1 January 2008. The adoption of this interpretation does not have a significant impact on the financial position or results of the Group.

IFRS 8 'Operating Segments' was issued in November 2006 and adopted by the EU in November 2007. It is effective for annual reporting periods beginning on or after 1 January 2009 but early adoption is permitted. The Group adopted IFRS 8 on 1 January 2007. The standard replaces IAS 14 'Segment Reporting' in setting out requirements for disclosure of information about an entity's operating segments, revenues derived from its products and services, the geographical areas in which it operates, and its major customers.

In October 2008 the IASB issued 'Reclassification of Financial Assets', amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures'. The Group has applied these amendments from 1 July 2008. The amendments permit an entity to reclassify certain financial instruments out of the held-for-trading or out of the available-for-sale category and sets out additional disclosure requirements for such reclassifications. The notes to the consolidated financial statements provide detailed disclosures as required by the reclassification amendment.

Critical accounting policies

The preparation of financial statements in conformity with IFRS requires management to make difficult, complex or subjective judgments and estimates, at times, regarding matters that are inherently uncertain. These judgments and estimates affect reported amounts and disclosures. Actual results could differ from those judgments and estimates. The most significant areas requiring management to make judgments and estimates that affect reported amounts and disclosures are as follows:

Allowance for loan losses

Allowances for loan losses are made for estimated losses in outstanding loans for which there is any doubt about the borrower's capacity to repay the principal and/or the interest. The allowance for loan losses is intended to adjust the value of the Group's loan assets for probable credit losses as of the balance sheet date. Allowances are determined through a combination of specific reviews, statistical modelling and estimates. Certain aspects require judgment, such as the identification of loans that are deteriorating, the determination of the probability of default, the expected loss, the value of collateral and current economic conditions. Though we consider the allowances for loan losses to be adequate, the use of different estimates and assumptions could produce different allowances for loan losses, and amendments to allowances may be required in the future, as a consequence of changes in the value of collateral, the amounts of cash to be received or other economic events. For a further discussion on our allowance for loan losses, see note 18 to our consolidated financial statements.

Fair value of financial instruments

For financial instruments that are actively traded and for which quoted market prices or market parameters are readily available, there is little subjectivity in the determination of fair value. However, when observable market prices and parameters do not exist, management judgement is necessary to estimate fair value.

For instruments where no active liquid market exists, or quoted prices are unobtainable, recent market transactions are used or the fair value is estimated using a variety of valuation techniques – including reference to similar instruments for which market prices do exist or valuation models, such as discounted cash flow calculation or Black-Scholes.

The Group refines and modifies its valuation techniques as markets and products develop and the pricing for such products becomes more or less transparent. Financial markets are sometimes subject to significant stress conditions where steep falls in perceived or actual asset values are accompanied by a severe reduction in market liquidity, such as recent events in the US sub-prime residential mortgage market. In such cases, observable market data may become less reliable or disappear altogether. Where there is doubt over the reliability of the market data due to either market illiquidity or unavailability, other valuation techniques are used. These alternative techniques would include scenario analysis and discounted cash flow calculations.

Unobservable inputs are estimated using a combination of management judgement, historical data, market practice and benchmarking to other relevant observable market data. Where inputs to the valuation of a new transaction cannot be reliably sourced from external providers, the transaction is initially recognised at its transaction price. The difference between the transaction price and the internal valuation at inception, calculated using a model, is reserved and amortised to income at appropriate points over the life of the instrument, typically taking account of the ability to obtain reliable external data, the passage of time and the use of offsetting transactions. Subsequent changes in fair value as calculated by the valuation model are reported in income.

Fair values include appropriate adjustments to account for known inadequacies in the valuation models or to reflect the credit quality of the instrument or counterparty. Factors that could affect estimates are incorrect model assumptions, market dislocations and unexpected correlation. We believe our estimates of fair value are adequate. However, the use of different models or assumptions could result in changes in our reported results. For a further discussion on the use of fair values and the impact of applying reasonable possible alternative assumptions as inputs, see note 37 to the consolidated financial statements.

Impairment of available-for-sale instruments

A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset or reclassification into available-for-sale from trading have adversely affected the amount or timing of future cash flows from the assets.

Significant management judgement is involved where the determination of future cash flows requires consideration of a number of variables, some of which may be unobservable in current market conditions. This is the case for more complex instruments such as asset backed securities, where factors such as the estimated cash flows on underlying pools of collateral and changes in national or local conditions that correlate with defaults on the assets are considered. Further details are provided in note 14.

Assessment of risk and rewards

Whenever the Group is required to assess risks and rewards, when considering the recognition and derecognition of assets or liabilities and the consolidation and deconsolidation of subsidiaries, the Group may sometimes be required to use judgment. Although management uses its best knowledge of current events and actions in making assessments of expected risk and rewards, actual risks and rewards may ultimately differ.

Pension and post-retirement benefits

Significant pension and post-retirement benefit costs are based on actuarial calculations. Inherent within these calculations are assumptions including: discount rates, salary increases and the expected return on plan assets. Changes in pension and post-retirement costs may occur in the future as a consequence of changes in interest rates, the return on assets or other factors. For a further discussion on the underlying assumptions, see note 27 to our consolidated financial statements.

Deferred tax

Deferred tax assets arise from a variety of sources, the most significant being: a) tax losses that can be carried forward to be utilised against profits in future years; and b) valuation changes of assets which need to be tax effected for accounting purposes but are taxable only when the valuation change is realised.

The Group records valuation allowances to reduce the deferred tax assets to the amount which can be recognised in line with the relevant accounting standards. The level of deferred tax asset recognition is influenced by management's assessment of the Group's historic and future profitability profile. At each balance sheet date, existing assessments are reviewed and, if necessary, revised to reflect changed circumstances. In a situation where recent losses have been incurred, the relevant accounting standards require convincing evidence that there will be sufficient future tax capacity.

Basis of consolidation

The consolidated financial statements are prepared annually for the year ended 31 December and include the parent company and its controlled subsidiaries as well as joint ventures on a proportionate share basis. Subsidiaries are included using the same reporting period and consistent accounting policies.

Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control is deemed to exist when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The existence and effect of potential voting rights that are presently exercisable or convertible are taken into account when assessing whether control exists. The Group sponsors the formation of entities, including certain special purpose entities, which may or may not be directly owned, for the purpose of asset securitisation transactions and other narrow and well-defined objectives. Particularly in the case of securitisations these entities may acquire assets from other Group companies. Some of these entities hold assets that are not available to meet the claims of creditors of the Group or any of its subsidiaries. Such entities are consolidated in the Group's financial statements when the substance of the relationship between the Group and the entity indicates that control is held by the Group.

The financial statements of subsidiaries and special purpose entities are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Equity attributable to minority interests is shown separately in the consolidated balance sheet as part of total equity. Current period profit or loss attributable to minority interests is presented as an attribution of profit for the year.

Business combinations

IFRS 3 'Business combinations' was adopted for all business combinations taking place after 1 January 2004. Goodwill on acquisitions prior to this date was charged against equity. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the Group's share of the fair value of the identifiable net assets (including certain contingent liabilities) acquired is recorded as goodwill.

In a step acquisition, where a business combination occurs in stages and control of the business is obtained in stages, all assets and liabilities of the acquired business, excluding goodwill, are adjusted to their fair values at the date of the latest share acquisition transaction. Fair value adjustments relating to existing holdings are recorded directly in equity.

Equity accounted investments

Equity accounted investments comprises associates. Associates are those enterprises in which the Group has significant influence (this is generally assumed when the Group holds between 20% and 50% of the voting rights), but not control, over the operating and financial policies.

Investments in associates of a private equity nature are designated to be held at fair value with changes through income, consistent with the management basis for such investments.

Other investments, in associates including the Group's strategic investments, are accounted for using the 'Net equity method' and presented as 'Equity accounted investments'. Under this method the investment is initially recorded at cost and subsequently increased (or decreased) for post acquisition net income (or loss), other movements impacting the equity of the investee and any adjustments required for impairment. The Group's share of profit or loss of the investee is recognised and separately disclosed in the Group's income statement. When the Group's share of losses exceeds the carrying amount of the investment, the carrying amount is reduced to zero, including any other unsecured receivables, and recognition of further losses is discontinued except to the extent that the Group has incurred obligations or made payments on behalf of the investee.

