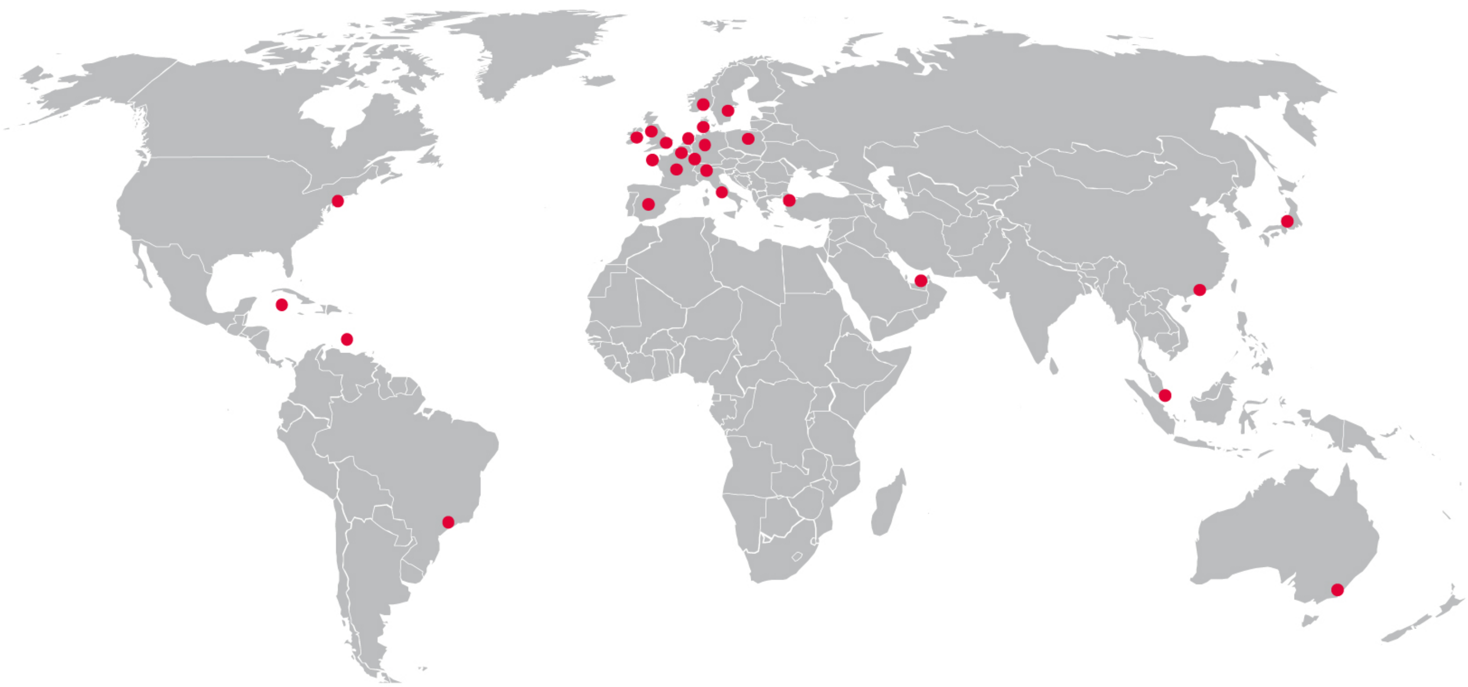
Fortis Bank Nederland



Annual Report 2009

Contents

Introduction **9**

Key definitions **10**

Profile and objectives **11**

Legal structure and main subsidiaries **12**

Business activities **13**

Credit ratings **13**

Credit ratings **14**

Key figures **15**

Message from the Chairman **16**

Financial Performance **18**
- Consolidated Income Statement 18
- Consolidated balance sheet 19

Report of the Management Board **20**
- Key developments 20
- Net profit 20
- Net operating profit 20
- Net operating profit per business 21
- Balance sheet 22
- Funding 22
- Capital and solvency 23
- Risk Management 23
- Pension fund 24
- International network 24
- Separation 24
- Integration 24
- Banking Code 24
- European Commission 25
- Dividend 25
- Management Board 26
- FTEs 26
- Recognition 26
- Statement ex article 5:25c §2c Financial Markets Supervision Act 27

Report of the Supervisory Board **28**
- Composition of the Supervisory Board 28
- Supervisory Board activities 28
- Board committees 29
- Remuneration of the Supervisory Board 30
- Recognition 30
- Proposed dividend for 2009 31

Business overview **32**
- Retail Banking 32
- Private Banking 37
- Merchant Banking 39

Funding and liquidity **50**
- Funding 50
- Liquidity & liquidity risk management 53

Capital **54**
Compliance with Basel II 55
Fortis Capital Company 56
Mandatory Convertible Securities (MCS) 56
Fortis FBN(H) Preferred Investments 57

Strategy **58**
Rebuilding selectively 58
Integration with ABN AMRO 58

Separation and integration **59**
Separation 59
Integration 60

Governance **65**
Dutch Corporate Governance Code 65
Banking Code 66
Management Board 67
Supervisory Board 69

Risk **72**
Key events in 2009 72
Risk organisation 72
General features 72
Core risks 73
Non-core risks 74
Bank-wide risk identification and analysis 75
Focus in 2010 75

Finance **76**
Continuity 76
Separation 76
Integration 76
Focus in 2010 76

Human Resources **77**
Separation 77
Resources 77
Talent 77
Towards a new bank 77
BRAVO 78
Pension fund 78
Outlook for 2010 78

Legal **79**
Structure 79
Main activities 79

Compliance **80**
Structure 80
Main activities 80

Tax **81**
Main activities 81
Guiding principles 81
Key developments in 2009 81

Audit Services **82**

Corporate Social Responsibility **83**
Strengthening the bank’s risk management framework 83

Stakeholder engagement 83
Sustainable products and services 84
In-company environmental management 85
World Environment Day 86

Fortis Foundation Nederland 87
Key Developments 87
Awards 88
Focus in 2010 88

Fortis Bank (Nederland) N.V. Consolidated Financial Statements 2009 89

Consolidated balance sheet 90

Consolidated income statement 91

Consolidated statement of comprehensive income 92

Consolidated statement of changes in equity 93

Consolidated cash flow statement 94

General Notes 95

1 Accounting policies 96
1.1 General 96
1.2 Accounting estimates 96
1.3 Standards issued 97
1.4 Segment reporting 99
1.5 Consolidation principles 100
1.6 Foreign currency 101
1.7 Trade and settlement date 102
1.8 Offsetting 102
1.9 Classification and measurement of financial assets and liabilities 102
1.10 Fair value of financial instruments 103
1.11 Measurement of impaired assets 104
1.12 Cash and cash equivalents 105
1.13 Due from banks and due from customers 105
1.14 Sale and repurchase agreements and lending/borrowing securities 106
1.15 Assets and liabilities held for trading 106
1.16 Investments 106
1.17 Leasing 108
1.18 Other receivables 108
1.19 Property and equipment 109
1.20 Goodwill and other intangible assets 109
1.21 Non-current assets held for sale and discontinued operations 111
1.22 Derivative financial instruments and hedging 111
1.23 Debt certificates, subordinated liabilities and other borrowings 113
1.24 Employee benefits 113
1.25 Provisions, contingencies, commitments and financial guarantees 115
1.26 Equity 116
1.27 Interest income and expense 116
1.28 Realised and unrealised gains and losses 116
1.29 Fee and commission income 117
1.30 Transaction costs 117
1.31 Borrowing costs 117
1.32 Income tax expense 118

2 Acquisitions and divestments ... 119
- 2.1 Acquisitions ... 119
- 2.2 Divestments ... 119
- 2.3 Assets and liabilities of acquisitions and divestments ... 120
- 2.4 Sale of participation RFS Holdings B.V. ... 121

3 Issued capital and reserves ... 122

4 Minority interests ... 124

5 Liquidity and funding ... 125
- 5.1 Liquidity Risk ... 125
- 5.2 Funding ... 127

6 Risk management ... 131
- 6.1 Introduction ... 131
- 6.2 Philosophy, strategy and principles of sound risk management ... 131
- 6.3 Risk management organisation ... 134
- 6.4 Credit risk ... 137
- 6.5 Market risk ... 152
- 6.6 Operational risk ... 163

7 Supervision and solvency ... 170
- 7.1 Supervision ... 170
- 7.2 Solvency ... 170

8 Post-employment benefits and other long-term employee benefits ... 173
- 8.1 Post-employment benefits ... 173
- 8.2 Other long-term employee benefits ... 178

9 Employee share option and share purchase plans ... 180

10 Remuneration of Management Board and Supervisory Board ... 181

11 Audit fees ... 182

12 Related parties ... 183

13 Information on segments ... 185
- 13.1 General information ... 185
- 13.2 Banking ... 185
- 13.3 Balance sheet of banking segments ... 187
- 13.4 Income statement of banking segments ... 190
- 13.5 Geographic segmentation ... 193

Notes to the balance sheet ... 195

14 Cash and cash equivalents ... 196

15 Assets and liabilities held for trading ... 197
- 15.1 Assets held for trading ... 197
- 15.2 Liabilities held for trading ... 197

16 Due from banks ... 198

17 Due from customers ... 199

18 Investments ... 201
- 18.1 Investments held to maturity ... 201
- 18.2 Investments available for sale ... 202
- 18.3 Investments held at fair value through profit or loss ... 204
- 18.4 Investment property ... 205
- 18.5 Investments in associates and joint ventures ... 206

19 Other receivables ... 207

20 Property and equipment 208

21 Goodwill and other intangible assets 211

22 Accrued interest and other assets 215

23 Due to banks 216

24 Due to customers 217

25 Debt certificates 218

26 Subordinated liabilities 219

26.1 Subordinated convertible securities: MCS 219

26.2 Other hybrid and Tier 1 liabilities 220

26.3 Other subordinated liabilities 220

27 Other borrowings 221

28 Provisions 222

29 Current and deferred tax 223

30 Accrued interest and other liabilities 225

31 Derivatives 226

31.1 Derivatives held for trading 228

31.2 Derivatives held for hedging purposes 231

32 Fair values of financial assets and financial liabilities 233

Notes to the income statement 237

33 Exceptional items 238

34 Net interest income 239

35 Dividend and other investment income 240

36 Share in result of associates and joint ventures 241

37 Realised capital gains and losses on investments 242

38 Other realised and unrealised gains and losses 243

39 Net Fee and commission Income 244

40 Other income 245

41 Change in impairments 246

42 Staff expenses 247

43 Depreciation and amortisation of tangible and intangible assets 248

44 Other expenses 249

45 Income tax expenses 250

Notes to off-balance sheet items 251

46 Commitments and guarantees 252

47 Contingent liabilities 254

48 Lease agreements 255

49 Assets under management 256

50 Post-balance sheet date events 257

Fortis Bank (Nederland) N.V. Company Financial Statements 259

Company balance sheet 260

Company income statement 261
Company statement of changes in equity 262
Explanatory notes to the balance sheet and income statement 263

Other information 269

Major subsidiaries, branches and associated companies 271
Provisions of the Articles of Association concerning profit appropriation 273
Profit appropriation 275
Auditor's report 276
Forward-looking statements to be treated with caution 278
Glossary and abbreviations 279

Introduction

The Fortis Bank (Nederland) N.V. Financial Statements 2009 comprise the audited Fortis Bank (Nederland) N.V. Consolidated Financial Statements 2009 as well as the audited Fortis Bank (Nederland) N.V. company financial statements, with comparative figures for 2008 and 2007, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The bank simplified its legal structure in 2009. Under the former structure, Fortis Bank (Nederland) N.V. was a subsidiary of Fortis Bank (Nederland) Holding N.V. On 1 September 2009, Fortis Bank (Nederland) N.V. (the disappearing company) merged into Fortis Bank Nederland (Holding) N.V. (the acquiring company). Fortis Bank Nederland (Holding) N.V. subsequently changed its name to Fortis Bank (Nederland) N.V.

All amounts in the tables of these financial statements are denominated in millions of Euro, unless stated otherwise. Because figures have been rounded off, small differences with previously reported figures may occur. Certain reclassifications have been made with regard to the prior year's Consolidated Financial Statements in order to make them comparable to the presentation for the year under review, related to IAS 1.15 and geographic segmentation.

Key definitions

The following list of definitions will be referred to regularly throughout this report. For each term a brief description explaining the meaning and use of the term is included.

Fortis Bank (Nederland) N.V.

Fortis Bank (Nederland) N.V. (previously named Fortis Bank Nederland (Holding) N.V.) or 'the bank' refers to Fortis Bank (Nederland) N.V. including its subsidiaries. Since 3 October 2008, the Dutch State has held all ordinary shares in Fortis Bank (Nederland) N.V. In the second quarter of 2010 Fortis Bank (Nederland) N.V. is expected to be transferred to ABN AMRO Group N.V., the new holding company owned by the Dutch State. Fortis Bank (Nederland) N.V. is expected to be merged and integrated with ABN AMRO.

Fortis Group / Fortis Holdings

Fortis Group is the name used for a group of companies headed by Fortis SA/NV and Fortis N.V. prior to October 2008. Since the events of October 2008, Fortis Holdings has been the new name for the group of companies headed by Fortis SA/NV and Fortis N.V., the shares of which are listed on Euronext Amsterdam and Euronext Brussels by NYSE Euronext.

Fortis Bank SA/NV

Until 3 October 2008, Fortis Bank (Nederland) N.V. was a subsidiary of Fortis Bank SA/NV, which in turn was part of Fortis Group.

ABN AMRO

ABN AMRO refers to the Dutch State-owned businesses and other assets and activities which were legally separated to form the (new) ABN AMRO Bank N.V., established on 6 February 2010 by way of a legal demerger. In the second quarter of 2010 this newly created entity is expected to be transferred to ABN AMRO Group N.V., the new holding company owned by the Dutch State, established on 18 December 2009. ABN AMRO is expected to be merged and integrated with Fortis Bank (Nederland) N.V.

Transition Team

The Transition Team is the team appointed by the Dutch State, as the ultimate majority shareholder, to lead the planning and oversee the integration of Fortis Bank (Nederland) N.V. and ABN AMRO. The team is designated to form the Managing Board of the future combined bank.

Profile and objectives

Fortis Bank (Nederland) N.V. is active in retail banking, private banking and merchant banking, primarily in the Netherlands and selectively abroad. Most of these financial services are provided under the Fortis Bank Nederland brand.

Private banking operations are conducted under the MeesPierson brand name. Corporate Finance & Capital Markets now operates under the MeesPierson name as well. Other Dutch and international specialist services are provided under separate brand names, such as Fortis Commercial Finance (factoring services), International Card Services (credit card services), ALFAM Holding (consumer credit), Direktbank and Fortis Hypotheek Bank (both mortgages), Fortis Groenbank (sustainable investments and financial services) and, until 31 December 2009, Intertrust Group (trust services).

The Dutch State holds all ordinary shares in Fortis Bank (Nederland) N.V. As a consequence of the separation from Fortis Group in 2008, the organisation and the international network have changed. In order to ensure future sustainable growth Fortis Bank (Nederland) N.V. has been committed to selectively rebuild the international network and to strengthen the footholds in foreign markets in order to support its clients abroad. Fortis Bank (Nederland) N.V. is currently active as a financial services provider in 25 countries and territories outside the Netherlands[1], including:

- *in Europe*: Belgium, Denmark, France, Germany, Guernsey, Ireland, Isle of Man, Italy, Luxembourg, Norway, Poland, Switzerland, United Kingdom, Spain, Sweden, Turkey;
- *in North and South America:* Brazil, Cayman Islands, the Netherlands Antilles, United States;
- *in Asia Pacific and rest of world:* Australia, Hong Kong, Japan, Singapore, UAE (Dubai).

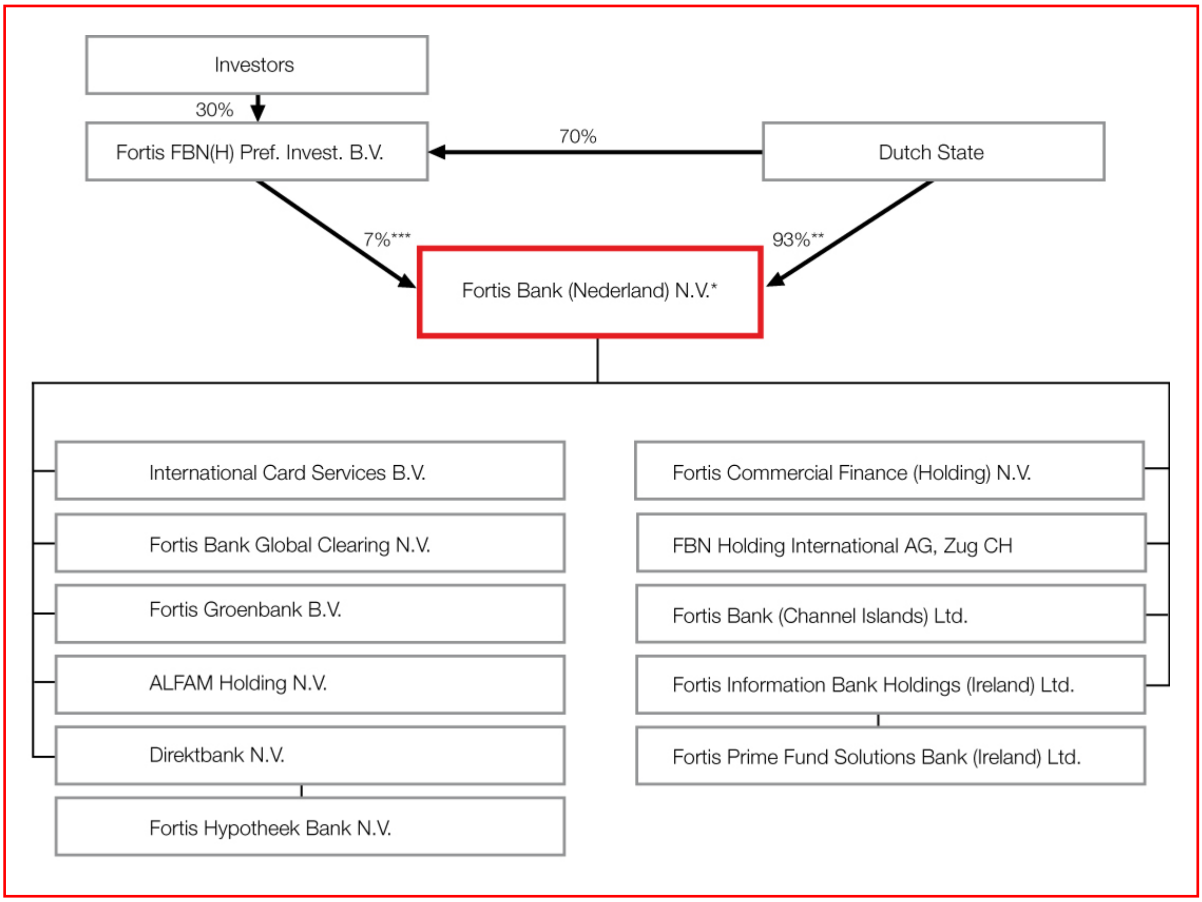
Fortis Bank (Nederland) N.V. and ABN AMRO intend to combine their activities into a new bank. Until the integration, Fortis Bank (Nederland) N.V. will continue to operate as an independent bank.

On 31 December 2009, Fortis Bank (Nederland) N.V. had total assets of EUR 190 billion and employed 8,855 FTEs, of which roughly 20% are employed abroad.

The basic principles of sustainable growth and social responsibility are embedded in the bank's operations. Fortis Bank (Nederland) N.V. is deeply rooted in the local community and is committed to the welfare of its customers.

1 *Excluding the Intertrust activities*

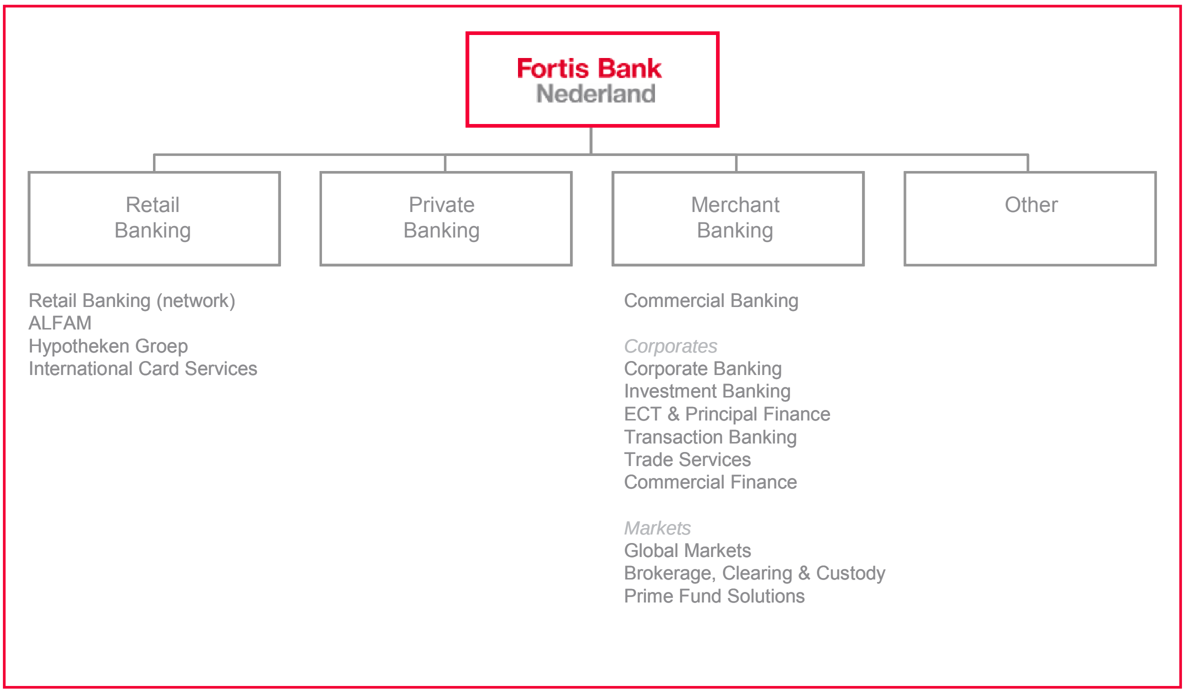
Legal structure and main subsidiaries



(*) See the Annual Financial Statements for a list of participating interests, reported and published according to Article 2:414 of the Dutch Civil Code.
(**) Total interest of the Dutch State, including indirect interest, is 97.9%.
(***) Comprises non-comulative Preference Shares A.

Business activities

Fortis Bank (Nederland) N.V. is organised into three client-focused businesses and applies segment reporting. Financial information is segmented into Retail Banking, Private Banking (operating under the MeesPierson name), Merchant Banking and Other. Each of the client-focused businesses has several business lines. 'Other' represents the corporate centre, support departments, operations, and Asset and Liability Management (ALM).



Credit ratings

	31 December 2009	31 December 2008	30 June 2008
DBRS			
Long term rating	A (high)		
Short term rating	R-1 (middle)		
Intrinsic rating	A (low)		
Outlook	UR Positive[2]		
Fitch			
Long term rating	A+	A+	AA-
Short term rating	F1+	F1+	F1+
Support rating floor	A+	A+	A-
Outlook	Stable	Stable	Stable
Moody's			
Long term rating	A1	A1	Aa3
Short term rating	P-1	P-1	P-1
BFSR[3]	C-	C-	B-
Outlook	Negative	Positive	Stable/On review
Standard & Poor's			
Long term rating	A	A	AA-
Short term rating	A-1	A-1	A-1+
Outlook[4]	Developing	Developing	Stable

For full details and the latest credit ratings, please consult the rating agencies' reports at www.fortis.nl/ratings.

2 *Under Review with Positive Implications*
3 *Bank Financial Strength Rating*
4 *On 7 January 2010, S&P changed its outlook to positive*

Key figures

	31 December 2009	31 December 2008	31 December 2007	31 December 2006	31 December 2005
Balance sheet					
Due from banks	26,657	24,272	38,768	27,071	17,263
Due to banks	37,143	21,309	71,311	70,144	58,600
Due from customers	125,328	124,692	130,971	124,038	108,775
Due to customers	61,399	91,798	69,990	63,856	51,618
Shareholders' equity	4,716	2,944	21,763	5,910	5,613
Total assets	189,785	184,203	272,378	209,749	170,871
Assets under management	29,569	28,452	59,644	35,624	34,448
Basel I ratios					
Tier 1 ratio	10.0%	7.4%	11.2%	8.6%	8.5%
Total capital ratio before profit appropriation	13.4%	11.2%	11.2%	10.5%	10.5%
Reported Basel II ratios (80% transitional floor)					
Tier 1 ratio	12.5%				
Total capital ratio before profit appropriation	16.7%				
Employees					
FTEs	8,855	9,793	10,003	9,949	9,459

	2009	2008	2007	2006	2005
Income statement					
Net interest income[1]	1,150	1,584	1,641	1,457	1,610
Net commissions and fees	724	823	926	846	748
Other income[1]	92	207	225	159	67
Total operating income[1]	2,171	3,096	3,553	3,473	3,153
Change in impairments[1]	(412)	(331)	(41)	(70)	(62)
Total net operating income[1]	1,759	2,765	3,512	3,403	3,091
Staff expenses	(896)	(895)	(955)	(848)	(923)
Other expenses	(862)	(1,048)	(910)	(843)	(664)
Total expenses	(1,827)	(2,010)	(1,925)	(1,754)	(1,645)
Net operating profit[1]	27	604	1,199	1,157	1,049
Exceptional items (net of tax)	379	(19,090)	97		
Net profit attributable to shareholders	406	(18,486)	1,296	1,157	1,049
Financial ratios					
Return on equity (excluding exceptional items)	0.7%	4.9%	8.9%	20.1%	22.0%
Cost/Income ratio	84.2%	64.9%	54.2%	50.5%	54.1%

1) *Excluding exceptional items*

Message from the Chairman

"While financial markets improved in 2009, the economic climate in the Netherlands, Europe and many countries outside Europe remained fragile. Some sectors recovered more robustly than others. Sovereign worries caused by large government budget deficits are likely to affect future public spending. Meanwhile, markets are still contending with setbacks like disappointing growth rates and rising unemployment figures. Despite the fact that these and other events inevitably had an impact on Fortis Bank (Nederland) N.V.'s operations, we managed to make good progress in successfully rebuilding our organisation.

2009 results

Under challenging circumstances, Fortis Bank (Nederland) N.V. posted a net profit of EUR 406 million. The net operating result – adjusted for two exceptional items – was a modest profit of EUR 27 million. The results were severely impacted by a mixture of higher funding costs, credit impairments, lower volumes on stock exchanges and our ongoing separation efforts and integration preparations. The adverse market, pressure on margins and high impairments had a negative impact on the results of all our businesses. Lower expenses and the sale of Intertrust Group made a positive contribution to the operating profit.

Achievements

Although – like the rest of the market –our profitability was under pressure, we made improvements in several areas which helped bolster the position of Fortis Bank (Nederland) N.V. as a stand-alone bank and as a solid partner in the upcoming integration with ABN AMRO. Meanwhile, all businesses met stringent requirements in order to reduce the bank's risk profile, optimised the use of scarce financial resources and staff, and carried out various separation projects. Costs remained well under control.

Taking into account the difficult circumstances of 2009, our businesses performed well. Retail Banking reported a healthy increase in the level of deposits and MeesPierson Private Banking saw a net inflow of assets under management. Merchant banking was involved in various secured syndicated loan facilities and in several important equity and debt capital market transactions. Moreover, we were involved in a growing number of restructurings of corporate loans.

The new Treasury department was successful in refinancing – ahead of schedule – the EUR 34 billion short-term debt facility granted by the Dutch State and launching new funding programmes to improve the bank's short- and long-term liquidity and funding profiles. Furthermore, De Nederlandsche Bank confirmed the bank's advanced Basel II status, recognising the hard work we put into setting up our renewed Risk organisation on a stand-alone basis. We strengthened the international network by opening branches and representative offices in Singapore, London and Dubai and we are applying for licences in New York, Shanghai and Sao Paolo. In August, Fortis Bank (Nederland) N.V. acquired Fortis Clearing Americas from Fortis Bank SA/NV, completing our worldwide Brokerage, Clearing & Custody network.

At the end of December 2009, the quality of our capital position improved significantly thanks to the conversion of EUR 1.35 billion of Tier 2 instruments into Tier 1 capital by the shareholder, the Dutch State.

Several restructurings were completed in 2009, including the legal merger between Fortis Bank (Nederland) N.V. and Fortis Bank Nederland (Holding) N.V. that simplified our legal structure and the divestments of Intertrust Group and ASR Bank. In December 2009 we announced that we had entered into exclusive negotiations regarding the sale of Prime Fund Solutions. The separation from Fortis Bank SA/NV is well on track. Meanwhile, we also made good progress in preparing for the upcoming integration with ABN AMRO.

Despite all these developments, our staff met the challenge of maintaining their focus on business as usual, continuing to provide our clients – from consumer to multinational – with the high standard of service they have always received. On behalf of all members of the Management Board, I would like to express my sincere gratitude for the commitment and hard work of our employees in this demanding period and thank our clients for their loyalty and trust.

Changing environment

The financial crisis will change the environment in which banks operate. A series of discussions took place in 2009 ranging from more stringent regulatory framework and capital requirements to a demand for codes governing risk appetite, remuneration and sustainability of activities. Fortis Bank (Nederland) N.V. acknowledges the importance of this dialogue and the ensuing changes and, where possible, also participates in discussions through intense cooperation with the Netherlands Bankers' Association (Nederlandse Vereniging van Banken).

2010

As in 2009, the bank's top priority in 2010 will be to focus on serving clients well, by offering products and services that meet their needs. In the consumer market – especially in Private Banking – we expect to benefit from regained trust and client confidence, leading to a rise in savings and deposits and assets under management. In the corporate market, we foresee further growth of the loan book.

The announced merger and integration with ABN AMRO will be a major endeavour in 2010. We expect the next step in the integration to be taken in the second quarter of 2010, when Fortis Bank (Nederland) N.V. and ABN AMRO are expected to become direct subsidiaries of ABN AMRO Group N.V., the holding company newly established by the Dutch State. The overall timelines for the actual integration will vary from business to business, with the largest part expected to be finalised in 2012.

We expect to finalise the remaining technical separation from our former parent company in 2010 and will continue to work hard on improving the bank's funding profile. Our recent senior unsecured bond issue of EUR 4 billion with maturities of two and five years underpins this effort."

Amsterdam, 3 March 2010

Jan van Rutte

Financial Performance

Consolidated Income Statement

	2009	2009 Exceptional items	2009 Excluding exceptional items	2008	2008 Exceptional items	2008 Excluding exceptional items	2007	2007 Exceptional items	2007 Excluding exceptional items
Income									
Interest income	8,380		8,380	17,357		17,357	19,169		19,169
Interest expense	(7,230)		(7,230)	(16,355)	(582)	(15,773)	(17,634)	(106)	(17,528)
Net interest income	1,150		1,150	1,002	(582)	1,584	1,535	(106)	1,641
Fee and commission income	1,097		1,097	1,108		1,108	1,168		1,168
Fee and commission expense	(373)		(373)	(285)		(285)	(242)		(242)
Net fee and commission income	724		724	823		823	926		926
Dividend and other investment income	14		14	27		27	37		37
Share in result of associates and joint ventures	(2)		(2)	(896)	(905)	9	190	179	11
Realised capital gains (losses) on investments	90		90	(16,807)	(16,822)	15	126		126
Other realised and unrealised gains and losses	103		103	431		431	587		587
Other income	455	363	92	207		207	225		225
Total operating income	**2,534**	**363**	**2,171**	**(15,213)**	**(18,309)**	**3,096**	**3,626**	**73**	**3,553**
Change in impairments	(396)	16	(412)	(1,303)	(972)	(331)	(41)		(41)
Net operating income	**2,138**	**379**	**1,759**	**(16,516)**	**(19,281)**	**2,765**	**3,585**	**73**	**3,512**
Expenses									
Staff expenses	(896)		(896)	(895)		(895)	(955)		(955)
Depreciation and amortisation of tangible and intangible assets	(69)		(69)	(67)		(67)	(60)		(60)
Other expenses	(862)		(862)	(1,048)		(1,048)	(910)		(910)
Total expenses	**(1,827)**		**(1,827)**	**(2,010)**		**(2,010)**	**(1,925)**		**(1,925)**
Profit before taxation	**311**	**379**	**(68)**	**(18,526)**	**(19,281)**	**755**	**1,660**	**73**	**1,587**
Income tax expense	96		96	56	191	(135)	(346)	24	(370)
Net profit for the period	**407**	**379**	**28**	**(18,470)**	**(19,090)**	**620**	**1,314**	**97**	**1,217**
Net profit attributable to minority interests	1		1	16		16	18		18
Net profit attributable to shareholders	**406**	**379**	**27**	**(18,486)**	**(19,090)**	**604**	**1,296**	**97**	**1,199**

Consolidated balance sheet

(before appropriation of profit)

	31 December 2009	31 December 2008	31 December 2007
Assets			
Cash and cash equivalents	10,002	9,859	39,269
Assets held for trading	16,231	13,948	23,117
Due from banks	26,657	24,272	38,768
Due from customers	125,328	124,692	130,971
Investments:			
- Held to maturity	*33*	*30*	*35*
- Available for sale	*2,822*	*3,542*	*3,201*
- Held at fair value through profit or loss	*485*	*151*	*123*
- Investment property	*34*	*90*	*79*
- Associates and joint ventures	*437*	*388*	*25,733*
Total investments	3,811	4,201	29,171
Other receivables	2,667	3,029	3,435
Property, plant and equipment	355	414	368
Goodwill and other intangible assets	161	182	224
Accrued interest and other assets	4,379	3,369	6,897
Deferred tax assets	194	237	158
Total assets	**189,785**	**184,203**	**272,378**
Liabilities			
Liabilities held for trading	24,164	23,716	52,466
Due to banks	37,143	21,309	71,311
Due to customers	61,399	91,798	69,990
Debt certificates	47,567	28,251	32,796
Subordinated liabilities	4,708	6,561	11,652
Other borrowings	113	257	1,371
Provisions	124	97	79
Current tax liabilities	124	247	730
Deferred tax liabilities	39	74	52
Accrued interest and other liabilities	9,682	8,874	9,513
Total liabilities	**185,063**	**181,184**	**249,960**
Shareholders' equity	4,716	2,944	21,763
Minority interests	6	75	655
Total equity	**4,722**	**3,019**	**22,418**
Total liabilities and equity	**189,785**	**184,203**	**272,378**

Report of the Management Board

This report should be read in conjunction with the audited 2009 Financial Statements (including the accounting policies).

Fortis Bank (Nederland) N.V. posted a net profit of EUR 406 million in 2009. The net profit was positively impacted by exceptional items, leaving a net operating profit of EUR 27 million. The bank successfully embarked on rebuilding its risk and treasury activities in 2009 and made good progress in rebuilding its international network selectivity. All businesses suffered from the negative impact of challenging markets, high funding costs, high impairments and costs for separation and preparing for integration.

Key developments

- Net profit came to EUR 406 million in 2009 with a net operating profit of EUR 27 million.
- Changes in impairments in 2009 remained high at EUR 412 million excluding exceptional items.
- The quality of capital and capital ratios improved significantly due to the debt-to-equity conversion, at the end of 2009. The year-end reported solvency ratio stood at 16.7% and the reported Tier 1 ratio was 12.5% under Basel II (80% transitional floor).
- Clients showed faith in the bank, as reflected by an increase in client deposits of roughly EUR 5 billion in 2009, adjusted for deposits from the Dutch State.
- The volume of loans granted to customers increased by EUR 636 million or 0.5% in 2009, despite substantial repayments by corporate clients.
- The short-term funding facility of EUR 34 billion granted by the Dutch State in October 2008 was fully repaid and refinanced in the market in the first half of 2009, ahead of schedule.
- Market access increased significantly in 2009. The amount of funds raised in the wholesale market (money markets and commercial paper) increased to EUR 26.1 billion in December 2009 from EUR 12 billion in December 2008.
- De Nederlandsche Bank (DNB) confirmed the bank's advanced Basel II status.
- Several restructurings took place in 2009. Intertrust Group and ASR Bank were divested. The legal structure of the bank was simplified with the completion of the legal merger between Fortis Bank (Nederland) N.V. and Fortis Bank Nederland (Holding) N.V. Fortis Hypotheekbank became a subsidiary of Direktbank and the bank also announced it was in exclusive negotiations regarding the sale of Prime Fund Solutions.
- Separation from Fortis Bank SA/NV on schedule and preparations for the integration with ABN AMRO, in accordance with the plans for the combined bank, are well on track.
- Total expenses were well under control and decreased by 9% to EUR 1,827 million.

Net profit

The 2009 net profit of EUR 406 million was positively impacted by two exceptional gains. The cash settlement of Fortis Capital Company Ltd. (FCC) resulted in a capital gain of EUR 362.5 million net of tax. In addition, EUR 16 million net of tax was recovered from the Madoff investment fraud.

Net operating profit

Net operating profit decreased to EUR 27 million in 2009. In 2008 the net operating profit of EUR 604 million was predominantly realised in the first half of the year, prior to the start of the crisis. The 2009 net operating profit was negatively impacted by lower net operating income excluding exceptional items (down 36.4%) and higher impairment costs (up 24.5%). Positive developments such as the profit on the sale of Intertrust Group (EUR 81 million net of tax) and lower expenses (down 9.1%) – despite provisions relating to the bankruptcy of DSB Bank (EUR 15 million net of tax) and separation and integration costs (EUR 66 million net of tax) – reduced the decline in operating profit.

Net operating income excluding exceptional items declined 36.4% due to:

- High funding costs for savings and issued debt which could not be recovered in full by adjusting pricing on products, led to a lower net interest income, which came down from EUR 1,584 million in 2008 to EUR 1,150 million in 2009, partly due to market conditions and restrictions – primarily in the first half of 2009 – on liquidity and solvency;
- lower net commissions and fee income, which fell from EUR 823 million in 2008 to EUR 724 million in 2009, suffering from markets which have not fully recovered, therefore depressing trade volumes and assets under management.

Total expenses came down by 9.1% to EUR 1,827 million in 2009 from EUR 2,010 million in 2008. The decrease in costs was mainly due to the separation and tight cost control.

The cost/income ratio rose to 84.2% in 2009 from 64.9% in 2008, due to a sharp decline in operating income (down 29.9%). Although costs also decreased (down 9.1%), this was not enough to offset the drop in income.

The changes in impairments remained high in 2009. All business lines saw the change in impairments increase to EUR 412 million in 2009 compared with EUR 331 million in 2008 (both excluding exceptional items).

Net operating profit per business

Retail Banking and Merchant Banking made positive contributions to net profit, while Private Banking incurred a small net loss. All businesses suffered in 2009 from lower net income and higher impairments compared with 2008.

						2009
	Retail Banking	*Private Banking*	*Merchant Banking*	*Other Banking*	*Eliminations*	*Total Banking*
Total operating income	789	124	1,251	29	(22)	2,171
Change in impairments	(111)	(17)	(282)	(2)		(412)
Net operating income	678	107	969	27	(22)	1,759
Total expenses	(579)	(124)	(993)	(153)	22	(1,827)
Net operating profit	89	(11)	46	(97)		27
Exceptional items			16	363		379
Net profit attributable to shareholders	89	(11)	62	266		406

						2008
	Retail Banking	*Private Banking*	*Merchant Banking*	*Other Banking*	*Eliminations*	*Total Banking*
Total operating income	981	216	1,737	173	(11)	3,096
Change in impairments	(77)	(2)	(243)	(9)		(331)
Net operating income	904	202	1,496	163	(11)	2,765
Total expenses	(631)	(172)	(922)	(296)	11	(2,010)
Net operating profit	220	38	448	(102)		604
Exceptional items		(11)	(911)	(18,168)		(19,090)
Net profit attributable to shareholders	220	27	(463)	(18,270)		(18,486)

Retail Banking

Retail Banking recorded a net operating profit of EUR 89 million in 2009, down from EUR 220 million in 2008. This figure was negatively impacted by a decrease in operating income caused by high funding costs and shrinking margins on savings and deposits due to fierce competition on the savings market. Costs were under control and came down by EUR 52 million or 8% compared with 2008, thanks to lower staff costs and lower overhead charges. The level of changes in impairments increased from EUR 77 million in 2008 to EUR 111 million in 2009. Restored trust in the bank led to an inflow of savings in 2009.

Private Banking

MeesPierson Private Banking posted a small net operating loss of EUR 11 million in 2009. The net result was affected by fierce competition for savings, an increase in impairments from EUR 2 million in 2008 to EUR 17 million in 2009, high funding expenses for credit activities and a decrease in commissions and fees as a result of the current fragile markets. Despite the costs incurred in the separation from Fortis Bank SA/NV, costs decreased thanks to tight cost control and a transfer of activities in 2008. Assets under management increased by 9.0% to EUR 25.6 billion, benefiting from regained client trust, improving financial markets and a positive net inflow.

Merchant Banking

Merchant Banking posted a net operating profit of EUR 46 million. The result was substantially lower than the 2008 net operating result of EUR 448 million, due to lower operating income, higher impairments and higher costs. Markets, the Intertrust Group and Energy, Commodities & Transportation (ECT) contributed positively to Merchant Banking's result, which was partly offset by unfavourable mark-to-market revaluations in the private equity portfolio and impairments in the commercial and corporate loan book. The divestment of Intertrust Group resulted in a capital gain of EUR 81 million. The expected sale of Prime Fund Solutions was announced in December 2009. Comprehensive refinancing solutions and capital market transactions offered to prominent Dutch listed corporates confirm the bank's client focus and ability to devise professional solutions.

Other

The net profit reported under 'Other' came to EUR 266 million in 2009, due to an exceptional profit of EUR 363 million in relation to the cash settlement of Fortis Capital Company Ltd. (FCC). 'Other' posted a net operating loss of EUR 97 million, mainly costs for separation and preparations for integration and activities that are recognised at bank level rather than being allocated to a specific business.

Balance sheet

Total assets grew by EUR 5.6 billion to EUR 189.8 billion on 31 December 2009. The increase is accounted for by movements in amounts due from customers and banks and assets held for trading.

Total client deposits, adjusted for deposits received from the Dutch State, increased by approximately EUR 5 billion or 10.0% in 2009.

Fortis Bank (Nederland) N.V. has no investments in United States mortgage-related investment products or collateralised debt obligations (CDOs). Most exposures are either fully or partially asset backed.

Funding

In 2009, Fortis Bank (Nederland) N.V. focused on stabilising the bank's liquidity and funding positions. Several new funding programmes were launched, allowing the bank to issue debt certificates in different segments in money markets and capital markets. These funding programmes and the increases in savings and deposits among retail, private, corporate and institutional clients made it possible for the bank to refinance – ahead of schedule - the short-term loan facility of EUR 34 billion from the Dutch State in the first half of 2009.

In addition, EUR 16.1 billion of the in-house originated mortgages was securitised into EUR 14.6 billion of ECB eligible collateral and is available to increase the liquidity buffer.

Capital and solvency

On 28 December 2009, the non-cumulative preference shares B held by the Dutch State were converted into ordinary shares. As a result, the issued and outstanding share capital as at 31 December 2009 amounted to EUR 1,176,855,500 divided into 1,880,946 ordinary shares of EUR 500 each and 150,000 non-cumulative A preference shares of EUR 500 each. The Dutch State holds 1,880,946 ordinary shares and Fortis FBN(H) Preferred Investments B.V. holds 150,000 non-cumulative A preference shares.

The conversion of EUR 1.35 billion of Tier 2 instruments (subordinated loans) into Tier 1 capital (common equity) on 24 December 2009 brought the Tier 1 capital in line with DNB's requirements to ensure that the bank can withstand the most stringent stress scenarios. This conversion is also in line with recent announcements by the Basel committee regarding future capital structure of banks. Furthermore, DNB confirmed Fortis Bank (Nederland) N.V.'s Basel II status and confirmed application of the 80% Basel I floor for reporting purposes.

On 31 December 2009, the reported Basel II solvency ratio stood at 16.7% and the Basel II Tier 1 ratio came to 12.5%. On 31 December 2009, the reported Basel I solvency ratio stood at 13.4% and the Basel I Tier 1 ratio was 10.0%.

Risk Management

The bank re-established its own solid risk organisation in 2009, tailored to its new stand-alone situation. The strengthened risk organisation extends into the business lines and has an expanded scope of responsibility.

Risk Management played an important role in setting-up the bank's regulatory reporting framework. As a result, Fortis Bank (Nederland) N.V. is now Basel II compliant.

Credit risk increased portfolio-wide in 2009, continuing the trend started in the second half of 2008. The infection ratio (impaired loans expressed over total on- and off-balance sheet exposure) increased from 1.19% in 2008 to 1.93% in 2009 (the largest increase was accounted for in loans without impairment provisions; both ratios exclude provisions for the Madoff fraud). Corporate debt restructurings took place and terms and conditions were consequently adjusted, where necessary. The total level of impairments increased from EUR 1.5 billion in 2008 to EUR 1.8 billion in 2009. Interest rate risk has been brought in line with the size of the bank's stand-alone balance sheet and available capital. The absolute duration decreased to 367 million in 2009, from EUR 717 million in 2008.

The combined exposure reported under 'due from banks and customers' grew by 2.0% in 2009. The unsecured portion decreased by 5.4%, while the amount of excess collateral declined by 31.6% in 2009.

Fortis Bank (Nederland) N.V. applies swaps and other financial instruments in managing interest rate risk on designated ALM positions. Portfolio hedge accounting is applied to parts of the mortgage portfolio to mitigate the resulting mismatch in accounting treatment. Net investment hedge accounting is used when hedging the foreign currency exposure on net investments in foreign operations (outside the Euro zone). In 2009 Fortis Bank (Nederland) N.V. started adding micro fair value hedging to its hedging strategies for specific transactions, particularly bond issues under the government guaranteed programme.

Improved access to the money and capital markets has reduced the funding and liquidity risks. As in previous years, current trading activities for our own account are limited. Operational risks have been further aligned to the stand-alone profile of the bank.

Internal risk control systems functioned effectively in 2009, ensuring that financial reporting did not contain any material inaccuracies. The bank's internal audit service has concluded that the risk reporting is satisfactory and has not identified any major shortcomings of internal risk control systems.

Pension fund

The pension fund's coverage ratio increased from around 105% at the end of February 2009 to around 110% at year-end 2009, due mainly to the recovery in the markets. The coverage ratio year-end 2009 is higher than the coverage ratio required by DNB, which is 107.6%.

International network

One of the main priorities in 2009 was to ensure future sustainable growth, to selectively rebuild the bank's international network and to strengthen the footholds in foreign markets. Branches were opened in Singapore, the United Kingdom (London) and France (Paris), as was a representative office in Dubai. Licence applications for representative offices in the United States (New York), China (Shanghai) and Brazil (Sao Paulo) are in progress. Furthermore, the bank applied for a broker/dealer licence in New York. Fortis Bank Global Clearing N.V. opened branches in Singapore and Belgium and Fortis Clearing Americas in Chicago was acquired from former parent Fortis Bank SA/NV. Fortis Bank (Nederland) N.V. is now active in 25 countries outside the Netherlands.

In 2010 Fortis Bank (Nederland) N.V. plans to open a branch in Belgium to serve the interests of its Commercial and Corporate Banking business lines. The bank also intends to open several representative offices for Energy, Commodities & Transportation.

Separation

At year-end 2009, roughly 80% of the separation projects were completed and 75% of the services previously delivered by Fortis Bank SA/NV to Fortis Bank (Nederland) N.V. and vice versa were discontinued. Key separation projects are yet to be finalised in 2010 at Retail Banking, Securities Finance, Global Markets, Risk and Finance. Full separation from Fortis Bank SA/NV is planned for the end of the third quarter of 2010. The separation of ASR Nederland is progressing equally well. Here, too, completion is planned for the end of September 2010. And finally, the separation of Amlin Corporate Insurance (previously Fortis Corporate Insurance) is well under way.

Integration

The planned integration with ABN AMRO will be a major endeavour in 2010. The exact timing of the integration will vary from business to business. The goal is to complete the greater part of the transition in 2012. The preparations are on schedule. The operational risks of the planned integration are described in detail in the transition plans and will be monitored closely.

Once all conditions are met, both Fortis Bank (Nederland) N.V. and ABN AMRO are scheduled to become direct subsidiaries of a holding company – named ABN AMRO Group N.V., incorporated on 18 December 2009 and owned by the Dutch State – in the second quarter of 2010. At the same time senior management level is expected to be combined, subject to the required approvals. The next step will be the legal merger, which is expected in the second half of 2010.

Banking Code

The Banking Code drafted by the Netherlands Bankers' Association (NVB) took effect on 1 January 2010. Fortis Bank (Nederland) N.V. already applied the vast majority of the provisions of the Banking Code. The necessary measures were taken in the course of 2009 to ensure full compliance where possible. Among other things, the Management Board and the Supervisory Board adopted new regulations governing their composition and functioning in line with the Banking Code.

European Commission

On 8 April 2009, the European Commission notified the Dutch State of its decision to initiate the procedure laid down in Article 88(2) of the EC Treaty concerning potential state aid in connection with the acquisition of Fortis Bank (Nederland) N.V. by the Dutch State on 3 October 2008, and the transfer of the 33.8% stake in RFS Holdings[5] by Fortis Bank (Nederland) N.V. to the Dutch State on 24 December 2008.

On 8 February 2010, the EC announced its preliminary approval – valid until 31 July 2010 – of the conversion in December 2009 of Tier 2 capital (subordinated notes held by the Dutch State) into Tier 1 capital (common equity). The EC announced it would incorporate this capital rebalancing in the inquiry into state support measures it started in April 2009. The EC will also ensure that Fortis Bank (Nederland) N.V. does not use the measures for an aggressive pricing or takeover policy, which would distort competition.

Dividend

Fortis Bank (Nederland) N.V.

For the year 2009, the Management Board proposes to the Supervisory Board and the General Meeting of Shareholders not to pay any dividends on any of the outstanding ordinary shares and to reserve the dividend on the non-cumulative A preference shares held by Fortis FBN(H) Preferred Investments B.V.

Fortis Capital Company Limited

On 29 June 1999 Fortis Capital Company Limited (FCC), a subsidiary of Fortis Bank (Nederland) N.V., issued EUR 450 million of non-cumulative non-voting perpetual class A1 preference shares ('A1 Preference Shares').

Following FCC's legal proceedings against Fortis Holdings and the subsequent EUR 362,511,000 cash settlement, EUR 87,489,000 of the class A1 preference shares remain outstanding. This outstanding amount is accounted for as non-innovative Tier 1 capital in the calculation of regulatory capital and as subordinated liabilities under IFRS. Since 29 June 2009, the dividend on the outstanding class A1 preference shares has been payable in arrears and calculated on the paid-up value of the preference shares at three-month EURIBOR plus 260 basis points.

Fortis Capital Company Limited has paid dividend on the A1 Preference Shares which became payable on 29 June 2009, 29 September 2009 and 29 December 2009 subject to the applicable terms and conditions as stated in the prospectus. The Management Board and the Supervisory Board have endorsed the foregoing.

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5 *In October 2007, Fortis Bank (Nederland) N.V., through Fortis Group as a member of a consortium with Royal Bank of Scotland Group plc and Banco Santander S.A., acquired a 33.8% stake in RFS Holdings B.V., the vehicle that acquired ABN AMRO Holding N.V. On 24 December 2008, Fortis Bank (Nederland) N.V. sold and transferred its shares in RFS Holdings B.V. to the Dutch State.*

Management Board

From left to right:
Fred Bos, Frans van der Horst, Jan van Rutte and Jeroen Dijst.

On 2 July 2009 Jeanine Helthuis resigned from the Management Board and left the bank. On 30 September 2009 Frans van Lanschot stepped down as a non-statutory member of the Management Board in relation to his secondment to ABN AMRO. Frans Demmenie retired as a member of the Management Board and left the bank on 31 December 2009. The Management Board wishes to express its gratitude to each of them for their dedication and valuable contribution to the bank over the years.

Fred Bos was initially a non-statutory member of the Management Board and was appointed statutory member as of 20 November 2009.

At year-end 2009, the Management Board consisted of the following statutory members: Jan van Rutte (CEO), Frans van der Horst (COO), Jeroen Dijst (CRO) and Fred Bos. A brief description of the primary areas of responsibility of each of the Management Board members at 31 December 2009 is provided in the Governance section.

FTEs

On 31 December 2009, Fortis Bank (Nederland) N.V. employed 8,855 FTEs, a reduction of 10% compared with 9,793 FTEs (unadjusted) at year-end 2008. Apart from natural turnover, the reduction of FTEs mainly relates to the divestment of Intertrust Group and the separation from ASR Nederland and Fortis Holdings and to changes in Merchant Banking due to the separation and organisational changes. At year-end 2009, around 20% of the workforce was based outside the Netherlands.

Recognition

Business as usual demanded a great deal from our employees in 2009, as did separation and integration. The Management Board would like to express its appreciation to the Works Council for its efforts in contributing to the separation and integration processes, and would like to sincerely thank our staff for their steadfast dedication and commitment in this demanding period.

Statement ex article 5:25c §2c Financial Markets Supervision Act

To our knowledge,

1. the Financial Statements (with the Other Information as referred to in article 2:392 of the Dutch Civil Code) give a true and fair view of the assets, liabilities, financial position and profit of Fortis Bank (Nederland) N.V. and its consolidated companies;
2. the Report of the Management Board gives a true and fair view of the position as at 31 December 2009 and of developments during the financial year 2009 of Fortis Bank (Nederland) N.V. and its related companies included in its Financial Statements; and
3. the Report of the Management Board describes the material risks Fortis Bank (Nederland) N.V. faces.

Amsterdam, 3 March 2010

Jan van Rutte	Frans van der Horst	Fred Bos	Jeroen Dijst
Chairman	Vice Chairman	Member	Member

Report of the Supervisory Board

The Supervisory Board hereby submits to the General Meeting of Shareholders the Annual Review and Financial Statements of Fortis Bank (Nederland) N.V. for the financial year 2009, as prepared by the Management Board and approved by the Supervisory Board on 3 March 2010.

The 2009 Financial Statements were audited by KPMG Accountants N.V. The Auditors' Report appears on page 282 of the Annual Review and Financial Statements. The Audit Committee has discussed the Financial Statements with the auditors. In addition, the 2009 Annual Review and Audited Financial Statements were a topic of discussion for the full Supervisory Board with the Management Board, in the presence of the auditors. The Supervisory Board is of the opinion that the 2009 Annual Review and Audited Financial Statements meet all requirements for correctness and transparency and that they form a good basis to account for the supervision provided.

We recommend that the General Meeting of Shareholders adopt the 2009 Annual Review and Audited Financial Statements as presented.

From left to right:
Erik van de Merwe, Ada van der Veer-Vergeer,
Hélène Vletter-van Dort, Hessel Lindenbergh, Michael Enthoven **and**
Inge Brakman.

Composition of the Supervisory Board

As from 1 January 2009, the Supervisory Board of Fortis Bank (Nederland) N.V. consisted of six members: Hessel Lindenbergh (Chairman), Erik van de Merwe (Vice Chairman), Inge Brakman, Michael Enthoven, Ada van der Veer-Vergeer and Hélène Vletter-van Dort.

Supervisory Board activities

The Supervisory Board met on twenty-five occasions and conducted a number of conference calls in 2009. The high frequency of meetings and calls was predominantly attributable to developments relating to the pursued divestments (including Intertrust Group), the separation from Fortis Bank SA/NV, and preparatory activities (in the widest sense) aimed at the future integration with ABN AMRO. Among other things, the Supervisory Board discussed the developments regarding the EC Remedy and the possible consequences. A great deal of attention was also devoted to the integration plans, related governance issues, risks involved and the consequences for employees and customers. Aforementioned topics have also been discussed with members of the future management board (presently the Transition Team) who have attended several Supervisory Board meetings and with other relevant stakeholders.

The agenda also included such subjects as the company's strategy, financial position, results of the operating companies, annual budget, risk profile, functioning of risk control systems and the company's remuneration policy. In addition, a variety of governance issues was discussed, including the creation of an independent governance framework, which resulted in amended Codes of Conduct for the Management and Supervisory Boards. The Supervisory Board will carry out a self-evaluation.

The members of the Supervisory Board closely monitored the bank's solvency and liquidity ratios and concentrated its efforts on the Capital and Funding Plan. It was also involved in the preparation and execution of the legal merger between Fortis Bank Nederland (Holding) N.V. and Fortis Bank (Nederland) N.V. Furthermore, the Board monitored and discussed the state of global financial markets and the possible effects of wider developments on the company.

All meetings of the Supervisory Board were attended by the members of the Management Board, with the exception of three occasions. The Supervisory Board was informed of decisions of material importance to the company. In addition, the Management Board engaged in constant dialogue with the Supervisory Board, so that the Supervisory Board was continuously kept informed of the company's intended business strategy, corporate planning (including financial, investment and human resources planning), earnings performance, state of the business and situation in the company. The Supervisory Board also met on several occasions with the Works Council to address a variety of issues.

Board committees

The Supervisory Board can set up any ad hoc committee it deems useful. The Supervisory Board has established an Audit Committee, a Nomination, Selection and Remuneration Committee and a Risk and Capital Committee. Each of these committees operates in accordance to the formulated terms of reference. The duties and main activities in 2009 of these committees are described below.

Audit Committee

The Audit Committee supports the Supervisory Board in fulfilling its supervision and monitoring duties in the area of internal control in the broadest sense within Fortis Bank (Nederland) N.V. That includes internal control over financial reporting and compliance with legislation and regulations. The Supervisory Board appoints the members of the Audit Committee from the members of the Supervisory Board.

The Audit Committee consists of the following members: Erik van de Merwe (Chairman), Hessel Lindenbergh and Ada van der Veer-Vergeer.

The Audit Committee met on five occasions in 2009. The main activities of the Audit Committee in 2009 were:

- Monitoring of the integrity of quarterly and annual financial statements, including disclosures and press releases, consistent application of the valuation and accounting principles, consolidation scope, quality of the closure process and significant issues brought forward by the Managing Board or the external auditors.
- Monitoring of the risk management and control system, based on reports by management (management control statements and their follow-ups), the compliance function and Fortis Bank (Nederland) N.V. Audit Services (quarterly management letter and special reviews of the risk management process, liquidity management and integration risks).
- Monitoring of the external audit process. This included the review of the external audit plan, the Engagement Letter and quarterly Auditors' Letters, the independence of the external auditors (including approval of the policy 'Independence of the external auditor', the auditors' declaration of independence, fees and tracking the volume and nature of non-audit services) and assessment of the external auditors.
- Monitoring of the internal audit function, based in part on the review and approval of the internal audit plan and the department's updated charter.

- Discussing regular updates on specific risk or control matters such as developments in the pension plan (covering ratio), at Securities Financing Group and Securities Handling, specific accounting processes (i.e. suspense accounts), the separation from Fortis Bank SA/NV, the planned integration with ABN AMRO and the sale of Intertrust Group. Risks relating to reduced employee motivation caused by uncertainty about the planned integration with ABN AMRO were high on each meeting's agenda.

Nomination, Selection and Remuneration Committee

The Nomination, Selection and Remuneration Committee, established on 1 Jan 2009, supports the Supervisory Board in the appointment and remuneration of the Management Board and on remuneration policy in general.
The Supervisory Board appoints the members of the Nomination, Selection and Remuneration Committee from the members of the Supervisory Board. The Nomination, Selection and Remuneration Committee consists of the following members: Hessel Lindenbergh (Chairman), Inge Brakman, Michael Enthoven and Hélène Vletter-Van Dort.

The Nomination, Selection and Remuneration Committee met on five occasions in 2009. The Nomination, Selection and Remuneration Committee advises the Supervisory Board on the appointment of members of the Management Board and on remuneration policy and the remuneration of the members of the Management Board. An important topic in 2009 was the establishment of a sustainable remuneration policy, in line with the Banking Code.

Risk and Capital Committee

The Risk and Capital Committee, established on 1 January 2009, supports the Supervisory Board in understanding Fortis Bank (Nederland) N.V.'s exposure to risks inherent to banking activities, in overseeing the proper management of these risks and in ensuring the adequate capitalisation relative to these risks and to those inherent in the overall operations. It plays a pivotal role in defining and supervision of the risk appetite and risk tolerance of Fortis Bank (Nederland) N.V.

The Supervisory Board appoints the members of the Risk and Capital Committee from the members of the Supervisory Board. The Risk and Capital Committee consists of the following members: Michael Enthoven (Chairman), Inge Brakman, Erik van de Merwe and Hélène Vletter – van Dort.

The Risk and Capital Committee met on six occasions in 2009. In 2009, the Risk & Capital Committee oversaw the successful strengthening of the bank's balance sheet and risk management activities at Fortis Bank (Nederland) N.V. The committee discussed a number of specific matters, in addition to various recurrent topics such as: capitalisation and funding, risk tolerance, risk policy, country risk (Eastern Europe, Dubai, Greece, etc.), the largest credit risk exposures and transactions and new products and activities.

Remuneration of the Supervisory Board

The remuneration of members of the Supervisory Board of Fortis Bank (Nederland) N.V. in 2009 was EUR 0.4 million (2008: EUR 0.2 million).

Recognition

The Supervisory Board wishes to thank the former Management Board members Jeanine Helthuis and Frans Demmenie for their hard work and dedication over the past few years.

The Supervisory Board also wishes to thank the Management Board and all of the bank's employees for their dedication, hard work and professional focus on our business during a period of uncertainty and for their unflagging loyalty to the company. It has been another year which has demanded a great deal from everybody. We hope to be able to rely on their continuing support and commitment to meeting the challenges facing the bank in 2010.

Proposed dividend for 2009

For the year 2009, the Supervisory Board endorses the proposal to be made by the Management Board to the General Meeting of Shareholders not to pay any dividends on any of the outstanding ordinary shares and to reserve the dividend on the non-cumulative A preference shares held by Fortis FBN(H) Preferred Investments B.V.

Additionally, the Supervisory Board proposes to the shareholders to discharge the members of the Management Board of their responsibility for the conduct of business in 2009, and the members of the Supervisory Board for their supervision of management.

Amsterdam, 3 March 2010

Hessel Lindenbergh	Erik van de Merwe	Inge Brakman	Michael Enthoven	Ada van de Veer-Vergeer	Hélène Vletter-van Dort
Chairman	Vice Chairman	Member	Member	Member	Member

Business overview

Fortis Bank (Nederland) N.V. operates worldwide through three client-focused businesses: Retail Banking, Private Banking and Merchant Banking. Each business comprises several business lines. Summaries of the developments per business are given below. Inter-company effects and exceptional items have been eliminated from the numbers presented in this Business Activities section. Segment reporting is included in the Audited Financial Statements under note 13, Information on segments.

Retail Banking

	First half year 2009	Second half year 2009	31 December 2009	31 December 2008	31 December 2007
Total operating income	426	363	789	981	902
Total expenses	(288)	(291)	(579)	(631)	(603)
Change in impairments	(51)	(60)	(111)	(77)	(40)
Net operating profit	**62**	**27**	**89**	**220**	**213**
Exceptional items (net of tax)					(38)
Net profit attributable to shareholders	**62**	**27**	**89**	**220**	**175**
Cost/Income ratio	68%	80%	73%	64%	67%

	First half year 2009	Second half year 2009	31 December 2009	31 December 2008	31 December 2007
Due from customers	69,986	70,407	70,407	69,448	35,831
Due to customers	14,716	14,594	14,594	13,208	14,458
Assets under management	960	314	314	674	1,420
Credit risk (Basel I)	13,061	13,001	13,001	17,758	
Credit risk (Basel II)	6,542	5,351	5,351	7,628	
FTEs	2,301	2,188	2,188	2,310	

Retail Banking offers a wide range of products to individuals, self-employed people and small businesses.

Retail Banking operates through several labels, with the Fortis Bank Nederland Retail Banking label being the most visible one. Other labels are International Card Services (ICS), ALFAM and Fortis Bank Nederland Hypotheken Groep (FBNHG).

Retail Banking pursues a multi-channel strategy for most of its products, meaning products and services are offered not only through the branch network, but also through co-branding partners, the intermediary channel, online and via Contact Centres (including an Entrepreneurs' Desk and a Securities Desk).

Products and services to retail clients also include a number of unique propositions like a special mortgage for energy-saving measures, the Business Monitor for small enterprises and an integrated service concept for professionals (specialised account managers who advise on business and personal financial matters). The standard offering ranges from current accounts, mortgages, credit cards and consumer lending to insurance and wealth creation (savings and asset management). Self-employed clients and small businesses are offered additional services, including business accounts, financial leasing, factoring, loans, commercial mortgages and deposit facilities.

Key developments in 2009

One of the main objectives in 2009 was to generate high levels of customer satisfaction by providing extraordinary service and intensifying already strong relationships with clients. Enhanced customer satisfaction is essential for strengthening the client-bank relationship, which in turn motivates clients to do more business with the bank and promote its service to family and friends. Ongoing customer satisfaction surveys show that clients highly appreciate branches and employees. Retail Banking also engaged in an ongoing dialogue with clients about their service experience and introduced a sophisticated measurement tool to gauge how clients value the bank's services, right down to the level of the individual adviser. The focus in 2009 was on enhancing the service proposition and on regaining trust among clients and restoring the bank's image, both of which had been damaged in 2008. Retail Banking managed to win back client trust, consequently boosting savings levels, despite fierce competition on the savings market.

Daily banking

Daily banking products are supplied through the Retail Banking label network and channels. On 1 November 2009 the new General Banking Conditions and European Payment Services Directive entered into force and were implemented in the bank's systems. The bank simultaneously mounted a large-scale communication campaign to inform clients of these changes.

Mortgages

Mortgage products are provided through various labels and channels. The Retail Banking label mainly uses the branch network to sell its mortgages to clients.

Early 2009, Retail Banking introduced the Risk Inventory Tool, an instrument designed to provide clients with information on their financial position in the event of disability, unemployment, retirement or death. In relation to the bank's commitment to social responsibility, Retail Banking introduced the Energy Advantage Mortgage, a product that gives clients the benefits of several energy-saving measures.

In June 2009 the intermediary mortgage activities of the bank's stand-alone labels were restructured. As a result, Fortis Hypotheek Bank N.V. became a subsidiary of Direktbank N.V. and Direktbank N.V. has since operated under the trade name Fortis Bank Nederland Hypotheken Groep. The new trade name has no influence on the brand names in the market. FBNHG sells mortgages through independent mortgage advisers, mainly large organisations that provide financial services to clients and the intermediary channel of ASR Nederland.

The economic downturn hit mortgage volumes hard. House prices decreased in 2009 and houses remained on the market for longer periods. Measured in new production (gross volume EUR), the total mortgage market shrank by approximately 30% compared with 2008.

The bank's mortgage business also contracted in 2009. Mortgages provided under the National Mortgage Guarantee Scheme (NHG) were relatively popular. The total outstanding mortgage portfolio edged up in 2009 compared with 2008. Impairments in the mortgage portfolio increased substantially in 2009 compared with 2008, due mainly to a deterioration of the market situation. A number of new laws and regulations came into force in 2009 relating to transparency of mortgage-related costs and fees, to which Retail Banking adheres.

Consumer lending

Consumer lending products are currently supplied through the Retail Banking label and ALFAM. The Retail Banking label provides loans through the branch network, while ALFAM is the name for the combined consumer credit intermediary activities marketed under the labels DEFAM (professional credit brokers), Alpha Credit Nederland (automotive dealers/importers), Credivance (Intermediaries/agents) and GreenLoans (solar panels and sustainable green financing). Credivance comprises the integrated consumer credit activities of Direktbank Financieringen B.V. and Fortis ASR Financieringen N.V. ALFAM is the second largest player in the Dutch consumer credit intermediary market and serves as the back office for the bank's consumer credit activities.

Legislation and regulations governing consumer loans tightened in 2009 and, in line with market developments and competition, Retail Banking adjusted its interest rates in 2009. ALFAM strengthened its position in the consumer market, despite a decline in market volume. Media attention for consumer credit institutions, the decrease of consumer credit suppliers, a solid strategy and a sound acceptance policy boosted both portfolio growth and financial results.

Retail Banking's volume outstanding remained stable in 2009 compared with 2008. The effects of the economic crisis are not yet visible in client endowments; in fact, endowments in 2009 improved compared with 2008. Impairments also remained stable in 2009 compared with 2008.

In 2010, Retail Banking will continue to offer revolving credit, personal loan and current account overdraft facilities, as well as more personalised solutions. The bank will continue to pursue its successful collaboration with the Mondriaan Foundation in the purchase of art. Further implementation of the European Consumer Credit Directive is a key item on the agenda for 2010.

Credit cards

Fortis Bank (Nederland) N.V. supplies credit cards through International Card Services (ICS), an issuer of MasterCard and Visa credit cards with offices in the Netherlands, Belgium and Germany. With a total of 2.3 million credit cards, ICS is the market leader in the Benelux region. It is a wholly-owned subsidiary of Fortis Bank (Nederland) N.V. and operates as a monoliner under its own banking licence. Unlike most banks on the European continent, ICS has included revolving credit as a standard feature of all its cards for several years and is now the undisputed market leader in the Dutch market in outstanding consumer credit balances on cards.

ICS has strong ties and long-standing relationships with its co-branding partners, has a best-in-class client service (24 x 7) and is known for its sound risk control. In March 2009 ICS acquired a small card portfolio (with 25,000 credit cards). To cut future costs, ICS invested in upgrading and promoting its website in order to reduce the number of incoming telephone calls. Fewer telephone calls means fewer employees in the service departments, lowering costs. Once credit cardholders activate their ICS Internet package, printed statements are no longer sent, which also cuts costs. ICS managed to reduce Internet fraud significantly by implementing MasterCard and Visa Internet security features such as '3D secure' and 'Verified by Visa'.

Net growth of the total portfolio came to 31,000 cards, outstandings grew by 3.0% and, despite the economic crisis, turnover dropped by only 1.7% compared with 2008. Impairments decreased by 2.4%.

ICS expects to generate growth from its co-branded card programmes in 2010. Credit card usage is increasing noticeably, and ICS has responded by offering clients targeted products. ICS will continue to keep a firm grip on costs. Upgrades of the ICS website will be available in the first half of 2010 for cardholders of large co-branding partners. By the end of 2010, all credit cardholders should have had at least one offer to switch to an electronic monthly statement.

Savings and asset management

Savings and asset management products are provided through the Retail Banking label network. In 2009 Retail Banking strengthened wealth management expertise at local branches in order to improve the service offering to wealthy customers. Personal wealth managers (registered with the Dutch Securities Institute and part of the regional advisory unit) were assigned to customers with assets exceeding EUR 200,000. Customers with an investment portfolio exceeding EUR 100,000 were already assigned to a personal wealth manager.

The year under review was dominated by retention and growth. Retail Banking made the strategic choice of offering savings and investment as a combined service rather than as two separate services, and launched a number of mass media campaigns targeting clients' assets. Retail Banking closely monitored maturity of savings deposits throughout 2009 with a view to keeping liquidity available to the bank. The asset management department devoted its efforts to enhancing the transparency of Retail Banking advisory products, by offering a more focused product range aimed at the customer's entire portfolio (standardised model portfolios) and improving the information provided on certain products.

Interest rates on the Dutch savings market showed a downward trend. Fierce competition for savings resulted in high funding costs and shrinking margins on savings in 2009. The total volume of retail savings in the Dutch market increased by 15% (source: CBS statistics Netherlands) in 2009. Assets under management went up by 14% in 2009 compared with 2008, due mainly to a stock market recovery.

Retail Banking will continue to pursue its strategy in 2010, remaining focused on asset management services. It will closely monitor the market and its competitors, responding alertly to developments, and will support the sales organisation with various mass and local media campaigns. Legislation and regulations governing cost and product transparency will continue to receive Retail Banking's attention.

Insurance
Retail Banking is an intermediary for insurance products which are sold through all channels, with complex insurance products sold only through Retail Banking branches. Products offered include life, disability, unemployment and pension insurance and a range of indemnity insurances.

Bank savings and savings-based mortgage products are more popular than wealth accumulating insurance products. The standard advice methodology introduced in 2009 has yet to produce a visible increase in sales of mortality, disability and pension insurance. The risk portfolio for home contents, home, liability, legal aid, travel and car insurance has decreased due to the intense price war being waged through online channels, while clients and the media are keeping a critical eye on commissions of intermediary channels. Fortis Bank (Nederland) N.V. has taken effective and transparent measures in this area and will continue to do so in the future. Insurance revenues decreased in 2009 due to the changed market circumstances. 59% of income was generated by life insurance (primarily an ongoing provision on savings-based mortgages) and 41% by indemnity insurance.

Small Enterprises & Professionals
Small enterprises and professionals (SE&P) are served by the special SE&P units through the branches.

The first half of 2009 saw a robust recovery of business confidence in Fortis Bank (Nederland) N.V., with the volume of business deposits regaining ground and even exceeding the bank's expectations. Although economic developments depressed business lending, total lending remained up to standard in comparison with demand in 2008 and inched up in specific segments.

Customer satisfaction figures regarding client contact are at healthy levels. Fortis Bank (Nederland) N.V. is committed to transparency in its communication and works as a partner with its clients. The bank commissioned an independent survey to identify the problems the SE&P target group encounters in economically challenging times. The results of this survey were communicated to clients and prospects at special events, where participants could share experiences with their peers and find support in making strategic decisions. Various campaigns targeting entrepreneurs were launched, highlighting the bank's know-how and experience. SE&P also introduced the Business Monitor, an online tool that helps entrepreneurs analyse various aspects of their business and operations, from strategy and HR policy to management skills and finance. Participants receive an extensive report with independent advice, free of charge, identifying opportunities and how to exploit them with the bank's assistance.

All these efforts, combined with the commitment to engage in a dialogue with clients, resulted in strong customer satisfaction figures. Retail Banking positioned itself as a specialised bank for professionals, introducing a newsletter and regularly organising workshops for this group of clients.

Volumes outstanding on the SE&P lending portfolio remained stable in 2009 compared with 2008. However, due to the adverse climate on the SME market, the change in impairments increased in 2009 compared with 2008.

In 2010, Retail Banking will strive to maintain and, where possible, improve customer satisfaction levels and to position Fortis Bank (Nederland) N.V. as a specialised bank for small enterprises and professionals.

Focus in 2010

Retail Banking's priorities for 2010 are to further strengthen ties with clients and to identify opportunities that meet their needs. Clients demand transparent advisory services and communication, while market developments have caused a shift in the need for financial products and services. Banks, meanwhile, are subject to increasingly strict commercial legislation and regulations. Retail Banking will remain constantly alert to changes in the market, ceaselessly enhancing its organisation, product offering and underlying systems. Retail Banking will do everything possible in the year ahead to ensure that clients are not inconvenienced by the planned integration with ABN AMRO.

Operating income

Total operating income fell 20% to EUR 789 million in 2009. Despite a substantial increase in the savings portfolio in 2009, income suffered from significantly higher funding costs. In addition, commissions and fees (securities, insurance, payments) declined due to difficult market circumstances. International Card Services benefited in 2008 from non-recurring income of EUR 33 million net related to the Visa IPO, while 2009 was positively impacted by a capital gain on the sale of the subsidiary ASR Bank to ASR Verzekeringen.

Costs

Total costs for 2009 came down by EUR 52 million (or 8%) compared with 2008, thanks to lower staff costs and lower overhead charges. Changes in impairments increased to EUR 111 million in 2009 from EUR 77 million in 2008.

Net profit

Net profit declined by 60% to EUR 89 million in 2009. International Card Services benefited in 2008 from non-recurring income of EUR 33 million net related to the Visa IPO. The cost/income ratio increased from 64% to 73%.

FTEs

The number of FTEs declined from 2,310 FTE in 2008 to 2,188 FTE in 2009, due mainly to internal transfers and natural turnover.

Private Banking

	First half year 2009	Second half year 2009	31 December 2009	31 December 2008	31 December 2007
Total operating income	60	64	124	216	314
Total expenses	(62)	(62)	(124)	(172)	(166)
Change in impairments	(4)	(13)	(17)	(2)	(4)
Net operating profit	**(3)**	**(8)**	**(11)**	**38**	**122**
Exceptional items (net of tax)				(11)	(6)
Net profit attributable to shareholders	**(3)**	**(8)**	**(11)**	**27**	**116**
Cost/Income ratio	103%	97%	100%	80%	53%

	First half year 2009	Second half year 2009	31 December 2009	31 December 2008	31 December 2007
Due from customers	4,463	4,652	4,652	4,262	4,511
Due to customers	6,885	7,004	7,004	5,714	10,127
Assets under management	24,754	25,551	25,551	23,433	31,547
Credit risk (Basel I)	2,386	2,623	2,623	2,534	
Credit risk (Basel II)	925	791	791	1,091	
FTEs	586	562	562	554	

Private bank MeesPierson offers integrated asset and liability management solutions to high net worth individuals, their families, their businesses and their advisers. It establishes long-term relationships with its clients based on an in-depth understanding of their individual needs and goals. Its combination of skills allows MeesPierson to address specific needs, ranging from wealth preservation and socially responsible investments to capital growth and entrepreneurial needs. Relationship managers draw on the in-house expertise of specialists in structuring wealth, including estate planning, investment services, financing and insurance. This integrated service model distinguishes MeesPierson in the market and ensures that clients receive the highest standard of service and personal attention.

MeesPierson was ranked the number one private bank in the Netherlands by *Euromoney* magazine in January 2010.

Key developments in 2009

Market conditions remained challenging in 2009 with transaction volumes and interest margins low across all markets.

MeesPierson’s asset base showed resilient growth, enjoying the rewards of greater client trust, market recoveries and currency effects from operations in Guernsey, as well as net asset inflows from clients, in particular in the Netherlands. Overall, assets under management grew from EUR 23.4 billion in 2008 to EUR 25.6 billion in 2009.

Business initiatives revolved around three major areas: business as usual, separation and integration. MeesPierson continued to devote attention to business as usual, strengthening the bank’s ability to provide integrated advice to clients, including risk assessments. Its strong client focus helped expand the client base and strengthen market positions in strategic segments such as entrepreneurs, ultra high net worth individuals and institutions.

Separation in 2009 was not limited to the split-off from Fortis Bank SA/NV, but also involved hiving off the Intertrust operations. Building an international service offering through partnerships, rebuilding the talent management and development capabilities and rebranding to MeesPierson were only a few of the many successful separation projects. With approximately 90% of these projects finalised, the separation is expected to be fully completed in the third quarter of 2010.

Preparations for the integration of ABN AMRO and Fortis Bank (Nederland) N.V. were in full swing in 2009. Plans for the new private banking organisation and transition process were presented in the autumn, and preparations for implementation are currently under way.

Focus in 2010

MeesPierson will maintain its strong client focus in the year ahead, responding alertly to the challenges Fortis Bank (Nederland) N.V. is set to face posed by market circumstances and the upcoming integration. By keeping its holistic wealth management approach at the heart of its service, MeesPierson expects to retain clients and increase its share of wallet while guiding its clients towards the new and integrated private bank. MeesPierson will also continue to expand its service offering for entrepreneurs, ultra high net worth individuals and institutions.

Operating income

Total operating income fell 43% to EUR 124 million in 2009, due mainly to a decrease in net interest income (high funding costs and lower margins on savings and deposits), lower commissions and fees and provision. The transfer of activities in Singapore in 2008 resulted in a decline in income and expenses. In 2009 as part of the separation, activities in Luxembourg were transferred to Fortis Luxembourg, negatively impacting operating income.

Costs

The cost base is under control. Overall costs were reduced by 28% to EUR 124 million in 2009 on the back of the rightsizing operation that followed last year's separation from Fortis Bank SA/NV and worsening market conditions.

Changes in impairments (excluding exceptional items) increased to EUR 17 million in 2009 from EUR 2 million in 2008.

Net profit

Private Banking posted a net loss of EUR 11 million in 2009, negatively impacted by one-offs.

FTEs

Private Banking employed 562 FTEs in 2009, a slight increase of just over 1% compared with 2008. The number of FTEs rose in the first half of the year due to a scope change and came down in the second half.

Merchant Banking

	First half year 2009	Second half year 2009	31 December 2009	31 December 2008	31 December 2007
Total operating income	590	661	1,251	1,737	2,032
Total expenses	(440)	(553)	(993)	(922)	(962)
Change in impairments	(137)	(145)	(282)	(243)	13
Net operating profit	**23**	**23**	**46**	**448**	**876**
Exceptional items (net of tax)	16		16	(911)	(38)
Net profit attributable to shareholders	**39**	**23**	**62**	**(463)**	**838**
Cost/Income ratio	75%	84%	79%	53%	47%

	First half year 2009	Second half year 2009	31 December 2009	31 December 2008	31 December 2007
Due from customers	66,197	48,478	48,478	49,463	60,986
Due from banks	19,142	24,615	24,615	20,518	36,509
Due to customers	53,860	33,801	33,801	66,474	37,569
Due to banks	28,892	35,033	35,033	17,497	70,392
Assets under management	2,886	2,759	2,759	3,971	4,846
Credit risk (Basel I)	39,467	37,469	37,469	42,124	
Credit risk (Basel II)	33,569	23,408	23,408	27,648	
FTEs	4,412	3,477	3,477	4,521	

Merchant Banking is the wholesale bank of Fortis Bank (Nederland) N.V. It provides tailored financial services to corporate and institutional clients based in the Netherlands and in selected areas abroad. Its full range of banking services includes treasury, fixed income, equities, corporate finance, capital markets, transaction banking, trade services, project finance, trade finance, private equity and structuring. Merchant Banking specialises in global custody, securities financing, clearing services and fund administration. Merchant Banking's activities are grouped into three segments: Commercial Banking, Corporates and Markets.