Jointly controlled entities

Jointly controlled entities are those enterprises over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of these enterprises' assets, liabilities, equity, income and expenses on a line-by-line basis, from the date on which joint control commences until the date on which joint control ceases.

Non-current assets held for sale and discontinued operations

Non-current assets and/or businesses are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction planned to occur within 12 months, rather than through continuing use. Held for sale assets are measured at the lower of their carrying amount and fair value less costs to sell. Assets and liabilities of a business held for sale are separately presented. Businesses that may be transferred to shareholders by means of a distribution will not be presented as businesses held for sale.

The results of discontinued operations (an operation held for sale that represents a separate major line of business or a geographical area of operation) are presented in the income statement as a single amount comprising the net results of the discontinued operations and the after tax gain or loss realised on disposal. Comparative income statement data is re-presented if in the current period an activity qualifies as a discontinued operation and qualifies for separate presentation.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any related unrealised gains, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

Currency translation differences

The financial performance of the Group's foreign operations (conducted through branches, subsidiaries, associates and joint ventures) is reported using the currency ('functional currency') that best reflects the economic substance of the underlying events and circumstances relevant to that entity.

Transactions in a currency that differs from the functional currency of the transacting entity are translated into the functional currency at the foreign exchange rate at transaction date. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities accounted for at cost, and denominated in foreign currency are translated to the functional currency at the foreign exchange rate prevailing at the date of initial recognition.

Non-monetary assets and liabilities accounted for at fair value in a foreign currency are translated to the functional currency using the exchange rate at the date when the fair value was determined.

Currency translation differences on all monetary financial assets and liabilities are included in foreign exchange gains and losses in trading income. Translation differences on non-monetary items (such as equities) held at fair value through income are also reported through income and, for those classified as available-for-sale, directly in equity within 'Net unrealised gains and losses on available-for-sale assets'.

The assets and liabilities of foreign operations, including goodwill and purchase accounting adjustments, are translated to the Group's presentation currency, the Euro, at the foreign exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to the Euro at the rates prevailing at the end of the month. Currency translation differences arising on these translations are recognised directly in equity ('currency translation account'). Exchange differences recorded in equity, arising after transition to IFRS on 1 January 2004, are included in the income statement on disposal or partial disposal of a foreign operation.

Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that entail either the holding or placing of assets on behalf of individuals, trusts or other institutions. These assets are not assets of the Group and are therefore not included in these financial statements.

Income statement

Interest income and expenses

Interest income and expense is recognised in the income statement using the effective interest rate method. The application of this method includes the amortisation of any discount or premium or other differences, including transaction costs and qualifying fees and commissions, between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. This item does not include interest income and expense in relation to trading balances which is included within net trading income.

Income from debt and other fixed-income instruments is recognised using the effective interest method in interest income.

Fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions generated as an integral part of negotiating and arranging a funding transaction with customers, such as the issuance of loans are included in the calculation of the effective interest rate and are included in interest income and expense.
- Fees and commissions generated for transactions or discrete acts are recognised when the transaction or act is completed.
- Fees and commissions dependent on the outcome of a particular event or contingent upon performance are recognised when the relevant criteria have been met.
- Service fees are typically recognised on a straight-line basis over the service contract period; portfolio and other management advisory and service fees are recognised based on the applicable service contracts.
- Asset management fees related to investment funds are also recognised over the period the service is provided. This principle is also applied to the recognition of income from wealth management, financial planning and custody services that are provided over an extended period.

Net trading income

Net trading income includes gains and losses arising from changes in the fair value of financial assets and liabilities held for trading, interest income, dividends received from trading instruments as well as related funding costs. Dividend income from trading instruments is recognised when entitlement is established. Net trading income also includes changes in fair value arising from changes in counter-party credit spreads and changes in ABN AMRO's credit spreads where it impacts the value of the Group's derivative liabilities. The charge related to the write-off of trading instruments is included in trading income.

Results from financial transactions

Results from financial transactions include gains and losses on the sale of non-trading financial assets and liabilities, ineffectiveness of certain hedging programmes, the change in fair value of derivatives used to hedge credit risks that are not included in hedge accounting relationships, fair value changes relating to assets and liabilities designated at fair value through income and changes in the value of any related derivatives. Dividend income from non-trading equity investments, excluding associated companies is recognised when entitlement is established.

Segment reporting

Operating segments are the segments that engage in business activities from which the bank earns income and incurs expenses. These segments are the reporting segments whose operating results are reviewed by the Managing Board on a monthly basis. Geographical data is presented according to the location of the transacting Group entity.

Financial assets and liabilities

Measurement classifications

The Group classifies its financial assets and liabilities into the following measurement ('valuation') categories:

Financial instruments held for trading are those that the Group holds primarily for the purpose of short-term profit-taking. These include shares, interest-earning securities, derivatives held for trading, and liabilities from short sales of financial instruments. Derivatives are financial instruments that require little or no initial net investment, with future settlements dependent on a reference benchmark index, rate or price (such as interest rates or equity prices). Changes in expected future cash flows in response to changes in the underlying benchmark determine the fair value of derivatives.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They generally arise when the Group provides money or services directly to a customer with no intention of trading or selling the loan.

Held-to-maturity assets are non-derivative financial assets quoted on an active market with fixed or determinable payments (i.e. debt instruments) and a fixed maturity that the Group has the intention and ability to hold to maturity. As of 31 December 2008 the Group no longer classifies financial assets into the held-to-maturity category and due to tainting rules can not do so until 31 December 2010.

Designated at fair value through income are financial assets and financial liabilities that the Group upon initial recognition designates to be measured at fair value with changes reported in income. Such a designation is done if:

- The instrument includes an embedded derivative that would otherwise require separation. This applies to certain structured notes issued with hybrid features. Fair value measurement also helps to achieve offset against changes in the value of derivatives and other fair value positions used to economically hedge these notes.
- The designation eliminates or significantly reduces a measurement inconsistency that would otherwise arise. In this regard unit-linked investments held for the account and risk of policyholders and the related obligation to policyholders are designated at fair value with changes through income.
- It relates to a portfolio of financial assets and/or liabilities that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy. This is applied to equity investments of a private equity nature.

Available-for-sale assets include interest-earning assets that have either been designated as available for sale or do not fit into one of the categories described above. Equity investments held without significant influence, which are not held for trading or designated at fair value through income are classified as available-for-sale.

Non-trading financial liabilities that are not designated at fair value through income are measured at amortised cost.

Recognition and derecognition

Traded instruments are recognised on trade date, defined as the date on which the Group commits to purchase or sell the underlying instrument. In the infrequent event when settlement terms are non-standard the commitment is accounted for as a derivative between trade and settlement date. Loans and receivables are recognised when they are acquired or funded by the Group and derecognised when settled. Issued debt is recognised when issued and deposits are recognised when the cash is deposited with the Group. Other financial assets and liabilities, including derivatives, are recognised in the balance sheet when the Group becomes party to the contractual provisions of the asset or liability.

Financial assets are generally derecognised when the Group loses control and the ability to obtain benefits over the contractual rights that comprise that asset. This occurs when the rights are realised, expire, substantially all risk and rewards are transferred, or not substantially all risk and rewards are transferred nor retained, although control is transferred. If a servicing function is retained, which is profitable, a servicing asset is recognised. A financial liability is derecognised when the obligations specified in the contract are discharged, cancelled or expire.

Financial instruments continue to be recognised in the balance sheet, and a liability recognised for the proceeds of any related funding transaction, unless a fully proportional share of all or specifically identified cash flows are transferred to the lender without material delay and the lender's claim is limited to those cash flows and substantially all the risks and returns and control associated with the financial instruments have been transferred, in which case that proportion of the asset is derecognised.

The Group derecognises financial liabilities when settled or if the Group repurchases its own debt. The difference between the former carrying amount and the consideration paid is included in results from financial transactions in income. Any subsequent resale is treated as a new issuance.

The Group securitises various consumer and commercial financial assets. This process generally necessitates a sale of these assets to a special purpose entity (SPE), which in turn issues securities to investors. The Group's interests in securitised assets may be retained in the form of senior or subordinated tranches, issued guarantees, interest-only strips or other residual interests, together referred to as retained interest. In many cases these retained interests convey control, such that the SPE is consolidated, and the securitised assets continue to be recognised in the consolidated balance sheet.

Measurement

All trading instruments and financial assets and liabilities designated at fair value are measured at fair value, with transaction costs related to the purchase as well as fair value changes taken to income directly.