The divestment of Intertrust Group was announced in December 2009. The transaction was completed on 29 January 2010, with economic completion on 31 December 2009. Since 1 January 2010, the benefits, costs and risks of Intertrust have been for the account of the buyer. On 18 December 2009, the bank announced it was in exclusive negotiations regarding the sale of Prime Fund Solutions.

Merchant Banking - Commercial Banking

Commercial Banking aspires to be the partner of choice for medium-sized enterprises. It serves its clients – Dutch companies, often internationally active – through a network of 23 Business Centres located in 19 cities throughout the Netherlands. This growing and profitable market has been a core segment of the bank for several years now.

Commercial Banking is market leader in providing financial services to the port and logistics industry and in third-party banking, and it specialises in the fields of trade finance and fashion. Its product offering includes lending, cash management services, factoring, treasury, hedging and other risk management services, trade and documentary services, integrated financial services to the enterprise and entrepreneur, corporate finance and advisory services. Dedicated specialists serve clients for their daily banking needs at four regional Business Support departments. As of 31 December 2009, Commercial Banking employed 401 FTEs.

Key developments in 2009

Against the background of relentlessly volatile financial markets, with the economic downturn tightening its grip on the Dutch economy, Commercial Banking embarked on several initiatives in order to secure its three top priorities: (i) being a reliable partner for clients, prospects, intermediaries and other stakeholders; (ii) motivating and retaining staff; and (iii) optimising the risk/return profile of the portfolio under management. Great emphasis was placed on effectively managing the loan portfolio under the exceptional economic circumstances. This entailed strict monitoring and engaging in a proactive dialogue on risk management with clients. This approach was combined with active prospecting by the Business Centres, as Commercial Banking aimed to attract new clients and expand its loan portfolio. In the second half of 2009 this approach boosted the deal flow significantly. Meanwhile, Commercial Banking's client base remained stable, as attrition proved to be very limited. Another priority in 2009 was to increase savings and deposit volumes, a goal the Business Centres achieved through its dedicated approach, supported by the enhanced liabilities management organisation.

In addition, various separation activities were conducted in 2009, enabling Commercial Banking to successfully operate as a stand-alone bank, and preparations for the integration with ABN AMRO were made.

Focus in 2010

With the economy showing fragile signs of recovery, investments by Dutch medium-sized companies are expected to surge, as is M&A activity. At the same time, the economic climate still poses significant risks to businesses and banks active in the medium-sized enterprises segment. Commercial Banking acknowledges the fact that banks play an important role in society and that the bank needs to restore trust among clients and the public and maintain its position as an attractive employer for talented individuals.

Commercial Banking has therefore defined three strategic objectives for 2010:

- *controlled growth*: growth of Commercial Banking's client base, loan book and cross-sell with clients and prospects in its target segment with a suitable risk profile and at conditions reflecting the risk profile of the services provided;
- *responsible banking*: effective risk management, sustained reliability of high-quality service to clients, and balanced development of the savings & deposits and loan books;
- *change with trust*: continuous attention to fostering trust in Commercial Banking among clients and other stakeholders; creation of an environment where employees feel confident, while Commercial Banking embarks on a new stage in the integration with ABN AMRO.

Merchant Banking – Corporates

Corporate Banking

Corporate Banking is responsible for strategic relationship management of large Dutch corporates with turnover exceeding EUR 250 million. Fortis Bank (Nederland) N.V. supports those clients with a full range of debt, capital markets and advisory products & services. As at 31 December 2009, Corporate Banking employed 44 FTEs.

Key developments in 2009

Corporate Banking's total income in 2009 was well above the level of 2008. Very low activity in the M&A and loan markets was more than offset by the number of corporates that faced difficulties keeping their ratios within agreed levels, necessitating either refinancing, a rights issue, amendments or resetting of covenants. Fee income combined with higher interest margins that reflect the new market situation and credit risk accounted for the increase in income and profit.

Expenses were kept well under control and Corporate Banking heightened its focus on risk monitoring. Despite adverse economic circumstances, no large provisions were created in 2009. In the first half of the year, Corporate Banking devoted a great deal of attention to liquidity and funding initiatives. The rise in deposits of more than EUR 1.8 billion in the first half reflected solid confidence among clients. Volumes on lending and deposits declined in the second half of the year as clients focused on paying off debt.

Focus in 2010

Corporate Banking will continue to create value by allocating capital primarily to key Dutch corporates with cross-sell opportunities. Sector bankers with outstanding sector expertise will be the strategic business partner for clients when they encounter complex financial or strategic issues. The lending portfolio is expected to grow compared with 2009 as economic recovery promotes more activity in the market. Corporate Banking will strive to maintain high customer satisfaction while pressing forward with preparations for integration with ABN AMRO. Following the integration with ABN AMRO, the bank will offer its enhanced product proposition to clients, with a view to restoring ABN AMRO's top position in the Dutch large corporate market. It will also work to regain its position as the employer of choice for first-class professionals and graduates.

Investment Banking

Investment Banking provides products and services either to its own clients or to clients of other business lines within the bank, such as Corporate Banking, Commercial Banking and ECT. Investment Banking comprises the following departments:

- Sectors: Public Banking and Real Estate Finance
- Skills & Advice: Acquisition & Leveraged Finance, Export & Project Finance, Syndications, Structured Finance, Corporate Finance & Capital Markets
- Participations: Private Equity

Sector - Public Banking

Public Banking is responsible for the relationship management of public sector clients, which include public institutions such as housing associations, municipalities, provinces and water boards. Health Care, part of Public Banking, is dedicated to hospitals, nursing homes and institutions for the mentally ill and disabled. Public Banking provides financial support and other banking services such as cash management and portfolio credit and interest management. On 31 December 2009 Public Banking employed 26 FTEs.

Public Banking turned in positive results in 2009, despite the adverse external environment. In the beginning of 2009, Public Banking had to contend with liquidity constraints. Liquidity constraints slightly depressed income, but this was offset by the overall increase in credit margins. Deregulation of the health care market and rapidly changing legislation have made the public banking business more complex. Thanks to the high credit standing of the bank's clients and intensified relationship management, Public Banking managed to avoid specific impairments of the credit portfolio. One of the main objectives in 2009 was to enhance cross-selling of other banking products; business activity with Global Markets increased, in particular in interest management and hedging.

In 2010, Public Banking will guide relationship management towards a more dedicated and cost-efficient service model, which means that each client will receive the service and attention they require, justified from a cost/benefit perspective. Priority will be given to maintaining a high standard of customer satisfaction. Public Banking will also intensify its product development. ABN AMRO and Fortis Bank (Nederland) N.V. are complementary in the field of public banking and together are poised to form a strong, leading player in the market.

Sector - Real Estate Finance

Real Estate Finance offers services such as corporate lending and investment and development finance. It pursues a relatively low-risk financing policy which takes into account the cash flow generated by the financed asset combined with a modest loan-to-value. Real Estate Finance is based in Rotterdam and is active in the Dutch professional real estate market. As at 31 December 2009, Real Estate Finance employed 18 FTEs.

The commercial real estate investment market saw very little activity in 2009. Volumes dropped by over 50% compared with 2008, which was already 35% below the 2007 level. Overall property values slipped further by 10-15%. Development markets stagnated, especially in the residential submarket. As a result of these developments, financing structures were considerably less aggressive and spreads were substantially higher. Nearly all foreign real estate banks left the Netherlands and only a few Dutch real estate banks remained active. One of Real Estate Finance's top priorities in 2009 was to strictly monitor the existing portfolio. Occasionally new AAA projects were taken up, such as development financing of a new office building for KPMG realised by OVG Projectontwikkeling or investment financing of a high-quality retail portfolio. All bad risks were earmarked and the average loan-to-value inched up to 67%, a comfortable position. An amount of EUR 11.8 million (38 bps of total commitments) was added to the provision for impairments.

Markets are forecast to slowly stabilise in 2010, although commercial real estate at B locations is expected to be hit by rising vacancy rates and slightly declining values. Development activity will remain low, but a possible opening of the existing 'GO' instrument, an enterprise finance guarantee by the government, to development and construction companies could stimulate this activity. A top priority in 2010 will be to strictly monitor the portfolio while seeking cautious expansion of AAA projects.

Skills, Advice and Participations

Investment Banking comprises a number of teams with highly specialised skills.

Acquisition & Leveraged Finance (A&LF) provides tailor-made debt solutions to financial sponsors and bank clients for leveraged buyouts, management buyouts and leveraged corporate takeovers. Active in the European market, A&LF focuses on Netherlands-linked transactions in the EUR 10-500 million debt range. In response to the deteriorating economic climate in 2009, A&LF continued to shift its focus from intake of new transactions to active risk and portfolio management. This resulted in a number of debt restructurings and other successful measures aimed at improving the credit quality of the portfolio of leveraged transactions. As at 31 December 2009, A&LF employed 14 FTEs.

Global Export & Project Finance (GEPF) is the bank's centre of expertise for export and project finance solutions (including public private partnership and infrastructure finance). GEPF acted as leading bank in several Export Credit Agency-supported export finance transactions, involving the bank's clients. It has also positioned itself for several upcoming Dutch public private partnership transactions. As at 31 December 2009, GEPF employed 10 FTEs.

Loan Syndications is active across all sectors and supports clients and provides the bank's clients with tailor-made advice on structuring syndicated loan transactions. It has secured leading roles in a substantial number of prestigious mandates, such as KLM's EUR 530 million facility, Glencore's Forward Start Facility of USD 6.6 billion, and Friesland Campina's debut EUR 1 billion syndicated credit facility. Furthermore, Loan Syndications was instrumental in several restructuring cases. As at 31 December 2009, Loan Syndications employed 6 FTEs.

Structured Finance provides tailor-made financing solutions to core clients of the bank, with an emphasis on Energy, Commodities & Transportation and Financial Institutions. It also focuses on sourcing alternative funding and liquidity for the bank. These efforts included identifying and subsequently pledging to DNB additional eligible assets and restructuring existing transactions to minimise the liquidity impact on the bank. The focus in 2010 will be on raising alternative funding and enhancing financing to shipping companies. As at 31 December 2009, Structured Finance employed 11 FTEs.

Corporate Finance & Capital Markets (CFCM) provides advice on mergers & acquisitions and capital markets. In 2009, CFCM provided advice on a number of high-profile transactions, such as the takeover of Eriks by SHV and the sale of Intertrust Group. On the capital market side, notable transactions were the capital restructuring of Heijmans, Wavin (both by means of a rights issue) and Ordina (primary offering) and the new issues for Draka and SBM Offshore. On the fixed income side, CFCM was appointed joint lead manager in bond issues for companies such as KPN and Heineken. As at 31 December 2009, CFCM employed 52 FTEs.

Fortis Private Equity (FPE) takes controlling shareholdings – usually in the range of EUR 5-25 million – in mid-sized Dutch companies. FPE entered into various new transactions in 2009. In addition to two new shareholdings (TurboNed and SNT), FPE turned one of its minority investments (Kuiken) into full ownership in a restructuring process. The focus in 2009 was also on actively managing and supporting companies in the existing portfolio. In April 2009, FPE realised a successful exit (Maître Paul), returning a 54% internal rate of return. At 31 December 2009 FPE employed 11 FTEs.

Energy, Commodities & Transportation and Principal Finance

Energy, Commodities & Transportation (ECT) offers integrated and innovative finance solutions to international companies active in the global energy, commodities and transportation markets. At the end of 2009, ECT employed a workforce of around 235 FTEs in five offices around the world (Rotterdam, Amsterdam, Oslo, Dubai and Singapore). Fortis Bank (Nederland) N.V. holds a prominent position in ECT markets based not only on its industry and risk knowledge, but also on its long-term commitment to these markets and strong client base. ECT's activities can be described as follows:

- *Energy* is engaged in offshore, oil and gas services, renewable energy (such as wind, solar and waste), carbon banking and utilities in Western Europe. Fortis Groenbank provides green financing for sustainable projects;
- *Commodities* finances the physical flow of agri, metals, steel and energy products, from the pre-production stage through to storage and delivery;
- *Transportation* offers financing solutions to companies active in deep-sea shipping, container transport and the aviation sector;
- *Principal Finance* is a team that acquires assets in ECT industries at attractive valuations, provides subordinated debt or preferred equity with upside sharing and invests selectively in companies and projects of core clients of the bank.

Typical financings in these asset classes are asset backed with predictable underlying cash flows, resulting in less volatile returns than private equity-type investments.

The ECT portfolio comprises a balanced mix:
- Tenors: weighing short-term trade exposures (ECT-Commodities) with longer term asset and cash flow backed exposures (ECT-Energy & Transportation).
- Loss Given Defaults (LGDs): in general all ECT sectors have low LGDs because of the truly asset-based nature of the financing in conjunction with extensive knowledge, close monitoring and management of specific collaterals.
- Credit Ratings: widely spread portfolio in subsectors, geographies and individual counterparties, thus avoiding credit concentrations and enhancing resilience through the economic cycle.

Key developments in 2009
All efforts in 2009 were aimed at supporting clients in this financially difficult year and at being a trusted and professional partner in support of their international business. Fortis Bank (Nederland) N.V. started rebuilding its international franchise in the Energy, Commodities & Transportation markets by opening new offices abroad. In May, the bank opened a representative office in Dubai for covering commodity clients in the Middle East who are active in the energy and metals trade. Fortis Bank (Nederland) N.V. opened a branch in Singapore serving all ECT sectors in the Asian time zone.

Energy reinforced its global top three position in offshore oil & gas services by expanding leading positions in the financing of Floating Production Storage & Offloading systems (FPSOs). It maintained its footprint in utilities by leading several new power plant financing transactions for key European utilities and developers.

Fortis Bank (Nederland) N.V.'s strong relationships with commodity clients gave it a leading role in transaction syndicates. Out of the thirteen syndicated transactions for top commodity traders, Fortis Bank (Nederland) N.V. was book runner and/or mandated lead arranger nine times. After the separation from Fortis Group in 2008, Commodities saw its worldwide position slip from top three to top five, though it ended second place in the global competition Best Bank for Soft Commodity Finance organised by Trade and Forfaiting Review (after holding first position in 2005-2008). ECT was recognised for its contribution to shipping finance, receiving the Shipping Deal of the Year North America award from Jane's Transport.

Fortis Escrow became part of ECT in 2009. This team of fifteen professionals arranges escrows, i.e. a blocked account held by a neutral and financially trusted third party -- the escrow agent -- who exchanges monies or assets until a predefined condition is met. Fortis Escrow secures financial obligations arising from acquisitions, cross-border trading transactions and international projects.

Focus in 2010
A key priority for ECT in the year ahead will be to re-establish its presence in the American time zone, at which point it will cover all three main time zones. This will enable ECT to expand its leading positions in the international ECT industries.

ECT believes that its combination of products – trade and transaction services, finance, advisory and risk-related products – is key for delivering added value to clients. At the same time, the economy is not out of the woods yet. ECT will therefore continue to pursue prudent risk management in order to limit credit losses.

ECT will underscore its commitment to social and environmental responsibility by engaging in environmental finance and providing capital and risk solutions to waste-to-energy and carbon emission reduction projects. Finally, it will seek to regain the bank's global top three position as a provider of financial solutions to international companies in the global ECT industries in the coming years.

Transaction Banking
Transaction Banking provides a wide range of cash management products and services to businesses seeking to optimise their working capital and financial supply chain. Its core activities involve the acquisition of money transfer and subsequent surplus balances, providing a stepping stone for profitable cross-selling of additional financial products and services. Transaction Banking provides high-quality, tailor-made services and strives to offer creative and competitive pricing at market conditions. As at 31 December 2009, Transaction Banking employed 59 FTEs.

Key developments in 2009

The introduction of SEPA and the Payment Services Directive affected the European payment landscape in 2009 and will continue to do so in 2010.The separation from Fortis Group had a major impact on Transaction Banking's European cross-border cash pooling proposition. Nevertheless, Transaction Banking managed to retain most of its cross-border business. All efforts were aimed at supporting clients in this financially challenging year.

Despite the fact that low EUR/USD interest rates heavily impacted margin income, Transaction Banking delivered stable fee income over 2009. The market share for Dutch e-commerce payments grew substantially.

Transaction Banking's Service Center outperformed in this challenging year; Fortis Bank (Nederland) N.V. was awarded runner-up Dutch Cash Management Bank for 2009 (*Management Team* magazine, October 2009).

Focus in 2010

Transaction Banking will continue to provide its current products and services, focusing on reliability, customisation and selective innovation. Ongoing cooperation with other business lines within the bank will increase and promote cross-selling. Transaction Banking will concentrate specifically on e-commerce payments, SEPA developments, tailor-made settlement frameworks and a new international proposition. Fortis Bank (Nederland) N.V. will build a new European network by opening branches in the United Kingdom, France, Belgium and Germany. Meanwhile, partner banking will be leveraged. Fortis Bank (Nederland) N.V. and ABN AMRO have complementary partner banking networks through which the future bank will offer tailor-made international solutions. Transaction Banking will continue to pursue a proactive and solution-driven approach.

Global Trade Services

Global Trade Services is the competence centre for documentary payments, supporting around 2,500 internationally operating Dutch companies in their trading activities. Global Trade Services offers collection, documentary credit and guarantee products. As at 31 December 2009, Global Trade Services employed 55 FTEs.

Key developments in 2009

The main focus in 2009 was on managing the counterparty risk involved in these international transactions; nevertheless, some provisions had to be taken. At the same time, Global Trade Services repositioned itself in relation to products and markets by focusing on high-volume customers rather than specialised structured transactions with longer tenors and higher amounts. An automated platform for trade products was introduced for high-volume customers and a new state-of-the-art processing system was implemented as a result of the separation.

Focus in 2010

The focus in 2010 will be on serving Commercial Banking and Corporate Banking clients while – once the planned integration with ABN AMRO has been completed – building the best trade bank in the Netherlands.

Fortis Commercial Finance

Fortis Commercial Finance (FCF), a wholly-owned subsidiary of Fortis Bank (Nederland) N.V., is an asset-based service provider, combining know-how and skills in commercial finance. FCF employs around 660 FTEs and ranks number six worldwide with strong market leadership positions in the Benelux region. Its extensive international network serves clients in 20 countries, including the Netherlands, Belgium, France, Germany, the United Kingdom, Spain, Turkey, Denmark, Poland, Italy, Switzerland, Luxembourg, Sweden and Hong Kong. Fortis Commercial Finance engages in partnerships in Austria, Romania, the Czech Republic, Slovakia, Hungary and Portugal. Its product scope encompasses accounts receivable finance, inventory finance, multi-local commercial finance, floor planning, reverse factoring, credit cover and outsourcing of credit management services.

Key developments in 2009

In response to higher risks resulting from the economic downturn, FCF placed additional emphasis on service excellence, risk management and cost control. It also successfully managed the separation from Fortis Bank SA/NV. FCF continued to focus on its multi-local commercial finance programme – which represents over 20% of its business volume – as a unique competitive differentiator, while serving international clients in a uniform manner. FCF also concluded a commercial partnership agreement with Fortis Bank SA/NV to continue collaboration on factoring and commercial finance in many countries where both are active.

Focus in 2010

In the year ahead, Fortis Commercial Finance will continue to devote unflagging attention to sound risk management and best-in-class service. In parallel, FCF will strive to deliver value-added services to clients via its leading position in multi-local commercial finance.

Merchant Banking – Markets

Global Markets

Global Markets (GMK) provides innovative, customised and integrated financial solutions for financing, investment and hedging needs. GMK serves internal clients – Brokerage, Clearing & Custody, Prime Fund Solutions – and external clients, such as asset managers, pension funds and hedge funds, as well as clients of Commercial, Corporate, Private and Retail Banking.

In recent years, GMK has acquired a leading position in securities financing and carbon trading. GMK aims to serve its clients in three time zones in 2010.

Securities Financing provides collateralised access to global capital markets, optimising internal and external asset pools by arbitraging its repo values. In addition, Securities Financing plays a central role in executing Fortis Bank (Nederland) N.V.'s liquidity policy through its collateral and bond-financing mandate. Securities Financing has both a Dutch and a broad international client base.

GMK has around 270 employees and pursues growth by focusing on a specialised range of niche products and solutions.

GMK's business lines are:

- Securities Financing, which has a top position worldwide and offices in Europe and Asia;
- FX & Rates Trading, a market maker in FX and interest rate products;
- FX & Rates Sales, which advises both internal and external clients of Fortis Bank (Nederland) N.V. on forex, money market, fixed income and forex & rates derivatives products;
- Energy, Carbon & Commodities, which facilitates trading in carbon, energy and commodity products to all clients of Fortis Bank (Nederland) N.V.;
- Equities Brokerage & Research, a full service broker of Benelux all cap shares;
- Financial Institutions Group (FIG), responsible for the relationship and sale of Merchant Banking products to banks and other financial institutions in OECD countries and developing markets.

Key developments in 2009

Despite the challenging market environment and changes within the company, GMK turned in a good performance throughout 2009. GMK has been affected by the shortage of liquidity, which is reflected in higher funding costs. The separation from Fortis Bank SA/NV caused GMK to lose parts of its international network and trading activities. After the break-up, GMK installed a new management team and redefined its objectives, supported by a new strategy. It also broadened its service offering by reintroducing a first-rate e-commerce client portal for commoditised forex and rates products.

Focus in 2010

The main priorities for 2010 are to extend GMK's leading positions of the securities financing and commodities businesses into other global market activities and to boost market confidence while maximising customer satisfaction. GMK will introduce a front-to-finance deal execution platform enabling high-level transparency and internal control and has launched a data warehouse project for finance, risk and performance reporting. GMK will seek to expand its international footprint by regaining access to the US and Asian capital markets and delivering an international standard range of products and solutions, and will build up an experienced commodities team based in the United Kingdom.

GMK also aims to support all of Fortis Bank (Nederland) N.V.'s business lines and product teams by managing relationships and credit lines for more than 220 top clients worldwide. The GMK organisations of Fortis Bank (Nederland) N.V. and ABN AMRO have little overlap, presenting an opportunity for rapid and seamless integration.

GMK aspires to be a leading capital markets provider for core client franchises of the bank and to achieve further growth in global product niches such as Securities Financing and Energy, Carbon and Commodities.

Brokerage, Clearing & Custody

Brokerage, Clearing & Custody (BCC) offers an integrated package of brokerage, clearing and custody services. BCC is a truly global player with offices in Amsterdam, Frankfurt, Brussels, London, Chicago, Paris, Sydney, Tokyo, Hong Kong and Singapore. With a top three ranking in every time zone based on turnover and market share, BCC is a robust part of the global financial infrastructure.

BCC's services cover the entire value chain, from market access and execution to clearing and settlement. In its capacity as general clearing member, BCC guarantees clients to all counterparties and performs next-to real-time risk management. BCC also offers 24/5 global services on a multi-asset class basis and provides collateralised financing and securities borrowing and lending services to professional traders. Its client base includes retail aggregators, private banks and institutions.

Based in ten offices across the globe with 702 FTEs at year-end 2009, BCC provides global market access and derivatives and securities clearing services on all major exchanges in the region in its capacity as General Clearing Member. It also offers indirect worldwide coverage of other markets or exchanges through a network of executing and/or clearing brokers.

BCC's clearing services are provided out of Fortis Bank Global Clearing N.V., a wholly-owned subsidiary of Fortis Bank (Nederland) N.V. and a fully licensed bank. This setup ensures a transparent and clear separation from a systemic risk perspective and maximises protection for the benefit of Fortis Bank (Nederland) N.V.'s different client groups.

Key developments in 2009

In the year under review, the bank undertook several restructuring activities to legally and operationally separate itself from Fortis Bank SA/NV and to secure services to clients.

The Brussels branch of Fortis Bank Global Clearing N.V. was established on 2 June 2009. This branch hosts Brussels-based sales and employs customer support staff who were part of the BCC organisation.

As a result of the separation from Fortis Bank SA/NV in October 2008, BCC's Chicago office Fortis Clearing Americas LLC was transferred to Fortis Bank SA/NV, despite being an integral part of the BCC organisation. As a presence in the United States is vital for maintaining BCC's global position, Fortis Bank (Nederland) N.V. acquired Fortis Clearing Americas LLC on 4 August 2009.

The Singapore branch of Fortis Bank Global Clearing N.V. was opened on 18 September 2009. This new branch performs client funding and clearing services from a single regulated bank. The Singapore office will be strongly positioned to function as the future hub for funding BCC's Asia – Pacific activities.

After acquiring all necessary licences and memberships to provide third-party clearing services, Fortis Clearing Japan, a wholly-owned subsidiary of Fortis Bank Global Clearing N.V., became operational in the third quarter of 2009. This subsidiary is a vital part of BCC's global presence.

Focus in 2010

BCC's focus in Europe and Asia will be on retaining market leadership, while in the United States it will pursue growth, especially in clearing and financing of equity option players. Initiatives launched in recent years to sustain future growth can now be marketed to clients and prospects. BCC will roll out its global energy and commodities clearing product worldwide, sell contracts for differences and FX products clearing in Europe, and launch its new futures clearing service for Commodity Trading Advisors in the United States.

Prime Fund Solutions

Since its inception in 1969, Prime Fund Solutions (PFS) has pioneered the provision of fund services and financing to the alternative asset management industry. PFS provides an integrated package of fund administration, transfer agency, cash management, custody, bridge and leverage financing, and prime brokerage, mainly to hedge funds and funds of hedge funds as well as selectively to long-only managers. At year-end 2009, PFS employed 525 FTEs.

Key developments in 2009

This past year was a difficult one for the financial sector in general. Despite better returns from alternative funds compared with most long-only funds, the hedge fund sector contracted, with redemptions and poor performances causing the hedge fund market to shrink by more than 30%. As a result, PFS introduced a number of successful measures to lower its cost base, including further rightsizing of its organisation, cutting costs by stopping or slowing down several projects, making better use of its existing workforce through greater efficiency and reducing its other operating expenses. Under these circumstances, PFS continued to be on high alert with respect to its risk management, taking such measures as proactive management of drawings on facilities, further tightening of risk model parameters, discouraging clients from drawing and daily reporting.

PFS discontinued its prime brokerage services in 2009. Existing clients have been transferred out and the business is in the process of winding down, to be finalised in the first quarter of 2010. The PFS British Virgin Island office was also closed down, with local domiciled clients transferred to the Cayman office. This measure was taken as a cost reduction exercise and has proved a successful move.

PFS did, however, expand its geographic footprint in 2009, by starting up its United States onshore business and re-establishing its Luxembourg office. The United States onshore business was set up to meet the increasing demand from existing and pipeline clients for onshore services. Results to date have exceeded expectations, with even greater returns expected for 2010 and future years in anticipation of a banking licence for the United States. The Luxembourg office was re-established after the break-up of Fortis Group, which caused PFS to lose its local Luxembourg business. The operation commenced at the end of the third quarter, with the first clients transferred in December.

Given that Fortis Bank (Nederland) N.V. is planning to sell PFS, the business was rebranded to PFS (i.e. dropping 'Fortis Bank Nederland' from its title) and a new marketing slogan was introduced – 'Your natural choice' – to carry the brand forward.

Focus in 2010

Fortis Bank (Nederland) N.V. expects to sell PFS. A sale should provide for the rollout of the five-year business plan, which is designed to strengthen PFS's core capabilities in both single management and funds of funds. In addition to offering custody services, PFS will continue to grow its United States onshore and Luxembourg businesses while expanding geographically, for example in Guernsey domiciled funds, and introducing mid-office services and private equity administration. These initiatives should strengthen PFS's position as a leading provider of services to hedge funds and funds of hedge funds. Stringent risk management and smart allocation of reduced risk-weighted commitments will continue to be a priority. PFS believes the current market crisis and the pressure put on fund managers by regulators and investors will ultimately create long-term growth opportunities for service providers like PFS.

Intertrust

Intertrust is a top three player in the global trust and corporate management services sector, employing approximately 1,000 FTEs worldwide at 30 offices in 21 countries. Intertrust offers top-quality services to the high end of the market and adheres to robust compliance and risk standards.

Key developments in 2009

Intertrust's 2009 results were affected by the economic downturn. Cost-reduction measures were taken, and a cross-selling drive between the offices was launched. Meanwhile, a global sales team was established to increase the sales performance and efficiency.

The branch offices in Lugano and Poland were closed, as these operations were not profitable. However, new offices were opened in Ireland, the Cayman Islands and Mexico, while an additional office was opened in Sweden. In China, Intertrust gained full ownership of all offices under a buyout of the remaining shares from its three local joint-venture partners.

Intertrust devoted considerable time and resources to the divestment process (a controlled auction led by MeesPierson Corporate Finance & Capital Markets), which resulted in the signing of a sale and purchase on 7 September 2009.

In anticipation of the divestment and the business's independent status, Fortis Intertrust was rebranded to Intertrust.

Focus in 2010

On 29 January 2010, the sale of Intertrust Group in 2009 was finalised and the company was fully separated from Fortis Bank (Nederland) N.V. and continued as a leading independent trust and corporate management services provider.

Update on the Madoff fraud

On 12 March 2009, Bernard L. Madoff, founder of Bernard L. Madoff Investment Securities LLC (BLMIS), pleaded guilty to 11 charges brought against him by the United States Attorneys' Office for the Southern District of New York. Madoff admitted that he had operated a Ponzi scheme for many years through BLMIS, i.e. a scheme whereby new investors' funds were used to meet payment requests from existing investors, as well as using such new funds for his own personal, family's and associates' benefit. On 29 June 2009, Madoff was sentenced to 150 years in federal prison. While Fortis Bank (Nederland) N.V. has no direct exposure to BLMIS, parts of the bank and its clients do have exposure to certain funds it provided collateralised lending to. If, as a result of the fraud, the value of the assets of these funds is nil and the clients concerned are unable to meet their obligations, Fortis Bank (Nederland) N.V.'s loss could amount to approximately EUR 1 billion. Although the details of the fraud are not yet clear, a provision was taken in 2008.

Fortis Bank (Nederland) N.V. is investigating possible strategies for recovering its losses. A total amount of EUR 16 million (exclusive of costs) was already recovered in the first half of 2009. The bank continues to take all reasonable steps to mitigate any further negative effects from the Madoff fraud.

Operating income

Total operating income fell 28% to EUR 1,251 million in 2009, due mainly to low money-market rates and lower margins on savings and deposits, lower commissions and fees, and a shortage of resources (liquidity and solvency, especially in the first half of 2009) The latter brought down Financial Markets income. The drop in fee income was due mainly to PFS, where assets under administration and assets under custody went down as investors redeemed their investments, and to lower turnover and funds in use at Fortis Commercial Finance. The business lines in question suffered from adverse market conditions.

Costs

Total expenses, net of the divested Intertrust Group, rose by 8% to EUR 993 million, due mainly to a scope change (BCC's Chicago office Fortis Clearing Americas LLC is now included) and separation costs outside the Netherlands and to higher allocated support and overhead costs. This was partly offset by favourable variable remuneration expenses.

Changes in impairments increased by 16% to EUR 282 million, due to the economic downturn and to several leveraged buyouts in Acquisition & Leveraged Finance.

Net profit

Merchant Banking recorded a net profit of EUR 62 million in 2009. This result was affected positively by the divestment result of Intertrust Group (net realised gain of EUR 81 million), the recovery of Madoff funds (EUR 16 million), the repurchase of Fortis Clearing Americas LLC (including realised badwill) and the transfer of the Money Markets desk out of Merchant Banking.

The cost/income ratio increased to 79% in 2009 from 53% in 2008.

FTEs

Merchant Banking employed 3,477 FTEs at year-end 2009, down from 4,521 FTEs in 2008. The reduction of 1,044 FTEs largely relates to the divestment of Intertrust Group (918 FTEs) and to the transfer of Risk & Credits FTEs to Central Risk Management (222 FTEs), while the repurchase of Fortis Clearing Americas LLC drove up the number of FTEs by 126.

Funding and liquidity

Funding

In 2009 Fortis Bank (Nederland) N.V. created stability in its funding and liquidity profile, while re-establishing and launching new funding programmes in order to repay the short-term loan facility of EUR 34 billion to the Dutch State. Following the break-up of Fortis Group on 3 October 2008, the Dutch State granted Fortis Bank (Nederland) N.V. a short-term loan facility of EUR 34 billion in order to be able to refinance the intercompany funding from the previous group.

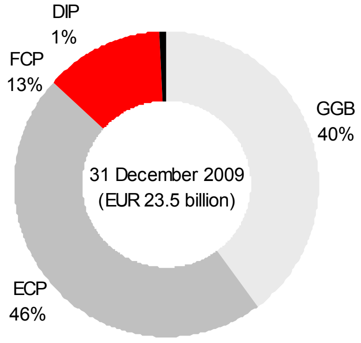
In June 2009 Fortis Bank (Nederland) N.V. repaid the short-term loan facility of EUR 34 billion to the Dutch State, ahead of schedule. The repayment of this loan facility was partly financed by increases in client savings and deposits and issues of short and long-term debt certificates under newly launched funding programmes, part of which were government guaranteed.

New funding programmes

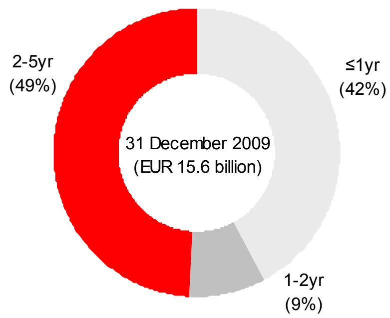
Fortis Bank (Nederland) N.V. launched several funding programmes in 2009, each of which is targeted at specific markets.

State Guaranteed Notes (April 2009)	This EUR 40 billion funding programme allows for the issuance of State Guaranteed Notes guaranteed under the 2008 EUR 200 billion Credit Guarantee Scheme of the Dutch State. Several publicly and privately held notes were issued to the total amount of EUR 9.3 billion under this programme. On 31 December 2009, the total amount of debt guaranteed by the Dutch government under this programme came to EUR 9.3 billion. The average maturity of the paper issued is 3.1 years.
Euro-Commercial Paper (May 2009)	This EUR 25 billion funding programme for the issuance of Euro-Commercial Paper (ECP) allows for unsecured issuances either guaranteed or not-guaranteed by the Dutch State with maturities up to one year. On 31 December 2009, the total amount outstanding was EUR 11.0 billion, of which EUR 6.3 billion was guaranteed by the Dutch government. The average maturity of the paper issued is 7.6 months.
French Certificats de Dépôt (June 2009)	This EUR 25 billion funding programme allows for the issuance of unsecured French Certificats de Dépôt (FCP) with maturities up to and including one year, targeting French institutional investors. On 31 December 2009, the total amount outstanding under this programme was EUR 3.0 billion. The average maturity of the certificates issued is 4.3 months.
Debt Issuance Programme (November 2009)	The former EMTN program was replaced with a new EUR 40 billion Debt Issuance Programme for the issuance of capital securities and medium term notes. This programme allows for the issuance of unsecured and unguaranteed notes with a perpetual maturity. On 31 December 2009, the total amount outstanding under this programme was EUR 165 million. The average maturity of the certificates issued is 12.0 months.
Covered Bond programme (October 2009)	Fortis Bank (Nederland) N.V. completed a EUR 100 billion Covered Bond programme in October 2009. This programme should allow the bank to issue long-term senior debt secured by second recourse to a pool of assets. No debt was issued under the Covered Bond programme in 2009.

Outstandings of 2009 issues by type of programme



Funding guaranteed by the Dutch State



From these new programmes a total of EUR 18 billion will mature in 2010. This funding is expected to be refinanced using the programmes setup in 2009 as well as new ones, such as a USD Commercial Paper and a Structured Notes programme. Both programmes are expected to be completed in the first half of 2010. The bank will endeavour to improve its funding profile by lengthening the average maturities. The recent launch of a dual tranche senior unsecured benchmark transaction totalling EUR 4 billion was the first step taken in this direction.

Mortgage securitisations

Mortgage production on the Dutch mortgage market dropped by nearly 33% to EUR 65.6 billion in 2009 from EUR 97.8 billion in 2008. Overall average Loan to Foreclosure Value decreased in 2009, due to more stringent underwriting criteria applied by nearly all mortgage lenders in response to the credit crisis. Furthermore, the criteria for NHG mortgage were amended on 1 July 2009, allowing loans of up to EUR 350,000 instead of EUR 265,000, producing a steady increase in NHG production. Finally, savings-related mortgages are on the rise.

In recent years, securitisation of mortgages ((R)MBS) has become a cornerstone for funding mortgage lending in the Netherlands. The public market for securitisation came to a stand-still in 2007 due to the challenging economic circumstances. Various smaller transactions often based on reverse inquiries were closed in the last quarter of 2009. At the end of September 2009 securitised mortgages totalled EUR 208 billion, representing one out of three Dutch mortgages. The number of securitisations grew in 2008 and 2009, but most of the notes were retained.

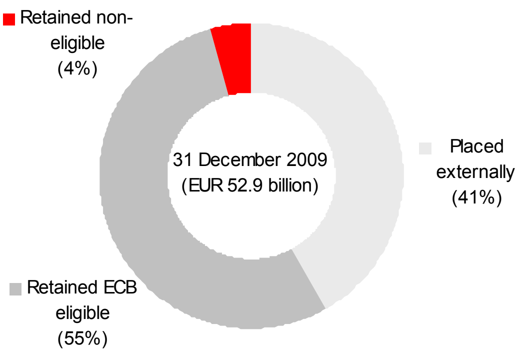
The total mortgage pool of Fortis Bank (Nederland) N.V. recorded an increase in payment in arrears. On 31 December 2009 1.02% of residential mortgages were in default (payment in arrears of over 3 months), compared with 0.69% at year-end 2008. The realised loss rate was limited to just over 4bps in 2009 compared with 3bps in 2008, and could still be considered low compared with the provisioning. The bank's outstanding residential mortgage portfolio remained relatively stable as growth of new production was offset by repayments and prepayments. The prepayment rate in the Netherlands dropped by almost 3%, from 10% in 2008 to 7% in 2009. In 2009 the total outstanding portfolio equalled EUR 69 billion including Retail and Private Banking.

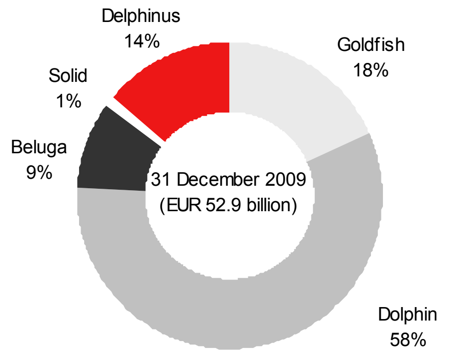
Securitisation allows Fortis Bank (Nederland) N.V. to convert its prime Dutch mortgage receivables into RMBS paper. In 2009, Fortis Bank (Nederland) N.V. issued notes backed by in-house originated prime Dutch mortgages for EUR 16.1 billion, of which 14.6 is ECB eligible collateral. Redemptions of externally placed existing RMBS notes amounted to EUR 2.1 billion in 2009.

On 31 December 2009, the total outstanding of RMBS notes backed by Fortis Bank (Nederland) N.V. originated mortgages stood at EUR 52.9 billion issued under different platforms: Goldfish Master Issuer B.V., Dolphin Master Issuer B.V., Beluga Master Issuer B.V., and various Delphinus and Solid stand-alone securitisation programmes.

At year-end 2009, EUR 30.7 billion (EUR 15.0 billion in 2008) of these RMBS notes was retained and EUR 22.3 billion (EUR 23.8 billion in 2008) was placed externally. The externally placed RMBS notes provide for transfer of risk and long-term funding. The retained positions are used as collateral under various activities including derivatives activities, ECB tenders and for daily payment capacity.

Composition of the RMBS portfolio:





In December 2009, Fortis Bank (Nederland) N.V. announced that it would facilitate full repayment to investors in Delphinus 2003-I, Delphinus 2004-II and Beluga 2006-I A1 notes. In January 2010, as a result of repayment the outstanding of RMBS notes decreased to EUR 50.3 billion and the amount of retained notes increased to EUR 31.5 billion.

In 2010, another EUR 4.8 billion of externally placed RMBS notes will arrive at scheduled step-up.

Central bank facilities

Since the bank became a stand-alone entity, Fortis Bank (Nederland) N.V. has participated in several tenders organised by central banks. At year-end 2009, the bank participated for EUR 10.5 billion in ECB tenders coming from USD 8.5 billion in TAF tenders[6] at year-end 2008.

Funding profile

The funding mix in 2009 improved slightly compared with 2008, benefiting from the launch of several debt issuances under the new funding programmes and from market improvements in wholesale funding. Although the debt-to-equity conversion boosted the capital ratios, it dampened the improvement of the funding profile.

Maturities increased slightly for the combined balance sheet items ‘due to customers and banks’, ‘debt certificates’ and ‘subordinated liabilities’. The charts show that funding with a maturity of up to one year decreased to 82% on 31 December 2009 from 84% at year-end 2008.

In 2010, the bank will continue to work towards reducing its dependence on short-term funding, as can be concluded from the dual tranche senior unsecured benchmark issue totalling EUR 4 billion on 26 January 2010, with maturities of two and five years.

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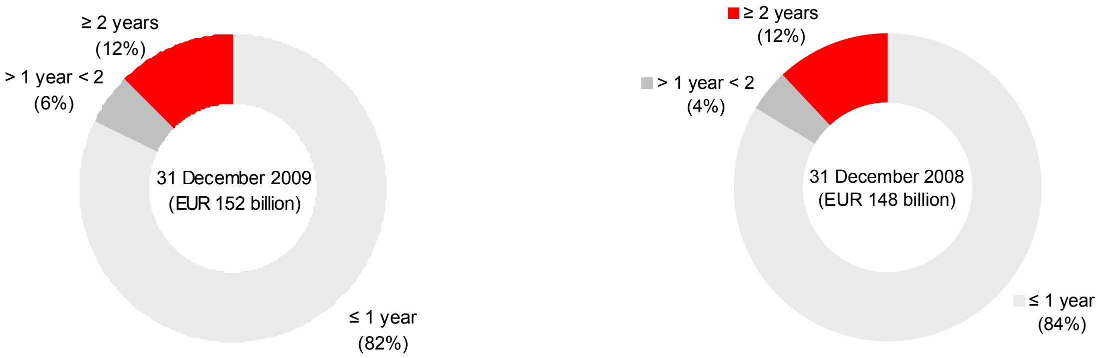
6 *Under the Term Auction Facility (TAF), the Federal Reserve auctions term funds to depository institutions. All advances are fully collateralised.*

Maturity breakdown of 'due to customers and banks', 'debt certificates' and 'subordinated liabilities'



Liquidity & liquidity risk management

Fortis Bank (Nederland) N.V. maintains a maturity profile of its liabilities and debts that is consistent with sound liquidity management. The bank is also required to adhere to Dutch liquidity regulations. In addition to these regulations, Fortis Bank (Nederland) N.V. revised the formal limit framework on liquidity in 2009 and will continue to develop and fine-tune it in 2010. This framework has helped raise awareness of liquidity and its costs.

The framework includes a Liquidity Contingency Plan, which comes into effect whenever the bank's liquidity position is threatened by exceptional internal or external circumstances that could lead to a liquidity crisis. The plan is designed to enable Fortis Bank (Nederland) N.V. to manage its liquidity sources without jeopardising its business, while limiting excessive funding costs in severe market circumstances.

Currently, the key drivers for measuring liquidity risk are the loan-to-deposit ratio (LDR), the liquidity survival period and ratios like the core funding ratio. The core funding ratio is slowly but steadily improving and the liquidity survival period improved to at least equal to three months at year-end 2009.

The LDR improved from 237% at year-end 2008 to 208% at year-end 2009. The LDR is adjusted for the level of deposits taken from and placed with related parties (i.e. the Dutch State) and for Securities Financing transactions (i.e. securities borrowing transactions and reverse repurchase agreements). Based on these adjustments, the LDR is determined as follows:

	31 December 2009	*31 December 2008*	*31 December 2007*
Due from customers			
Balance as per 31 December	125,328	124,692	130,971
Securities financing transactions	(12,597)	(8,307)	(20,811)
Adjusted total due from customers	**112,731**	**116,385**	**110,160**
Due to customers			
Balance as per 31 December	61,399	91,798	69,990
Related parties (Dutch State)	(5,925)	(40,375)	
Securities financing transactions	(1,209)	(2,280)	(4,181)
Adjusted total due to customers	**54,265**	**49,143**	**65,809**
Loan-to-deposit ratio (LDR)	208%	237%	167%

This table also shows a net increase in due to customers (or deposits) of EUR 5 billion, from EUR 49 billion in 2008 to EUR 54 billion in 2009, if adjustments are made for the deposits placed by the Dutch State.

The liquidity outlook for the next twelve months – on a stand-alone basis – is stable: excess liquidity is available in the short term, and the long-term liquidity profile has improved and is expected to continue improving in 2010.

Capital

	31 December 2009			31 December 2008		
	IFRS	Basel I	Full Basel II	IFRS	Basel I	Full Basel II
Share capital and reserves	4,310	4,401	4,401	21,361	21,492	21,492
Net profit attributable to shareholders	406	406	406	(18,486)	(18,486)	(18,486)
Minority interests	6	4	4	75	73	73
Unrealised gains and losses				69		
Total equity (IFRS)	**4,722**			**3,019**		
Non-innovative hybrid capital instruments		2,081	2,081		1,986	1,986
Total core Tier 1 capital		**6,892**	**6,892**		**5,065**	**5,065**
Innovative hybrid capital instruments					450	450
Participating interests in financial institutions		(5)	(5)		(5)	(5)
Intangible assets		(128)	(128)		(162)	(162)
Other deductions & filters		(49)	(49)		(77)	(77)
Shortfall			(78)			(174)
Tier 1 capital		**6,710**	**6,632**		**5,271**	**5,097**
Subordinated loans		2,238	2,238		3,690	3,690
Participating interests in financial institutions		(5)	(5)		(5)	(5)
Unrealised gains and losses		36	58		69	69
Other deductions & filters					(1,052)	(1,052)
Shortfall			(78)			(174)
Total capital before profit appropriation		**8,979**	**8,845**		**7,973**	**7,625**
Tier 3 capital						
Total regulatory capital before profit appropriation		**8,979**	**8,845**		**7,973**	**7,625**
Risk-weighted commitments						
Credit risk		65,881	34,856		69,737	39,459
Operational risk			8,056			6,161
Country risk		821			921	
Market risk		460	460		274	274
Total Risk-weighted commitments		**67,162**	**43,372**		**70,932**	**45,894**
Financial ratios						
Tier 1 ratio		10.0%	15.3%		7.4%	11.1%
Total capital ratio		13.4%	20.4%		11.2%	16.6%
Reported Basel II (including transitional floor)						
Transitional floor (% of Basel I RwC)			80.0%			100.0%
Tier 1 ratio			12.5%			7.4%
Total capital ratio			16.7%			11.2%

The authorised share capital as at 31 December 2009 amounted to EUR 1,176,856,500, divided into 2,203,711 ordinary shares of EUR 500 each, two non-cumulative preference shares B of EUR 500 each (convertible into ordinary shares) and 150,000 non-cumulative A preference shares of EUR 500 each.

On 28 December 2009, the non-cumulative preference shares B held by the Dutch State were converted into ordinary shares. As a result, the issued and outstanding share capital as at 31 December 2009 was EUR 1,176,855,500 divided into 1,880,946 ordinary shares of EUR 500 each and 150,000 non-cumulative A preference shares of EUR 500 each, where the Dutch State holds all ordinary shares and Fortis FBN(H) Preferred Investments B.V. holds all non-cumulative A preference shares.

According to DNB, the bank's capital was adequate but Tier 1 capital needed to be reinforced in order to properly withstand the most stringent stress scenarios. The conversion by the Dutch State of EUR 1.35 billion of Tier 2 instruments (subordinated loans) into Tier 1 capital (common equity) on 24 December 2009 reinforced Tier 1 capital and is in line with recent announcements of the Basel committee with respect to the future capital structure of banks. Core Tier 1 capital increased to EUR 6.9 billion. Tier 2 capital decreased relative to the higher Tier 1 capital; as a result, filters no longer need to be applied, which has a positive effect on the total capital ratio.

Compliance with Basel II

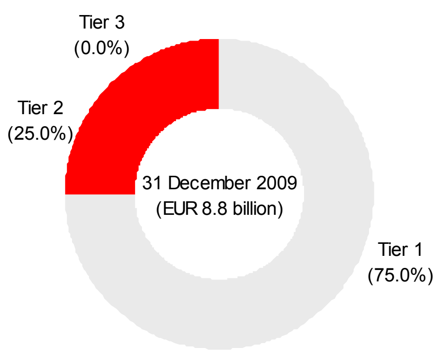
In 2009 DNB declared Fortis Bank (Nederland) N.V. to be compliant for reporting its required capital based on the most advanced calculations of the own funds requirements under Basel II.[7] Fortis Bank (Nederland) N.V. may continue to apply the Advanced Internal Ratings Based Approach (AIRBA) to credit risk, the Advanced Measurement Approach (AMA) to operational risk for the majority of the bank's portfolio, and Value-at-Risk to market risk.

In May 2009, DNB – the bank's home regulator – confirmed the bank's Basel II compliance subject to several conditions. One of the conditions set by DNB is that some of the PD models can be used internally in risk management processes; however, the associated capital requirement should at least be equal to the capital requirement calculated under the Standardised Approach. This requires additional capital of EUR 108 million or an add-on in RwC of 1.4 billion. Some of these additional conditions will no longer be required once DNB grants approval for the newly developed credit risk models. Approval is expected in the first half of 2010. In the meantime, DNB has approved the LGD model, resulting in a release of additional capital requirement of EUR 398 million or add-on in RwC of EUR 5.0 billion.

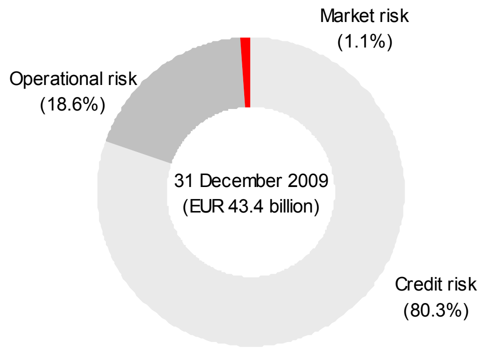
Separation and integration temporarily require EUR 221 million of additional capital or an add-on in RwC of 2.8 billion to cover for operational risk. In addition, changes in the way securitised mortgages held on balance are calculated resulted in a permanent additional capital requirement of EUR 64 million or an increase in RwC of EUR 0.8 billion.

DNB also reduced the transitional floor it imposed on Fortis Bank (Nederland) N.V. in 2008 of 100% of Basel I to a transitional floor of 80% of Basel I. This corresponds to the transitional arrangements for solvency requirements under Basel II. On 31 December 2009, Fortis Bank (Nederland) N.V. reported a solvency ratio of 16.7% and a Tier 1 ratio of 12.5% under Basel II applying the 80% transitional floor. On 31 December 2008 the Basel II solvency ratio was11.2% and the Basel I Tier 1 ratio was 7.4% applying the 100% transitional floor.

Composition of Basel II capital



Composition of Basel II risk weighted commitments



7 *Before October 2008, the CBFA in Belgium recognised Fortis Bank (Nederland) N.V. as being Basel II compliant.*

Fortis Capital Company

On 29 June 1999, Fortis Capital Company Ltd. (FCC), a wholly-owned subsidiary of Fortis Bank (Nederland) N.V., issued 450,000 class A1 preference shares with a total nominal value of EUR 450 million in order to strengthen Fortis Bank (Nederland) N.V.'s Tier 1 capital on a permanent basis. FCC made the net proceeds of this issue available to Fortis Bank (Nederland) N.V. in the form of a subordinated loan. The preference shares are listed and traded on Euronext Amsterdam by NYSE Euronext.

On 31 March 2009, FCC notified holders of class A1 preference shares that it had decided not to redeem the preference shares for cash on the first call date (29 June 2009). In accordance with the subsequent stock conversion procedure as set out in the offering memorandum, holders of 362,511 preference shares exercised their right to exchange the preference shares into (twinned) ordinary shares of Fortis SA/NV and Fortis N.V. (together Fortis Holdings). However, on 15 April 2009 Fortis Holdings instructed FCC, as permitted by the stock conversion procedure, to redeem the preference shares for which conversion notices had been provided through cash settlement.

FCC was forced to bring a summary hearing against Fortis Holdings to ensure compliance with its absolute and unconditional contractual undertaking to deliver to FCC upon cash settlement the required cash amount per converted preference share (EUR 362,511,000 in total). On 25 June 2009, the court ruled in favour of all FCC's claims and Fortis Holdings subsequently paid to FCC the full amount due, which enabled FCC to exchange the 362,511 preference shares for cash on 29 June 2009.

Fortis Holdings have initiated court proceedings against FCC and Fortis Bank (Nederland) N.V. claiming compensation for the amount paid on 29 June 2009. These proceedings are pending. FCC and Fortis Bank (Nederland) N.V. continue to hold the opinion that Fortis Holdings is not entitled to any compensation.

Holders of the remaining 87,489 preference shares have not exercised their conversion right as part of the stock conversion procedure. Since 29 June 2009, the dividend on these preference shares, which remain outstanding, has been payable quarterly in arrears and is calculated on the paid-up value of the preference shares at three-month EURIBOR plus 260 basis points.

Following the cash settlement of 362,511 class A1 preference shares, an amount of EUR 362,511,000 is accounted for as a profit[8] and the remaining EUR 87,489,000 is accounted for as non-innovative Tier 1 capital in the calculation of regulatory capital and as subordinated liabilities under IFRS.

In the second half of 2009, Fortis Bank (Nederland) N.V. reassessed the tax treatment of the cash settlement of Fortis Capital Company, in Jersey, and concluded that this income should be exempt of tax. On 30 June 2009 a provisional tax expense of EUR 92.4 million was taken into account based on the preliminary assessment made at that time. This tax expense was reversed in the second half of 2009 based on the reassessment.

Mandatory Convertible Securities (MCS)

On 7 December 2007, Fortis Bank (Nederland) N.V., Fortis Bank SA/NV and the Fortis Holdings issued Mandatory Convertible Securities (MCS) with a nominal amount of EUR 2 billion. The MCS pay semi-annual coupons, in arrears, at an annual rate of 8.75%. Accordingly, payments were made on 7 June 2009 and 7 December 2009.

For regulatory purposes, the MCS are treated as Tier 1 capital, but they are included as a subordinated liability in the balance sheet. The MCS constitute unsecured and subordinated obligations of Fortis Bank (Nederland) N.V., Fortis Bank

[8] *Pending the outcome of the appeal by Fortis Holdings.*

SA/NV and Fortis Holdings. As set out in the prospectus, the obligations of the issuers of the MCS are joint and several. The MCS are subordinated to all other loans, subordinated loans and preference shares, but rank senior to ordinary shares.

All outstanding MCS will be mandatorily converted on 7 December 2010 into a number of Fortis Holdings shares to be determined in accordance with the prospectus. The issuers and holders have the right to convert the MCS prior to maturity into Fortis Holdings shares in the events set out in the prospectus, and subject to specific terms and conditions.

Fortis FBN(H) Preferred Investments

In December 2007, Fortis Bank (Nederland) N.V. issued 150,000 class A non-cumulative preference shares to the total amount of EUR 210 million to Fortis FBN(H) Preferred Investments B.V. ('FFPI'). These preference shares are recognised as Tier 1 capital. Until January 2013, the preferred dividend on the class A preference shares is 5.85%. The Dutch State owns 35 priority shares in FFPI and institutional investors own three classes of ordinary shares in FFPI. The priority shares held by the Dutch State effectively allow the State to control FFPI.

Strategy

The Management Board positioned Fortis Bank (Nederland) N.V. in 2009 – at least for the time being – as an independent, stand-alone bank. This change in strategy was required as a consequence of the acquisition by the Dutch State on 3 October 2008. The bank will continue to pursue this strategy until the planned integration with ABN AMRO is completed.

The bank's first priority was to stabilise business operations, secure funding and perform treasury activities while minimising risk and ensuring continuity of services to clients in the short and long term. Given the new stand-alone status, the bank's risk appetite had to be reformulated and credit exposures had to be adjusted in conformity with the new situation. Furthermore, the Management Board performed a strategic reorientation with respect to its portfolio of business activities. As a result of this exercise, Intertrust Group has been divested, ASR Bank has been sold to ASR and the bank is in exclusive negotiations regarding Prime Fund Solutions.

The goals of the separation are twofold: first, to stabilise core cross-border bank processes and systems, while identifying all potential gaps in services, systems and processes arising from the separation. And second, to resolve with Fortis Bank SA/NV the gaps and issues at play in the separation period, which is scheduled to be completed in the third quarter of 2010.

Severe changes in capital markets, money markets and credit markets in the second half of 2008 prompted the Management Board of Fortis Bank (Nederland) N.V. to revise some of its strategies and to restructure the balance sheet where possible. The Management Board intends to continue this exercise in 2010.

Rebuilding selectively

The Management Board of Fortis Bank (Nederland) N.V. is building a sustainable bank for its customers, shareholder and employees. Fortis Bank (Nederland) N.V. is no longer part of a large, international banking group with a global presence and the biggest network in Europe. On a stand-alone basis the bank is, however, still present in 25 countries and regions outside the Netherlands and it still has leading positions in specific banking activities, which contribute significantly to its revenue streams. Against this background, Fortis Bank (Nederland) reacquired the Brokerage, Clearing & Custody (BCC) activities in the US from Fortis Bank SA/NV. In addition, the bank opened branches in Singapore and Dubai in order to accommodate Energy, Commodities & Transportation (ECT) activities.

In 2010 Fortis Bank (Nederland) N.V. plans to open a branch in Belgium to serve the interests of the Commercial and Corporate Banking businesses. The bank also intends to open a representative office in Greece for the Energy, Commodities & Transportation department. Fortis Bank (Nederland) N.V. also expects to obtain licenses for its representative offices in the United States (New York), China (Shanghai) and Brazil (Sao Paolo) and a broker/dealer licence in the United States (New York).

Integration with ABN AMRO

The planned integration with ABN AMRO will enhance the process of building a sustainable bank and will combine the strengths of Fortis Bank (Nederland) N.V. and ABN AMRO, creating a strong mid-market player in the Netherlands. The combined bank will aim to selectively rebuild certain businesses and the international distribution network in order to ensure future sustainable growth for its clients.

The integration with ABN AMRO will substantially enlarge the bank's client base in retail, private and commercial banking. Moreover, Fortis Bank (Nederland) N.V.'s merchant banking activities fill the gap in ABN AMRO's corporate client segment and in the commercial and corporate product suite.

The following section of this report provides more detailed information on the separation and the planned integration with ABN AMRO.

Separation and integration

Separation

Separation from Fortis Bank SA/NV

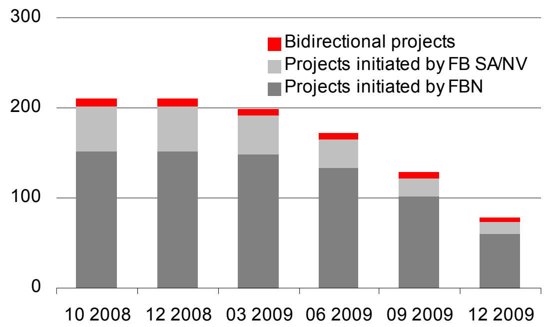
Major milestones in the separation from Fortis Bank SA/NV were achieved in 2009. A total of 531 services and 210 projects were defined to be separated by the end of the third quarter of 2010. Many of the separation programmes are relatively straightforward, but four are rather complex and cover approximately 80% of the separation (Infrastructure and Operations, Risk, Finance and Global Markets). Retail Banking and Securities Handling will continue to separate by migrating to the ABN AMRO platform.

More than 75% of all separation projects were completed at the end of 2009. Fortis Bank (Nederland) N.V. now no longer depends on approximately 70% of all services previously delivered by Fortis Bank SA/NV. The remaining cross company 49 projects and 142 services earmarked for separation from Fortis Bank SA/NV are on track for completion in 2010. The services provided by Fortis Bank SA/NV are of importance for the operations of Fortis Bank (Nederland) N.V., and during the separation the standard of these services remained the same.

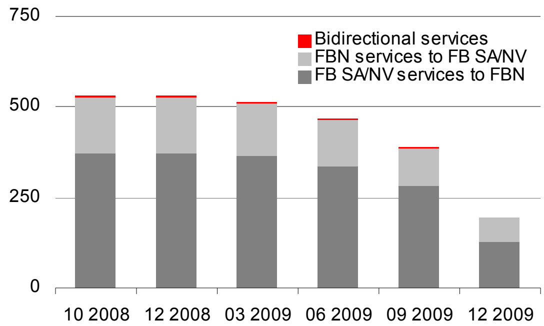
Separation Agreement

The Separation Agreement and Transitional Services Agreement between Fortis Bank SA/NV and Fortis Bank (Nederland) N.V. were signed on 30 March 2009. On that date, all projects and services identified in the agreements commenced. The agreements lay down principles regarding conduct during the transition period. The main principles in the Separation Agreement are continuity (to ensure that each group can continue its ordinary course of business) and separation (to become two separate groups in an operational, legal and organisational sense as quickly as possible. In principle, subject to the agreed covenants, the services will end by 30 September 2010.

Development of separation projects



Development of separation services



Separation governance

The bank's governance model includes a Separation Execution Platform that supervises the separation process at Fortis Bank (Nederland) N.V. The governance structure has been slightly amended to include the international separation activities, the majority of which were successfully completed in September 2009.

Key achievements

There were several key achievements in the separation in 2009, a few of which are listed below:

- The mainframe and tape environment were moved successfully from Brussels to Woerden.
- DNB granted Fortis Bank (Nederland) N.V. advanced Basel II status. Basel II status is very important as it reduces the capital requirements for the bank, meaning lower capital costs.
- The bank's new network and server environment were developed and rolled out bank-wide. Also, the international network was rolled out, enabling all foreign offices to be linked to each other and to the Netherlands.
- On- and off-balance risk positions between Fortis Bank (Nederland) N.V. and Fortis Bank SA/NV were successfully unwound, restructured and reduced to desirable and acceptable (mutual) risk limits for both entities.

Outlook for 2010

Key projects are scheduled to be carried out in 2010 at Retail Banking, Securities Finance, Global Markets, Risk and Finance. The bank will continue to pursue the remaining separation activities in the months ahead, working towards finalising the 210 remaining cross-company services and completing the remaining projects on time.

Separation from ASR Nederland

More than 70% of all projects that were identified at the start of the separation process were completed successfully in 2009, and approximately 50% of all transitional services were discontinued. The end date of 30 September 2010 is considered feasible. All parties involved worked together to carry out the separation activities – the majority of which are in IST, HR and Facilities - while never losing sight of the day-to-day business.

Separation from Amlin Corporate Insurance (ACI)

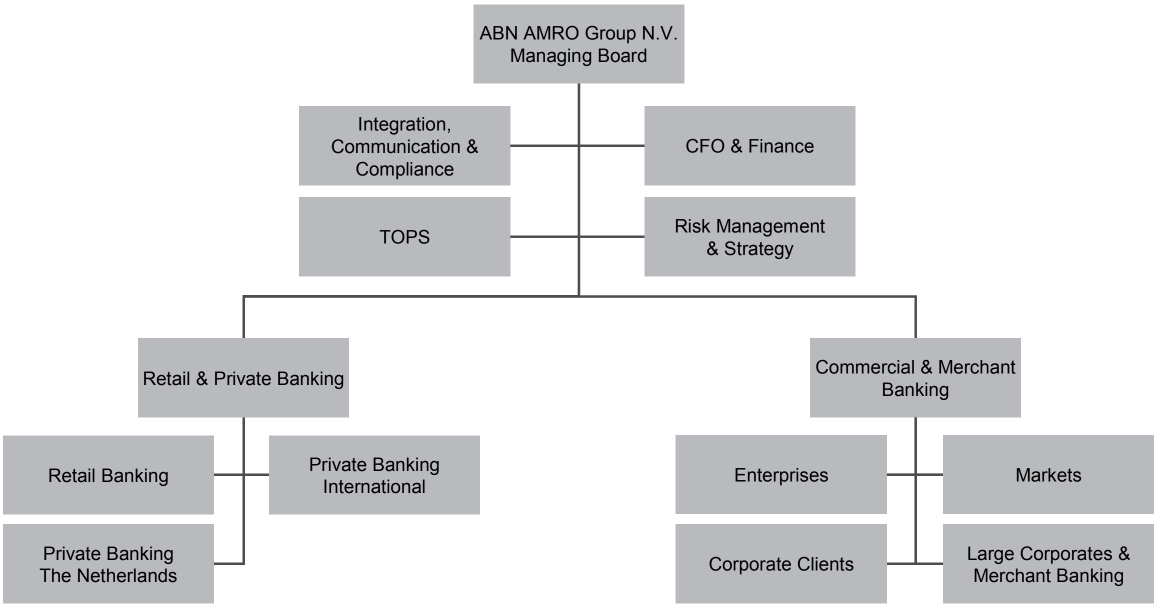
Fortis Bank (Nederland) N.V. and ACI (previously Fortis Corporate Insurance) signed a Separation Agreement on 15 May 2009. All identified projects and services have been started up, leaving only a few projects to be carried out in 2010. So far there have been no operational consequences following from the sale of Amlin.

Integration

Preparations

On 21 November 2008, the Dutch Minister of Finance announced the State's intention to integrate ABN AMRO and Fortis Bank (Nederland) N.V. into a new bank operating under the name ABN AMRO. The Transition Team defined a transition process for phased implementation of the integration, which kicked off with the presentation of a broad outline of the bank, including the top layer of management, on 19 May 2009. A summary of the outline was included in the 'Interim Financial Statements 2009'.

As part of the preparations for the integration, the bank described the strategic direction for each of the Client Centres (business lines) and Support Centres. Detailed transition plans were jointly developed under the supervision of the designated Management Group of the future bank, defining the bank's ambition, vision, strategy, targets and transition. In November 2009 the transition plans were presented to all stakeholders, including DNB, the Works Council and the employees of Fortis Bank (Nederland) N.V. and ABN AMRO. The next steps in the transition process involve detailing and implementing the plans, subject to all necessary internal and external approvals.



Strategy

The future bank will aspire to excel in serving Dutch clients locally and abroad and to capture a leading position in a limited number of global market segments. The future bank will aim to be a financial services provider that shows integrity and keeps its promises, is cost-conscious at all times and is willing to invest in its customers.

Over the coming years, the focus will be on strengthening the bank's financial position, realising significant cost savings and growing revenues. The goal is to achieve a healthy long-term return combined with a moderate risk profile. The broad outline of the future bank targets a cost/income ratio of 60-65% in 2012. Synergies are expected to amount to EUR 1.1 billion pre tax annually.

Client Centres

The new organisation will be composed of two businesses, Retail & Private Banking (RPB) and Commercial & Merchant Banking (CMB), supported by various central functions such as Risk, Human Resources, Technology, Operations & Property Services (TOPS) and Finance.

Retail Banking will be a large player in the Dutch market, offering professional advice and best-in-class products to retail clients in all phases of their lives. It will seek to grow specifically in the mass affluent segment.

The Private Banking business, active in 14 countries, will be a large player in the Netherlands as well as in Europe. Asia offers clear opportunities for growth. The new organisational structure is composed of two divisions: Private Banking Netherlands and Private Banking International. Private Banking International will also include the International Diamond & Jewelry Group.

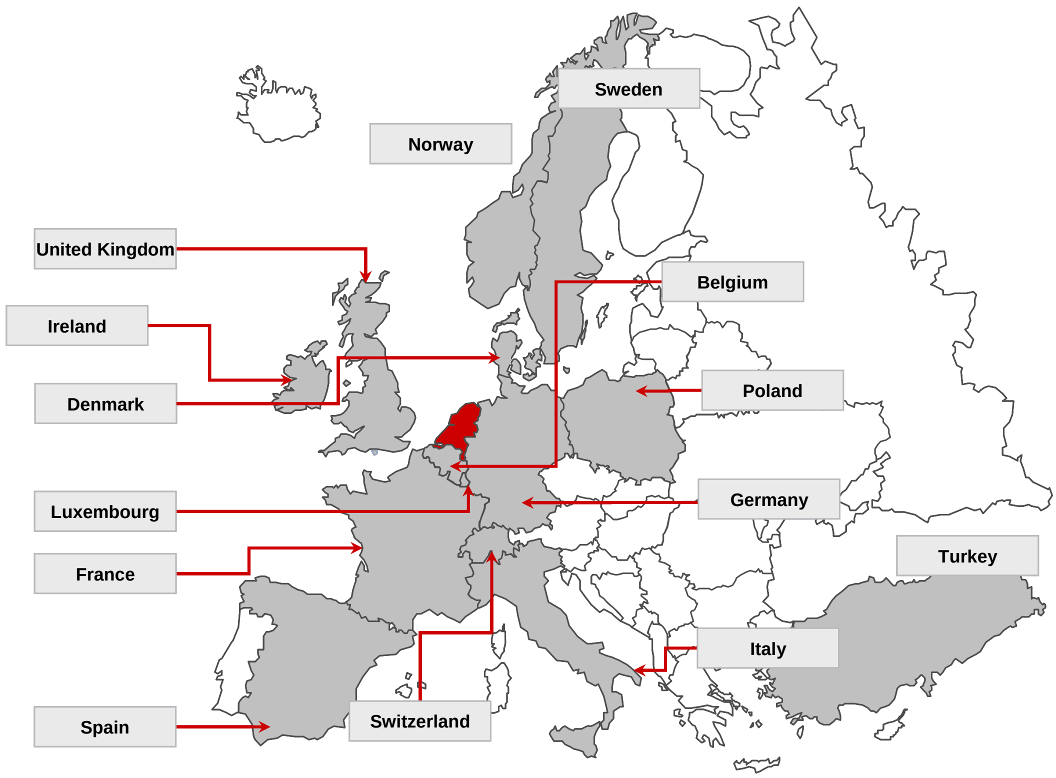
Commercial & Merchant Banking will be an important player in the Netherlands for corporate clients and service delivery to small and medium-sized businesses. It aspires to be the principal bank for Dutch companies locally and for their businesses abroad. In addition, it aims to focus on a number of global, specialist markets such as Energy, Commodities & Transportation (ECT) and Brokerage, Clearing & Custody (BCC).

Support Centres

The bank's Support Centres will provide central services such as Finance, Risk, Technology, Operations & Property Services (TOPS) and Human Resources. The Operations and IT activities will continue to form an essential foundation of the new bank.

International footprint

The combined new bank will be present in 30 countries and territories[9] including the Netherlands, where various Client Centres are active with the help of the Support Centres. The new bank will have its own network in four neighbouring countries in Europe (Belgium, Germany, France and the United Kingdom). Outside Europe the bank will be present in Australia, Botswana, Brazil, Cayman Islands, Hong Kong (China), India, Japan, the Netherlands Antilles, Singapore, Taiwan, United Arab Emirates and the United States.



Workforce reduction

At the end of 2009, Fortis Bank (Nederland) N.V. employed a total of 8,855 FTEs employees. These numbers exclude temporary and insourced personnel. The numbers are adjusted for all divestments and acquisitions announced or made in 2009, except the potential divestment of Prime Fund Solutions.

Integration and efficiency measures will involve further FTE reductions at the combined new bank in the coming years, mainly at Retail Banking and the Support Centres. At the same time, new jobs will be created. The number of FTEs is expected to decrease to 25,350 in 2012, representing a reduction of 4,788 over the period 2009 – 2012 in comparison with the baseline of 30,138 FTEs employees at year-end 2008.[10]

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9 *Including the activities of Prime Fund Solution, including Guernsey, Jersey and Isle of Man and excluding the representative office to be opened in China.*

10 *At 31 December 2008 Fortis Bank (Nederland) N.V. and ABN AMRO employed a total of 30,138 FTEs employees, of which 8,442 (28%) at Fortis Bank (Nederland) N.V. and 21,696 (72%) at ABN AMRO*

Impact of transition on clients

Retail Banking clients, products and processes are scheduled to be migrated to the ABN AMRO platform in the course of 2010. Around 150 branches are expected to be merged in the integration. The density of the physical distribution network will remain at the current ABN AMRO level (508 branches). Fortis Bank (Nederland) N.V.'s retail clients will therefore have access to a much larger number of branches and ATMs. The retail client base will be broken down according to the existing ABN AMRO segmentation, i.e. mass retail and preferred banking, in order to minimise disruption of the client-bank relationship. Customer satisfaction will be measured regularly during the integration.

Private Banking clients will receive support from their current relationship managers during the migration. In principle, clients should not change relationship managers more than once.

Commercial & Merchant Banking will stick to the current client segmentation, so that units will not be separated as this could disrupt the client-account manager relationship.

Customer satisfaction at all Client Centres will be measured regularly during the integration.

Impact on risk management

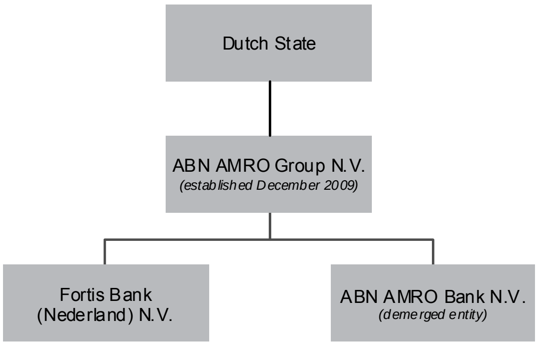
Until the effective date of the legal merger, the two banks will continue to manage their risks separately, through their existing organisations and governance structures and in accordance with existing processes. As of the legal merger date, the new bank will manage risks on a bank-wide basis and, where possible, introduce new organisational structures and procedures. If necessary, IT and process workarounds will be implemented.

Next steps

The legal merger and the start of the integration with ABN AMRO are important envisaged milestones in 2010. The next step in the integration is expected to be taken in the second quarter of 2010, when Fortis Bank (Nederland) N.V. and ABN AMRO become direct subsidiaries of a joint parent company, ABN AMRO Group N.V., the holding company established on 18 December 2009 by the Dutch State. As of the date that both banks are placed under this new holding company, subject to DNB approval, the integration can officially commence.

Compliance with the EC Remedy is a condition for obtaining approval for the integration of Fortis Bank (Nederland) N.V. and ABN AMRO. Although ABN AMRO Bank N.V. and Deutsche Bank AG signed the Share Purchase Agreement (SPA) on 23 December 2009, Fortis Bank (Nederland) N.V. and ABN AMRO will only be allowed to proceed with the integration once the EC Remedy has been formally completed.

In anticipation of the legal merger between Fortis Bank (Nederland) N.V. and ABN AMRO - scheduled for the second half of 2010, subject to all relevant statutory and regulatory approvals - the bank plans to establish joint management in the second quarter of 2010, subject to the required approvals. The Management and Supervisory Boards of Fortis Bank (Nederland) N.V., ABN AMRO Group N.V. and ABN AMRO are expected to be composed of the same members. In addition, joint managers for select parts of both Fortis Bank (Nederland) N.V. and ABN AMRO are scheduled to be appointed, i.e. one manager will be responsible for managing comparable teams and activities at both banks. These plans are subject to completion of the transaction concluded between ABN AMRO and Deutsche Bank in order to satisfy the conditions for integration imposed by the European Commission (the EC Remedy) and to all required statutory and regulatory approvals.



Further details of the integration at business level will be announced in 2010. The exact timing of the actual integration will vary from business to business and will depend, among other things, on developments relating to the EC Remedy, separation of both banks and the required approval of the competition authority, the Dutch State, and other relevant foreign regulators. The goal is to complete the greater part of the transition in 2012.

Governance

Fortis Bank (Nederland) N.V. believes good corporate governance is essential in order to carry out the bank's strategy and to ensure transparency towards its stakeholders. Corporate governance is one of the key considerations for the Management Board and Supervisory Board, and both strategy and transparency have received a great deal of their attention in recent years.

New codes of conduct for the Management Board and Supervisory Board took effect on 18 January 2010 and on 14 December 2009 respectively. These new codes of conduct have been adapted to the Banking Code ('*Code Banken*') and the Dutch Corporate Governance Code to the maximum extent possible.

Dutch Corporate Governance Code

Listed companies incorporated under Dutch law are required to declare in their annual reports that they comply with the Dutch Corporate Governance Code ('the Code'), or to explain instances in which they deviate from it. The Code was updated on 10 December 2008, although the amended Code came into force with effect from the financial year starting on or after 1 January 2009.

Fortis Bank (Nederland) N.V. has no listed shares (or certificates of shares) and is therefore under no statutory obligation to comply with the Code or to report any deviations from the Code. The bank does, however, endeavour to comply with prevailing governance standards (best practices) to enhance transparency. The Dutch State, as the main shareholder of the bank, also strives to have all of its participating interests adhere to the principles and best practice provisions set out in the Code.

Fortis Bank (Nederland) N.V. reviewed its governance structure in 2009 with the aim to explore and implement changes to ensure compliance with the Code, provided these changes are deemed appropriate with respect to the company's profile and features and the specific principles set out in the Banking Code (see section below).

Accordingly, Fortis Bank (Nederland) N.V. declares it is in compliance with the Code, subject to the qualifications and exceptions set out hereafter.

Qualifications

Fortis Bank (Nederland) N.V.'s shares are not listed on a stock exchange, and the Dutch State is the majority shareholder. Therefore, several provisions of the Code either do not apply to Fortis Bank (Nederland) N.V. or need to be translated to fit its corporate structure. The foregoing applies specifically to the following principles and provisions of the Code:

- II.1.9.-II.1.11 and IV.1.3 (guidelines in takeover situations), IV.1.7 (registration date), IV.3.11 (protective measures) and IV.3.12 (proxy voting): the foregoing provisions are geared specifically to listed companies;
- III.8.1.- III.8.4 (provisions relating to a one-Tier board): Fortis Bank (Nederland) N.V. has adopted a two-Tier structure;
- II.2.4 – II.2.7 (share options as a conditional remuneration component for members of the management board): Fortis Bank (Nederland) N.V. does not offer such options;
- II.2.13 (summary of remuneration details to be reported by the Supervisory Board) and II.2.14 (publication of the main elements of contracts with management board members upon convocation of the shareholders' meeting deciding upon appointments): Fortis Bank Nederland reports details of the remuneration paid to individual members of the Management Board in the financial year under review in this Annual Report (see the Annual Financial Statements), identifying the respective components as set out in the Dutch Civil Code. The Supervisory Board has reviewed this information, as part of the review of the full Annual Report. Further information has been shared with the Dutch State, as the majority and controlling shareholder; IV.1.2 (voting right on financing preference shares to be based on the nominal value of such shares): according to the preamble to the Code, this provision specifically governs future issues of preference shares. Fortis Bank (Nederland) N.V. issued its preference shares in 2007. The Dutch State effectively controls the voting rights on both ordinary shares and preference shares;

- IV.2 – IV.2.8 (depositary receipts for shares): Fortis Bank (Nederland) N.V. has not issued this type of depositary receipt;
- IV.1.1 (shareholders' resolution to cancel the binding nature of a nomination for the appointment of a member of the management or supervisory board): Fortis Bank (Nederland) N.V. is subject to the large company regime, which is not covered by the subject provision.

Accordingly, the abovementioned provisions have not been taken into consideration.

The provisions of the Code regarding the 'remuneration committee' and the 'selection and appointment committee' have been interpreted as applying to the Selection, Nomination and Remuneration Committee, since this body combines the strongly interrelated selection, appointment and remuneration functions at Fortis Bank (Nederland) N.V.

Exceptions

II.1.1 *Members of the management board are appointed for a maximum duration of four years at a time. Re-election is possible.*
Fortis Bank (Nederland) N.V. has decided to honour the existing contracts and mandates of the members of the Management Board. These contracts have been entered into for an indefinite period. The new regulations for the Management Board restrict the appointment and re-appointment of new Management Board members to terms of four years each, subject to deviations explained to, and permitted by, the Supervisory Board.

III.5.6 *The audit committee shall not be chaired by the chairman of the supervisory board or by a former member of the management board of the company.*
The Chairman of the Audit Committee was chairman of the Management Board of Fortis Bank (Nederland) N.V. until 2001. He has nevertheless been appointed because of his wide financial experience, while taking into due consideration that the Code recognises a former member of the management board as independent supervisory board member provided that at least five years have elapsed since his/her mandate ended. The Chairman of the Audit Committee satisfies both the latter requirement and the other criteria set by the Code for independence of supervisory board members.

III.5.1 *The remuneration committee shall not be chaired by the chairman of the supervisory board or by a former member of the management board of the company, or by a supervisory board member who is a member of the management board of another listed company.*
The Chairman of the Supervisory Board of Fortis Bank (Nederland) N.V. has been appointed chairman of the Selection, Nomination and Remuneration Committee to allow him to play a leading role in both the remuneration of Management Board members, as a significant topic to the company and all its stakeholders, and associated activities in the areas of selection and nomination.

Banking Code

Following the report of the Advisory Committee on the Future of Banks (also known as the Maas Committee) several parties, including the Dutch Ministry of Finance, DNB, the Dutch Authority for the Financial Markets (AFM) and the Netherlands Bankers' Association (NVB), decided how the recommendations in the Maas Committee's report *Restoring Trust* could be implemented. The recommendations in the report were discussed in the summer of 2009, resulting in the Banking Code (Code Banken). The Banking Code is yet to be legally embedded.

The Banking Code was drafted by the NVB and sets out principles regarding the following areas:
1. Board of Supervisory Directors
2. Executive Board
3. Risk management
4. Audit
5. Reward policy

The Banking Code is part of a broad system of national, European and international legislation. In addition, case law and codes have been incorporated into the Code. Individual banks must take several aspects into account when applying the Banking Code:

- the context of the broader system;
- the bank's activities;
- other specific characteristics of the bank;
- the group which the bank is part of.