The measurement of liabilities held at fair value includes the effect of changes in own credit spreads. The change in fair value applies to those financial liabilities designated at fair value where ABN AMRO's own credit risk would be considered by market participants and excludes instruments for which it is established market practice not to include an entity-specific adjustment for own credit. The fair value changes are calculated based on a yield curve generated from observed external pricing for funding and quoted CDS spreads.

All derivatives are recorded in the balance sheet at fair value with changes recorded through income except when designated in cash flow or net investment hedge relationship (see hedge accounting below).

Available-for-sale assets are held at fair value with unrealised gains and losses recognised directly in equity, net of applicable taxes. Premiums, discounts and qualifying transaction costs of interest-earning available-for-sale assets are amortised to income on an effective interest rate basis. When available-for-sale assets are sold, collected or impaired the cumulative gain or loss recognised in equity is transferred to results from financial transactions in income.

All other financial assets and liabilities are initially measured at cost including directly attributable incremental transaction costs. They are subsequently valued at amortised cost using the effective interest rate method. Through use of the effective interest rate method, premiums and discounts, including qualifying transaction costs, included in the carrying amount of the related instrument are amortised over the period to maturity or expected prepayment on the basis of the instrument's original effective interest rate.

When available, fair values are obtained from quoted market prices in active liquid markets. For instruments where no active liquid market exists, or quoted prices are unobtainable, recent market transactions are used or the fair value is estimated using a variety of valuation techniques – including reference to similar instruments for which market prices do exist or valuation models, such as discounted cash flow or Black-Scholes. The Group refines and modifies its valuation techniques as markets and products develop and the pricing for individual products becomes more transparent.

Valuation models are validated prior to use by employees independent of the initial selection or creation of the models. Wherever possible, inputs to valuation models represent observable market data from reliable external data sources. Unobservable inputs are estimated using a combination of management judgement, historical data, market practice and benchmarking to other relevant observable market data.

Where significant inputs to the valuation of a new transaction cannot be reliably sourced from external providers, the transaction is initially recognised at its transaction price. The difference between the transaction price and the internal valuation at inception, calculated using a model, is reserved and amortised to income at appropriate points over the life of the instrument, typically taking account of the ability to obtain reliable external data, the passage of time and the use of offsetting transactions. Subsequent changes in fair value as calculated by the valuation model are reported in income.

Fair values include appropriate adjustments to account for known inadequacies and uncertainties in valuation models or to reflect the credit quality of the instrument or counterparty.

The change in fair value of notes designated at fair value through income attributable to changes in credit risk are calculated by reference to the credit spread implicit in the market value of ABN AMRO’s senior notes.

Reclassifications

Derivatives are not reclassified into and out of the fair value through profit or loss category whilst they are held or issued. Financial instruments designated at fair value through income upon initial recognition are not reclassified out of that category. Non-derivative financial assets classified as held for trading upon initial recognition, if they are no longer held for the purpose of selling or repurchasing in the near term, may be reclassified out of the fair value through income category if certain requirements are met. No financial instrument is reclassified into the fair value through income category after initial recognition.

Professional securities transactions

Securities borrowing and securities lending transactions are generally entered into on a collateralised basis, with securities usually advanced or received as collateral. The transfer of the securities themselves is not reflected on the balance sheet unless the risks and rewards of ownership are also transferred. If cash is advanced or received, securities borrowing and lending activities are recorded at the amount of cash advanced (included in loans and receivables) or received (due to banks or customers). The market value of the securities borrowed and lent is monitored on a daily basis, and the collateral levels are adjusted in accordance with the underlying transactions. Fees and interest received or paid are recognised on an effective interest basis and recorded as interest income or interest expense.

Sale and repurchase transactions involve purchases (sales) of investments with agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans and receivables to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet. The proceeds from the sale of the investments are reported as liabilities to either banks or customers. The difference between the sale and repurchase price is recognised over the period of the transaction and recorded as interest income or interest expense.

Netting and collateral

The Group enters into master netting arrangements with counterparties wherever possible, and when appropriate, obtains collateral. If the Group has the right on the grounds of either legal or contractual provisions and the intention to settle financial assets and liabilities net or simultaneously, these are offset and the net amount is reported in the balance sheet. Due to differences in the timing of actual cash flows, derivatives with positive and negative fair values are generally not netted, even if they are held with the same counterparty.

Hedge accounting

The Group uses derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The Group applies fair value, cash flow or net investment hedging to qualifying transactions that are documented as such at inception.

The hedged item can be an asset, liability, highly probable forecasted transaction or net investment in a foreign operation that (a) exposes the entity to risk of changes in fair value or future cash flows and (b) is designated as being hedged. The risk being hedged (the 'hedged risk') is typically changes in interest rates or foreign currency rates. The Group also enters into credit risk derivatives (sometimes referred to as 'credit default swaps') for managing portfolio credit risk. However, these are generally not included in hedge accounting relationships.

Both at the inception of the hedge and on an ongoing basis, the Group formally assesses whether the derivatives used in its hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of the hedged item, by assessing and measuring whether changes in the fair value or cash flows of the hedged item are offset by the changes in the fair value or cash flows of the hedging instrument.

Hedge ineffectiveness represents the amount by which the changes in the fair value of the derivative differ from changes in the fair value of the hedged item in a fair value hedge, or the amount by which the changes in the fair value of the derivative are in excess of the fair value change of the expected cash flow in a cash flow hedge. Hedge ineffectiveness and gains and losses on components of a derivative that are excluded from the assessment of hedge effectiveness are recorded directly in income.

The Group discontinues hedge accounting when the hedge relationship has ceased to be effective or is no longer expected to be effective, or when the derivative or hedged item is sold or otherwise terminated.

Fair value hedges

Where a derivative financial instrument hedges the exposure to changes in the fair value of recognised or committed assets or liabilities, the hedged item is adjusted in relation to the risk being hedged. Gains or losses on re-measurement of both the hedging instrument and the hedged item are recognised in the income statement, typically within results from financial transactions.

When a fair value hedge of interest rate risk is terminated, any value adjustment to the carrying amount of the hedged asset or liability is amortised to income over the original designated hedging period or taken directly to income if the hedged item is sold, settled or impaired.

Cash flow hedges

When a derivative financial instrument hedges the exposure to variability in the cash flows from recognised assets, liabilities or anticipated transactions, the effective part of any gain or loss on re-measurement of the hedging instrument is recognised directly in equity. When a cash flow hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in equity remains in equity.

The cumulative gain or loss recognised in equity is transferred to the income statement at the time when the hedged transaction affects net profit or loss and included in the same line item as the hedged transaction. In the exceptional case that the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the income statement immediately.

Hedge of a net investment in a foreign operation

The Group uses foreign currency derivatives and currency borrowings to hedge various net investments in foreign operations. For such hedges, currency translation differences arising on translation of the currency of these instruments to Euro are recognised directly in the currency translation account in equity, insofar as they are effective. The cumulative gain or loss recognised in equity is transferred to the income statement on the disposal of the foreign operation.

Derivatives upon which the Group applies hedge accounting have been disclosed in Note 22 ‘Other assets’ and Note 29 ‘Other liabilities’.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and prior to the balance sheet date (‘a loss event’) and that event adversely impacts estimated future cash flows of the financial asset or the portfolio.

Loans and receivables

An indication that a loan may be impaired is obtained through the Group’s credit review processes, which include monitoring customer payments and regular loan reviews of commercial clients every 6 or 12 months depending on the rating of the facility.

The Group first assesses whether objective evidence of impairment exists for loans (including any related facilities and guarantees) that are individually significant, and individually or collectively for loans that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, it includes the asset in a portfolio of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are evaluated individually for impairment are not included in a collective assessment of impairment.

Indications that there is a measurable decrease in estimated future cash flows from a portfolio of loans, although the decrease cannot yet be identified with the individual loans in the portfolio, include adverse changes in the payment status of borrowers in the portfolio and national or local economic conditions that correlate with defaults in the portfolio.

The amount of impairment loss is measured as the difference between the loan’s carrying amount and the present value of estimated future cash flows discounted at the loan’s original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the income statement line loan impairment and other credit risk provisions.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that are likely to result from foreclosure less costs for obtaining and selling the collateral.

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

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The impact of changes in estimates and recoveries is recorded in the income statement line loan impairment and other credit risk provisions.