To ensure maximum effectiveness in adhering to the principles of the Banking Code, the method used to comply with the intentions of the Code must be laid down rather than simply ticking boxes.

The Banking Code came into effect on 1 January 2010. Under the Banking Code, banks are obligated to report in their 2009 annual reports on the preparatory steps they have taken to apply the Banking Code within their organisations as of 1 January 2010. Compliance with the Banking Code will be monitored on a yearly basis by a supervision committee assigned by the NVB and approved by the Dutch Ministry of Finance.

The NVB set up a work stream to formulate the Banking Code. Fortis Bank (Nederland) N.V. actively participated in this work stream and contributed to the content of the Banking Code. Fortis Bank (Nederland) N.V. has assessed the Banking Code within its organisation, performed by an internal work stream including representatives from HR, Compliance, Risk and Audit. The review revealed that Fortis Bank (Nederland) N.V. already applies the majority of the provisions of the Banking Code. The necessary measures have been taken to ensure full compliance to the maximum extent possible (subject to deviations, if any, to be reported in the Annual Review 2010). For example, adjustments have been made to the variable reward policy and preparatory steps have been taken to develop an Instruction & Personal Development Plan for both the Management Board and the Supervisory Board. In addition, both the Management Board and the Supervisory Board have adopted new regulations governing their composition and functioning in line with the Banking Code.

Management Board

Below is a brief description of the primary areas of responsibility of each of the Management Board members at 31 December 2009.

Jan van Rutte (1950)	Chairman of the Management Board since October 2006 and interim Chief Financial Officer, responsible for Finance, Tax, Audit Services, Compliance, Legal, Communications, Brokerage, Clearing & Custody and Global Markets
Frans van der Horst (1959)	Member of the Management Board, Chief Operations Officer (Vice Chairman) as from 1 May 2008, responsible for IT, Operations, Facilities, Human Resources, Retail Banking and Prime Fund Solutions
Jeroen Dijst (1971)	Member of the Management Board, Chief Risk Officer as from 1 May 2008, responsible for Risk, Treasury and ALM
Fred Bos (1961)	Member of the Management Board as from 20 November 2009. Previously on the Management Board from 2003 to May 2008. Returned to the Fortis Bank (Nederland) N.V. Board as a supplementary member in October 2008. Responsible for Private Banking, Corporates Merchant Banking, Intertrust, Corporate Social Responsibility and Sponsoring & Events

Legal governance

Fortis Bank (Nederland) N.V. qualifies as a statutory two-tier company under Dutch law (*structuurvennootschap*), pursuant to which the company has a two-tier board system with a clear division of responsibilities between the two governing bodies:

- the Management Board is responsible for managing the banking activities;
- the Supervisory Board is formally responsible for supervising the activities of the Management Board (and, accordingly, for supervising the overall activities of the bank).

Due to the merger between Fortis Bank Nederland (Holding) N.V. and Fortis Bank (Nederland) N.V., the articles of association were amended on 1 September 2009 to the effect that the acquiring company (Fortis Bank Nederland (Holding) N.V.) adopted the name of the disappearing entity (Fortis Bank (Nederland) N.V.).

Role of the Management Board

The Management Board acts as the central authority for all matters relating to the banking business of the banking group headed by Fortis Bank (Nederland) N.V. As such, it also oversees and coordinates Fortis Bank (Nederland) N.V.'s various components and decision-making bodies.

The Management Board is authorised to perform any act necessary or appropriate to achieve the objectives of Fortis Bank (Nederland) N.V., with the exception of such acts which are required by law to be performed by the general meeting of shareholders.

In exercising this role, the Management Board must comply with all prevailing legislation and regulations, specifically the legal and regulatory framework applicable to Fortis Bank (Nederland) N.V. and its subsidiaries.

Under Dutch law, and as confirmed in Article 12.1 of the articles of association of Fortis Bank (Nederland) N.V., at least two natural persons must direct the daily management of regulated companies (including credit institutions and clearing entities) that have their registered office in the Netherlands. They must conduct their activities based in the Netherlands.

Responsibilities of the Management Board

The Management Board bears collective responsibility for the bank's management, and each of its members is specifically responsible for a certain area, e.g. a business.

The responsibilities of the Management Board as a whole mainly consist of the following, subject to the approval of the Supervisory Board where appropriate, in accordance with the articles of association and corporate governance practices:

- managing and representing the company, undertaking all actions necessary in order to realise the company's objectives as set out in the articles of association (including daily management);
- defining the Fortis Bank (Nederland) N.V. strategy and defining policies, accounting standards and other standards;
- preparing business plans and budgets, including the consolidated budget;
- monitoring, detecting and managing the risks associated with the various activities of Fortis Bank (Nederland) N.V.;
- monitoring Fortis Bank (Nederland) N.V.'s results and drafting the consolidated financial statements.

Appointment criteria for members of the Management Board

The personal integrity of the members of the Management Board is an essential part of ensuring integrity within the financial sector. The trustworthiness of nominees is tested by the supervisory authorities, DNB and the Netherlands Authority for the Financial Markets (AFM). The supervisors jointly assess integrity in a single procedure. The DNB integrity test is part of the appointment procedure for Management Board members. If a person's integrity is not beyond doubt, he or she may not be appointed.

The composition of the Management Board is evenly balanced in terms of educational background and specific expertise and experience. There are no set profiles.

Remuneration of Management Board

The remuneration including pension-related payments of the current four statutory members of the Management Board was EUR 2.1 million in 2009 (for the current four and former three members a total of EUR 3.2 million excluding severance payments). Total remuneration of current and former members was EUR 4.0 million in 2009 and EUR 3.1 million in 2008. Fortis Bank (Nederland) N.V. has no stock option programme or any other long-term incentive programmes in place.

Two former members of the Management Board received severance payments totalling EUR 0.8 million.

As announced in the 2008 Annual Review, the remuneration policy has been reviewed, including bonus incentives. The Management Board of Fortis Bank (Nederland) N.V. has decided to forego its variable remuneration and its bonus for the year 2009, as it did in 2008.

The remuneration of the members of the Management Board is determined by the Supervisory Board based on recommendations made by the Nomination, Selection and Remuneration Committee, in compliance with the Remuneration Policy for members of the Management Board of Fortis Bank (Nederland) N.V. as adopted by the General Meeting of Shareholders and HR policies.

Members of the Management Board receive a remuneration that reflects the executive functions they perform within Fortis Bank (Nederland) N.V., established in accordance with the Remuneration Policy for members of the Management Board of Fortis Bank (Nederland) N.V.

Supervisory Board

The Supervisory Board of Fortis Bank (Nederland) N.V. consists of six members. Hessel Lindenbergh chairs the Supervisory Board. He is also the designated Chairman of the Supervisory Board of the new bank to be created by the combination of Fortis Bank Nederland (Holding) N.V. and ABN AMRO. The other members of the Supervisory Board are Inge Brakman, Michael Enthoven, Erik van de Merwe (Vice Chairman), Ada van der Veer-Vergeer and Hélène Vletter-van Dort.

Hessel Lindenbergh (1943)	After obtaining degrees in physics and economics, Hessel Lindenbergh embarked on a varied career in finance. He joined Algemene Bank Nederland in 1972 and transferred to ING in 1983, where he was appointed to the Board of Directors of the bank in 1992 and that of the group in 1995 until 2003. Mr Lindenbergh has a standing invitation to the Transition Team, which is charged with coordinating the integration of Fortis Bank (Nederland) N.V. and ABN AMRO
Inge Brakman (1961)	After studying Child welfare and Law at the University of Amsterdam, Inge Brakman joined the world of media in various positions. The latest as chair of the Dutch Media Authority. Recently she chaired the Board of Trustees of the Statistics Netherlands (CBS). She is member of a number of supervisory boards e.g. the University of Amsterdam and Staatsbosbeheer.
Michael Enthoven (1951)	Michael Enthoven holds a law degree from the University of Leiden and has held various positions in the legal and financial world. In 2008, he was appointed by the Ministry of Finance to the Supervisory Boards of ABN AMRO and Fortis Bank (Nederland) N.V. Mr Enthoven is a director of RFS Holdings
Erik van de Merwe (1950)	After studying monetary economics in Tilburg, Erik van de Merwe embarked on a career as a banker, holding various positions at several banks, including ABN AMRO, and serving on a number of supervisory boards. Mr Van de Merwe was Chairman of the Management Board of Fortis Bank (Nederland) N.V. and member of the Management Board (CFO) of Fortis Bank SA/NV until 2001

Ada van der Veer-Vergeer (1959)	Ada van der Veer-Vergeer's 25-year career in the financial services industry included Chairing the Board of Staal Bankiers and serving as a member of the Executive Board of Achmea Bank Holding. In recent years, she has acted as an independent boardroom consultant for strategy and governance. Ms Van der Veer-Vergeer is a member of the Supervisory Board of Netherlands Public Broadcasting and of Alliander N.V. and an adviser to the National Register of Directors and Supervisors
Hélène Vletter-van Dort (1964)	Hélène Vletter-van Dort studied law at the University of Leiden and is Professor of Financial Law at Erasmus University in Rotterdam and the University of Groningen. She is a former judge at the Enterprise Division of the Amsterdam Court of Appeal and a lawyer. She is also a member of several boards

Role, responsibilities and authority of the Supervisory Board

The powers of the Supervisory Board entail supervising the Management Board and the general course of business of the company, rendering advice to the Management Board and performing other duties, if any, as prescribed in the articles of association.

To enable the Supervisory Board to fulfil its responsibilities, the Management Board regularly reports to the Supervisory Board. The Supervisory Board may at all times request information or special reports from the Management Board with respect to all aspects of the business. At least once a year, the Management Board submits to the Supervisory Board a written report providing an outline of the strategy, main financial and other risks, and the management and control systems of Fortis Bank (Nederland) N.V. In addition, certain resolutions of the Management Board, or proposals to be made to the general meeting by the Management Board, may only be taken after the approval of the Supervisory Board has been obtained. For example, approval is required for the following subjects:

- the issue and repurchase of company shares;
- the reservation of profits and distribution of interim dividend and dividend out of reserves;
- a resolution to amend the articles of association or a dissolution of the company.

The complete list of decisions subject to approval by the Supervisory Board is stated in Article 12.9 of the articles of association of Fortis Bank (Nederland) N.V. The Supervisory Board may adopt resolutions pursuant to which clearly specified resolutions of the Management Board require its approval. The Supervisory Board has not adopted any such resolutions to date. The Management Board also adheres to the guidelines set by the Supervisory Board in respect of the general financial, economic, social and personnel policies to be pursued by the Management Board.

The Supervisory Board met on twenty-five occasions and also conducted a number of conference calls in 2009.

Appointment criteria

The personal integrity of the members of the Supervisory Board is an essential part of ensuring integrity within the financial sector. The bank has a profile for members to ensure that a broad spectrum of experience and expertise in the financial services industry is represented in the Supervisory Board, in line with the provisions regarding the composition and expertise of the Supervisory Board stated in the Banking Code (*Code Banken*). The trustworthiness of nominees is tested by the supervisory authorities, DNB and the AFM. The supervisors jointly assess integrity in a single procedure. The DNB integrity test is part of the appointment procedure for Supervisory Board members.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board of Fortis Bank (Nederland) N.V. was EUR 0.4 million in 2009 (2008: EUR 0.2 million).

Board Committees

The Supervisory Board has established an Audit Committee, a Nomination, Selection and Remuneration Committee and a Risk and Capital Committee. The duties and main activities of these committees in 2009 are described in greater detail in the Supervisory Board section on page 28 of this Annual Review.

The Audit Committee met on five occasions in 2009 and monitored the integrity of periodic financial statements, the risk management and control system, the external audit process and the internal audit function, and discussed regular updates on specific risk and control matters. The Nomination, Selection and Remuneration Committee met on five occasions in 2009 to discuss, among other things, the establishment of a sustainable remuneration policy, in line with the Banking Code. The Risk and Capital Committee met on six occasions in 2009 and oversaw the successful strengthening of the bank's balance sheet and risk management activities.

Risk

Key events in 2009

The focus in 2009 was on rebalancing and controlling the bank's risk profile and individual risks. The Management Board and Supervisory Board endorse the importance of these aims and kept a close eye on developments relating to these topics. The Risk and Capital Committee and the Audit Committee, both a subcommittee of the Supervisory Board, regularly discussed the full scope of risk developments.

Risk Management played an important role in setting-up its regulatory reporting framework. As a result, DNB has declared Fortis Bank (Nederland) N.V. Basel II, AIRB, VaR and AMA compliant. This means the bank may calculate its risks using its own business tailored risk models. Basel II compliancy is not only limited to Pillar 1, but includes ICAAP Pillar2 and Risk disclosures Pillar 3.

Risk organisation

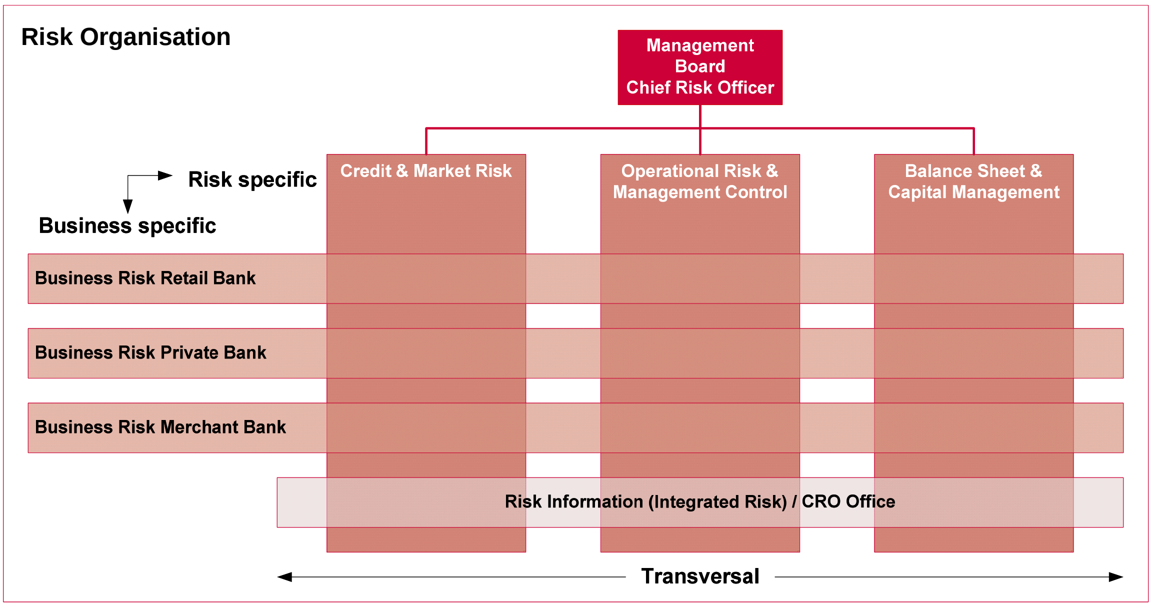
Fortis Bank (Nederland) N.V. re-established its own solid risk organisation in 2009, tailored to the new stand-alone situation of the bank. The bank now has a risk organisation that fully takes account of the lessons learned from the past, mainly:

- identify the unknown risks as well as the known risks
- structure risk management as a partner of the business;
- manage risk de-centrally and control risk centrally.

To achieve these goals, risk functions have been given clear responsibilities and roles within the organisation and have clearly-defined, transparent reporting lines. Furthermore, the strengthened risk organisation extends into the business lines and has expanded its scope of responsibility.

General features

Risk Management is structured along two dimensions: function and business line. In terms of function, there is always one column within the risk organisation responsible for a particular risk type, for example credit risk, market risk or operational risk. The second dimension is business risk, a central point of contact for all risk activities in the business.



The bank operates according to a centrally controlled and centrally structured mixed function and business model. The businesses together with the Risk organisation (which is a reflection of this model), Legal, Compliance and Internal Audit form the ‘three lines of defence’. They embody the risk control and monitoring system for mitigation of the bank’s material risks.

For identification of all material risks, Fortis Bank (Nederland) N.V. uses a standard risk taxonomy which is related to the bank’s strategy. The Risk organisation Management Team is charged with carrying out the bank’s risk strategy. This team has the following responsibilities:

- allocate resources to risk departments and ensure that the risk functions are properly staffed;
- ensure risk management adheres to guidelines and principles set by regulators, governments, industry bodies, etc.;
- propose the risk governance framework, including the organisational structure of the risk management function, policies, and major risk decision procedures;
- ensure the risk organisation covers the full risk taxonomy.

The Chief Risk Officer and the risk managers constitute the Risk Organisation Management Team.

Fortis Bank (Nederland) N.V. continuously adapts and refines its risk organisation to changing market circumstances. The bank has improved its risk decision procedures by introducing efficient risk committee structures and a risk delegation framework. A comprehensive Risk Policy Framework was set up and nearly all risk policies were updated, now covering most of the risk taxonomy. More information on the risk taxonomy is provided in note 6 of the 2009 Consolidated Financial Statements.

Core risks

Core risks are those risks to which Fortis Bank (Nederland) N.V. actively seeks exposure as an essential part of its business model as a bank. The main categories of core risks are credit risk, market risk and liquidity risk.

Credit risk

Credit risk in the on-balance portfolio increased slightly in 2009, while the off-balance exposure dropped steeply in the first half of the year and remained stable in the second half. Moreover, the infection ratio (impaired loans expressed over total on- and off-balance sheet exposure) increased from 1.19% in 2008 to 1.93% in 2009 (both ratios exclude provisions for the Madoff fraud). The level of impairments increased from EUR 1.5 billion in 2008 to EUR 1.8 billion in 2009. Credit quality deterioration was also reflected in debtors' financial results and in covenant breaches; corporate debt restructurings took place and terms and conditions were consequently adjusted, where necessary. In many cases, Fortis Bank (Nederland) N.V. sought compensation for higher risk and increased its credit enhancement, often in the form of additional collateral. The latter measure was also a response to a perceived decline in the value of existing collateral.

As a result of the above trends, there was an increase in the impaired loans from EUR 3.7 billion in 2008 to EUR 5.3 billion in 2009 and in impairments from EUR 1.5 billion in 2008 to EUR 1.8 billion in 2009, although these impairments do not necessarily translate into actual losses. The rise in impaired loans took place mainly in the category ‘impaired loans without provision’ (+119%), which are not expected to turn into losses. ‘Impaired loans with provisions’ increased by 13% to 2.9 billion. Compared with its peer group, Fortis Bank (Nederland) N.V. has a conservative approach to impairments.

Market risk

Interest rate risk declined sharply in 2009 to 5.1 years from 14.2 years in 2008. By decreasing the maturity mismatch, the bank has reduced its interest rate risk. Interest rate risk has been brought in line with the size of the bank’s stand-alone balance sheet and available capital, as can be seen from the decrease in absolute duration from EUR 718 million in 2008 to approximately EUR 367 million at the end of 2009. The Value-at-Risk (VaR) of the banking book decreased from EUR 487 million in 2008 to EUR 186 million in 2009. As a result of this de-risking activity due to the smaller amount of risk absorbing capacity, Fortis Bank (Nederland) N.V. did not benefit much from the steeper yield curve that was facilitated by the low-interest policies of the European Central Bank (ECB) and the United States Federal Reserve (FED).

The existing currency risk remained unchanged: positions are very limited.

Fortis Bank (Nederland) N.V. applies portfolio hedge accounting to hedge the interest rate risk on designated ALM positions, consisting of parts of the mortgage portfolio. In 2009 the bank started adding micro-hedging to its hedging strategies for specific transactions, particularly bond issues under the government guaranteed programme. Fair value hedge accounting is also used to hedge the interest rate risk on specific assets that are part of the liquidity buffer. Net investment hedge accounting is used when hedging the foreign currency exposure on net investments in foreign operations.

Fortis Bank (Nederland) N.V.'s current trading activities are limited in terms of products, volumes, risk exposures and complexity. During 2009, Fortis Bank (Nederland) N.V.'s trading activities comprised the following markets and products.

Market	Products
Equities	Client facilitation and arbitrage strategies
Interest rates	Money markets (deposits, FRAs, futures)
	Interest rate swaps, caps, floors, swaptions (caps, floors and swaptions on a back-to-back basis only)
	Fixed income
Foreign exchange	Spot, swaps, forwards, options
Carbon	CO_2 (spot, forwards)

The majority of trading activities originated from client facilitation (i.e. sales-driven trading). Trading risk arises from positions sensitive to movements in financial market prices and rates. Risk Management measures, monitors and reports all trading exposures on a daily basis. Trading limits are reviewed at least once a year, or more frequently if necessary.

The aggregated Value-at-Risk (VaR) limit for Fortis Bank (Nederland) N.V.'s trading activities amounts to EUR 5 million. The average trading VaR in 2009 came to EUR 2.2 million or 44% of the trading VaR limit. This underlines the current moderate level of trading within Fortis Bank (Nederland) N.V.

Liquidity risk

In 2009 Fortis Bank (Nederland) N.V. improved its market access to longer term funding resources. This was due mainly to the launch of two benchmark issues under the government guaranteed programme, together with other guaranteed issues amounting to EUR 9.3 billion.

These issues, together with the successful re-establishment of its market access to wholesale funding, enabled Fortis Bank (Nederland) N.V. to fully repay the Dutch Ministry of Finance's short-term funding of EUR 34 billion. At the time of separation, Fortis Bank (Nederland) N.V. required this amount to redeem its intercompany obligations to Fortis Bank SA/NV (its previous parent company).

The funding profile is slowly improving with longer maturities. Excess liquidity is available in the short term and the liquidity survival period has improved to at least three months. In addition, the bank has created greater diversification in the number of funding sources.

Non-core risks

Non-core risks are risks that, as a rule, are not actively sought but arise as a consequence of conducting business. They include operational risk. These risks have been further aligned to the stand-alone profile of the bank. Fortis Bank (Nederland) N.V. manages its operational risks and protects its reputation by ensuring that its business practices meet the highest standards of integrity, as specified in its Code of Conduct.

In relation to the integration with ABN AMRO certain areas of operational risk have been identified for which additional capital buffers are defined. This has resulted in a prudent buffer amounting to EUR 90 million additional capital (equals add on of EUR 1,125 million in risk-weighted commitments) on 31 December 2009. The integration capital buffer is on top of a capital buffer for separation, which amounts to EUR 131 million (equals add on of EUR 1,638 million in risk-weighted commitments) on 31 December 2009.

These combined capital buffers (integration and separation) amount to more than 50% of 'normal' capital buffers reserved to cover for operational risk under Basel II. The amount of the separation buffer is expected to decrease as function of completion of the separation programs whereas the integration buffer is expected to grow during integration.

Operational losses came down to EUR 53 million in 2009 from EUR 94 million in 2008. The separation from Fortis Group did not increase operational risk, which is a remarkable achievement considering the complexity of the separation. It demonstrates that operational risk measures were effective and that management awareness was sufficient.

Operational Risk Management fine-tuned and re-scoped its operational risk framework, while decreasing the dependency on Fortis Group. This included re-scoping policies and restoring information security and business continuity governance. At year-end 2009, 75-80% of the separation from Fortis Bank SA/NV was completed and many important systems and processes were split up, cloned, re-created or adapted to the smaller scope of a stand-alone bank. Many services previously received from Fortis Bank SA/NV were terminated. As a result of these activities, the operational risk inherent in separation was considerably reduced.

Operational Risk Management is also closely involved in the preparations for the integration with ABN AMRO. The Management Board and the Supervisory Board kept a close watch on any potentially negative impact of the integration on Fortis Bank (Nederland) N.V.'s organisation and its daily operations.

Risk Management worked together closely with the Compliance and Corporate Social Responsibility departments, with a view to mitigating possible reputation risk for the bank.

Bank-wide risk identification and analysis

In 2009, Fortis Bank (Nederland) N.V. introduced and improved monthly integrated risk reports. These reports present the bank's actual risk for each risk type against its risk appetite and risk tolerance and enables identification and analysis on a bank-wide basis. Risk tolerance is a global 'envelope' of risk, i.e. a minimum and maximum of risk levels the bank is willing to be exposed to in order to achieve its general business objectives. It sets clear limits on well-identified metrics and scopes. Risk appetite is the 'ideal' amount of risk the bank is willing to take in the short- to medium-term given the bank's ability to manage these risks and the opportunities presented by the market.

Internal risk control systems functioned effectively in 2009, ensuring that financial reporting did not contain any material inaccuracies. The bank's internal audit service has concluded that the risk reporting is satisfactory and has not identified any major shortcomings of internal risk control systems.

Focus in 2010

Risk Management will strive to support the external growth of specific parts of the business mix in 2010, particularly in Merchant Banking niche markets such as ECT, BCC and Securities Financing. The current economic conditions are expected to continue well into 2010, making the role of risk management especially important.

Risk Management will seek to improve the liquidity position, narrow the liquidity gap and reduce the dependency on wholesale funding in order to improve and extend the funding profile. Other important objectives are to decrease the current level of credit provisions and limit any operational losses arising from the pending integration with ABN AMRO.

Finance

Finance aims to provide all stakeholders – internal and external – with the financial information and insights required to manage and take well-informed decisions about Fortis Bank (Nederland) N.V. It seeks to provide accurate and compliant accounting, reporting, consolidation and performance management within the scope created by reporting policies, capital and tax regulations.

Continuity

Finance's main focus in 2009 was to ensure continuity of the bank's core financial processes. Developments in 2008 had an impact on the bank's financials and on its financial processes, both of which had to be effectively adapted by the newly structured Finance organisation.

To achieve this goal, a new Finance organisation was set up after the separation from Fortis Bank SA/NV, with clearly defined roles, responsibilities and reporting lines. Complete and timely delivery of various internal and external reports bears witness to the successful execution of this primary objective.

Separation

As a support function within the former Fortis organisation, Finance strived to integrate and centralise the Finance processes where possible. As a result, the separation from Fortis Bank SA/NV entailed splitting up a number of financial processes and systems. Consolidation and inter-company processes and systems were separated, as were the analysis and budgeting tools. Finance also played a prominent role in the International Separation Programme, both in migrating existing foreign entities to Fortis Bank (Nederland) N.V.-owned systems and in implementing the required financial processes as the international network was built up.

Finance also played an important part in the legal merger between Fortis Bank (Nederland) N.V. and Fortis Bank Nederland (Holding) N.V. and the resulting integration of both financial administrations. The aim of this merger was to optimise and simplify the bank's legal structure.

Two processes are currently still partly performed by parts of the former Fortis Bank SA/NV organisation: Basel II reporting and parts of the cost accounting and purchasing processes. These activities will be fully separated in the first half of 2010.

Integration

A great deal of effort was devoted in 2009 to the upcoming integration with ABN AMRO. A designated Finance management team was appointed, which embarked on setting up a new, combined Finance department. This involved formulating an integration plan specifying the responsibilities, primary processes and application architecture for the future Finance department. Most of these activities were performed by employees who took on these responsibilities alongside their 'business as usual' and separation activities.

Focus in 2010

Finance will have the same priorities in 2010 as it did in 2009. First, it will strive to guarantee continuity of its processes, ensuring that both internal and external reporting is carried out thoroughly, accurately and on time. It will seek to achieve its goals within a changing environment, as the bank works to secure full separation from Fortis Bank SA/NV. Also, Finance will fully integrate some of its processes with those of ABN AMRO, while the integration of its other processes will keep pace with the systems or related business integrations. Against this background, Finance staff will continue to perform their duties under demanding circumstances.

Human Resources

2009 was dominated by the upcoming integration with ABN AMRO. Contacts with future colleagues at ABN AMRO were strengthened, and many Human Resources employees worked on various transition projects, most of whom did so alongside their ‘business as usual’ activities.

Separation

Creating a new bank entails also parting ways with other divisions of the former Fortis organisation in the Netherlands and in Belgium. Separating the IT systems for Human Resources was a major endeavour in 2009, including splitting up the bank’s and insurer’s combined personnel and salary administration systems in the Netherlands. This project was completed towards the end of 2009.

Resources

Amid the separation activities, Fortis Bank (Nederland) N.V. had to operate as an independent bank as efficiently and cost-effectively as possible. More than ever, Human Resources focused on deploying people and resources responsibly.

It had already been decided in 2008 to closely supervise hiring, and Human Resources continued to pursue and intensify this policy in 2009. Vacancies are always first posted on the bank’s intranet site. Internal applications are reviewed during so-called ‘matching meetings’, and mobility managers and recruiters trawl their databanks for suitable internal candidates. If no candidates are found, the Resourcing Board ensures that external people are recruited only if absolutely necessary. Cost consciousness is always a key consideration, but this was a particularly important criterion when choosing external suppliers. Fortis Bank (Nederland) N.V. pursues a diversity policy too. As a result of the separation, many expats have returned to the Netherlands, filling various job openings in the organisation.

In the autumn, Human Resources mounted a mobility campaign with the slogan *Envision a leap ahead* aimed at raising employee awareness of the power to direct your own career. In these challenging times, it is especially important for people to think about their future. The *Envision a leap ahead* campaign included posters, workshops for managers and a dedicated website (www.denkeensprongvooruit.nl) where staff could take tests, find information about applying for a job and register for various training courses.

Talent

Fortis Bank (Nederland) N.V. conducted a wide-scale review of its staff in 2009. As a result a group of employees emerged who qualify as ‘talent’. Human Resources organised leadership programmes and talent events targeting this important group of employees and will continue to offer these activities in 2010.

Towards a new bank

A great deal of work was performed behind the scenes in the efforts to shape the new bank. As a first move towards setting up the new organisation, designate appointments were made to the top layer of senior management in 2009.

Fortis Bank (Nederland) N.V. discussed several issues with the Works Council and unions, often in conjunction with ABN AMRO. A milestone was achieved in November 2009 when a new redundancy support scheme (Social Plan) was agreed, the theme of which is ‘From job to job’. Not all employees will have a job at the new bank, so a sound Social Plan that applies to staff at both banks was one criterion for implementing an effective Human Resource policy. ‘From job to job’ refers to the fact that the banks want to keep as many people employed as possible, either within or outside the new bank.

The bank's professional remuneration policy was another subject of discussion with the Works Council and was revised in accordance with the standards laid out in the Banking Code and the guidelines from DNB and AFM.

The Managing Change workshops, offered in cooperation with Fortis Health & Safety Services (*Arbodienst*), helped employees get a handle on their own change processes.

BRAVO

In 2009 Human Resources carried on with the BRAVO programme, which encourages staff to take more exercise, stop smoking, moderate alcohol use, eat healthy and relax more. Human Resources regularly promoted each of these themes among the bank's employees.

Pension fund

Fortis Bank (Nederland) N.V. has two hybrid pension schemes: a defined benefit scheme is applicable to employees with annual salaries up to EUR 43,000 (pension scheme 2007) and EUR 55,000 (pension scheme 2001); above these salaries defined contribution schemes are in place. The bank outsources execution of its pension schemes to its company pension fund (Pensioenfonds Fortis Bank Nederland).

The pension fund's coverage ratio increased from around 105% at the end of February 2009 to around 110% at year-end 2009, due mainly to the recovery in the markets. The coverage ratio at year-end 2009 was higher than the ratio required by DNB, which is 107.6%. Further information is provided in the 2009 Annual Report of Pension Fund Fortis Bank Nederland, to be published later in 2010.

Outlook for 2010

In the year to come, the first departments of Fortis Bank (Nederland) N.V. are scheduled to integrate with their counterparts at ABN AMRO. Human Resources will play a prominent role in the integration process, with important themes being allocation and resourcing. The year ahead will undoubtedly be a difficult one for the bank's employees, many of whom will lose their jobs, though the specifics are not yet known. There is consequently a great deal of apprehension among staff. Effective decision-making and communication about future employment that accurately reflects the ratio of ABN AMRO to Fortis Bank (Nederland) N.V. employees will help reduce concerns and increase employee motivation.

Human Resources will rely on its staff's professionalism to see it through its own integration while continuing to serve the business effectively.

Legal

The Legal department is the exclusive provider of all legal services to Fortis Bank (Nederland) N.V., its subsidiaries and its senior management. Legal also provides support on corporate and governance matters by monitoring and reporting legal risks to which the bank is exposed. Its remit also includes maintaining contact with local regulators. Legal works with Audit and Compliance to ensure the bank complies with applicable laws and regulations and engages external legal service providers when necessary, for example in the event of litigation.

Structure

As a consequence of becoming a stand-alone bank, Legal restructured itself from being a cross-border organisation to a local organisation. In the course of 2009, Legal started building a new international organisation in line with the development of the business structure. Legal assigns dedicated teams to the respective businesses and support functions, in keeping with the operating model of the bank. Legal has a seat in several internal committees, including local risk committees and the compliance and operational risk committees.

Main activities

Legal devoted its efforts in 2009 largely to the following activities: (i) providing legal support on carrying out the separation from Fortis Bank SA/NV, (ii) setting up new and renewed funding programmes, (iii) the legal merger of Fortis Bank Nederland (Holding) N.V. and Fortis Bank (Nederland) N.V., (iv) the divestment of certain subsidiaries including Intertrust Group and ASR Bank, (v) preparing for the integration with ABN AMRO, (vi) implementing the Payment Services Directive by 1 November, (vii) preparing Fortis Bank (Nederland) N.V. for SEPA Direct Debit and SEPA Credit Transfer by 1 November, (viii) assisting the business with the introduction of the amended and restated General Banking Conditions as from 1 November 2009, (ix) providing support to businesses (including the Financial Restructuring and Recovery department) in different economic and financial markets circumstances.

Compliance

The mission of Compliance is to assist senior management in identifying, assessing and effectively managing Fortis Bank (Nederland) N.V.'s compliance risks based on a risk-based approach. This approach ensures that every reasonable measure (including policies, procedures, instructions, IT systems, monitoring methods, awareness and training activities, target-setting, incentives, deterrent measures and sanctions) is taken in order to avoid or reduce the occurrence of the identified compliance risks and to minimise damages should one of these risks nevertheless occur. The Compliance department also seeks to maintain a relationship of trust and mutual understanding with regulators and supervisory authorities.

Structure

Compliance has devoted its efforts to restructuring its organisation and working methods since the bank became a stand-alone organisation. It systematically repaired the gaps in compliance coverage, adapted and reintroduced compliance risk management at Fortis Bank (Nederland) N.V. and set up compliance risk reporting such that the bank's management can better identify and control compliance risks worldwide.

Main activities

Compliance contributed to the many separation and integration projects carried out in 2009. Business as usual included topics such as duty of care in securities and lending services to private individuals and client acceptance under the legally-prescribed risk-based approach. In addition, Compliance launched an anti-money laundering training course designed to promote knowledge and understanding of this issue among the bank's staff.

Compliance also established close cooperation with other 'second line of defence' functions such as Risk Management and Legal. These relationships contributed to a better understanding of separation and integration issues, and the combination of different perspectives resulted in a holistic view and greater transparency. This approach was instrumental in tackling the complexity of issues the bank faced in 2009. A good example is the introduction of gate-keeping procedures at Operational Risk Management and Legal to supervise the flow of information between Fortis Bank (Nederland) N.V. and ABN AMRO. These procedures were put in place to reduce risks resulting from competition law requirements related to the EC Remedy. Similar exchanges allowed Compliance to advise on the mitigation of risks to sound governance as preparations for the integration progressed.

Another noteworthy activity related to the reduction of risks arising from extra-territorial application of foreign regulations. An example is the United States sanctions regulation, i.e. regulation supervised by the US Office of Foreign Asset Control (OFAC). Although Fortis Bank (Nederland) N.V. has only a modest presence in the United States, financial institutions that are active in foreign markets need to recognise this risk and to take appropriate measures. Compliance advised senior management on a number of related issues and contributed to a reassessment of policy and customer due diligence and client acceptance procedures.

Fortis Bank (Nederland) N.V. is fully committed to maintaining open and transparent relationships with its regulators. Compliance contributed to this policy by engaging in an open dialogue with the regulators on relevant topics in 2009. These included the bank's exposure to United States regulation following the acquisition of clearing activities in Chicago and its application to establish activities in New York, duties of care in the area of consumer credit protection in the retail business, and assessment of the risks related to the safe custody of customer assets.

Tax

The Tax department exercises an independent function within Fortis Bank (Nederland N.V.) and the bank's subsidiaries and aims to contribute to long-term shareholder value by formulating effective tax policies, standards and culture (embedding tax awareness in business processes) and being a proactive partner to senior management and the businesses.

The Tax department aims to actively manage tax risks and the tax base while ensuring compliance with fiscal legislation and optimising Fortis Bank (Nederland) N.V.'s tax position. It works according to the principle that the bank wants to pay the correct amount of taxes at the right time, based on current law and jurisprudence -- no more and no less.

The Tax department aims to maintain good professional relationships with the tax authorities and the Ministry of Finance.

Main activities

The Tax department pursues seven main activities: (i) formulating tax rules, standards and culture, (ii) being a proactive partner to the business, (iii) managing the tax risks and tax base, (iv) managing relationships with external advisers and the tax authorities, (v) ensuring effective tax compliance bank-wide, (vi) preparing effective tax provisions in the Annual Financial Statements, and (vii) representing and lobbying on behalf of Fortis Bank (Nederland) N.V. (where applicable).

Guiding principles

The Tax department is the exclusive provider of tax services for Fortis Bank (Nederland) N.V. Centralisation ensures complete and effective reporting.

Relationships with the tax authorities, external tax advisers and tax firms are managed exclusively by the Tax department. The department promotes maximum transparency through regular meetings and, if deemed appropriate, rulings and covenants.

Every product and project launched by a business requires prior approval by the Tax department. Members of the Tax department are independent from the business they advise, and their remuneration is not directly related to the results of the business.

Key developments in 2009

In 2009, the Tax department implemented a tax control framework designed to improve procedures and controls within the department and to support Fortis Bank (Nederland) N.V.'s controls of the bank's tax position in the Netherlands and abroad.

The Tax department also launched a project aimed at enhancing tax reporting by means of a tax calculation model and questionnaires. The goal is to boost knowledge of tax accounting and the tax risk profile of Fortis Bank (Nederland) N.V. and its subsidiaries. The project is expected to increase efficiency of tax reporting and compliance procedures and improve the bank's ability to identify and develop tax planning opportunities.

Audit Services

Audit Services provides professional and independent assurance to support the achievement of the bank's objectives. Audit Services evaluates the effectiveness of governance, risk management and control processes and recommends solutions for optimizing them. Auditors monitor the effectiveness and efficiency of operations, the reliability of financial management information, compliance with applicable laws and regulations, the safeguarding of assets and prevention and detection of fraud. Audit Services presents recommendations and follows up to ensure they are implemented correctly and in accordance with agreed timelines. Fortis Bank (Nederland) N.V. Audit Services is authorised to audit all aspects of operations and is provided with the necessary resources to carry out its duties effectively. In this way, it serves as an independent and objective assurance provider that reports directly to the CEO and Audit Committee.

Corporate Social Responsibility

In the year under review, Fortis Bank (Nederland) N.V. continued to pursue its ambition to constantly improve its performance in Corporate Social Responsibility (CSR) . The bank re-established an independent CSR programme and further embedded sustainability into its core businesses and processes.

A full description of the CSR programme is available at www.fortis.nl/sustainability.

Strengthening the bank's risk management framework

A major achievement in 2009 was the rebuilding of the CSR risk management framework. Fortis Bank (Nederland) N.V. incorporated environmental and social criteria into its client acceptance procedure and developed a central CSR risk policy. This policy identifies a number of sensitive issues, sectors and countries and describes how Fortis Bank (Nederland) N.V. wants to manage risks. The bank also developed tools to screen its future clients and any future transactions based on a set of environmental, social and ethical criteria.

Fortis Bank (Nederland) N.V. renewed its agri commodities and defence industry policies, and developed new sector supplements for coffee and cacao as well as guidelines for cotton and energy commodities. After renewing its shipping policy, Fortis Bank (Nederland) N.V. was invited to participate in the Sustainable Shipping Initiative of Forum for the Future. The bank re-adopted the Equator Principles, which will be applied to its entire project financing activities worldwide.

In the year ahead, Fortis Bank (Nederland) N.V. will focus on implementing its CSR Risk Policy, including training employees and developing new sector policies for energy commodities, oil & gas, metals commodities and power & utilities.

Stakeholder engagement

Fortis Bank (Nederland) N.V. interacts with a broad range of stakeholders, including regulators, governments, industry associations, unions, NGOs and local communities. In 2009, Fortis Bank (Nederland) N.V. further intensified its dialogue with a number of Dutch NGOs and participated in the *Eerlijke Bankwijzer*, a tool launched by four Dutch NGOs (Oxfam Novib, Friends of the Earth, Amnesty International and FNV Bondgenoten) that compares the sustainability policies of twelve Dutch banks. The bank improved its scores on a number of topics, thanks to its new central CSR risk policy and the integration of CSR criteria in its client acceptance procedures.

Fortis Bank (Nederland) N.V. is an active member of the European Corporate Leaders' Group on Climate Change (EU CLG). Through this membership it co-authored the Copenhagen Communiqué, which was ultimately signed by over 700 companies. The bank is also a member of the following organisations: UNEP FI, UN Global Compact and MVO Nederland. Within the Dutch Chapter of the Global Compact, Fortis Bank (Nederland) N.V. participated in a project designed to strengthen the human rights policies of Dutch multinationals through implementation of the UN framework.

Sustainable products and services

Sustainable investment

Sustainable investment was once again in the limelight in the Netherlands in 2009. This, combined with the recovery of the financial markets, drove up the assets of Triodos MeesPierson (TMP). TMP now manages EUR 558 million for MeesPierson, an increase of 10% compared with the end of 2008. TMP's total assets under management advanced 25% to EUR 838 million, and the number of portfolios managed grew by 10% to 473.

The sustainable investment portfolio resumed an upward trend in 2009 and strongly outperformed the benchmark thanks to a combination of factors. Stock selection was the most important and overweighting of European equities, mid-caps and growth stocks also contributed. Companies with a high sustainability score generally delivered a good performance within their sectors. The only sector to lag behind was renewable energy, because new projects are hard to finance at present. The portfolio of sustainable equity funds performed in line with the benchmark.

In 2009, TMP signed an agreement with ABN AMRO Private Banking to provide an equity portfolio for the sustainable discretionary mandate of ABN AMRO on an advisory basis. Equity holdings within the SRI mandate grew by 200% in 2009 bringing the total managed and advised assets of TMP to over EUR 1 billion. Fortis Bank (Nederland) N.V. is confident that it can further grow its sustainable investment activities, as this will be one of the focus areas of the new private bank.

Fortis Groenbank

Fortis Groenbank had a good year, posting significant growth in both funding and investment. In response to the growing demand for alternative savings among Dutch clients, the bank developed a green deposit product and launched a series of certificates (*Groenbankbrieven*). As a result, its funding over 2009 increased by 50% compared with 2008. Fortis Groenbank also developed a number of new investment projects. In cooperation with ALFAM, it launched 'Greenloans', an initiative enabling retail clients to easily finance the purchase of solar panels, solar boilers and other renewable energy equipment. Over 90% of the suppliers of this equipment now offer Greenloans to their customers. Fortis Groenbank stepped up investments in solar energy, too, and completed its first deals in green real estate in 2009. Overall, the investment portfolio grew by 17% in 2009. Fortis Groenbank expects to keep up this growth in 2010 and remains committed to contributing to a more sustainable world in the years to come.

Carbon banking and renewable energy

Fortis Bank (Nederland) N.V. is one of the leading financial services providers in carbon banking. The bank enhanced its position in the market for CO_2 emission rights over the past year and expects to continue to grow in 2010. Fortis Bank (Nederland) N.V. provides a full package of services to corporate clients active in carbon emissions markets, ranging from trading to escrow services and from financing to clearing over carbon exchanges.

Fortis Bank (Nederland) N.V. has continued to pursue its commitment to renewable energy by granting new loans and equity to wind, waste-to-energy and solar projects. In addition, the bank provided several renewable energy companies and initiatives with transaction banking services and risk management solutions in 2009. Renewable energy financing remains one of the pillars of the bank's strategy and positioning. There is strong growth potential for wind energy in the Netherlands and its neighbouring countries, especially in off-shore wind energy, which is starting to come of age.

In-company environmental management

To underline its ambition to reduce the bank's energy use and CO_2 impact, Fortis Bank (Nederland) N.V. signed the *MeerJarenAfspraken 3* and a mobility covenant with the government for the Amsterdam and Utrecht regions. The following objectives are targeted:

- energy reduction of 2% per year
- mobility reduction of 10% commuting and business travel in 2012
- paper reduction of 10% in 2010
- further implementation of Sustainability Purchasing Policy

The following initiatives contribute to these objectives:

- to encourage the use of public transport, the bank's employees in Utrecht were offered a pass to travel by train, bus and bike for free (pilot)
- the bank switched from 80gr to 75gr copy and print paper, yielding a 6% reduction of paper use

CO_2 emission (in tonnes)	*2009*	*2008*
Buildings		
- Electricity	0	0
- Other sources	7,512	8,125
Mobility		
- Road travel	4,939	5,137
- Air travel	1,299	1,730
Total emission	**13,750**	**14,992**

Paper use (in kg's)	*2009*	*2008*
Copying and printing	399,175	348,127
Letters and envelopes	584,779	638,696
Total paper use	**983,954**	**986,823**

The emission reductions presented in the table above reflect the bank's commitment to continuously improve its internal environmental performance. Since 2007 Fortis Bank (Nederland) N.V. has purchased green electricity, resulting in zero emissions from electricity usage in buildings. Furthermore, it has reduced energy consumption thanks to an awareness campaign targeting computer use and strengthened its sustainable lease car policy. Since 2007, all lease car drivers have received a Netherlands Railways business commuter pass and the bank has promoted energy-friendly cars by offering a discount on leasing fees paid by employees. Since January 2010, only cars with an A, B or C label may be leased.

World Environment Day

Your planet needs you! Unite to combat Climate Change

Fortis Bank (Nederland) N.V. committed to the UN World Environment Day (WED) for the second time on 5 June 2009. The objective of WED is to raise awareness of environmental issues and to take action. CSR organised several initiatives, including a seminar ‘The world in 2020’ in cooperation with ABN AMRO employees. During the master class the keynote speaker Josephine Green, Director Social Innovation of Philips Design, took CSR on a journey into a world that leaves behind the model of the 20th century. The old model is characterised by a pyramid of hierarchy, money, status, consumerism, individualism, domination and control and shapes the thinking about organisations. The new paradigm is freer, more community-oriented, 'we'-based and flatter, and focuses more on values.

Fortis Foundation Nederland

As a financial services provider, Fortis Bank (Nederland) N.V. plays an important part in helping people achieve their ambitions. The bank expresses its commitment to society through the community programmes of Fortis Foundation Nederland and worked in this area together with ASR Nederland in 2009. Under the motto 'People for people', Fortis Foundation Nederland encourages staff to volunteer in community projects. The Foundation promotes employees' initiatives and sets up its own programmes where staff can use their expertise to support people and social organisations. Fortis Foundation Nederland is supported by seven *Stimulans Committees*, the regional network of ambassadors.

Employees of Fortis Bank Nederland and ASR Nederland volunteered 6,435 times for a variety of social programmes in 2009. Many activities are designed to strengthen vulnerable youth, in the knowledge that these programmes benefit young people and volunteers alike.

Key Developments

Fortis Foundation Nederland organised hundreds of activities with hundreds of social organisations in 2009, including the following special programmes.

MBO Master Class

In March 2009 Fortis Foundation Nederland organised the MBO Master Class for Fortis Bank (Nederland) N.V. Retail Banking, for which it developed the Wellsociety Simulator (WSS). This interactive and educational tool gives users the opportunity to obtain experience with socially responsible business.

Some 100 Dutch Retail Banking customers and their account managers attended an MBO Master Class at the bank's head office in Utrecht. Using tools like the WSS, participants became acquainted with the widely varying aspects of community investment and discovered how to translate what they learned into their own working environment. The master class concluded with an interactive Community Dinner. Experts discussed six social themes, helping participants put the theory they had learned directly into practice.

Wereldz., a stage for socially responsible business

In June 2009 Fortis Foundation Nederland organised the first edition of Wereldz., a networking event for socially responsible business. Some 800 visitors could choose from 100 workshops and lectures on this important topic. After Alexander Rinnooy Kan, chairman of the Social and Economic Council (SER), opened the event, participants were free to visit one of the 77 stands featuring a wide range of businesses and consultants.

Microfinancing

In November 2009, Fortis Bank Nederland and Fortis Foundation Nederland signed a contract with Qredits, also known as *Stichting Microkrediet Nederland*, for supplying microfinancing coaches. Fortis Bank Nederland is the first company to provide coaches for microbusinesses via Qredits. Bank staff will volunteer as coaches for a period of one year, advising and supporting microbusinesses in their operations. Qredits grants loans to organisations in the Netherlands that have a good business plan yet are unable to arrange credit with mainstream banks.

Awards

SponsorRing 2009 Social category

Fortis Foundation Nederland's and ASR Nederland's Youth Run win SponsorRing award

In this project, young people from twelve youth welfare organisations are prepared for participating in the 5- or 10-k run during the Fortis Marathon Rotterdam. Volunteer staff act as personal coaches and supporters for the young people, who are all between the ages of 12 and 18. Former marathon champion Gerard Nijboer also does his part in this project.

The jury's assessment: "The 'Youth Run' touches on many different facets of society: it improves the image of the youth welfare sector while motivating people who work in this field. This project has a measurable impact, as it encourages young people to get involved in sports – and that's quite an achievement!"

Mas Sensation 2009

Fortis Foundation Nederland was given an 'honourable nomination' for its range of traineeships in the social sector. There were prizes in the categories Students, Schools, Traineeships and Traineeship Brokers. Fortis Foundation Nederland may not have fit into any one of these categories, but it was named by more than half the voters as an example, supporter or initiator.

Focus in 2010

As from 2010 Fortis Foundation Nederland will conduct its activities exclusively for Fortis Bank Nederland and, after the integration, for the new bank. Both Fortis Bank Nederland and ABN AMRO have a proud history in the area of socially responsible business. The Foundation's social programme will make a significant contribution to the new bank, where socially responsible business will play a prominent part in the organisation.

More information is available at www.fortisfoundation.nl

Fortis Bank (Nederland) N.V.
Consolidated Financial Statements 2009

Consolidated balance sheet

(before appropriation of profit)

	Note	31 December 2009	31 December 2008	31 December 2007
Assets				
Cash and cash equivalents	14	10,002	9,859	39,269
Assets held for trading	15	16,231	13,948	23,117
Due from banks	16	26,657	24,272	38,768
Due from customers	17	125,328	124,692	130,971
Investments:				
- Held to maturity		*33*	*30*	*35*
- Available for sale		*2,822*	*3,542*	*3,201*
- Held at fair value through profit or loss		*485*	*151*	*123*
- Investment property		*34*	*90*	*79*
- Associates and joint ventures		*437*	*388*	*25,733*
Total investments	18	3,811	4,201	29,171
Other receivables	19	2,667	3,029	3,435
Property, plant and equipment	20	355	414	368
Goodwill and other intangible assets	21	161	182	224
Accrued interest and other assets	22	4,379	3,369	6,897
Deferred tax assets	29	194	237	158
Total assets		**189,785**	**184,203**	**272,378**
Liabilities				
Liabilities held for trading	15	24,164	23,716	52,466
Due to banks	23	37,143	21,309	71,311
Due to customers	24	61,399	91,798	69,990
Debt certificates	25	47,567	28,251	32,796
Subordinated liabilities	26	4,708	6,561	11,652
Other borrowings	27	113	257	1,371
Provisions	28	124	97	79
Current tax liabilities	29	124	247	730
Deferred tax liabilities	29	39	74	52
Accrued interest and other liabilities	30	9,682	8,874	9,513
Total liabilities		**185,063**	**181,184**	**249,960**
Shareholders' equity	3	4,716	2,944	21,763
Minority interests	4	6	75	655
Total equity		**4,722**	**3,019**	**22,418**
Total liabilities and equity		**189,785**	**184,203**	**272,378**

Consolidated income statement

	Note	2009	2009 Exceptional items	2009 Excluding exceptional items	2008	2008 Exceptional items	2008 Excluding exceptional items	2007	2007 Exceptional items	2007 Excluding exceptional items
Income										
Interest income		8,380		8,380	17,357		17,357	19,169		19,169
Interest expense		(7,230)		(7,230)	(16,355)	(582)	(15,773)	(17,634)	(106)	(17,528)
Net interest income	34	1,150		1,150	1,002	(582)	1,584	1,535	(106)	1,641
Fee and commission income		1,097		1,097	1,108		1,108	1,168		1,168
Fee and commission expense		(373)		(373)	(285)		(285)	(242)		(242)
Net fee and commission income	39	724		724	823		823	926		926
Dividend and other investment income	35	14		14	27		27	37		37
Share in result of associates and joint ventures	36	(2)		(2)	(896)	(905)	9	190	179	11
Realised capital gains (losses) on investments	37	90		90	(16,807)	(16,822)	15	126		126
Other realised and unrealised gains and losses	38	103		103	431		431	587		587
Other income	40	455	363	92	207		207	225		225
Total operating income		**2,534**	**363**	**2,171**	**(15,213)**	**(18,309)**	**3,096**	**3,626**	**73**	**3,553**
Change in impairments	41	(396)	16	(412)	(1,303)	(972)	(331)	(41)		(41)
Net operating income		**2,138**	**379**	**1,759**	**(16,516)**	**(19,281)**	**2,765**	**3,585**	**73**	**3,512**
Expenses										
Staff expenses	42	(896)		(896)	(895)		(895)	(955)		(955)
Depreciation and amortisation of tangible and intangible assets	43	(69)		(69)	(67)		(67)	(60)		(60)
Other expenses	44	(862)		(862)	(1,048)		(1,048)	(910)		(910)
Allocation expense										
Total expenses		**(1,827)**		**(1,827)**	**(2,010)**		**(2,010)**	**(1,925)**		**(1,925)**
Profit before taxation		**311**	**379**	**(68)**	**(18,526)**	**(19,281)**	**755**	**1,660**	**73**	**1,587**
Income tax expense	45	96		96	56	191	(135)	(346)	24	(370)
Net profit for the period		**407**	**379**	**28**	**(18,470)**	**(19,090)**	**620**	**1,314**	**97**	**1,217**
Net profit attributable to minority interests		1		1	16		16	18		18
Net profit attributable to shareholders		**406**	**379**	**27**	**(18,486)**	**(19,090)**	**604**	**1,296**	**97**	**1,199**

Further information about exceptional items can be found in note 33.

Consolidated statement of comprehensive income

The statement of comprehensive income reflects changes in shareholders equity during the course of the year, with the exception of changes arising from share issues and payments to shareholders. The changes for 2009, 2008 and 2007 are shown below.

	31 December 2009		31 December 2008		31 December 2007	
Net profit attributable to shareholders	406		(18,486)		1,296	
Net profit attributable to minority interests	1		16		18	
Net profit before minority interests		**407**		**(18,470)**		**1,314**
Revaluation of investments	(27)		(13)		(61)	
Translation reserve	5		(5)		(6)	
Other changes	(29)		(628)		454	
Other comprehensive income before taxation	**(51)**		**(646)**		**387**	
Tax related to other comprehensive income	(3)		15		7	
Other comprehensive income after taxation		(54)		(631)		394
Total comprehensive income		**353**		**(19,101)**		**1,708**
Minority interests		(69)		(580)		468
Total own comprehensive income		**422**		**(18,521)**		**1,240**

The tax effect of each component of other comprehensive income is shown below.

	31 December 2009			31 December 2008			31 December 2007		
	Gross	*Tax*	*Net*	*Gross*	*Tax*	*Net*	*Gross*	*Tax*	*Net*
Revaluation of investments	(27)	(1)	(28)	(13)	16	3	(61)	10	(51)
Translation reserve	5	(2)	3	(5)	(1)	(6)	(6)	(3)	(9)
Other changes	(29)		(29)	(628)		(628)	454		454
Total other comprehensive income	**(51)**	**(3)**	**(54)**	**(646)**	**15**	**(631)**	**387**	**7**	**394**
Minority interests	(69)		(69)	(580)		(580)	468		468
Total own other comprehensive income	**18**	**(3)**	**15**	**(66)**	**15**	**(51)**	**(81)**	**7**	**(74)**

Consolidated statement of changes in equity

	Share capital	*Share premium reserve*	*Other reserves*	*Currency translation reserve*	*Net profit attributable to shareholders*	*Unrealised gains and losses*	*Share holders' equity*	*Minority interests*	*Total equity*
Balance at 1 January 2008	**643**	**16,867**	**2,906**	**(15)**	**1,296**	**66**	**21,763**	**655**	**22,418**
Net profit for the period					(18,486)		(18,486)	16	(18,470)
Revaluation of investments						3	3		3
Foreign exchange differences				(3)			(3)	(3)	(6)
Transfer	275	(275)							
Appropriation of profit			1,296		(1,296)				
Dividend			(395)				(395)	(5)	(400)
Increase of capital	97						97		97
Other changes in equity			(35)				(35)	(588)	(623)
Balance at 31 December 2008	**1,015**	**16,592**	**3,772**	**(18)**	**(18,486)**	**69**	**2,944**	**75**	**3,019**
Net profit for the period					406		406	1	407
Revaluation of investments						(28)	(28)		(28)
Foreign exchange differences				(2)			(2)	5	3
Appropriation of profit			(18,486)		18,486				
Dividend								(87)	(87)
Increase of capital		1,350					1,350		1,350
Other changes in equity			46				46	12	58
Balance at 31 December 2009	**1,015**	**17,942**	**(14,668)**	**(20)**	**406**	**41**	**4,716**	**6**	**4,722**

The decrease in minority interest relates to the divestment of Fortis Intertrust Group.
Changes in equity are described in greater detail in notes 3 and 4.
For an overview of the relationship between equity and solvency requirements, see note 7.

Consolidated cash flow statement

	2009	2008	2007
Result before taxation	**311**	**(18,526)**	**1,660**
Adjustments on non-cash items included in profit before taxation:			
(Un)realised gains (losses)	4	16,817	(191)
Share of profits in associates and joint ventures	2	896	(185)
Depreciation, amortisation and accretion	(13)	32	77
Provisions and impairments	404	1,320	24
Changes in operating assets and liabilities:			
Assets and liabilities held for trading	(1,614)	(19,826)	20,501
Due from banks	(2,487)	12,350	(12,004)
Due from customers	(280)	4,022	(6,993)
Reinsurance and other receivables	454	187	(445)
Due to banks	15,810	(49,159)	1,277
Due to customers	(31,492)	24,577	6,674
Net changes in all other operational assets and liabilities	789	3,276	215
Dividend received from associates	6		
Income tax paid	(122)	(411)	(155)
Cash flow from operating activities	**(18,228)**	**(24,445)**	**10,455**
Investment activities within the group			(241)
Purchases of investments	(907)	(2,303)	(2,079)
Proceeds from sales and redemptions of investments	99	1,144	2,395
Purchases of investment property		(22)	(65)
Proceeds from sales of investment property		2	
Investments in associates and joint ventures	(52)	2	(1,283)
Proceeds from sales of associates and joint ventures	1	1,166	392
Purchases of property, plant and equipment	(49)	(113)	(97)
Proceeds from sales of property, plant and equipment	39	3	106
Acquisition of subsidiaries, associates and joint ventures, net of cash acquired	1,067	6	(23,782)
Divestments of subsidiaries, associates and joint ventures, net of cash sold	(622)	157	(9)
Purchases of intangible assets	(34)	(29)	(28)
Proceeds from sales of intangible assets			17
Change in scope of consolidation			(5)
Cash flow from investing activities	**(458))**	**13**	**(24,679)**
Proceeds from the issuance of debt certificates	26,638	(468)	13,176
Payment of debt certificates	(7,232)	(4,105)	(5,726)
Redemption / proceeds from the issuance of subordinated liabilities	6	2,446	9,510
Redemption / proceeds of subordinated liabilities	(1,825)	(626)	(384)
Payment / proceeds from the issuance of other borrowings	(164)	(854)	892
Payment of other borrowings	26	(35)	(415)
Proceeds from the issuance of shares	1,342		14,810
Dividends paid to shareholders of the parent company		(395)	(76)
Dividends paid to minority interests	(87)	(5)	
Repayment of capital (including minority interests)		(455)	
Cash flow from financing activities	**18,704**	**(4,497)**	**31,787**
Effect of exchange rate differences on cash and cash equivalents	125	(481)	(369)
Net increase (decrease) of cash and cash equivalents	**143**	**(29,410)**	**17,194**
Cash and cash equivalents as at 1 January	**9,859**	**39,269**	**22,075**
Cash and cash equivalents as at 31 December	**10,002**	**9,859**	**39,269**
Supplementary disclosure of operating cash flow information			
Interest received	8,853	18,056	19,102
Dividend received from investments	10	22	29
Interest paid	(7,236)	(17,396)	(17,358)

General Notes

1 Accounting policies

1.1 General

Fortis Bank (Nederland) N.V. has its statutory office in Amsterdam. It is engaged in general banking activities as defined in article 1:1 of the Financial Supervision Act (‘Wet op het Financieel Toezicht’). Fortis Bank (Nederland) N.V.’s shareholder is the Dutch State.

The Consolidated Financial Statements of Fortis Bank (Nederland) N.V., including the 2008 and 2007 comparative figures, are prepared in accordance with IFRS – including International Accounting Standards (‘IAS’) and Interpretations – at 31 December 2009 and as adopted by the European Union and in accordance with part 9 of book 2 of the Dutch Civil Code. For IAS 39, Financial Instruments: Recognition and Measurement, the exclusion regarding hedge accounting (the so-called ‘carve-out’) decreed by the European Union on 19 November 2004 has been taken into account.

Where accounting policies are not specifically mentioned below, reference should be made to the IFRSs as adopted by the European Union.

The accounting policies used to prepare these 2009 Consolidated Annual Financial Statements are consistent with those applied for the year ended 31 December 2008.

Due to the impact of a particular transaction (sale of RFS Holdings B.V.), a special event (Madoff fraud) during 2008 and the cash settlement of Fortis Capital company in 2009, Fortis Bank (Nederland) N.V. decided to provide additional disclosures to give a fair presentation of the impact on its financial position and financial performance in accordance with IAS 1.15. Therefore this disposal and these exceptional items are separately presented in the consolidated income statement and the notes to the income statement, including the impact on the comparable figures.

1.2 Accounting estimates

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying these accounting policies. Actual results may differ from those estimates and judgemental decisions.

Judgements and estimates are principally made in the following areas:

- estimation of the recoverable amount of impaired assets
- determination of fair values of non-quoted financial instruments
- determination of the useful life and the residual value of property and equipment, investment property and intangible assets
- actuarial assumptions related to the measurement of pension obligations and assets
- estimation of present obligations resulting from past events in the recognition of provisions.

1.3 Standards issued

New and amended IFRSs adopted by Fortis Bank (Nederland)

On 29 March 2007, the IASB issued a revised IAS 23 *Borrowing Costs*. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The revision has no impact on Fortis Bank (Nederland) N.V., because Fortis Bank (Nederland) N.V. does not use this option.

On 28 June 2007, IFRIC 13 *Customer Loyalty Programmes* was issued. This Interpretation addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards (called ‘award credits’ in the Interpretation) as part of a sales transaction. IFRIC 13 is applicable to annual periods beginning on or after 1 July 2008. Fortis Bank (Nederland) N.V. does not have such programmes.

On 6 September 2007, the IASB issued a revised version of IAS 1, *Presentation of Financial Statements* applicable as from the financial year 2009. The changes will only have an impact on the presentation, not on recognition or measurement.

On 21 November 2007, the European Union endorsed IFRS 8, *Operating segments*. The implications for Fortis Bank (Nederland) N.V. are limited.

On 17 January 2008, the IASB issued an amendment to IFRS 2 *Shared-based Payments*. This amendment clarifies that vesting conditions are service conditions and performance conditions only and introduces non-vesting conditions. It also specifies that all cancellations, whether by the entity, the counterparty or by both parties, should receive the same accounting treatment. This amendment is applicable as from the financial year 2009 and has no implications for Fortis Bank (Nederland) N.V.

On 14 February 2008, the IASB issued amendments to improve the accounting for particular types of financial instruments that have characteristics similar to those of ordinary shares but that at present are classified as financial liabilities. The amendments affect IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements*. These amendments are applicable as from the financial year 2009 and have no material effect on Fortis Bank (Nederland) N.V.

On 22 May 2008, the IASB issued ‘Improvements to IFRSs’, a collection of minor amendments to a number of IFRSs. These amendments have different application dates and have no material effect on Fortis Bank (Nederland) N.V. On the same date, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, related to the cost of an investment in a subsidiary in the separate financial statements of a parent. This amendment is applicable as from the financial year 2009 and has no material impact on Fortis Bank (Nederland) N.V.

On 3 July 2008, IFRIC 15 *Agreements for the Construction of Real Estate* was issued. The Interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue* and when revenue from the construction should be recognised. This interpretation is effective for annual periods beginning on or after 1 January 2009 and is to be applied retrospectively, but has no impact on Fortis Bank (Nederland) N.V.

On 3 July 2008, IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* was also issued. The IFRIC was asked for guidance on accounting for the hedge of a net investment in a foreign operation in an entity’s consolidated financial statements. Practice has diverged as a result of differing views on which risks are eligible for hedge accounting according to International Financial Reporting Standards (IFRSs). This interpretation took effect on 1 October 2008 and has no impact on Fortis Bank (Nederland) N.V.

On 15 October 2008, the European Union endorsed the amendments of IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. The amendments to IAS 39 introduce the possibility of reclassification in rare circumstances for companies applying IFRS. The amendments to IFRS 7 introduce additional disclosure requirements linked to these reclassifications in order to ensure full transparency for users of financial statements. The amendment is applicable as from the third quarter of 2008.
Fortis Bank (Nederland) N.V. has not applied the amendment of IAS 39.

On 27 November 2008, the IASB issued a revised version of IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The revised version has an improved structure but does not contain any technical changes, so this has no impact on Fortis Bank (Nederland) N.V. The amendment took effect on 1 July 2009.

On 29 January 2009, Interpretation IFRIC 18 *Transfers of Assets from Customers* was issued to address divergent practice in the accounting by recipients for transfers of property and equipment from 'customers'. The Interpretation concludes that when the item of property and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 *Revenue*. The Interpretation is to be applied prospectively to transfers of assets from customers received on or after 1 July 2009. The interpretation has no effect on Fortis Bank (Nederland) N.V.

New and amended IFRSs not yet effective

On 10 January 2008, the IASB published a revised version of IFRS 3 *Business Combinations* and related revisions to IAS 27 *Consolidated Separate Financial Statements*. In the new version of IFRS 3, transaction costs directly attributable to the acquisition are no longer included in the cost of the business combination. Furthermore, under IFRS 3 the acquirer can elect to measure any non-controlling interest at fair value at the acquisition date, or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis. This amendment is applicable as from the financial year 2010 (with earlier application permitted). Fortis Bank (Nederland) N.V. is evaluating the effect of the changes.

On 27 November 2008, Interpretation IFRS 17 *Distribution of non-cash Assets to Owners* was issued to clarify the valuation of distributed assets when it pays dividend to its owners. These assets should be measured at fair value. The interpretation is effective for annual periods beginning on or after 1 July 2009. This clarification has no impact on Fortis Bank (Nederland) N.V.

On 12 March 2009, the IASB clarified the accounting treatment of embedded derivatives for entities that make use of the reclassification amendment issued by the IASB in October 2008. The reclassification amendment allows entities to reclassify particular financial instruments out of the 'at fair value through profit or loss' category in specific circumstances. The amendments to IFRIC 9 and IAS 39 issued clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements. The amendments set out in Embedded Derivatives apply retrospectively and need to be applied for annual periods ending on or after 30 June 2009. The amendments are not expected to have any impact on Fortis Bank (Nederland) N.V.

On 18 June 2009, the IASB issued amendments to IFRS 2 *Share-based Payment* that clarify the accounting for group cash-settled share-based payment transactions. The amendments are in response to requests received by the IASB to clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. In these arrangements, the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay the suppliers.
It is expected that the amendments will have no impact on Fortis Bank (Nederland) N.V.

On 23 July 2009 , the IASB issued amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendments address the retrospective application of IFRS to particular situations and are aimed at ensuring that entities applying IFRS will not face undue cost or effort in the transition process.

On 8 October 2009 the IASB issued an amendment to IAS 32 *Financial Instruments: Presentation*.
The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment issued requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. Entities are required to apply the amendment for annual periods beginning on or after 1 February 2010, but earlier application is permitted. Fortis Bank (Nederland) N.V. will evaluate the effect of the changes. This amendment is not yet endorsed by the EU.

On 4 November 2009, the IASB issued a revised version of IAS 24 *Related Party Disclosures* that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. Fortis Bank (Nederland) N.V. uses the early-application option of the partial exemption in paragraph 25-27 for government-related entities.

On 12 November 2009, the IASB issued IFRS 9 *Financial Instruments*, to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. Mandatory adoption of IFRS 9 is 1 January 2013. Fortis Bank (Nederland) N.V. will evaluate the effect of the changes. This IFRS has not yet been endorsed by the EU.

On 26 November 2009, the IFRIC issued IFRIC 19 *Extinguishing Financial Liabilities with Equity*. In the current environment, some entities are renegotiating the terms of financial liabilities with their creditors. In some circumstances, the creditor agrees to accept an entity's shares or other equity instruments to settle the financial liability fully or partially. The IFRIC was asked for guidance on how an entity should account for such transactions in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 32 *Financial Instruments: Presentation*. IFRIC proposes that:

- the entity's equity instruments are part of any 'consideration paid' to extinguish the financial liability;
- the equity instruments are measured at either their fair value or the fair value of the financial liability extinguished, whichever is more reliably determinable;
- any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of these equity instruments is included in the entity's profit or loss for the period.

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010 with earlier application permitted.
Fortis Bank (Nederland) N.V. will evaluate the effect of the changes. This interpretation has not yet been endorsed by the EU.

1.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board that takes strategic decisions.

Worldwide, Fortis Bank (Nederland) N.V. is organised into four segments:

- Retail Banking
- Private Banking
- Merchant Banking
- Other

1.5 Consolidation principles

Subsidiaries

The Consolidated Financial Statements include those of Fortis Bank (Nederland) N.V. and its subsidiaries. Subsidiaries are those companies, for which Fortis Bank (Nederland) N.V., either directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities (‘control’). Subsidiaries are consolidated from the date on which effective control is transferred to Fortis Bank (Nederland) N.V. and are no longer consolidated from the date that control ceases. Subsidiaries acquired exclusively with a view to resale are accounted for as non-current assets held for sale (see 1.21).

Intercompany transactions, balances and gains and losses on transactions between the Fortis Bank (Nederland) N.V. companies have been eliminated. Minority interests in the net assets and net results of consolidated subsidiaries are shown separately on the balance sheet and income statement. Minority interests are stated at the fair value of the net assets at the date of acquisition. Subsequent to the date of acquisition, minority interests comprise the amount calculated at the date of acquisition and the minority’s share of changes in equity since the date of acquisition.

Joint ventures

Investments in joint ventures are accounted for using the equity method. Joint ventures are contractual agreements whereby Fortis Bank (Nederland) N.V. and other parties undertake an economic activity that is subject to joint control.

Associates

Investments in associates are accounted for using the equity method. These are investments where Fortis Bank (Nederland) N.V. has significant influence, but which it does not control. The investment is recorded at Fortis Bank (Nederland) N.V.’s share in the net assets of the associate. The ownership share of net income for the year is recognised as investment income and Fortis Bank (Nederland) N.V.’s share in the investment’s post-acquisition direct equity movements are recognised in equity. Gains on transactions between Fortis Bank (Nederland) N.V. and investments accounted for using the equity method are eliminated to the extent of Fortis Bank (Nederland) N.V.’s interest. Losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Adjustments are made to the financial statements of the associates to ensure consistent accounting policies across Fortis Bank (Nederland) N.V.

Losses are recognised until the carrying amount of the investment is reduced to nil and further losses are only recognised to the extent that Fortis Bank (Nederland) N.V. has incurred legal or constructive obligations or made payments on behalf of an associate.

1.6 Foreign currency

The consolidated financial statements are stated in Euro, which is the functional currency of Fortis Bank (Nederland) N.V.

Foreign currency transactions

For individual entities of Fortis Bank (Nederland) N.V., foreign currency transactions are accounted for using the exchange rate at the date of the transaction.

Outstanding balances in foreign currencies at year-end are translated at year-end exchange rates for monetary items.

Translation of non-monetary items depends on whether the non-monetary items are carried at historical cost or at fair value. Non-monetary items carried at historical cost are translated using the historical exchange rate that existed at the date of the transaction. Non-monetary items that are carried at fair value are translated using the exchange rate on the date that the fair values are determined. The resulting exchange differences are recorded in the income statement as foreign currency gains (losses), except for those non-monetary items whose fair value change is recorded as a component of equity.

The distinction between exchange differences (recognised in the income statement) and unrealised fair value results (recognised in equity) on available-for-sale financial assets is determined according to the following rules:

- the exchange differences are determined based on the evolution of the exchange rate calculated on the previous balances in foreign currency
- the unrealised (fair value) results are determined based on the difference between the balances in Euros of the previous and the new period, converted at the new exchange rate.

Foreign currency translation

On consolidation, the income statement and cash flow statement of entities whose functional currency is not denominated in Euros are translated into the presentation currency of Fortis Bank (Nederland) N.V. (Euro), at the exchange rate at the date of the transaction and their balance sheets are translated using the exchange rates prevailing at the balance sheet date. Translation exchange differences are recognised in equity under the heading 'currency translation reserve'. On disposal of a foreign entity, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

Exchange differences arising on monetary items, borrowings and other currency instruments, designated as hedges of a net investment in a foreign operation are recorded in equity (under 'currency translation reserve') in the consolidated financial statements, until the disposal of the net investment, except for any hedge ineffectiveness that is immediately recognised in the income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate on the balance sheet date. All resulting differences are recognised in equity under the heading ‘currency translation reserve’ until disposal of the foreign entity when a recycling to the income statement takes place.

The following table shows the rates of the most relevant currencies for Fortis Bank (Nederland) N.V.

	Rates at year-end			Average rates		
	2009	*2008*	*2007*	*2009*	*2008*	*2007*
1 EURO =						
Pound sterling	0.89	0.95	0.73	0.89	0.80	0.68
US dollar	1.44	1.39	1.47	1.39	1.47	1.37

1.7 Trade and settlement date

All purchases and sales of financial assets requiring delivery within the time frame established by regulation or market convention are recognised on the trade date, which is the date when Fortis Bank (Nederland) N.V. becomes a party to the contractual provisions of the financial assets.

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

1.8 Offsetting

Financial assets and liabilities are offset and the net amount reported on the balance sheet if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.9 Classification and measurement of financial assets and liabilities

Fortis Bank (Nederland) N.V. classifies financial assets and liabilities based on the business purpose and management's intent of entering into these transactions.

Financial assets

Consequently, financial assets can be classified as, for example, assets held for trading, investments, due from banks and due from customers.

The measurement and income recognition in the income statement depend on the IFRS classification of the financial assets, being: (a) loans and receivables; (b) held-to-maturity investments; (c) financial assets at fair value through profit or loss, and (d) available-for-sale financial assets. This IFRS classification determines the measurement and recognition as follows:

- Loans and receivables are initially measured at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement.
- Held-to-maturity investments consist of instruments with fixed or determinable payments and fixed maturity for which the positive intention and ability to hold to maturity is demonstrated. They are initially measured at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement.

- Financial assets at fair value through profit or loss include:
  - (i) financial assets held for trading, including derivative instruments that do not qualify for hedge accounting
  - (ii) financial assets that Fortis Bank (Nederland) N.V. has irrevocably designated at initial recognition or first-time adoption of IFRS as held at fair value through profit or loss, because:
    - the host contract includes an embedded derivative that would otherwise require separation;
    - it eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch');
    - it relates to a portfolio of financial assets and/or liabilities that are managed and evaluated on a fair value basis.
- Available-for-sale financial assets are those assets that are otherwise not classified as loans and receivables, held-to-maturity investments, or financial assets designated at fair value through profit or loss. Available-for-sale financial assets are initially measured at fair value (including transaction costs), and are subsequently measured at fair value with unrealised gains or losses from fair value changes reported in equity. For impaired available-for-sale assets, unrealised losses previously recognised in equity are transferred to the income statement when the impairment occurs.

Financial liabilities

Financial liabilities are classified as liabilities held for trading, due to banks, due to customers, debt certificates, subordinated liabilities and other borrowings.

The measurement and recognition in the income statement depends on the IFRS classification of the financial liabilities, being: (a) financial liabilities at fair value through profit or loss, and (b) other financial liabilities. This IFRS classification determines the measurement and recognition in the income statement as follows:

Financial liabilities at fair value through profit or loss include:

(i) financial liabilities held for trading, including derivative instruments that do not qualify for hedge accounting

(ii) financial liabilities that Fortis Bank (Nederland) N.V. has irrevocably designated at initial recognition or first-time adoption of IFRS as held at fair value through profit or loss, because:
- the host contract includes an embedded derivative that would otherwise require separation;
- it eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch');
- it relates to a portfolio of financial assets and/or liabilities that are managed and evaluated on a fair value basis.

- Other financial liabilities are initially recognised at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement.

1.10 Fair value of financial instruments

The fair value of a financial instrument is determined based on quoted prices in active markets. When quoted prices in active markets are not available, valuation techniques are used. Valuation techniques make maximum use of market inputs but are affected by the assumptions used, including discount rates and estimates of future cash flows. Such techniques include market prices of comparable investments, discounted cash flows, option pricing models and market multiples valuation methods. In the rare case where it is not possible to determine the fair value of a financial instrument, it is accounted for at cost.

On initial recognition, the fair value of a financial instrument is the transaction price, unless the fair value is evidenced by observable current market transactions in the same instrument, or is based on a valuation technique that includes inputs only from observable markets.

The principal methods and assumptions used by Fortis Bank (Nederland) N.V. in determining the fair value of financial instruments are:

- Fair values for securities available for sale or at fair value through profit or loss are determined using market prices from active markets. If no quoted prices are available from an active market, the fair value is determined using discounted cash flow models. Fair values for securities held to maturity (only necessary for disclosures) are determined in the same way.
- Fair values for derivative financial instruments are obtained from active markets or determined using, as appropriate, discounted cash flow models and option pricing models.
- Fair values for unquoted private equity investments are estimated using applicable market multiples (e.g. price/earnings or price/cash flow ratios) refined to reflect the specific circumstances of the issuer.
- Fair values for loans are determined using discounted cash flow models based un Fortis Bank (Nederland) N.V.'s current incremental lending rates for similar type loans. For variable-rate loans that re-price frequently and have no significant change in credit risk, fair values are approximated by the carrying amount. Option pricing models are used for valuing caps and prepayment options embedded in loans that have been separated in accordance with IFRS.
- Off-balance sheet commitments or guarantees are fair valued based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings.
- For short-term payables and receivables, the carrying amounts are considered to approximate fair values.

1.11 Measurement of impaired assets

An asset is impaired when its carrying amount exceeds its recoverable amount. Fortis Bank (Nederland) N.V. reviews all of its assets at each reporting date for objective evidence of impairment.

The carrying amount of impaired assets is reduced to the net present value of its estimated recoverable amount and the amount of the change in the current year is recognised in the income statement. Recoveries, write-offs and reversals of impairment are included in the income statement as part of change in impairment.

If in a subsequent period the amount of the impairment on assets other than goodwill or available-for-sale equity instruments decreases, due to an event occurring after the write-down, the amount is reversed by adjusting the impairment and is recognised in the income statement. Impairments of available-for-sale equity instruments cannot be reversed through the income statement in subsequent periods.

Financial assets

A financial asset (or group of financial assets) is impaired 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 that loss event (or events) has an impact on the estimated future cash flows of the financial asset (or group of financial assets) that can be reliably estimated.

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 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 as impairment. FBN 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.

For debt securities Fortis Bank (Nederland) N.V. uses obligatory impairment triggers (like bankruptcy or significant financial difficulty of the issuer) and judgemental impairment triggers (for example deterioration of the rating or negative equity) to determine objective evidence of impairment.

Depending on the type of financial asset, the recoverable amount can be estimated as follows:

- the fair value using an observable market price;
- present value of expected future cash flows discounted at the instrument's original effective interest rate (for financial assets carried at amortised cost);
- based on the fair value of the collateral.

Goodwill and other intangible assets

Fortis Bank (Nederland) N.V. assesses the carrying amount of the software annually or, more frequently, if events or changes in circumstances indicate that such carrying value may not be recoverable. If such indication exists, the recoverable amount is determined for the individual asset. This amount is then compared with the carrying amount of the individual asset and an impairment loss is recognised if the recoverable amount is less than the carrying amount. Impairment losses are recognised immediately in the income statement.
See also 1.20: Goodwill and other intangible assets.

Other assets

For non-financial assets, the recoverable amount is measured as the higher of the fair value less cost to sell and the value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

Due from banks and due from customers

A specific loan provision is established if there is objective evidence that Fortis Bank (Nederland) N.V. will not be able to collect all amounts due in accordance with contractual terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value based on the original effective interest rate of expected cash flows or, alternatively, the collateral value less costs to sell if the loan is secured.

An 'incurred but not reported' (IBNR) impairment on loans is recorded when there is objective evidence that incurred losses are present in components of the loan portfolio, without having specifically identified impaired loans. This impairment is estimated based on historical patterns of losses in each component, reflecting the current economic climate in which the borrowers operate and taking into account the risk of difficulties in servicing external debt in some foreign countries based on an assessment of the political and economic situation.

Impairments are recorded as a decrease in the carrying value of due from banks and due from customers.