Following impairment, interest income is recognised using the original effective rate of interest. When a loan is deemed no longer collectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the income statement line loan impairment and other credit risk provisions. Assets acquired in exchange for loans to achieve an orderly realisation are reflected in the balance sheet as a disposal of the loan and an acquisition of a new asset, initially booked at fair value.

Renegotiated loans

Where possible, ABN AMRO seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the items have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans original effective interest rate.

Other financial assets

In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is moved from equity and recognised in the income statement within results from financial transactions.

The Group performs a review of individual available-for-sale securities on a regular basis to determine whether any evidence of impairment exists. This review considers factors such as any reduction in fair value below cost, its direction and whether the reduction is significant or prolonged, and the credit standing and prospects of the issuer.

Property and equipment

Own use assets

Property and equipment is stated at cost less accumulated depreciation and any amount for impairment. If an item of property and equipment is comprised of several major components with different useful lives, each component is accounted for separately. Additions and subsequent expenditures (including accrued interest) are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. Expenditure incurred to replace a component of an asset is separately capitalised and the replaced component is written off. Other subsequent expenditure is capitalised only when it increases the future economic benefit of the item of property and equipment. All other expenditure, including maintenance, is recognised in the income statement as incurred. When an item of property and equipment is retired or disposed, the difference between the carrying amount and the disposal proceeds net of costs is recognised in other operating income.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property and equipment, and major components that are accounted for separately. The Group generally uses the following estimated useful lives:

• Land	not depreciated
• Buildings	25 to 50 years
• Equipment	5 to 12 years
• Computer installations	2 to 5 years.

Depreciation rates and residual values are reviewed at least annually to take into account any change in circumstances. Capitalised leasehold improvements are depreciated in a manner that takes into account the term and renewal conditions of the related lease.

Leasing

As lessee: most of the leases that the Group has entered into are classified as operating leases (including property rental). The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense. When it is decided that an operating lease will be terminated or vacated before the lease period has expired, the lesser of any penalty payments required and the remaining payments due once vacated (less sub-leasing income) is recognised as an expense.

As lessor: assets subject to operational leases are included in property and equipment. The asset is depreciated on a straight-line basis over its useful life to its estimated residual value. Leases where the Group transfers substantially all the risks and rewards resulting from ownership of an asset to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, using the implicit interest rate, including any guaranteed residual value, is recognised. Finance lease receivables are included in loans and receivables to customers.

Intangible assets

Goodwill

Goodwill is capitalised and stated at cost, being the excess of the cost of an acquisition over the fair value of the Group’s share of the acquired entity’s net identifiable assets at the date of acquisition, less any accumulated impairment losses. For the purpose of calculating goodwill, the fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. If the recognition of the assessed fair value of acquired assets and liabilities at the time of acquisition took place on the basis of provisional amounts any changes in the assessed fair value of acquired assets and liabilities at the time of acquisition identified within one year following the acquisition are corrected against goodwill. Any revisions identified after one year are recorded in income.

Goodwill on the acquisition of equity accounted investments is included in the carrying amount of the investment.

Gains and losses on the disposal of an entity, including equity accounted investments, are determined as the difference between the sale proceeds and the carrying amount of the entity including related goodwill and any currency translation differences recorded in equity.

Goodwill is not amortised but is subject to an annual test for impairment or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test.

Software

Costs that are directly associated with identifiable software products that are controlled by the Group, and likely to generate future economic benefits exceeding these costs, are recognised as intangible assets and stated at cost less accumulated amortisation and any adjustment for impairment losses. Expenditure that enhances or extends the performance of computer software beyond its original specification is recognised as a capital improvement and added to the original cost of the software. Software is amortised over 3 to 7 years. Amortisation rates and residual values are reviewed at least annually to take into account any change in circumstances.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and any adjustment for impairment losses. Other intangible assets are comprised of separately identifiable items arising from acquisition of subsidiaries, such as customer relationships, and certain purchased trademarks and similar items. Amortisation is charged to the income statement systematically over the estimated useful lives of the intangible asset. Amortisation rates and residual values are reviewed at least annually to take into account any change in circumstances.

Impairment of property and equipment and intangible assets

Property and equipment and intangibles are assessed at each balance sheet date or more frequently, to determine whether there is any indication of impairment. If any such indication exists, the assets are subject to an impairment review.

Regardless of any indications of potential impairment, the carrying amount of goodwill is subject to a detailed impairment review at least annually. An impairment loss is recognised whenever the carrying amount of an asset that generates largely independent cash flows or the cash-generating unit to which it belongs exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. To calculate value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. When conducting impairment reviews, particularly for goodwill, cash-generating units are the lowest level at which management monitors the return on investment on assets.

The impairment analysis of goodwill and other intangibles requires management to make subjective judgements concerning estimates of how the acquired asset will perform in the future using a discounted cash flow analysis. Additionally, estimated cash flows may extend beyond ten years and, by their nature, are difficult to determine. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviours and attrition, changes in revenue growth trends, cost structures and technology, and changes in discount rates and specific industry or market sector conditions.

Impairment losses are recognised in the income statement as a component of depreciation and amortisation expense. An impairment loss with respect to goodwill is not reversible. Other impairment losses are reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had previously been recognised.

Pension and other post-retirement benefits

For employees in the Netherlands and the majority of staff employed outside the Netherlands, pension or other retirement plans have been established in accordance with the regulations and practices of the countries in question. Separate pension funds or third parties administer most of these plans. The plans include both defined contribution plans and defined benefit plans.

In the case of defined contribution plans, contributions are charged directly to the income statement in the year to which they relate.

The net obligations under defined benefit plans are regarded as the Group's own commitments regardless of whether these are administered by a pension fund or in some other manner. The net obligation of each plan is determined as the difference between the benefit obligations and the plan assets. Defined benefit plan pension commitments are calculated in accordance with the projected unit credit method of actuarial cost allocation. Under this method, the present value of pension commitments is determined on the basis of the number of active years of service up to the balance sheet date and the estimated employee salary at the time of the expected retirement date, and is discounted using the market rate of interest on high-quality corporate bonds. The plan assets are measured at fair value.

Pension costs for the year are established at the beginning of the year based on the expected service and interest costs and the expected return on the plan assets, plus the impact of any current period curtailments or plan changes. Differences between the expected and the actual return on plan assets, as well as actuarial gains and losses, are only recognised as income or expense when the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting year exceed 10% of the greater of the commitments under the plan and the fair value of the related plan assets. The part in excess of 10% is recognised in income over the expected remaining years of service of the employees participating in the plans. Differences between the pension costs determined in this way and the contributions payable are accounted for as provisions or prepayments. Commitments relating to early retirement of employees are treated as pension commitments.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the past service cost is recognised immediately in the income statement.

The Group's net obligation with respect to long-term service benefits and post-retirement healthcare is the amount of future benefit that employees have earned in return for their service in current and prior periods. The obligation is calculated using the projected unit credit method. It is then discounted to its present value and the fair value of any related assets is deducted.

Share-based payments to employees

Until 2007, the Group engaged in equity and cash settled share-based payment transactions in respect of services received from certain of its employees. The cost of the services received was measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost related to the shares or share options granted was recognised in the income statement over the period that the services of the employees were received, which was the vesting period, with a corresponding credit in equity for equity settled schemes and a credit in liabilities for cash settled schemes. For cash settled schemes the fair value of the plan was determined for each reporting period and the changes were recognised in the income statement. In addition, the Group recognised the effects of modifications that increased the total fair value of the share-based payment arrangements or were otherwise beneficial to the employee in the income statement.

The fair value of the options granted was determined using option pricing models, which took into account the exercise price of the option, the current share price, the risk free interest rate, the volatility of the ABN AMRO share price over the life of the option and the terms and conditions of the grant. Non-market vesting conditions were taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services, so that ultimately the amount cumulatively recognised in the income statement would reflect the number of shares or share options that eventually vested. Where vesting conditions were related to market conditions, these were fully reflected in the fair value initially determined at grant date and as a result, the charges for the services received were recognised regardless of whether or not the market related vesting condition was met, provided that the non-market vesting conditions were met.

In case of cancellation or settlement of a grant of shares or share options during the vesting period, the amount that otherwise would be recognised over the remainder of the vesting period was immediately recognised in the income statement. Any payment made to the employee upon the cancellation or settlement of the grant was accounted for as a deduction from equity for equity settled schemes and as a deduction from the liability for the cash settled schemes.

Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If the effect of time value is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when an obligation exists. An obligation exists when the Group has approved a detailed plan and has raised a valid expectation in those affected by the plan by starting to implement the plan or by announcing its main features. Future operating costs are not provided for.

Provisions for insurance risks are determined by actuarial methods, which include the use of statistics, interest rate data and settlement costs expectations.

Other liabilities

Obligations to policyholders, whose return is dependent on the return of unit linked investments recognised in the balance sheet, are measured at fair value with changes through income.

Tax – current and deferred

Tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The future tax benefit of tax losses available for carry forward is recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax is also recognised for qualifying temporary differences. Temporary differences represent the difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The most significant temporary differences arise from the revaluation of certain financial assets and liabilities including derivative contracts, allowances for loan impairment, provisions for pensions and business combinations. The following differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries and associates, to the extent that they will probably not reverse in the foreseeable future and the timing of such reversals is controlled by the Group. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and liability simultaneously.

Issued debt and equity securities

Issued debt securities are recorded on an amortised cost basis using the effective interest rate method, unless they are of a hybrid/structured nature and designated to be held at fair value through income.

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset or to satisfy the obligation other than by the exchange of a fixed number of equity shares. Preference shares that carry a non-discretionary coupon or are redeemable on a specific date or at the option of the holder are classified as liabilities. The dividends and fees on preference shares classified as a liability are recognised as interest expense.

Issued financial instruments, or their components, are classified as equity when they do not qualify as a liability and represent a residual interest in the assets of the Group. Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary. The components of issued financial instruments that contain both liability and equity elements are accounted for separately with the equity component being assigned the residual amount after deducting from the instrument's initial value the fair value of the liability component.

Dividends on ordinary shares and preference shares classified as equity are recognised as a distribution of equity in the period in which they are approved by shareholders.

Share capital

Incremental external costs directly attributable to the issue of new shares are deducted from equity net of any related taxes. When share capital recognised as equity is repurchased, the amount of the consideration paid, including incremental directly attributable costs net of taxes, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity. Where such shares are subsequently sold or reissued, any consideration received is added to shareholders' equity.

Other equity components

Currency translation account

The currency translation account is comprised of all currency differences arising from the translation of the financial statements of foreign operations net of the translation impact on liabilities or foreign exchange derivatives held to hedge the Group's net investment. These currency differences are included in income on disposal or partial disposal of the operation.

Cash flow hedging reserve

The cash flow hedging reserve is comprised of the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of taxes, related to hedged transactions that have not yet occurred.

Net unrealised gains and losses on available-for-sale assets

In this component, gains and losses arising from a change in the fair value of available-for-sale assets are recognised, net of taxes. When the relevant assets are sold, impaired or otherwise disposed of, the related cumulative gain or loss recognised in equity is transferred to the income statement.

Collectively, the cash flow hedging reserve and the available-for-sale reserve are sometimes referred to as special components of equity.

Cash flow statement

Cash and cash equivalents for the purpose of the cash flow statement include cash in hand, deposits available on demand with central banks and net credit balances on current accounts with other banks.

The cash flow statement, based on the indirect method of calculation, gives details of the source of cash and cash equivalents which became available during the year and the application of these cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operations, including banking activities, investment activities and financing activities. Movements in loans and receivables and inter-bank deposits are included in the cash flow from operating activities. Investment activities are comprised of acquisitions, sales and redemptions in respect of financial investments, as well as investments in and sales of subsidiaries and associates, property and equipment. The issuing of shares and the borrowing and repayment of long-term funds are treated as financing activities. Movements due to currency translation differences as well as the effects of the consolidation of acquisitions, where of material significance, are eliminated from the cash flow figures. The cash flows of discontinued operations are separately reported in the period in which the operation qualifies as a held-for-sale business.

The presentation of the cash flow statement for 2007 and 2006 has been amended to conform to the current period presentation which does not separately disclose discontinued operations.

Future changes in accounting policies

ABN AMRO expects to adopt the following amended standards and interpretations with effect from 1 January 2009, where applicable pending their endorsement by the EU.

The IASB issued a revised IAS 23 ‘Borrowing Costs’ in March 2007. The revised standard eliminates the option of recognising borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. The Group does not expect adoption of the revised standard on 1 January 2009 to have a significant effect on the financial position or results of the Group.

A revised IAS 1 ‘Presentation of Financial Statements’ was issued in September 2007 effective for accounting periods beginning on or after 1 January 2009. The revised standard aims to improve users’ ability to analyse and compare information given in financial statements. Adoption of the revised standard will have no effect on the results reported in the Group’s consolidated financial statements but will change the presentation of the results and financial position of ABN AMRO in certain respects.

The IASB issued an amendment to IFRS 2 ‘Share-based Payment’ on 17 January 2008. The amendment, which is applicable for annual periods beginning on or after 1 January 2009, clarifies that vesting conditions comprise only service conditions and performance conditions. It also specifies the accounting treatment for a failure to meet a non-vesting condition. Adoption of the amendment will not have an impact on the financial position or results of the Group.

The IASB published ‘Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements, Puttable Financial Instruments and Obligations Arising on Liquidation’, on 14 February 2008. The amendments are applicable for annual periods beginning on or after 1 January 2009. ABN AMRO does not expect these revisions to have a significant impact on the financial position or results of the Group.

IFRIC interpretation 13 ‘Customer Loyalty Programmes’ becomes effective for financial years beginning on or after 1 July 2008. This interpretation addresses how companies that grant their customers loyalty award credits (often called ‘points’) when buying goods or services should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points. The adoption of this interpretation on 1 January 2009 will not have a significant impact on the financial position or results of the Group.

IFRIC Interpretation 15 ‘Agreements for the Construction of Real Estate’ was issued 3 July 2008 and becomes effective for financial years beginning on or after 1 January 2009. This interpretation standardises accounting practice across jurisdictions for the recognition of revenue by real estate developers before construction is complete. The main expected change in practice is a shift for some entities from recognising revenue as construction progresses to recognising revenue at a single time – at completion upon or after delivery. The adoption of this interpretation on 1 January 2009 will not have a significant impact on the financial position or results of the Group.

IFRIC Interpretation 16 ‘Hedges of a Net Investment in a Foreign Operation’ was issued 3 July 2008 and becomes effective for financial years beginning on or after 1 October 2008. IFRIC 16 addresses three main issues. Firstly, the interpretation considers whether risk arises from (a) the foreign currency exposure to the functional currencies of the foreign operation and the parent entity, or from (b) the foreign currency exposure to the functional currency of the foreign operation and the presentation currency of the parent entity's consolidated financial statements. Secondly, it determines which entity within a group can hold a hedging instrument in a hedge of a net investment in a foreign operation and in particular whether the parent entity holding the net investment in a foreign operation must also hold the hedging instrument. Finally it discusses how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item when the entity disposes of the investment. The adoption of this interpretation on 1 January 2009 will not have a significant impact on the financial position or results of the Group.

The IASB published ‘Improving Disclosures about Financial Instruments (Amendments to IFRS 7)’ in March 2009. These amendments improve the disclosure requirements about fair value measurements and reinforce existing principles for disclosures about the liquidity risk associated with financial instruments. The amendments are applicable for annual periods beginning on or after 1 January 2009. Adoption of the revised standard will have no effect on the results reported in the Group’s consolidated financial statements but will change the presentation of the results and financial position of ABN AMRO in certain respects.

Consolidated income statement for the year ended 31 December

(in millions of euros)	2008	2007	2006
Interest income	22,080	22,734	19,340
Interest expense	16,297	18,139	15,117
Net interest income 3	5,783	4,595	4,223
Fee and commission income	3,068	4,181	4,047
Fee and commission expense	439	329	406
Net fee and commission income 4	2,629	3,852	3,641
Net trading income 5	(9,324)	1,119	2,627
Results from financial transactions 6	(1,684)	1,134	767
Share of result in equity accounted investments 19	106	223	186
Other operating income 7	306	1,239	873
Income from consolidated private equity holdings 41	1,726	3,836	5,313
Operating income	(458)	15,998	17,630
Personnel expenses 8	5,236	6,363	5,600
General and administrative expenses 9	4,070	4,821	4,594
Depreciation and amortisation 10	1,045	857	824
Goods and materials of consolidated private equity holdings 41	1,278	2,744	3,684
Operating expenses	11,629	14,785	14,702
Loan impairment and other credit risk provisions 18	3,387	717	668
Total expenses	15,016	15,502	15,370
Operating profit/(loss) before tax	(15,474)	496	2,260
Tax 11	(2,580)	(458)	213
Profit/(loss) from continuing operations	(12,894)	954	2,047
Profit from discontinued operations net of tax 45	16,489	9,021	2,733
Profit for the year	3,595	9,975	4,780
Attributable to:			
Shareholders of the parent company	3,580	9,848	4,715
Minority interest	15	127	65

Numbers stated against items refer to notes. The notes to the consolidated financial statements are an integral part of these statements.