When a specific loan is identified as uncollectible and all legal and procedural actions have been exhausted, the loan is written off against the related charge for impairment; subsequent recoveries are credited to change in impairment in the income statement.

1.12 Cash and cash equivalents

Content

Cash and cash equivalents comprise cash on hand, freely available balances with central banks and other non-derivative financial instruments with less than three months maturity from the date of acquisition.

Cash flow statement

Fortis Bank (Nederland) N.V. reports cash flows from operating activities using the indirect method, whereby the net result is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Interest received and interest paid is presented as cash flows from operating activities in the cash flow statement. Dividends received are classified as cash flows from operating activities. Dividends paid are classified as cash flows from financing activities.

1.13 Due from banks and due from customers

Classification

Due from banks and due from customers include loans originated by Fortis Bank (Nederland) N.V. by providing money directly to the borrower or to a sub-participation agent and loans purchased from third parties that are carried at amortised cost. Debt securities acquired on the primary market directly from the issuer are recorded as loans, provided there is no active market for those securities. Loans that are originated or purchased with the intent of being sold or securitised in the short-term are classified as assets held for trading. Loans that are designated as held at fair value through profit or loss or available for sale are classified as such at initial recognition.

Measurement

Incremental costs incurred and loan origination fees earned in securing a loan are deferred and amortised over the life of the loan as an adjustment to the yield.

1.14 Sale and repurchase agreements and lending/borrowing securities

Securities subject to a repurchase agreement ('repos') are not derecognised from the balance sheet. The liability resulting from the obligation to repurchase the assets is included in 'due to banks' or 'due to customers' depending on the type of counterparty. Securities purchased under agreements to resell ('reverse repos') are not recognised on the balance sheet. The right to receive cash from the counterparty is recorded as due from banks or due from customers depending on the type of counterparty. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties remain on the balance sheet. Similarly, securities borrowed are not recognised on the balance sheet. If borrowed securities are sold to third parties, the proceeds from the sale and a liability for the obligation to return the collateral are recorded. The obligation to return the collateral is measured at fair value through profit or loss and is classified as a liability held for trading. Cash advanced or received related to securities borrowing or lending transactions is recorded as due from banks/due from customers or due to banks/due to customers.

1.15 Assets and liabilities held for trading

A financial asset or financial liability is classified as held for trading if it is:
acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
a derivative (except for a derivative that is a designated and effective hedging instrument).

Assets and liabilities held for trading are initially recognised at cost and subsequently measured at fair value through profit or loss. The (realised and unrealised) results are included in 'other realised and unrealised gains and losses'. Interest received (paid) on assets (liabilities) held for trading is reported as interest income (expense). Dividends received are included in 'dividend and other investment income'.

1.16 Investments

Management determines the appropriate classification of its investment securities at the time of purchase. Investment securities with a fixed maturity where management has both the intent and the ability to hold to maturity are classified as held to maturity. Investment securities to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available for sale. Investment securities that are acquired for the purpose of generating short-term profits are considered to be held for trading. Any investment, other than investments in equity instruments without a quoted market price in an active market, may be designated on initial recognition as a financial instrument at fair value through profit or loss. Once an asset has been designated as held at fair value through profit or loss it cannot be transferred to a different category.

Held-to-maturity investments are carried at amortised cost less any impairment changes. Any difference between the initial recognition amount resulting from transaction costs, initial premiums or discounts is amortised over the life of the investment using the effective interest method. If a held-to-maturity investment is determined to be impaired, the amount of the impairment loss is recognised in the income statement.

Available-for-sale investment securities are held at fair value. Changes in the fair value are recognised directly in equity until the asset is sold, unless the asset is hedged by a derivative. If an investment is determined to be impaired, the impairment is recognised in the income statement. For impaired available-for-sale investments, unrealised losses previously recognised in equity are transferred to the income statement when the impairment occurs.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment was recognised in the income statement, the impairment is reversed, with the amount of the reversal recognised in the income statement. Impairments recognised in the income statement for an investment in an equity instrument classified as available for sale are not reversed through the income statement.
Available-for-sale investment securities that are hedged by a derivative are carried at fair value with movements in fair value recognised through the income statement for the part attributable to the hedged risk and through equity for the remaining part.

Held-for-trading assets and assets designated as held at fair value through profit or loss are carried at fair value. Changes in the fair value are recognised in the income statement.

Investment property

Investment properties are those properties held to earn rental income or for capital appreciation. Fortis Bank (Nederland) N.V. may also use certain investment properties for its own use. If the own use portions can be sold separately or leased out separately under a finance lease, these portions are accounted for as property and equipment. If the own use portions cannot be sold separately, the property is treated as investment property only if Fortis Bank (Nederland) N.V. holds an insignificant portion for its own use.

Investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life. The residual value and the useful life of investment property are determined for each significant part separately (component approach) and are reviewed at each year-end.

Fortis Bank (Nederland) N.V. rents its investment property under various non-cancellable rental contracts. Certain contracts contain renewal options for various periods of time; the rental income associated with these contracts is recognised on a straight-line basis over the rental term as investment income.

Transfers to, or from, investment property are only made when there is a change of use:

- into investment property at the end of owner-occupation, or at the start of an operating lease to an other party;
- out of investment property at the commencement of owner-occupation.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

1.17 Leasing

Fortis Bank (Nederland) N.V. as a lessor

Assets leased under operating leases are included in the consolidated balance sheet (1) under investment property (buildings), and (2) under property and equipment (equipment and motor vehicles). They are recorded at cost less accumulated depreciation. Rental income, net of any incentives given to lessees, is recognised on a straight-line basis over the lease term. Initial direct costs incurred by Fortis Bank (Nederland) N.V. are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Fortis Bank (Nederland) N.V. has also entered into finance leases, in which virtually all risks and rewards related to the ownership of the leased asset, other than the legal title, are transferred to the customer.

If assets held are subject to a finance lease, the present value of the lease payments and any guaranteed residual value is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease interest income is recognised over the term of the lease based on a pattern reflecting a constant periodic rate of return on the net investment outstanding in respect of finance leases. Initial direct costs incurred by Fortis Bank (Nederland) N.V. are included in the finance lease receivable and allocated against lease interest income over the lease term.

Fortis Bank (Nederland) N.V. as a lessee

Fortis Bank (Nederland) N.V. principally enters into operating leases for the rental of equipment and land and buildings. Payments made under such leases are typically charged to the income statement principally on a straight-line basis over the period of the lease. If an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which it is terminated.

Any incentives received from the lessor in relation to operating leases are recognised as a reduction of rental expense over the lease term on a straight-line basis.

If the lease agreement transfers substantially all the risks and rewards inherent to ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and depreciated over the shorter of its estimated useful life or the lease term. The corresponding lease obligation, net of finance charges, is recorded as borrowings. The interest element of the finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each period.

1.18 Other receivables

Other receivables

Other receivables arising from the normal course of business and originated by Fortis Bank (Nederland) N.V. are initially recorded at fair value and subsequently measured at amortised cost using the effective interest method, less impairments.

1.19 Property and equipment

All real estate held for own use and fixed assets are stated at cost less accumulated depreciation (except for land that is not depreciated) and any accumulated impairment losses. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

The depreciation of buildings is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life. The useful life of the buildings is determined for each significant part separately (component approach) and is reviewed at each year-end. Real estate is therefore split into the following components: structure, closing, techniques and equipment, heavy finishing and light finishing.

The maximum useful life of the components is as follows:

Structure	50 years for offices and retail; 70 years for residential
Closing	30 years for offices and retail; 40 years for residential
Techniques and equipment	20 years for offices; 25 years for retail and 40 years for residential
Heavy finishing	20 years for offices; 25 years for retail and 40 years for residential
Light finishing	10 years for offices, retail and residential

Land has an unlimited useful life and is therefore not depreciated. IT, office-furniture and equipment are depreciated over their respective useful lives, which have been determined individually.

As a general rule, residual values are considered to be zero.

Repairs and maintenance expenses are charged to the income statement when the expenditure is incurred. Expenditures that enhance or extend the benefits of real estate or fixed assets beyond their original use are capitalised and subsequently depreciated.

Useful life for equipment is between 5 and 25 years.
For borrowing costs to finance the construction of property and equipment, see 1.31 Borrowing costs.

1.20 Goodwill and other intangible assets

Intangible assets

An intangible asset is an identifiable non-monetary asset and is recognised at cost if, and only if, it will generate future economic benefits and if the cost of the asset can be measured reliably.

Intangible assets with indefinite life that are not amortised are tested for impairment at least annually. Any impairment loss identified is recognised in the income statement. Intangibles are recorded on the balance sheet at cost less any accumulated amortisation and any accumulated impairment losses. The residual value and the useful life of intangible assets are reviewed at each year-end. With the exception of goodwill, Fortis Bank (Nederland) N.V. does not have intangible assets with indefinite useful life.

Intangible assets with definite life are amortised over the estimated useful life.

Goodwill

Acquisitions of companies are accounted for using the purchase method of accounting. Goodwill represents the excess of the fair value of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the business combination over Fortis Bank (Nederland) N.V.'s interest in the fair value of assets acquired and liabilities and contingent liabilities assumed. Goodwill arising on the acquisition of a subsidiary is reported on the balance sheet as an intangible asset. Goodwill arising on business combinations before 1 January 2004 was deducted from equity and has not been restated under IFRS. At acquisition date, it is allocated to those cash-generating units that are expected to benefit from the synergies of the business combination. It is not amortised, but tested for impairment. Goodwill arising on the acquisition of an associate is presented as part of the investment in the associate.

Any excess of the acquired interest in the net fair value of the acquiree's assets, liabilities and contingent liabilities over the acquisition cost is recognised immediately in the income statement.

Fortis Bank (Nederland) N.V. assesses the carrying value of goodwill annually or, more frequently, if events or changes in circumstances indicate that such carrying value may not be recoverable. If such indication exists, the recoverable amount is determined for the cash-generating unit to which goodwill belongs. This amount is then compared to the carrying amount of the cash-generating unit and an impairment loss is recognised if the recoverable amount is less than the carrying amount. Impairment losses are recognised immediately in the income statement.

In the event of an impairment loss, Fortis Bank (Nederland) N.V. first reduces the carrying amount of goodwill allocated to the cash generating unit and then reduces the other assets in the cash-generating unit pro rata on the basis of the carrying amount of each asset in the cash generating unit. Previously recognised impairment losses relating to goodwill are not reversed.

Fortis Bank (Nederland) N.V. may obtain control of a subsidiary in more than one transaction. When this occurs, each exchange transaction is treated separately by Fortis Bank (Nederland) N.V. The cost of each transaction is compared to the fair value of each transaction to determine the amount of goodwill associated with that individual transaction. Before Fortis Bank (Nederland) N.V. obtains control of the entity, the transaction may qualify as an investment in an associate and may be accounted for using the equity method. If so, the fair value of the investor's identifiable net assets at the date of each earlier transaction will have been determined in applying the equity method to the investment.

Other intangible assets

Internally generated intangible assets

Internally generated intangible assets are capitalised when Fortis Bank (Nederland) N.V. can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets arising from research and internally generated goodwill are not capitalised.

Software

Software for computer hardware that cannot operate without specific software, such as the operating system, is an integral part of the related hardware and it is treated as property and equipment. If the software is not an integral part of the related hardware, the costs incurred during the development phase for which Fortis Bank (Nederland) N.V. can demonstrate all of the above criteria are capitalised as an intangible asset and amortised using the straight-line method over the estimated useful life. In general, such software is amortised over a maximum of 5 years.

Other intangible assets with definite life

Other intangible assets include intangible assets with definite life, such as trademarks and licenses that are generally amortised over their useful life using the straight-line method. Intangible assets with finite life are reviewed at each reporting date for indicators of impairment. In general, such intangible assets have an expected useful life of 10 years at most.

1.21 Non-current assets held for sale and discontinued operations

Non-current assets or a group of assets and liabilities are those for which Fortis Bank (Nederland) N.V. will recover the carrying amount from a sale transaction that is expected to qualify as a sale within a year, instead of through continuing use.

A discontinued operation is a part of Fortis Bank (Nederland) N.V. that has been disposed of or is classified as held for sale and

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Non-current assets held for sale (and disposal groups) are not depreciated but measured at the lower of their carrying amount and fair value less costs to sell, and are separately presented on the balance sheet.

Results on discontinued operations are presented separately in the income statement.

1.22 Derivative financial instruments and hedging

Recognition and classification

Derivatives are financial instruments such as swaps, forward and future contracts, and options (both written and purchased). The value of these financial instruments changes in response to change in various underlying variables, require little or no net initial investment, and are settled at a future date.

All derivatives are recognised on the balance sheet at fair value on the trade date:

- derivatives held for trading in ‘assets held for trading’ and ‘liabilities held for trading’
- derivatives that qualify for hedge accounting in ‘accrued interest and other assets’ and ‘accrued interest and other liabilities’.

Subsequent changes in the clean fair value (i.e. excluding the interest accruals) of derivatives are reported in the income statement under ‘other realised and unrealised gains and losses’.

Financial assets or liabilities can include embedded derivatives. Such financial instruments are often referred to as hybrid financial instruments. Hybrid financial instruments include reverse convertible bonds (bonds whose repayment may take the form of equities) or bonds with indexed interest payments. If the host contract is not carried at fair value through profit or loss and the characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract, the embedded derivative should be separated from the host contract and measured at fair value as a stand-alone derivative. Changes in fair value are recorded in the income statement. The host contract is accounted for and measured applying the rules of the relevant category of the financial instrument.

However, if the host contract is carried at fair value through profit or loss or if the characteristics and risks of the embedded derivative are closely linked to those of the host contract, the embedded derivative is not separated and the hybrid financial instrument is measured as one instrument.

Embedded derivatives requiring separation are reported as hedging derivatives or derivatives held for trading as appropriate.

Hedging

On the date a derivative contract is entered into, Fortis Bank (Nederland) N.V. may designate this contract as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge) or (2) a hedge of a net investment in a foreign entity.

At the start of the hedge relationship, Fortis Bank (Nederland) N.V. documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

Fortis Bank (Nederland) N.V. also documents its assessment - both at the start of the hedge and on an ongoing basis - of whether the derivatives that are used in hedging transactions have been and are expected to be highly effective in offsetting changes in fair values of hedged items.

Only assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to Fortis Bank (Nederland) N.V. are designated as hedging instruments. The change in the fair value of a hedged asset or liability that is attributable to the hedged risk and the change in the fair value of the hedging instrument in a fair value hedge are recognised in the income statement. The change in the fair value of interest-bearing derivative instruments is presented separately from interest accruals.

If a fair value hedge of an interest-bearing financial instrument carried at amortised cost no longer meets the criteria for hedge accounting or is discontinued for reasons other than the derecognition of the hedged item, the adjustment to the carrying amount of the interest-bearing financial instrument (the hedged item) that is the result of hedge accounting will be amortised over the remaining life of the instrument using the recalculated effective interest method.

If hedge accounting is discontinued due to the derecognition of the hedged item, the adjustment to the carrying amount of the financial instrument that is the result of hedge accounting will be recognised in the income statement as part of the realised gain or loss from the sale.

Fair value hedge accounting has been applied since 1 January 2005 for portfolio hedges of interest rate risk ('macro hedging'). Macro hedging implies that a group of financial assets is viewed in combination and jointly designated as the hedged item. Although the portfolio may, for risk management purposes, include assets and liabilities, the amount designated is an amount of assets or an amount of liabilities. In this context, the starting difference between the fair value and the carrying value of the hedged item at the designation of the hedging relationship is amortised over the remaining life of the hedged item. For macro hedges, Fortis Bank (Nederland) N.V. uses the 'carved out' version of IAS 39 adopted by the European Union which removes some of the limitations on fair value hedges and the strict requirements on the effectiveness of those hedges. In this context, the impact of the changes in the estimates of the repricing dates is only considered ineffective if it leads to under hedging.

If the hedge of a forecast transaction or firm commitment results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of that non-financial asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as profit or loss in the periods during which the hedged firm commitment or forecast transaction affects the income statement.

This also applies if the hedge no longer meets the criteria for hedge accounting or is otherwise discontinued, but the hedged forecast transactions or firm commitments are still expected to occur. If the hedged forecast transactions or firm commitments are no longer expected to occur, the amounts deferred in equity are transferred to the income statement directly.

1.23 Debt certificates, subordinated liabilities and other borrowings

Debt certificates, subordinated liabilities and other borrowings are initially recognised at fair value net of direct transaction costs incurred. Subsequently, they are measured at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

Debt that can be converted into Fortis shares is separated into two components on initial recognition: (a) a liability instrument and, (b) an equity instrument. The liability component is first determined by measuring the fair value of a similar liability (including any embedded non-equity derivative features) that does not have an associated equity component.

The carrying amount of the equity instrument represented by the option to convert the instrument into common shares is then determined by deducting the carrying amount of the financial liability from the amount of the compound instrument as a whole.

Preference shares that carry a mandatory coupon, or are redeemable on a specific date or at the option of the shareholder, including those preferred shares that establish such a contractual obligation indirectly through their terms and conditions are classified as borrowings. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

If Fortis Bank (Nederland) N.V. purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in the income statement.

In determining whether preference shares are classified as a financial liability or as an equity instrument, Fortis Bank (Nederland) N.V. assesses the particular rights attached to the shares to determine whether they exhibit the fundamental characteristic of a financial liability.

1.24 Employee benefits

Pension liabilities

Fortis Bank (Nederland) N.V. operates a number of defined benefit and defined contribution plans throughout its global activities, in accordance with local conditions or industry practices. The pension plans are generally funded through payments to insurance companies or trustee administered plans, determined by periodic actuarial calculations.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually depending on one or more factors such as age and years of service. A defined contribution plan is a pension plan under which Fortis Bank (Nederland) N.V. pays fixed contributions. Qualified actuaries calculate the pension assets and liabilities at least annually.

For defined benefit plans, the pension costs and related pension assets or liabilities are estimated using the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final liability. Under this method, the cost of providing these benefits is charged to the income statement to spread the pension costs over the service life of employees. The pension liability is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields on high quality corporate bonds that have terms to maturity approximating the terms of the related liability. Net cumulative unrecognised actuarial gains and losses for defined benefit plans exceeding the corridor (above 10% of the present value of the defined benefit obligation or 10% of the fair value of any plan assets) are recognised in the income statement over the average remaining service lives of the employees.

Past-service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Assets that support the pension liabilities of an entity, must meet certain criteria in order to be classified as 'qualifying pension plan assets'. These criteria relate to the fact that the assets should be legally separate from Fortis Bank (Nederland) N.V. or its creditors. If these criteria are not met, the assets are included in the relevant item on the balance sheet (such as investments, property and equipment). If the assets meet the criteria, they are netted against the pension liability.

If the fair value of the plan assets is netted against the present value of the obligation of a defined benefit plan, the resulting amount could be negative (an asset). In this case, the recognised asset cannot exceed the total of any cumulative unrecognised net actuarial losses and past service costs, and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Based on the 'asset ceiling' test, funding surpluses may only be recognised as an asset ('pre-paid pension cost') to the extent that they do not exceed that 'asset ceiling'. The underlying idea of the extent to which an asset can be recognised is whether Fortis Bank (Nederland) N.V. controls the benefits.

Fortis Bank (Nederland) N.V. and its Dutch affiliated companies do not have to perform the asset ceiling test as of 2009 to determine whether they can account for this pension asset, as Fortis Bank (Nederland) N.V. has an unconditional right to state that an economic benefit is available as a refund to Fortis Bank (Nederland) N.V.

Benefit plans that provide long-term service benefits, but that are not pension plans, are measured at present value using the projected unit credit method.

Fortis Bank (Nederland) N.V.'s contributions to defined contribution pension plans are charged to the income statement in the year to which they relate.

Other post-retirement liabilities

Most of the Fortis Bank (Nederland) N.V. companies provide post-retirement employee benefits to retirees such as preferential interest rate loans and health care insurance. Entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. Expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. These liabilities are determined based on actuarial calculations.

Equity compensation benefits (or equity participation plans)

Share options and restricted shares were granted to employees for services received. The fair value of the services received is determined by reference to the fair value of the share options and restricted shares granted. Compensation expense is measured on the grant date based on the fair value of the options and restricted shares and is recognised over the vesting period of the options and restricted shares.

The fair value of the share options is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the expected volatility of the underlying stock and the expected dividends on it, and the risk-free interest rate over the expected life of the option. When the options are exercised and new shares are issued, the proceeds received, net of any transaction costs, are credited to share capital (par value) and the surplus to share premium reserve. If for this purpose own shares have been repurchased, they will be eliminated from treasury stock.

Loans granted at preferential rates

Loans are sometimes provided to employees at an interest rate which is lower than the market rate. The terms of the loans granted at preferential rates state that employees lose the benefit of receiving a preferential rate upon termination of employment, at which time the interest rate on the loan is adjusted to the current market rate. However, some Fortis Bank (Nederland) N.V. entities allow their employees to keep the preferential rate subsequent to retirement.

For the first category, the difference between the net present value of the loans at preferential rate and the net present value at the prevailing market rate is recognised in the balance sheet as a deferred compensation expense and recorded under operating and administrative expenses over the period that the employee obtains the benefit. Likewise, interest income is corrected to show the loans at market rate.

When loans continue after retirement and the former employees continue to benefit from preferential rates due to their past service at Fortis Bank (Nederland) N.V., this benefit is taken into account in determining post-retirement benefits other than pensions.

Employee entitlements

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

1.25 Provisions, contingencies, commitments and financial guarantees

Provisions

Provisions are liabilities involving uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation to transfer economic benefits, such as cash flows, as a result of past events and if a reliable estimate can be made at the balance sheet date. Provisions are established for certain guarantee contracts for which Fortis Bank (Nederland) N.V. is responsible to pay upon default of payment. Provisions are estimated based on all relevant factors and information existing at the balance sheet date, and are typically discounted at the risk-free rate.

Contingencies

Contingencies are those uncertainties where an amount cannot be reasonably estimated or when it is not probable that payment will be required to settle the obligation.

Commitments

Loan commitments that allow for draw down of a loan within the timeframe generally established by regulation or convention in the market place are not recognised as derivative financial instruments. Loan commitments that are designated as at fair value through profit or loss or where Fortis Bank (Nederland) N.V. has a past practice of selling the assets resulting from its loan commitments are recognised on the balance sheet at fair value with the resulting change recognised in the income statement. Acceptances comprise undertakings by Fortis Bank (Nederland) N.V. to pay bills of exchange drawn on customers. Fortis Bank (Nederland) N.V. expects most acceptances to be settled simultaneously with the reimbursement from customers. Acceptances are not recognised in the balance sheet and are disclosed as commitments.

Financial guarantees

Financial guarantee contracts that require payments to be made in response to changes in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variables, and non-financial variables which are not specific to a party to the contract, are accounted for as derivatives. Financial guarantee contracts requiring Fortis Bank (Nederland) N.V. to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are accounted for as insurance contracts if significant insurance risk is transferred to Fortis Bank (Nederland) N.V.

1.26 Equity

Share capital and treasury shares

Share issue costs
Incremental costs directly attributable to the issue of new shares or share options are deducted from equity net of any related income taxes.

Preference shares
Preference shares which are non-redeemable and upon which dividends are declared at the discretion of the directors are classified as equity.

Compound financial instruments
Components of compound financial instruments (liability and equity parts) are classified in their respective area of the balance sheet.

Other equity components

Other elements recorded in equity are related to:
- direct equity movements associates (see note 1.5)
- foreign currency (see note 1.6)
- available-for-sale investments (see note 1.16).

1.27 Interest income and expense

Interest income and interest expense are recognised in the income statement for all interest-bearing instruments (whether classified as held to maturity, available for sale, held at fair value through profit or loss or derivatives) on an accrual basis using the effective interest method based on the actual purchase price including direct transaction costs. Interest income includes coupons earned on fixed and floating rate income instruments and the accretion or amortisation of the discount or premium.

Once a financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognised based on the effective interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

1.28 Realised and unrealised gains and losses

For financial instruments classified as available for sale, realised gains or losses on sales and divestments represent the difference between the proceeds received and the initial book value of the asset or liability sold, minus any impairment losses recognised in the income statement. Realised gains and losses on sales are included in the income statement in the caption Realised capital gains (losses) on investments.

For financial instruments carried at fair value through profit or loss, the difference between the carrying value at the end of the current reporting period and the previous reporting period is included in Other realised and unrealised gains and losses.

For derivatives, the difference between the carrying clean fair value (i.e. excluding the unrealised portion of the interest accruals) at the end of the current reporting period and the previous reporting period is included in Other realised and unrealised gains and losses’.

Previously recognised unrealised gains and losses recorded directly into equity are transferred to the income statement upon derecognition or upon the financial asset becoming impaired.

1.29 Fee and commission income

Fees as integral part of effective interest rate

Fees that are an integral part of the effective interest rate of a financial instrument are generally treated as an adjustment to the effective interest rate. This is the case for origination fees, received as compensation for activities such as evaluating the borrower’s financial condition, evaluating and recording guarantees, etc., and also for origination fees received on issuing financial liabilities measured at amortised cost. Both types of fees are deferred and recognised as an adjustment to the effective interest rate. However, when the financial instrument is measured at fair value through profit or loss, the fees are recognised as revenue when the instrument is initially recognised.

Fees recognised as services are provided

Fees are generally recognised as revenue as the services are provided. If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is not considered a derivative, the commitment fee is recognised as revenue on a time proportion basis over the commitment period.

Fees recognised upon completion of the underlying transaction

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, are recognised upon completion of the underlying transaction. Commission revenue is recognised when the performance obligation is complete.

Loan syndication fees are recognised as revenue when the syndication has been completed.

1.30 Transaction costs

Transaction costs are included in the initial measurement of financial assets and liabilities other than those measured at fair value through profit or loss. Transaction costs refer to incremental costs directly attributable to the acquisition or disposal of a financial asset or liability. They include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

1.31 Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised while the asset is being constructed as part of the cost of that asset. Capitalisation of borrowing costs should commence when:

- expenditures for the asset and borrowing costs are being incurred
- activities necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalisation is suspended. Where construction occurs piecemeal and use of each part is possible as construction continues, capitalisation for each part ceases upon substantial completion of that part.

For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

1.32 Income tax expense

Income tax payable on profits is recognised as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise. The tax effects of income tax losses available for carry-forward are recognised as a deferred tax asset if it is probable that future taxable profit will be available against which those losses can be utilised.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The rates enacted or substantively enacted at the balance sheet date are used to determine deferred taxes.

Deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilised.

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates, and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Current and deferred tax related to fair value re-measurement of available-for-sale investments which are charged or credited directly to equity is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

2 Acquisitions and divestments

The following acquisitions and divestments were made in 2009, 2008 and 2007.

2.1 Acquisitions

Major acquisitions that took place in 2009 and 2007 were:

Acquired company	*Quarter of acquisition*	*Acquisition amount*	*Percentage acquired*	*Goodwill/ (negative goodwill)*	*Segment*
Fortis Clearing Americas LLC	Q3 2009	99	100%	(25)	Merchant Banking
RFS Holding B.V.	Q4 2007	24,046	34%	19,447	Several segments
FCF Turkey	Q3 2007	17	100%	8	Private Banking
Fortis Bank CI	Q2 2007	211	100%	(20)	Private Banking
Fortis Intertrust Management Pte Ltd	Q1 2007	9	100%	8	Private Banking

In 2008 no major acquisitions were made.

2.2 Divestments

Major divestments that took place in 2009 and 2008 were:

Divested company	*Quarter of divestment*	*Divestment amount*	*Percentage divested*	*Capital gain*	*Segment*
Fortis Intertrust Group	Q4 2009	210	75%	81	Merchant Banking
Fortis ASR Bank N.V.	Q4 2009	31	100%	6	Retail Banking
RFS Holdings B.V.	Q4 2008	6,500	34%	(16,822)	Several segments

In 2007 no major divestments were made.

2.3 Assets and liabilities of acquisitions and divestments

The table below provides details on the assets and liabilities resulting from the acquisitions or disposals of subsidiaries, associates and joint ventures at the date of acquisition or disposal.

	2009		2008		2007	
	Acquisitions	*Divestments*	*Acquisitions*	*Divestments*	*Acquisitions*	*Divestments*
Assets and liabilities of acquisitions and divestments						
Cash and cash equivalents	1,282	(754)	4	(198)	1	(34)
Due from banks	20	(3)		(2,234)		
Due from customers	517	(21)	12	(476)		
Investments	64	(84)	1	(18,333)	23,777	
Other receivables	61	(24)		(1)		
Property, plant and equipment	3	(10)				
Goodwill and other intangible assets	4	(23)		(26)		(14)
Accrued interest and other assets	2	(43)	2	(54)		(21)
Due to banks	38	(29)	19	(512)		(25)
Due to customers	1,664	(683)		(2,393)		
Debt certificates		(29)				
Other borrowings		(11)				
Provisions		(4)				
Current and deferred tax liabilities	1	(8)		(1)		(1)
Accrued interest and other liabilities	17	(167)	4	(50)	1	(13)
Minority interests		14				1
Net assets acquired / Net assets divested	**233**	**(45)**	**(4)**	**(18,366)**	**23,777**	**(31)**
Negative goodwill	34				6	6
Gain on disposal, gross		88		(16,845)		
Taxes on gain on disposal						
Cash used for acquisitions / received from divestments:						
Total purchase consideration / Proceeds from sale	(267)	133	4	1,521	(23,783)	25
Less: Cash and cash equivalents acquired / divested	1,282	(754)	4	(198)	1	(34)
Less: Non-cash consideration						
Cash used for acquisitions / received for divestments	**1,015**	**(621)**	**8**	**1,323**	**(23,782)**	**(9)**

In August 2009 Fortis Bank (Nederland) N.V. announced its intention to divest Fortis Intertrust Group. This transaction was closed on 29 December 2009, pending the final approval of the legal authorities. The sale price was EUR 210 million. The realised capital gain on this sale amounted to EUR 81 million and is reported in the consolidated Income Statement on the line Realised capital gains (losses) on investments.

In December 2009 Fortis Bank (Nederland) N.V. finalised the sale of Fortis ASR Bank N.V. to ASR Verzekeringen N.V. This resulted in a capital gain of EUR 6 million.

In August 2009 Fortis Clearing Americas LLC was bought and a negative goodwill EUR 25 million was realised. This negative goodwill is accounted for in the Income statement on the line Other income.

2.4 Sale of participation RFS Holdings B.V.

On 24 December 2008, Fortis Bank (Nederland) N.V. sold and transferred its stake in RFS Holdings B.V. to the Dutch State. With respect to the future integration of Fortis Bank (Nederland) N.V. and ABN AMRO, the Management Board and the Dutch State preferred to have the direct controlling interest in ABN AMRO at the Dutch State. The transfer allowed Fortis Bank (Nederland) N.V. to improve its governance structure. The transfer of RFS Holdings B.V. for an amount of EUR 6.5 billion had a positive effect on the solvency and liquidity position of Fortis Bank (Nederland) N.V.

RFS Holdings B.V. was recorded as an equity associate for EUR 24.2 billion. The realised capital loss at Fortis Bank (Nederland) N.V. amounted to EUR 16.8 billion. The transactions had a positive impact on the capital ratio of 0.9%.

Financing costs for the takeover of the parts of RFS Holdings B.V belonging to Fortis Bank (Nederland) N.V. until 24 December 2008 amounted to EUR 441 million after tax. This amount is accounted for in the Income statement of 2008 as an exceptional item.

Divestment of RFS Holdings B.V.	*2008*	*2007*
Acquired activities	454	316
Shared assets	(307)	(58)
Purchase price adjustments	(124)	(79)
Operational profit	**23**	**179**
Financing costs	(441)	(82)
Impairment purchase price adjustments	(928)	
Realised capital loss	(16,822)	
Total effect RFS Holdings B.V.	**(18,168)**	**97**

3 Issued capital and reserves

Holders of ordinary shares (in this case only the Dutch State) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of Fortis Bank (Nederland) N.V. Preference shares do not carry the right to vote. Holders of the Class A preference shares receive a non-cumulative discretionary dividend of 5.85%. All shares rank equally with regard to Fortis Bank (Nederland) N.V.'s residual assets, except that preference shareholders have priority over ordinary shareholders but participate only to the extent of the face value of the shares plus any accrued dividend.

Fortis Bank (Nederland) N.V. is subject to legal restrictions regarding the amount of dividends it can pay to the holders of its ordinary shares. Pursuant to the Dutch Civil Code, dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital and reserves required by law.

Furthermore, Fortis Bank (Nederland) N.V. is subject to legal restrictions with respect to repayment of capital to holders of ordinary shares. Capital may be repaid to the holders of ordinary shares pursuant to an amendment of Fortis Bank (Nederland) N.V.'s Articles of Association whereby the ordinary shares are written down. Pursuant to the Dutch Civil Code, capital may only be repaid if none of Fortis Bank (Nederland) N.V.'s creditors oppose such a repayment within two months following the announcement of a resolution to that effect.

The following table shows the composition of Issued capital and reserves as at 31 December 2009.

	31 December 2009	*31 December 2008*	*31 December 2007*
Share capital	1,015	1,015	643
Share premium reserve	17,942	16,592	16,867
Other reserves	(14,668)	3,772	2,906
Currency translation reserve	(20)	(18)	(15)
Net profit attributable to shareholders	406	(18,486)	1,296
Unrealised gains and losses	41	69	66
Shareholders' equity	**4,716**	**2,944**	**21,763**

As at 31 December 2009 the authorised share capital amounted to EUR 1,176,856,500 distributed over 2,203,711 ordinary shares, 150,000 non-cumulative A preference shares and two non-cumulative B preference shares (convertible into ordinary shares), each share having a nominal value of EUR 500.

As at 31 December 2009, issued and paid-up capital amounts to EUR 940.5 million in ordinary shares and EUR 75.0 million in preference shares distributed over 1,880,946 ordinary shares and 150,000 non-cumulative preference shares, each with a nominal value of EUR 500. The non-cumulative preference shares comprise 150,000 Class A shares (5.85%). The share premium on the preference Class A shares are registered on separated accounts and are allocated to the class of shares.

In 2007, Fortis Bank (Nederland) N.V. issued 150,000 Class A preference shares for a total amount of EUR 210.0 million and 2 Class B preference shares for a total amount of EUR 14.6 billion. The regulators consider these shares as Tier 1 capital. The Class A preference shares (5.85%) are owned by a SPC Fortis FBN (H) Preferred Investments B.V., Amsterdam, which has been owned by the Dutch State since 3 October 2008 (for 70%) by 35 priority shares and (for 30%) by 15 ordinary shares held by three private investment institutions. The priority shares held by the Dutch State effectively allow the State to control the SPC.

At 28 December 2009 the non-cumulative preference shares B held by the Dutch State were exchanged into two ordinary shares pursuant to a shareholders' resolution signed on that same day in accordance with the articles of association. As a result, the Dutch State holds 1,880,946 ordinary shares and Fortis FBN(H) Preferred Investments B.V. holds 150,000 non-cumulative A preference shares.

Outstanding shares

The following table shows the number of outstanding shares:

	Ordinary shares	Preference shares	Total Shares outstanding
Number of shares at 31 December 2008	**1,880,944**	**150,002**	**2,030,946**
Issued			
Conversion preference share into ordinary shares	2	(2)	
Number of shares at 31 December 2009	**1,880,946**	**150,000**	**2,030,946**

Other reserves include an amount of EUR (131) million that relates to the equity component of the subordinated convertible securities issued in 2007 (see note 26).

The Currency translation reserve is a separate component of Issued capital and reserves in which are reported the exchange differences, arising from translation of the results and financial positions of foreign operations that are included in the Fortis Bank (Nederland) N.V. Consolidated Financial Statements.

Fortis Bank (Nederland) N.V. hedges net investments in foreign operations. The net investment in a foreign operation is Fortis Bank (Nederland) N.V.'s interest in the net assets of that operation. Exchange differences arising on borrowings and other currency instruments designated as hedging instruments of such investments are also recorded in equity (under the heading Currency translation reserve) until the disposal of the net investment, except for any hedge ineffectiveness which will be immediately recognised in the income statement. On disposal of a foreign entity, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

The table below shows changes in Unrealised gains and losses included in Issued capital and reserves

	Available for sale investments	Revaluation of associates	Other unrealised gains/losses	Total
31 December 2009				
Gross	51			51
Related tax	(10)			(10)
Total	**41**			**41**
31 December 2008				
Gross	48	25	5	78
Related tax	(8)		(1)	(9)
Total	**40**	**25**	**4**	**69**
31 December 2007				
Gross	114	(23)		91
Related tax	(25)			(25)
Total	**89**	**(23)**		**66**

Unrealised gains and losses in Available for sale investments are discussed in detail in note 18.2.

Proposed dividend for 2009

Fortis Bank (Nederland) N.V.

For the year 2009, the Management Board proposes to the Supervisory Board and the General Meeting of Shareholders not to pay any dividends on any of the outstanding ordinary shares and to reserve the dividend on the non-cumulative A preference shares held by Fortis FBN(H) Preferred Investments B.V.

4 Minority interests

The following table provides information about the most significant minority interests in the Fortis Bank (Nederland) N.V. entities.

	% of minority interest	31 December 2009	31 December 2008	31 December 2007
Group company				
European Multilateral Clearing Facility NV	22.0%	3		
Moeara Enim	0.1%	2		136
FBIB-Capital Structures B.V.	0.0%		2	
Fortis Intertrust Group			57	34
Fortis de Hondsrug B.V.			7	6
Fortis Holding (Curacao) N.V.			3	8
FMM Investments N.V.			4	12
Leyden Bay B.V.				455
Other		1	2	4
Total		**6**	**75**	**655**

Due to the divestment of Fortis Intertrust Group the minority interests decreased sharply in 2009.
At Fortis de Hondsrug B.V. the minority interests went down from 25% to nil in 2009.
At Leyden Bay B.V. the minority interests went down from 30.3% to nil in 2008.

5 Liquidity and funding

5.1 Liquidity Risk

Liquidity risk is the risk that actual (and potential) payments or collateral posting obligations cannot be met when they are due. It has two components, described below.

Funding liquidity risk is the risk that expected and unexpected cash demands of deposit, policyholders, and other contract holders cannot be met without suffering unacceptable losses or without endangering the business franchise.

Market liquidity risk concerns the inability to realise assets due to inadequate market depth, or market disruption. As such it is related to market risk to a certain extent. Market liquidity risk is the sensitivity of the liquidity value of a portfolio due to changes in the applicable haircuts and the change of market value. It also concerns the uncertainty of the timescale necessary to realise the liquidity value of the assets.

5.1.1 Liquidity risk organisation

The Liquidity Risk Management department is part of Balance Sheet & Capital Management within the risk organisation of Fortis Bank (Nederland) N.V. It is responsible for the governance structure with regard to liquidity risk. Liquidity risk activities are combined in the Liquidity Risk Framework. This includes policy-setting, drafting of liquidity risk procedures, monitoring all liquidity flows within Fortis Bank (Nederland) N.V. and managing all liquidity risk within the maturity calendar on a central and local basis.

In addition, the Liquidity Risk Management department is responsible for setting limits, defining the necessary liquidity buffer and guaranteeing a sophisticated and up-to-date liquidity contingency planning.

The Liquidity Risk Management department is also responsible for setting up sound stress testing scenarios and for performing stress testing on the liquidity position of Fortis Bank (Nederland) N.V. The ALCO and the Management Board must approve all policies, governance statements and management structures regarding liquidity risk management. The Liquidity Risk Management department informs the Supervisory Board of Fortis Bank (Nederland) N.V. about such approvals.

Fortis Bank (Nederland) N.V. is responsible for ensuring that its liquidity risk profile complies with regulatory rules. The Liquidity Risk Manager coordinates this responsibility.

5.1.2 Liquidity Risk Management

Liquidity risk management (LRM) involves ensuring that Fortis Bank (Nederland) N.V. is in control of the management of funding resources while maintaining a portfolio of highly marketable assets that can be liquidated as a protection against any unforeseen interruption of cash flows. The LRM department has formulated a policy and framework for sound liquidity risk management. Its primary goal is to ensure that Fortis Bank (Nederland) N.V. maintains sufficient cash and liquid assets to meet its current and future financial obligations at all times, in both normal and exceptional circumstances, for every currency in which it has an exposure and for all its banking and holding companies, including special purpose vehicles.

Liquidity Risk Management pursues a strategy of adhering to internal and external practices of sound liquidity risk management. The liquidity profile is designed to ensure that the bank can meet its payments at all times. This profile, and adherence to this profile, is monitored on a daily basis. Reporting is designed to inform the appropriate (management) levels throughout the organisation and by analyses of management reports to support policy-setting and information flows with analyses of management reports.

The Management Board defines the risk tolerance and risk appetite and strategy for all risk factors, including liquidity risk.

The Management Board delegates monitoring and acceptance of liquidity risk within a defined liquidity limit framework as follows:

- to the ALCO: Fortis Bank (Nederland) N.V.'s structural liquidity risk management, defined by the Liquidity Risk Management department and executed by Global Treasury;
- to the Liquidity Risk Management department: the operational and contingent liquidity risk management of Fortis Bank (Nederland) N.V. and execution thereof by Global Treasury.