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Consolidated balance sheet at 31 December

(in millions of euros)	2008	2007
Assets		
Cash and balances at central banks 13	5,854	16,750
Financial assets held for trading 14	212,653	242,277
Financial investments 15	67,061	96,435
Loans and receivables- banks 16	75,566	175,696
Loans and receivables- customers 17	270,507	398,331
Equity accounted investments 19	796	871
Property and equipment 20	2,035	2,747
Goodwill and other intangibles 21	924	1,424
Assets of businesses held for sale 45	1,583	60,458
Accrued income and prepaid expenses	7,011	12,580
Tax assets 28	5,100	4,875
Other assets 22	17,727	12,769
Total assets	666,817	1,025,213
Liabilities		
Financial liabilities held for trading 14	192,087	155,476
Due to banks 23	94,620	239,334
Due to customers 24	209,004	330,352
Issued debt securities 25	111,296	174,995
Provisions 26	4,144	6,544
Liabilities of businesses held for sale 45	864	39,780
Accrued expenses and deferred income	8,418	12,244
Tax liabilities 28	700	2,091
Other liabilities 29	15,012	18,072
Liabilities (excluding subordinated liabilities)	636,145	978,888
Subordinated liabilities 30	13,549	15,616
Total Liabilities	649,694	994,504
Equity		
Share capital 31	1,852	1,085
Share premium	5,343	5,332
Treasury shares 31	-	(2,640)
Retained earnings	11,096	25,650
Net gains/(losses) not recognised in the income statement	(1,214)	148
Equity attributable to shareholders of the parent company	17,077	29,575
Equity attributable to minority interests	46	1,134
Total equity	17,123	30,709
Total equity and liabilities	666,817	1,025,213
Guarantees and other commitments 34	42,148	55,140
Committed credit facilities 34	63,436	104,137

Numbers stated against items refer to the notes. The notes to the consolidated financial statements are an integral part of these statements.

Consolidated statement of changes in equity for the year ended 31 December

(in millions of euros)	2008	2007	2006
Share capital 31			
Balance at 1 January	1,085	1,085	1,069
Conversion of preference shares to ordinary shares	767	-	-
Exercised options and warrants	-	-	16
Balance at 31 December	1,852	1,085	1,085
Share premium			
Balance at 1 January	5,332	5,245	5,269
Share-based payments	10	145	111
Conversion of preference shares to ordinary shares	1	-	-
Dividends paid in shares	-	(58)	(135)
Balance at 31 December	5,343	5,332	5,245
Treasury shares 31			
Balance at 1 January	(2,640)	(1,829)	(600)
Share buy back	-	(1,847)	(2,204)
Utilised for dividends paid in shares	-	412	832
Utilised for exercise of options and performance share plans	-	624	143
Sale of treasury shares	3,708	-	-
Gain on sale of treasury shares	(1,068)	-	-
Balance at 31 December	-	(2,640)	(1,829)
Other reserves including retained earnings			
Balance at 1 January	25,650	18,599	15,237
Profit attributable to shareholders of the parent company	3,580	9,848	4,715
Dividends paid to shareholders of the parent company	(19,213)	(1,540)	(807)
Dividends paid in shares to shareholders of the parent company	-	(586)	(656)
Gain on sale of treasury shares	1,068	-	-
Settlement of share option and awards in cash 44	-	(743)	-
Other	11	72	110
Balance at 31 December	11,096	25,650	18,599
Net gains/(losses) not recognised in the income statement			
Currency translation account			
Balance at 1 January	597	408	842
Transfer to income statement relating to disposals	(903)	293	(7)
Currency translation differences	823	(104)	(427)
Subtotal – Balance at 31 December	517	597	408
Net unrealised gains/(losses) on available-for-sale assets			
Balance at 1 January	(543)	364	1,199
Net unrealised gains/(losses) on available-for-sale assets	(2,038)	(392)	(233)
Reclassification to the income statement	1,716	(515)	(602)
Subtotal – Balance at 31 December	(865)	(543)	364
Cash flow hedging reserve			
Balance at 1 January	94	(275)	(795)
Net unrealised gains/(losses) on cash flow hedges	(959)	315	735
Net losses/(gains) reclassified to the income statement	(1)	54	(215)
Subtotal – Balance at 31 December	(866)	94	(275)
Net gains /(losses) not recognised in the income statement at 31 December	(1,214)	148	497
Equity attributable to shareholders of the parent company at 31 December	17,077	29,575	23,597
Minority interest			

Balance at 1 January	1,134	2,298	1,931
Additions/(reductions)	12	(853)	145
Acquisitions/(disposals)	(1,008)	(300)	203
Profit attributable to minority interests	15	127	65
Currency translation differences	(107)	(138)	(46)
Equity attributable to minority interests at 31 December	46	1,134	2,298
Total equity at 31 December	17,123	30,709	25,895

Numbers stated against items refer to the notes. The notes to the consolidated financial statements are an integral part of these statements.

Consolidated cash flow statement for the year ended 31 December

(in millions of euros)	2008	2007[1]	2006[1]
Operating activities			
Profit for the period	3,595	9,975	4,780
Adjustments for			
Depreciation, amortisation and impairment	1,152	1,271	1,352
Loan impairment losses	4,332	2,794	2,138
Share of result in equity accounted investments	(171)	(278)	(251)
Movements in operating assets and liabilities			
Movement in operating assets 35	199,957	(133,448)	(77,413)
Movement in operating liabilities 35	(246,314)	114,722	64,763
Other adjustments			
Dividends received from equity accounted investments	34	81	72
Net cash flows from operating activities	(37,415)	(4,883)	(4,559)
Investing activities			
Acquisition of investments	(245,561)	(201,808)	(180,228)
Sales and redemption of investments	263,840	197,850	172,454
Acquisition of property and equipment	(436)	(888)	(1,145)
Sales of property and equipment	94	674	256
Acquisition of intangibles (excluding goodwill)	(284)	(549)	(801)
Disposal of intangibles (excluding goodwill)	5	24	12
Acquisition of subsidiaries and equity accounted investments	(45)	(501)	(7,491)
Disposal of subsidiaries and equity accounted investments	23,907	15,736	1,845
Net cash flows from investing activities	41,520	10,538	(15,098)
Financing activities			
Issuance of subordinated liabilities	508	1,523	4,062
Repayment of subordinated liabilities	(918)	(1,225)	(4,430)
Issuance of other long-term funding	37,952	39,635	35,588
Repayment of other long-term funding	(56,323)	(33,284)	(14,343)
Sale of treasury shares	3,708	-	-
Share buy back	-	(1,847)	(2,204)
Utilised for exercise of options and performance share plans	-	624	143
Other	7	(1,723)	213
Dividends paid	(19,213)	(1,540)	(807)
Net cash flows from financing activities	(34,279)	2,163	18,222
Currency translation differences on cash and cash equivalents	3,975	62	264
Movement in cash and cash equivalents	(26,199)	7,880	(1,171)
Cash and cash equivalents at 1 January	12,752	4,872	6,043
Cash and cash equivalents at 31 December 35	(13,447)	12,752	4,872

Numbers stated against items refer to the notes. The notes to the consolidated financial statements are an integral part of these statements.

1 Comparative amounts have been restated to conform to current presentation.

Notes to the consolidated financial statements
(unless otherwise stated, all amounts are in millions of euros)

1 Segment reporting

Segment information is presented in respect of the Group's business. The operating segments are consistent with the Group's management and internal reporting structure applicable in the financial year.

From 1 January 2008 the management and control structure of ABN AMRO has been aligned with the consortium ownership of the Group. This change in management structure has been reflected in the externally reported segments. Consequently, the RBS acquired businesses are segmented into: Europe (which includes RBS acquired businesses in the Netherlands), Americas and Asia. The Dutch State acquired businesses are divided into: Netherlands (excluding RBS acquired businesses) and Private Clients. Central Items includes head office functions and other items centrally managed.

In April 2008, the majority of the Group Asset and Liability Management portfolios have been economically allocated to the respective Consortium Members. This is reflected in the segment reporting. Since the allocation was effected on the basis of prospective agreements between Consortium Members, Group Asset and Liability Management results prior to this date are reported in Central Items. Comparative segment figures for Group Asset and Liability Management 2007 and 2006 have not been restated and are reported in Central Items, as well as the remaining unallocated 2008 figures of Group Asset and Liability Management.

The former regional Business Unit Netherlands, reported in 2007 as one operating segment, is no longer managed as a single component. To reflect the consortium ownership, the operating segment Netherlands now excludes Dutch wholesale clients and global markets business. This has been added to the operating segment Europe.

The comparative segment figures of 2007 and 2006 have been restated to reflect the current organisation structure except for the Group Asset and Liability Management comparatives as explained above.

Measurement

Measurement of segment assets, liabilities, income and results is based on the Group's accounting policies. Segment assets, liabilities, income and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Transactions between segments are conducted at arm's length.

Operating segments

The operating segments are described as follows:

Europe

This segment provides a range of financial products and services to commercial and global clients. It combines activities in 28 countries: 23 countries in Europe along with Kazakhstan, Uzbekistan, Egypt, United Arab Emirates and South Africa. As of 2008 Dutch wholesale clients are included in this operating segment as well as the Group Asset and Liability Management portfolios allocated to RBS.

Asia

This segment operates in 16 countries and territories through branches and offices. The client base includes both commercial and consumer clients.

Americas

This segment includes the combined activities of North America and Latin America. The North American activities cover a broad range of services that support a multinational client base and a limited number of specialty banking services. The core of North America was LaSalle Bank, which was sold to Bank of America Corporation in 2007 and therefore is presented as discontinued operations. Banco Real represented the majority of the operations in Latin America until July 2008, when it was sold to Santander. The figures of Banco Real are presented as discontinued operations.

Netherlands

This segment serves a diverse client base comprised of consumer and commercial clients. It offers a broad range of commercial and retail banking products and services via its multi-channel service model consisting of a network of branches, internet banking facilities, customer contact centres and ATMs throughout the Netherlands and increasingly focuses on mass affluent customers and commercial mid-market clients. It also includes the ABN AMRO Hypotheken ('Mortgage') Groep including the former Bouwfonds mortgage activities and the International Diamond and Jewelry Group, as well as the Group Asset and Liability Management portfolios allocated to the Dutch State.

Private Clients

This segment offers private banking services to wealthy individuals and institutions with net investable assets of EUR 1 million or more. In the past few years, the business unit Private Clients built up an onshore private banking network mainly in continental Europe through organic growth in the Netherlands and France, and through the acquisition of Delbrück Bethmann Maffei in Germany and Bank Corluy in Belgium. It also includes the insurance joint venture Neuflize Vie.

Central Items

Central Items include head office functions and items that are not allocated to individual consortium members such as the majority of the private equity portfolio and the investment in Saudi Hollandi Bank. Interest on settlement amounts accruing to Santander are also included.

Operating segment information for the year ended 31 December 2008

	Europe	Asia	Americas	Netherlands	Private Clients	Central Items	Subtotal	Discontinued Operations	Total
Net interest income - external	590	706	105	4,772	(1,014)	624	5,783		5,783
Net interest income - other segments	871	42	234	(1,950)	1,415	(612)	-		-
Net fee and commission income - external	720	375	366	693	530	(55)	2,629		2,629
Net fee and commission income - other segments	11	17	(131)	57	42	4	-		-
Net trading income	(9,835)	634	86	112	78	(399)	(9,324)		(9,324)
Result from financial transactions	(1,058)	(291)	(169)	194	(13)	(347)	(1,684)		(1,684)
Share of result in equity accounted investments	13	(4)	-	30	1	66	106		106
Other operating income	(5)	23	36	170	72	10	306		306
Income of consolidated private equity holdings	-	-	-	-	-	1,726	1,726		1,726
Total operating income	(8,693)	1,502	527	4,078	1,111	1,017	(458)		(458)
Total operating expenses	3,357	1,696	665	2,923	863	2,125	11,629		11,629
Loan impairment and credit risk provisions	2,025	453	131	761	15	2	3,387		3,387
Total expenses	5,382	2,149	796	3,684	878	2,127	15,016		15,016
Operating profit/(loss) before tax	(14,075)	(647)	(269)	394	233	(1,110)	(15,474)		(15,474)
Tax	(2,652)	125	85	88	68	(294)	(2,580)		(2,580)
Profit/(loss) from continuing operations	(11,423)	(772)	(354)	306	165	(816)	(12,894)		(12,894)
Profit from discontinued operations net of tax	-	-	-	-	-	-	-	16,489	16,489
Profit for the year	(11,423)	(772)	(354)	306	165	(816)	(12,894)	16,489	3,595

Other information at 31 December 2008									
Total assets	400,203	54,901	23,091	158,875	18,239	9,925	665,234	1,583	666,817
Of which equity accounted investments	105	53	-	204	6	428	796	-	796
Total liabilities	396,431	53,116	22,697	153,540	16,529	6,517	648,830	864	649,694
Capital expenditure	109	57	26	253	20	111	576	-	576
Depreciation and amortisation	301	155	25	291	43	230	1,045	-	1,045
Impairment of available-for-sale securities	332	1	-	-	-	-	333	-	333

Operating segment information for the year ended 31 December 2007

	Europe	Asia	Americas	Netherlands	Private Clients	Central Items	Subtotal	Discontinued Operations	Total
Net interest income – external	970	425	319	4,706	(1,108)	(717)	4,595		4,595
Net interest income – other segments	250	307	(106)	(1,725)	1,567	(293)	-		-
Net fee and commission income –external	1,497	733	313	710	636	(37)	3,852		3,852
Net fee and commission income – other segments	(695)	275	(16)	71	124	241	-		-
Net trading income	509	372	208	83	72	(125)	1,119		1,119
Result from financial transactions	140	47	4	29	8	906	1,134		1,134
Share of result in equity accounted investments	9	39	-	54	-	121	223		223
Other operating income	70	16	53	244	91	765	1,239		1,239
Income of consolidated private equity holdings	-	-	-	-	-	3,836	3,836		3,836
Total operating income	2,750	2,214	775	4,172	1,390	4,697	15,998		15,998
Total operating expenses	3,551	1,696	875	2,641	969	5,053	14,785		14,785
Loan impairment and credit risk provisions	101	207	38	378	-	(7)	717		717
Total expenses	3,652	1,903	913	3,019	969	5,046	15,502		15,502
Operating profit/(loss) before tax	(902)	311	(138)	1,153	421	(349)	496		496
Tax	(327)	106	(77)	271	123	(554)	(458)		(458)
Profit/(loss) from continuing operations	(575)	205	(61)	882	298	205	954		954
Profit from discontinued operations net of	-	-	-	-	-	-	-	9,021	9,021

tax									
Profit for the year	(575)	205	(61)	882	298	205	954	9,021	9,975
Other information at 31 December 2007									
Total assets	530,681	72,171	83,939	141,741	19,594	116,629	964,755	60,458	1,025,213
Of which equity accounted investments	123	134	-	224	6	360	847	24	871
Total liabilities	515,394	69,801	82,990	139,808	17,940	128,791	954,724	39,780	994,504
Capital expenditure	144	72	58	353	20	454	1,101	-	1,101
Depreciation and amortisation	127	45	54	274	13	344	857	-	857
Impairment of available-for-sale securities	-	-	-	-	-	-	-	-	-

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Operating segment information for the year ended 31 December 2006

	Europe	Asia	Americas	Netherlands	Private Clients	Central Items	Subtotal	Discontinued Operations	Total
Net interest income – external	745	365	258	4,551	(1,008)	(688)	4,223		4,223
Net interest income – other segments	(249)	246	(41)	(1,613)	1,502	155	-		-
Net fee and commission income – external	1,317	664	261	649	646	104	3,641		3,641
Net fee and commission income – other segments	(318)	133	70	98	29	(12)	-		-
Net trading income	1,879	358	162	72	54	102	2,627		2,627
Result from financial transactions	179	(7)	(31)	1	4	621	767		767
Share of result in equity accounted investments	2	-	-	49	2	133	186		186
Other operating income	(4)	47	29	264	75	462	873		873
Income of consolidated private equity holdings	-	-	-	-	-	5,313	5,313		5,313
Total operating income	3,551	1,806	708	4,071	1,304	6,190	17,630		17,630
Total operating expenses	3,367	1,419	901	2,638	916	5,461	14,702		14,702
Loan impairment and credit risk provisions	5	214	(39)	375	6	107	668		668
Total expenses	3,372	1,633	862	3,013	922	5,568	15,370		15,370
Operating profit/(loss) before tax	179	173	(154)	1,058	382	622	2,260		2,260
Tax	46	106	(193)	302	111	(159)	213		213
Profit/(loss) from continuing operations	133	67	39	756	271	781	2,047		2,047
Profit from discontinued operations net of tax	-	-	-	-	-	-	-	2,733	2,733
Profit for the year	133	67	39	756	271	781	2,047	2,733	4,780

Other information at 31 December 2006									
Total assets	424,350	67,844	77,563	133,900	20,498	77,849	802,004	185,060	987,064
Of which equity accounted investments	19	23	-	177	6	900	1,125	402	1,527
Total liabilities	414,457	66,353	77,173	132,840	19,000	80,206	790,029	171,140	961,169
Capital expenditure	130	86	33	373	39	962	1,623	-	1,623
Depreciation and amortisation	130	46	35	290	17	306	824	-	824
Impairment of available-for-sale securities	-	-	-	-	-	-	-	-	-

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Geographical segments

The geographical analysis presented below is based on the location of the Group entity in which the transactions are recorded.

	The Netherlands	Europe	North America	Latin America	Asia /Pacific	Total
2008						
Net interest income	3,674	841	256	80	932	5,783
Net commission income	915	947	199	10	558	2,629
Other income	(239)	(9,076)	(84)	44	485	(8,870)
Operating income	4,350	(7,288)	371	134	1,975	(458)
Total assets	280,960	305,429	19,170	1,817	59,441	666,817
Capital expenditure	418	75	25	1	57	576
2007						
Net interest income	2,654	857	134	65	885	4,595
Net commission income	964	1,070	448	80	1,290	3,852
Other income	5,732	922	336	9	552	7,551
Operating income	9,350	2,849	918	154	2,727	15,998
Total assets	309,659	510,540	80,526	46,581	77,907	1,025,213
Capital expenditure	464	180	130	239	88	1,101
2006						
Net interest income	2,637	695	193	48	650	4,223
Net commission income	1,150	1,230	342	33	886	3,641
Other income	7,397	1,663	156	41	509	9,766
Operating income	11,184	3,588	691	122	2,045	17,630
Total assets	289,984	419,691	168,533	36,976	71,880	987,064
Capital expenditure	899	179	315	141	89	1,623

2 Acquisitions and disposals of subsidiaries

Acquisitions 2008

During 2008 there were no acquisitions.

Disposals 2008

Transfer of businesses

As part of the separation process of the bank, entities and businesses, as well as portfolios, have been sold and transferred to the Consortium Members and other parties.

Sale of Asset Management

The sale of the shares in ABN AMRO Asset Management NV to Fortis Bank was completed in April. The sale price was EUR 3,699 million, resulting in a gain on sale of EUR 3,073 million.

Sale of Banca Antonveneta

The sale of Banca Antonveneta to Banca Monte dei Paschi di Siena was completed in May. The sale price was EUR 9,894 million, resulting in a gain on sale of EUR 2,357 million.

Transfer of remaining businesses to Santander

In July 2008 Banco ABN AMRO Real S.A. (‘Banco Real’), Interbanca SpA and other entities acquired by Santander were sold to Santander for EUR 15,431 million resulting in a gain on sale of EUR 10,647 million.

Acquisitions 2007

Taitung Business Bank Taiwan

In September 2007 ABN AMRO acquired 100% of the shares of Taitung Business Bank Taiwan. The total consideration received amounted to EUR 147 million, resulting in goodwill recognised of EUR 160 million (see note 21).

Prime Bank Ltd (Pakistan)

In April 2007 ABN AMRO completed the acquisition resulting in a 96.2% stake in Prime Bank. The total consideration paid amounted to EUR 176 million with goodwill of EUR 139 million recognised on acquisition.

Disposals 2007

ABN AMRO North America Holding Company

In October 2007 the Group completed the sale of ABN AMRO North America Holding Company (‘LaSalle Bank’) which principally consisted of the retail and commercial banking activities of LaSalle Bank Corporation to Bank of America. ABN AMRO's North American Asset Management businesses and certain businesses within ABN AMRO's North American Global Markets and Global Clients operations did not form part of the sale. The sale price was USD 21 billion and resulted in a gain of EUR 7,163 million after tax.

ABN AMRO Capital Holdings B.V.

During the second quarter of 2007, ABN AMRO sold a majority of the shares of AAC Capital Holdings B.V., the management company of certain private equity investments held by the Group, to the executives of the management company. Also as part of the sale, the Bank transferred all power to govern the financial and operating policies of the management company and all investment decisions related to a significant portion of the Group's private equity investments (the Netherlands, Nordic and UK business of ABN AMRO Capital) resulting in the loss of control over these investments to a management company outside of ABN AMRO. The ownership of the underlying investments and therefore the economic interest in the investments has not changed. The loss of control over the management company resulted in the concerned investments to no longer be consolidated in the financial statements of the Group. As of the date of the transaction the investments are recognised and carried at fair value with changes through income. This transaction has resulted in a gain of EUR 108 million reported in results from financial transactions.

ABN AMRO Mellon Global Securities Services

In July 2007, ABN AMRO entered into a sale and purchase agreement with Mellon Bank N.A., Pittsburgh, USA to sell its 50% share in the joint venture ABN AMRO Mellon Global Securities B.V. (ABN AMRO Mellon). In December 2007 the sale was completed. The sale price amounted to EUR 387 million and resulted in a net gain of EUR 139 million.

Private Banking operations in Miami and Montevideo

In April 2007, BU Private Clients disposed of its operations in Miami and Montevideo to Banco Itau. The profit recognised on the sale included in other operating income, amounted to EUR 72 million after tax.

ABN AMRO Mortgage Group, Inc.

In February 2007 ABN AMRO closed the sale of ABN AMRO Mortgage Group, Inc., its US-based residential mortgage broker origination platform and servicing business, which includes ABN AMRO Mortgage Group, InterFirst and Mortgage.com, to Citigroup. Citigroup purchased approximately EUR 7.8 billion of net assets. The profit of the sale amounted to EUR 93 million after tax.

Interbank (NL) and DMC Groep

In November 2007 the Group closed the sale of Interbank N.V. and DMC Groep N.V. to SOFINCO for an amount of EUR 98 million. The gain on the sale amounted to EUR 56 million after tax.

Acquisitions 2006

Banca Antonveneta

In January 2006 the Group acquired a controlling interest in Banca Antonveneta. During 2005 the Group had already increased its interest in Banca Antonveneta from 12.7% to 29.9%. During 2006 the Group acquired 100% of the outstanding share capital of Banca Antonveneta.

Asset Management

In February 2006, BU Asset Management acquired International Asset Management Ltd. The integration of this acquisition was completed in May 2006. In June 2006, BU Asset Management increased its share in its Beijing joint venture to 49%.

Banco Real

In September 2006, the Group exercised its right to call Banca Intesa’s remaining 3.86% holding in Banco Real. The total consideration for the acquisition of the shares amounted to EUR 233 million. After the exercise of the rights ABN AMRO owned 97.5% of the shares in Banco Real.

Disposals 2006

Kereskedelmi és Hitelbank Rt

In May 2006, ABN AMRO completed the sale of its 40% participation in Kereskedelmi és Hitelbank Rt of Hungary, as announced in December 2005.

Global Futures business

In September 2006 ABN AMRO sold the Global Futures business for an amount of EUR 305 million.

Bouwfonds non-mortgage

In December 2006 the Group disposed of the property development and management activities of its Bouwfonds subsidiary. The gain on the sale of Bouwfonds amounted to EUR 338 million.

3 Net interest income

	2008	2007	2006
Interest income from:			
Cash and balances at central banks	311	282	220
Financial investments available-for-sale	3,929	3,835	3,354
Financial investments held-to-maturity	105	121	188
Loans and receivables-banks	1,216	1,422	1,211
Loans and receivables-customers	16,519	17,074	14,367
Subtotal	22,080	22,734	19,340