Global Treasury is Fortis Bank (Nederland) N.V.'s 'lender of last resort', with ultimate access to the central banks and professional financial markets. It has the final responsibility to fund all businesses of Fortis Bank (Nederland) N.V., including itself and special purpose vehicles (SPVs).

5.1.3 Liquidity risk limits

Fortis Bank (Nederland) N.V. maintains a maturity profile of its liabilities and debts that is consistent with sound liquidity management. The bank is also required to adhere to Dutch liquidity regulations. Besides specific liquidity regulations Fortis Bank (Nederland) N.V. has setup a formal limit framework for liquidity. Currently, the key drivers for measuring liquidity risk are the loan-to-deposit ratio (LDR), the liquidity survival period and ratios such as core funding ratio.

Loan-to-deposit ratio

The loan-to-deposit ratio is the metric between the relationship of funds taken and funds given by customers. The loan-to-deposit ratio includes securitisations and Dutch State Treasury Agency funding. The table below shows the development of the ratio in 2009.

	31 December 2009	*31 December 2008*	*31 December 2007*
Due from customers			
Balance as per 31 December	125,328	124,692	130,971
Securities financing transactions	(12,597)	(8,307)	(20,811)
Adjusted total due from customers	**112,731**	**116,385**	**110,160**
Due to customers			
Balance as per 31 December	61,399	91,798	69,990
Related parties (Dutch State)	(5,925)	(40,375)	
Securities financing transactions	(1,209)	(2,280)	(4,181)
Adjusted total due to customers	**54,265**	**49,143**	**65,809**
Loan to deposit ratio (LDR)	208%	237%	167%

5.1.4 Liquidity risk reporting

In order to monitor the use of liquidity, the Liquidity Risk Management department has created and implemented a reporting framework. Reporting takes place in close collaboration between Liquidity Risk Management and the Global Treasury for short-term liquidity risks and Liquidity Risk Management and ALM for medium-term liquidity risks. This enables analysis of the liquidity profile of the different entities' balance sheets, including important financing vehicles in the form of SPVs. Special attention is also dedicated to securitised assets and their collateral value.

5.1.5 Liquidity Contingency Plan

The Liquidity Contingency Plan comes into effect whenever the liquidity position of Fortis Bank (Nederland) N.V. is threatened by exceptional internal or external circumstances that could lead to a liquidity crisis. The plan is designed to enable Fortis Bank (Nederland) N.V. to manage its liquidity sources without jeopardising its business, while limiting excessive funding costs in severe (market) circumstances.

During a crisis, adequate information flows are crucial to ensure prompt decision-making and to avoid undue escalation of issues. The liquidity contingency plan therefore ensures that internal communication flows remain timely, clear and uninterrupted. It also ensures that appropriate external communication flows provide assurance to the relevant stakeholders, such as market participants, regulators and shareholders; the Management Board is involved, as well as relevant departments, such as Treasury, Investor Relations and Corporate Communications.

5.2 Funding

5.2.1 Funding profile

In 2009 Fortis Bank (Nederland) N.V. created stability in its funding and liquidity profile, while re-establishing and launching new funding programmes in order to repay the short-term loan facility of EUR 34 billion to the Dutch State. Following the break-up of Fortis Group on 3 October 2008, the Dutch State granted Fortis Bank (Nederland) N.V. a short-term loan facility of EUR 34 billion in order to be able to refinance the intercompany funding from the previous group.

In June 2009 Fortis Bank (Nederland) N.V. repaid the short-term loan facility of EUR 34 billion to the Dutch State, ahead of schedule. The repayment of this loan facility was partly financed by increases in client savings and deposits and issues of short and long-term debt certificates under newly launched funding programmes, part of which were government guaranteed.

Funding programmes

Fortis Bank (Nederland) N.V. launched several funding programmes in 2009, each of which is targeted at specific markets. More information on these funding programmes is provided in the Risk chapter and in note 25.

	Average maturity 31 December 2009	*Net outstanding 31 December 2009*	*Net outstanding 31 December 2008*	*Net outstanding 31 December 2007*
State Guaranteed Notes (April 2009)	3.1 years	9,328		
Euro-Commercial Paper (May 2009)	7.6 months	11,055		
FCP (French Certificats de Dépôt (June 2009)	4.3 months	2,980		
Debt Issuance Programme (November 2009)/EMTN	12.0 months	1,822	3,671	4,917
Total		**25,185**	**3,671**	**4,917**

In 2010 EUR 15.0 billion of programme funding will mature. Refinancing of this funding is expected to be performed using the programmes setup in 2009 as well as new ones, such as a USD Commercial Paper programme which is foreseen in the first half of 2010. The bank will endeavour to improve its funding profile by lengthening the average maturities.

In 2009, Fortis Bank (Nederland) N.V. issued notes backed by new in-house originated prime Dutch mortgages for EUR 16.1 billion, of which EUR 14.6 billion is ECB eligible collateral. Redemptions of externally placed existing RMBS notes amounted to EUR 2.1 billion in 2009.

The externally placed RMBS notes provide for transfer of risk and long-term funding. The retained positions are used as collateral under various activities including derivatives activities, ECB tenders and for daily payment capacity.

	31 December 2009	*31 December 2008*	*31 December 2007*
Placed externally	22,254	24,090	27,777
Retained ECB eligible	28,345	13,932	3,958
Retained non-eligible	2,346	891	244
Total RMBS Portfolio	**52,945**	**38,913**	**31,979**
Goldfish Master Issuer B.V.	9,752	5,500	2,000
Dolphin Master Issuer B.V.	30,412	18,566	11,200
Beluga Master Issuer B.V.	4,843	4,843	4,843
Solid	602	602	602
Delphinus	7,336	9,402	11,292
Dutch MBS			374
Collier			1,668
Total RMBS Portfolio	**52,945**	**38,913**	**31,979**

In December 2009, Fortis Bank (Nederland) N.V. announced that it would facilitate full repayment to investors in Delphinus 2003-I, Delphinus 2004-II and Beluga 2006-I A1 notes. In January 2010, as a result of repayment the outstanding of RMBS notes decreased to EUR 50.3 billion and the amount of retained notes increased to EUR 30.2 billion.

In 2010, EUR 20 billion of RMBS notes will arrive at scheduled step-up, of which EUR 5 billion is placed externally.

Central bank facilities

Since the liquidity crisis hit and the bank became a stand-alone entity, Fortis Bank (Nederland) N.V. has participated in several tenders organised by central banks. At year-end 2009, the bank participated for EUR 10.5 billion in ECB tenders coming from USD 8.5 billion in TAF tenders[11] at year-end 2008.

Funding profile improved

The funding mix improved slightly in 2009 compared with 2008, benefiting from the launch of several debt issuances under the new funding programmes and from market improvements in wholesale funding. Although the debt-to-equity conversion boosted the capital ratios, it dampened the improvement of the funding profile.

Maturities increased slightly for the combined balance sheet items ‘due to customers and banks’, ‘debt certificates’ and ‘subordinated liabilities’. The charts show that funding with a maturity of up to one year decreased to 82% on 31 December 2009 from 84% at year-end 2008.

11) Under the Term Auction Facility (TAF), the Federal Reserve auctions term funds to depository institutions. All advances are fully collateralised.

In 2010, the bank will continue to work towards reducing its dependence on short-term funding, as can be concluded from the dual tranche senior unsecured benchmark issue of EUR 2 billion each on 26 January 2010 with maturities of 2 and 5 years.

	Partition 31 December 2009	*Partition 31 December 2008*	*Partition 31 December 2007*
Maturity =< 1 year	81.0%	84.7%	78.2%
Maturity > 1 year < 2 years	4.6%	3.7%	3.1%
Maturity >= 2 years	14.4%	11.6%	18.7%
Total	**100.0%**	**100.0%**	**100.0%**

Subject to market conditions, Fortis Bank (Nederland) N.V. expects to further improve its funding mix in 2010.

5.2.2 Liquidity sensitivity gaps

The table below shows Fortis Bank (Nederland) N.V.'s assets and liabilities classified into relevant maturity groupings based on the remaining period to the contractual maturity date. The bank considers demand and saving deposits to be a relatively stable core source of funding of its operations and are reported in the column No maturity. The lines Non-financial assets and Non-financial liabilities include the balancing of temporary amounts between trade date and settlement date in the column Up to 1 month and the breakdown by maturity of the accrued.

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*No maturity*	*Total*
At 31 December 2009							
Assets							
Fixed rate financial instruments	15,675	4,251	4,077	11,198	72,289	1,430	108,920
Variable rate financial instruments	12,457	1,234	1,647	1,545	1,855	47,411	66,149
Non-interest bearing financial instruments	2,610	995	246	419	796	4,551	9,617
Non-financial assets	910	29	44	210	151	3,755	5,099
Total assets	**31,652**	**6,509**	**6,014**	**13,372**	**75,091**	**57,147**	**189,785**
Liabilities							
Fixed rate financial instruments	25,155	11,041	25,342	20,181	5,577	2,158	89,454
Variable rate financial instruments	7,431	856	159	14,291	3,570	40,844	67,151
Non-interest bearing financial instruments	939	419	279	611	56	18,097	20,401
Non-financial liabilities	1,694	191	176	605	757	4,634	8,057
Total liabilities	**35,219**	**12,507**	**25,956**	**35,688**	**9,960**	**65,733**	**185,063**
Net liquidity gap	**(3,567)**	**(5,998)**	**(19,942)**	**(22,316)**	**65,131**	**(8,586)**	**4,722**
At 31 December 2008							
Total assets	28,650	5,120	6,122	13,365	91,153	39,793	184,203
Total liabilities	36,079	28,509	10,039	18,561	27,436	60,560	181,184
Net liquidity gap	**(7,429)**	**(23,389)**	**(3,917)**	**(5,196)**	**63,717**	**(20,767)**	**3,019**
At 31 December 2007							
Total assets	57,131	4,769	5,077	10,521	76,970	117,910	272,378
Total liabilities	56,910	13,298	18,891	40,820	13,212	106,829	249,960
Net liquidity gap	**221**	**(8,529)**	**(13,814)**	**(30,299)**	**63,758**	**11,081**	**22,418**

The liquidity gap within Fortis Bank (Nederland) N.V. can be broken down into two components. The first component of the gap is a result of a larger commercial asset book compared to the commercial liability book. This gap is currently financed using a mixture of market and wholesale instruments. The Dutch State took over a significant amount of the funding after it acquired Fortis Bank (Nederland) N.V. The second component of the gap is the maturity mismatch whereby the assets according to the balance sheet of Fortis Bank (Nederland) N.V. tend to be contractually longer then the accompanying liabilities.

At present, the liquidity gap can be specified as follows:

- external money market and CP funding: EUR 24 billion, mainly very short term up to 1 year;
- ECB funding: EUR 11 billion;
- EMTN and GGB wholesale funding: EUR 26 billion, mainly long term (> 1 year) based on EMTN program or senior (subordinated) notes contracts.

There is currently also a securitised mortgage portfolio of EUR 56 billion (2008: EUR 40 billion) which is externalised for EUR 21 billion (2008: EUR 25 billion). The remaining EUR 35 billion (2008: EUR 15 billion) is held as eligible notes and is partly used within the ECB financing window and partly held as a safety cushion. In 2009, the bank closed several successful repo transactions to use the collateral for acquiring long-term funding.

The liquidity gap poses a concern and therefore has the attention of senior management attention. The liquidity gap is narrowing as a result of stringent execution of internal policy aimed at reducing this maturity gap. Liabilities are currently developing faster than the commercial assets. The gap will continue to be closed thanks to several measures, including -but not limited to- repurchase agreements, using eligible paper, money market funding and capital market funding.

Although current markets circumstances remain vigilant regarding longer term liquidity, the liquidity maturity gap will be improved. Long-term liabilities are being obtained, using repo transactions or the bank’s medium-term programme. A significant part of the bank’s funding, however, will be raised up to one year. Fortis Bank (Nederland) N.V. is committed to closing the maturity gap further. From a commercial point of view, the balance bank’s sheet will continuously show a surplus of longer term assets (mainly mortgages) compared to its liabilities (saving deposits), although this is stabilising.

The table below shows the financial liabilities at undiscounted cash flow as at 31 December.

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
At 31 December 2009						
Liabilities						
Money market	11,835	548	8,598	1,254	154	22,389
Securities	5,181	4,020	11,696	8,657	75	29,629
Due on demand	2,998	784	5,580	9,503	1,837	20,702
Deposits	6,762	4,241	3,069	2,052	2,177	18,301
Other liabilities	13,500	36	287			13,823
Total liabilities	**40,276**	**9,629**	**29,230**	**21,466**	**4,243**	**104,844**
At 31 December 2008						
Liabilities						
Money market	15,421	12,725	15,592	2,543	229	46,510
Securities	1,900	68	439	2,181	1,120	5,708
Due on demand	1,370	465	3,177	6,240	1,847	13,099
Deposits	7,074	4,016	3,677	2,091	2,276	19,134
Other liabilities	17,688	85	728			18,501
Total liabilities	**43,453**	**17,359**	**23,613**	**13,055**	**5,472**	**102,952**

6 Risk management

6.1 Introduction

Sound risk management is a key ingredient of Fortis Bank (Nederland) N.V.'s strategy of sustainable profitable growth and therefore one of its core competences. A strong risk management framework is important for several reasons: to ensure that the bank consistently maintains high standards of risk management, to raise executive management's awareness and understanding of the risks being taken, to encourage optimisation of the risk/return ratio and to measure economic capital.

Within its risk management framework, Fortis Bank (Nederland) N.V. executes its risk strategy and undertakes controlled risk-taking activities. This framework combines core policies and methods and process design with broad oversight and is supported by regular and comprehensive risk performance monitoring. Fortis Bank (Nederland) N.V. continuously reviews and upgrades its risk management framework in order to align its long-term strategy in the field, incorporating lessons learned through its own best practices. The following figure shows the risk governance framework.

Each of the interrelated components of the risk governance framework is described in this section, including a quantitative and qualitative overview of the risk exposure.

6.2 Philosophy, strategy and principles of sound risk management

6.2.1 Risk management philosophy

Risk is defined as the deviation from anticipated outcomes that may affect the value, capital or earnings. Risk thus stems from exposure to external or internal risk factors in conducting business activities. Risk-taking and risk transformation are an integral part of Fortis Bank (Nederland) N.V.'s value proposition to its customers and shareholders. Fortis Bank (Nederland) N.V. aims to take risks of which it has a good understanding and which can be adequately managed either at individual or at overall portfolio level. Moreover, the bank aims to manage risks in a controlled and transparent manner. Fortis Bank (Nederland) N.V. actively seeks exposure to these risks if it is efficient and affordable to do so. Risks that are not actively sought but rather arise as a consequence of conducting business are reduced to acceptable levels.

6.2.2 Risk management principles

Risk management at Fortis Bank (Nederland) N.V. is based on the three guiding principles resulting from the risk governance framework:

- *Optimising risk/return in a controlled manner at high standards:* Fortis Bank (Nederland) N.V. is a professional risk-taker; as a Dutch commercial bank, assuming and transforming risk is a primary function of the bank. To ensure long-term stability, Fortis Bank (Nederland) N.V. directs and controls its risk-taking towards businesses that provide consistent returns;
- *Independent and properly resourced risk management functions:* Risk-taking activities require an independent risk management function. Well-resourced independent risk management, which is clearly separated from any business decisions, is essential to avoid conflicts of interest. This is to ensure proper risk governance and, consequently, to enforce the Risk Policy;
- *Open risk culture to promote trust and confidence:* Risk transparency and responsiveness to change are integral parts of the business culture. Fortis Bank (Nederland) N.V. extensively evaluated risk management practices in the former Fortis organisation, as well as those of its peers and has built a risk organisation that respects lessons learned and that incorporates industry best practices.

6.2.3 Risk strategy

The risk strategy sets out how which type of risk can be taken and to what extent in order to achieve the bank's business objectives. It also sets out to what extent undesired risks should be mitigated and avoided. Hence, Fortis Bank (Nederland) N.V.'s risk tolerance and risk appetite are components of its risk strategy. The risk strategy should not be considered independently, as it is based in part on the corporate strategy, is aligned with the strategic objectives, and is used in creating the bank's planning and capital management processes.

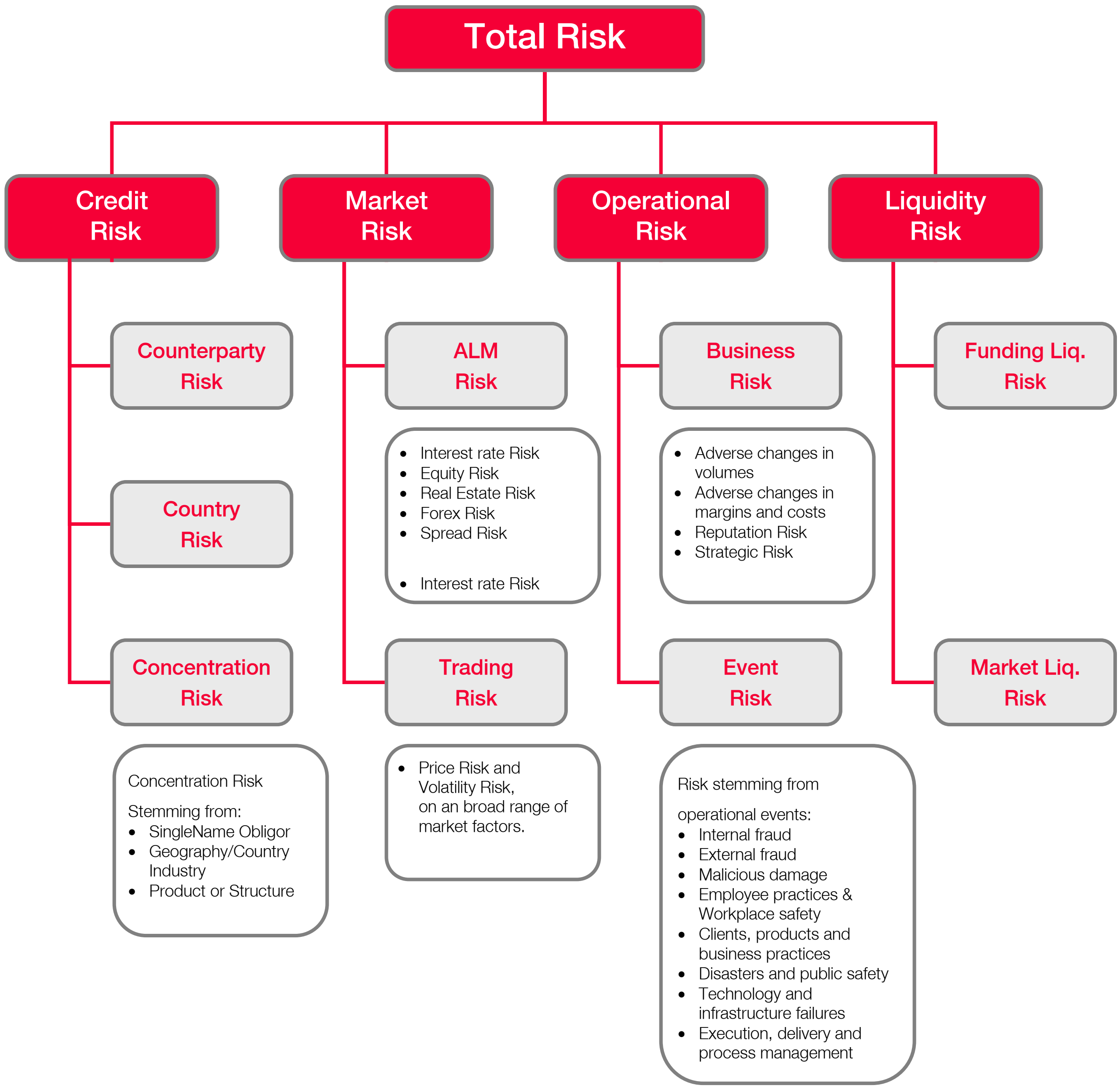
Fortis Bank (Nederland) N.V.'s attitude towards risk reflects its desire or willingness to actively take certain risks (and to what extent) and to avoid or mitigate others. Fortis Bank (Nederland) N.V. has classified each type of risk to which it is exposed into the following categories:

Core risks: those risks to which Fortis Bank (Nederland) N.V. actively seeks exposure when it is efficient to do so and where exposure can be contained and managed either at individual or at overall portfolio level. Fortis Bank (Nederland) N.V. aims to continuously improve its understanding of risk to extend the universe of risks it underwrites and intermediates and to enhance its ability to manage existing risk exposures.

The main sub-categories of core risks are credit risk, market risk (Asset and Liability Management (ALM) risk and trading risk) and liquidity risk. Liquidity risk can be further broken down into funding risk and market liquidity risk.

Non-core risks: risks that as a rule are not actively sought but arise as a consequence of conducting business. These include, but are not limited to, operational risk. Operational risk can be further broken down into business risk and event risk. These risks are reduced to acceptable levels, taking into account the cost and benefit trade-offs. As such, Fortis Bank (Nederland) N.V. manages its operational risks and protects its reputation by ensuring that its business practices meet the highest standards of integrity, as specified in its Code of Conduct.

In addition to the strategic classification defined above, Fortis Bank (Nederland) N.V. uses a standard risk taxonomy that includes all material risks. It is reviewed and updated on a yearly basis to ensure that all material risks are identified, defined and fed into the risk governance framework. Fortis Bank (Nederland) N.V.'s current risk taxonomy is summarised in the following chart.



A detailed explanation of each risk type is provided in the descriptions of the related risk management framework and process (as from 6.4).

6.3 Risk management organisation

Fortis Bank (Nederland) N.V. has designed its risk management structure to enable the implementation of its risk strategy. In addition, this risk organisation structure is designed to ensure:

- clear responsibility and accountability regarding risk management;
- independent risk management functions;
- adequate resourcing and well-trained risk management functionaries;
- transparent and coherent risk-related decision-making throughout the bank, taking into account all types of risk Fortis Bank (Nederland) N.V.'s risk taxonomy distinguishes.

6.3.1 Risk management responsibilities

Overall responsibility for the risks of Fortis Bank (Nederland) N.V. rests with the Management Board. The Management Board validates and approves the risk philosophy and risk strategy. To do so, the Board uses a clear definition of risk attitude, level of risk tolerance and desired risk appetite.

Fortis Bank (Nederland) N.V. has entrusted the execution of risk strategy to its Management Board. The Management Board has the responsibility to decide on risk management policies. The Management Board is also responsible for implementation of adequate governance structures and maintains oversight of risk at bank-wide level.

The Supervisory Board oversees the Managing Board's responsibilities with respect to risk management. Both the Audit Committee and the Risk and Capital Committee is composed of selected members of the Supervisory Board and assists the Supervisory Board in understanding the bank's exposure to risks inherent to banking activities, in overseeing the proper management of these risks and in ensuring adequate capitalisation relative to these risks and to those inherent to the bank's overall operations. The Audit Committee supports the Supervisory Board in fulfilling its supervision and monitoring duties in the area of internal control in the broadest sense within Fortis Bank (Nederland) N.V. The Risk and Capital Committee advises the Supervisory Board on the risk appetite, risk governance, major risk policies, current risk profile, major transactions and capitalisation.

Risk management functions collectively operate in one single department, which has been created to support the Management Board in exercising its duties.

Risk structures, methods and processes are organised such as to provide an efficient apparatus for proactive risk management.

The Risk organisation performs the following tasks:

- measurement, analysis, and limiting of risks;
- setting risk method standards;
- development and implementation of internal models for risk evaluation of products and processes;
- portfolio analyses based on a range of risk issues;
- ongoing monitoring and improvement of core processes, e.g. risk-based pricing tools;
- regular or ad-hoc reporting on the current risk situation to management and risk committees;
- ensuring the consistency and efficiency of all available risk related data on all aggregated levels (e.g. single transactions or divisions).

In doing so, the Risk organisation assumes two roles: an enabling and an assurance role. In its enabling role, the Risk organisation supports:

- major risk-steering tasks by providing expert knowledge and regular assessment of existing and potential risk exposures;
- risk identification, measurement and the development of management strategies as well as the review, sanctioning, sign-off and execution of transactions.

In its assurance role, the Risk organisation:

- develops and maintains the risk governance framework;
- validates all risk measurement tools (including back testing);
- provides independent oversight and challenges the other bank functions with regard to risk-taking;
- identifies, manages, and balances the demands of different Fortis Bank (Nederland) N.V.'s stakeholders and their agencies regarding risk management.

6.3.1.1 Three lines of defence

Fortis Bank (Nederland) N.V. has structured its risk management function using three lines of defence.

1st Line of defence	Commercial functions
2nd Line of defence	Risk
3rd Line of defence	Internal audit

The first line of defence concerns the commercial functions.
These are defined as the business representatives who:

- decide on the initial terms and conditions of a transaction;
- monitor factors that affect the risk/return of a transaction or portfolio in the context of profit and loss optimisation for their business.

The commercial functions are the first to ensure that Fortis Bank (Nederland) N.V. does not suffer from unexpected risks. The commercial functions, at head office and at local level are responsible for managing the full taxonomy of risks falling into their area of competence. They should have an excellent risk culture and risk awareness in place, reaching from top to bottom in their organisation.

The second line of defence is the Risk organisation. This is the Risk Management function, operating independently of the businesses, which:

- evaluates risk intake proposals in the context of bank policies, procedures and risk appetite;
- monitors factors that affect the risk/return of a transaction or portfolio in the context of profit and loss optimisation.

In addition to the Risk organisation, other support functions also exercise risk management functions, such as Legal, Compliance & Investigations and Tax.

Legal is the exclusive provider of legal services for Fortis Bank (Nederland) N.V. and manages legal risks.

Compliance aims at stimulating, monitoring and controlling the observation of:

- laws;
- regulations;
- internal rules (including Fortis Bank (Nederland) N.V.'s Principles of Business Conduct);
- ethical standards that are relevant to the integrity and reputation of the bank.

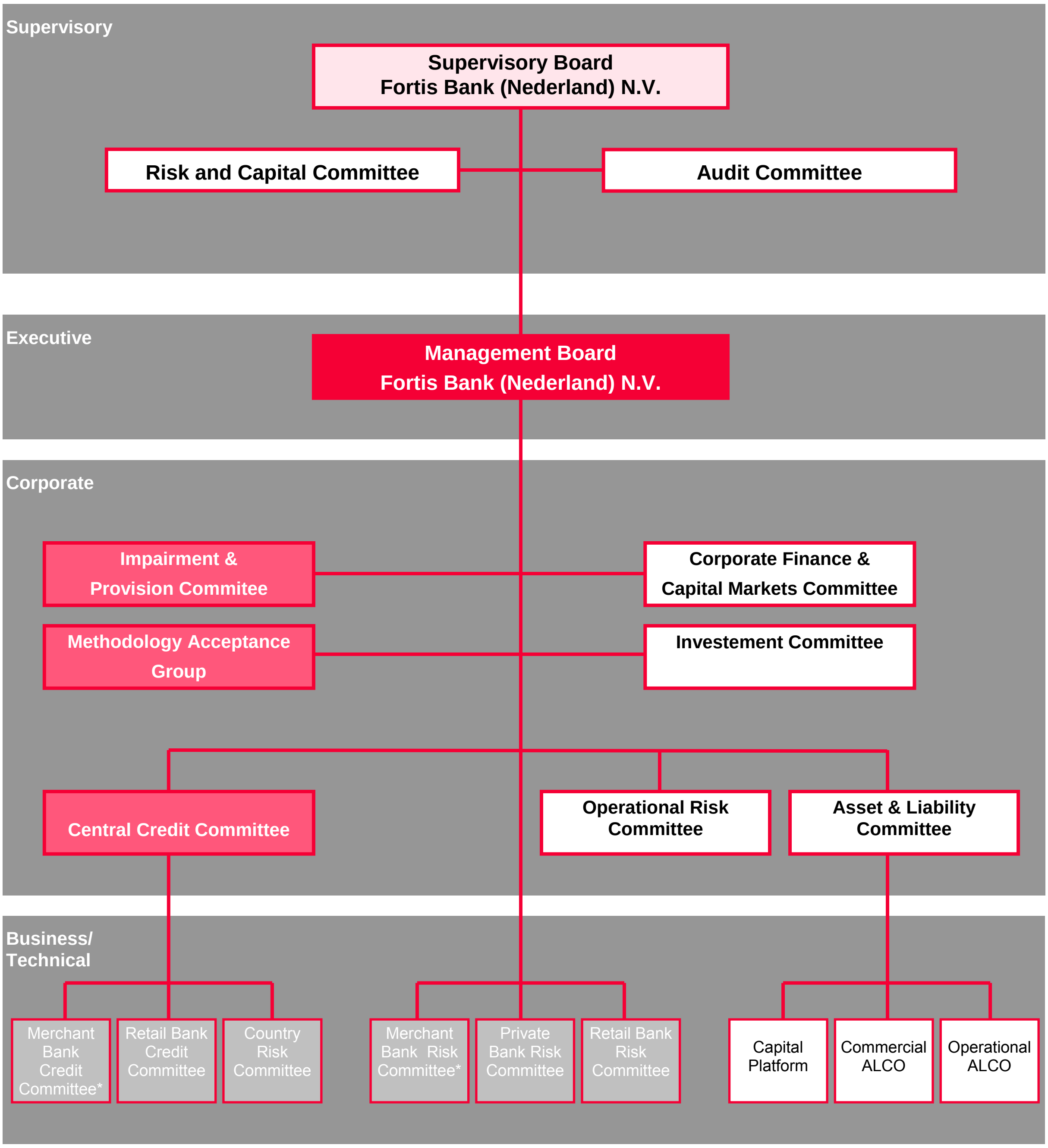
The Investigations function is part of Compliance. This is an independent function that assists in assessing fraud risk adequately and contributes to fraud risk awareness.

The Tax Department is involved in monitoring the risk management and tax integrity of Fortis Bank (Nederland) N.V. and its subsidiaries.

The internal audit function is the third line of defence. Fortis Bank (Nederland) N.V. Audit Services (FAS) supports the achievement of Fortis Bank (Nederland) N.V.'s objectives by providing professional and independent assurance. FAS evaluates the effectiveness of governance, risk management and control processes and recommends solutions for optimising them.

6.3.2 Fortis Bank (Nederland) N.V. Risk Committee Structure

A comprehensive risk committee structure ensures that risk decisions are taken at the appropriate level.



** Comprises four chambers:*

1) *Commercial Banking/Corporate and Public Banking/Private Banking*
2) *Clearing, Funds & Custody*
3) *Global Markets*
4) *Energy, Commodities & Transportation/Investment Banking*

Ultimate responsibility for risks taken by Fortis Bank (Nederland) N.V. rests with the Supervisory Board. In order to fulfil its risk mission, the Supervisory Board has the support of both the Risk and Capital Committee and the Audit Committee (AC). The day-to-day management of risks rests with the Management Board under the leadership of the Chief Risk Officer (CRO).

6.3.2.1 Executive Risk Committee

The Management Board acts as the Executive Risk Committee of Fortis Bank (Nederland) N.V. The Management Board meets several times a week and has risk management on its agenda as a standard item. Major risk policies, limits and new activities etc. must be approved by the Management Board.

6.3.2.2 Corporate risk committees

Corporate risk committees support the Management Board in its duties. Four of these committees are chaired by the Chief Risk Officer:

- the *Asset & Liability Management Committee* (ALCO) defines the balance sheet management policies and limits, monitors the balance sheet structure, approves ALM risk management structures, agrees on significant transactions affecting the balance sheet and signs off on new products launched by the business lines;
- the *Central Operational Risk Committee* (ORC) establishes norms, policies and measurement standards in relation to operational risk-linked exposure;
- the *Central Credit Committee* (CCC) decides on individual obligor risks, including country and bank limits, and approves transactions above a certain level affecting the balance sheet, within the lending limit;
- the *Impairment and Provision Committee* (IPC) supervises worldwide Value Adjustments (VA) on a consolidated basis.

In addition, the following committees are in place at corporate level:

- the *Methodology Acceptance Group* (MAG) decides on the validation of risk models;
- the *Corporate Finance and Capital Markets Committee* decides on market transactions such as debt and equity underwriting;
- the *Investment Committee* decides among other things on structured finance deals and principal investments.

6.3.2.3 Business risk committees and technical platforms

The corporate risk committees are in turn supported by a number of Business Risk Committees and Technical Platforms which provide advice to the corporate risk committees and often receive a limited delegated authority.

6.4 Credit risk

Credit risk is defined as the risk to earnings or capital arising from an obligor’s failure to meet the terms of any contract or to otherwise fail to perform as agreed.

6.4.1 Credit risk management

Credit risk management within Fortis Bank (Nederland) N.V. is governed by the Central Credit Risk Policy (hereafter referred to as ‘the Policy’) and, more specifically, credit risk policies. The Policy contains a set of principles, rules, guidelines and procedures for identifying, measuring, approving and reporting credit risk within Fortis Bank (Nederland) N.V. The Policy establishes a consistent framework for credit risk-generating activities, either through direct lending relationships or through other activities resulting in credit risk such as investment activities. During 2009, Fortis Bank (Nederland) N.V. conducted a review of its Credit Policy framework and has started to rigorously review and rewrite its credit policies. This process is well on track. Specifically, the Central Credit Risk Policy - setting the overall framework - was rewritten in 2009. Key policies, such as those governing country risk, off-balance sheet instruments and maximum counterparty exposure (‘total one obligor’, see 6.4.5) were also renewed. All business line-specific policies, such as for Merchant Banking, are systematically being revisited, while a formal review cycle has been instituted to ensure continuous relevance of all policies.

6.4.2 The credit lifecycle

The basis for effective credit risk management is the identification of existing and potential credit risk inherent to any product or activity. This process includes the gathering of relevant information concerning products offered, counterparties involved and all other elements that may influence the credit risk.

Assessing the credit risk of a proposed agreement consists of:

- analysis of the probability that the counterparty will fail to meet its obligations, including the risk classification on the Fortis Bank (Nederland) N.V. Master scale;
- analysis of the possibilities of fulfilling the counterparty's obligations by other means in the event that the counterparty fails to meet its obligations by itself;
- formulation of an independent and substantiated opinion.

Counterparty acceptance criteria are the conditions that Fortis Bank (Nederland) N.V. applies to the acceptance of credit customers. These conditions reflect the generally acceptable credit risk profile that Fortis Bank (Nederland) N.V. has defined. Fortis Bank (Nederland) N.V. operates in accordance with sound, well-defined credit-granting criteria in order to protect its reputation and ensure its sustainability. Fortis Bank (Nederland) N.V. does not wish to be associated with dubious counterparties or credit facilities. The counterparty acceptance criteria include a clear indication of the bank's target market and a thorough understanding of the borrower or counterparty, as well as of the purpose and structure of the credit and the source of its repayment. Core credit risk parameters included in the estimation of expected loss, unexpected loss, and economic capital are probability of default (PD), loss given default (LGD), and exposure at default (EAD).

Authorised persons or committees make a credit decision, informed by the opinion of a credit analyst. Delegation of credit authority is the partial transfer of the central credit decision-making authority to the appropriate management levels of credit risk management and the businesses. The delegation rules define the decision-making process regarding the acceptance and management of counterparty risk. The underlying principle in the rules is the need to achieve an appropriate balance (in terms of overall profitability) between two opposite drivers, i.e. maximising the decision-making autonomy of the businesses on the one hand and reducing unexpected counterparty risk on the other.

Monitoring of credit risk is the permanent and automatic control of credit exposures and events with the primary purpose of early detection and reporting of potential credit problems. Surveillance consists of daily monitoring of all individual credit risks. Comprehensive procedures and information systems monitor the condition of individual credits and single counterparties across the various portfolios. These procedures define criteria for identifying and reporting potential credit problems in order to ensure that they are subject to proper monitoring, possible corrective action and classification.

Impaired credits are transferred to the so-called Financial Restructuring & Recovery department (FR&R). FR&R develops strategies to rehabilitate an impaired credit or to increase the chance of final repayment. It also provides assistance to the businesses in dealing with non-impaired problem loans. FR&R is fully autonomous from the area that originated the credit.

6.4.3 Credit risk exposure

Fortis Bank (Nederland) N.V.'s overall credit risk exposure (before collateral held and other credit enhancements) is measured and presented as the principal amount of on-balance-sheet claims or off-balance-sheet potential claims on customers and counterparties as at 31 December 2009. Credit risk exposure is presented based on the classification in the balance sheet, as this most accurately reflects the nature and characteristics of the exposure.

	2009	2008	2007
Cash and cash equivalents (see note 14)	10,005	9,859	39,269
Impairments	(3)		
Total net Cash and cash equivalents	**10,002**	**9,859**	**39,269**
Assets held for trading (see note 15)			
Debt securities and treasury bills	1,398	477	148
Derivative financial instruments	4,210	6,736	7,133
Total assets held for trading	5,608	7,213	7,281
Impairments			
Total net Asset trading securities	**5,608**	**7,213**	**7,281**
Due from banks (see note 16)			
Interest bearing deposits	186	450	3,037
Loans and advances	3,893	5,354	1,334
Securities borrowing transactions	20,974	17,197	32,942
Other	1,660	1,301	1,456
Total Due from banks	26,713	24,302	38,769
Impairments	(56)	(30)	(1)
Total net Due from banks	**26,657**	**24,272**	**38,768**
Due from customers (see note 17)			
Government and official institutions	2,647	1,975	1,782
Residential mortgages	66,600	66,680	63,873
Consumer loans	3,662	3,152	3,193
Commercial loans	38,139	42,565	40,310
Reverse repurchase agreements	2,774		
Securities borrowing transactions	9,823	8,307	20,811
Other	3,428	3,458	1,397
Total Due from customers	127,073	126,137	131,366
Impairments	(1,745)	(1,445)	(395)
Total net Due from customers	**125,328**	**124,692**	**130,971**
Interest bearing investments (see note 18)			
Treasury bills	4		
Government bonds	913	30	81
Corporate debt securities	2,161	3,424	2,948
Structured credit instruments		10	
Total interest bearing investments	3,078	3,464	3,029
Impairments			
Total net Interest bearing investments	**3,078**	**3,464**	**3,029**
Other receivables (see note 19)	2,672	3,034	3,440
Impairments	(5)	(5)	(5)
Total net Other receivables	**2,667**	**3,029**	**3,435**
Total on balance credit risk exposure	175,149	174,009	223,154
Impairments	(1,809)	(1,480)	(401)
Total net on balance credit risk exposure	**173,340**	**172,529**	**222,753**
Off balance credit commitments exposure gross (see note 46)	48,849	55,203	53,589
Impairments	(15)	(15)	(6)
Off balance credit commitments exposure net	**48,834**	**55,188**	**53,583**
Total credit risk exposure gross	223,998	229,212	276,743
Impairments	(1,824)	(1,495)	(407)
Total credit risk exposure net	**222,174**	**227,717**	**276,336**

The increase in impairments in 2009 reflects the impact of current adverse economic circumstances on the loan portfolio. In 2008 the impairments increased due to credit risk provisions of € 972 million related to the Madoff Fraud.

The off-balance sheet credit commitments exposure can be detailed as follows:

	2009	2008	2007
Credit related commitments			
Government and official institutions	612	617	604
Credit institutions	371	791	1,001
Corporate	32,995	38,510	33,538
Retail	9,158	9,286	10,614
Total	**43,136**	**49,204**	**45,757**
Credit related commitments given			
Guarantees and letters of credit	2,327	2,470	2,830
Banker's acceptances	48	124	58
Documentary credits	3,338	3,405	4,944
Total other credit commitments gross	**5,713**	**5,999**	**7,832**
Total other credit related commitments	**48,849**	**55,203**	**53,589**

Excluding the impact of the securities lending portfolio, Due from customers was stable in 2009 compared with 2008. Off-balance credit risk commitments are detailed in note 46.

6.4.4 Credit risk netting arrangements

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. However, Fortis Bank (Nederland) N.V. may also enter into netting arrangements that do not meet the criteria for offsetting under IFRS.

The table below provides information on the existence of such non-qualifying rights at year-end as well as on non-qualifying master netting agreements that serve to mitigate the exposure to credit loss. The financial assets reported below are those that are subject to a legal right to offsetting against financial liabilities when such assets are not reported in the balance sheet on a net basis.

	2009	2008	2007
Due from customers	8,131	9,421	8,443
Total credit exposure subject to a legally enforceable right to set-off	**8,131**	**9,421**	**8,443**
Trading assets	1,283	2,591	1,745
Interest bearing investments			
Credit exposure reduced by virtue of a master netting arrangement	**1,283**	**2,591**	**1,745**

6.4.5 Credit risk concentration

Credit risk concentration is any exposure to a counterparty or an aggregate of exposures to a number of positively correlated counterparties (i.e. tendency to default under similar circumstances) with the potential to produce a significant amount of capital loss due to a bankruptcy or failure to pay. Avoidance of concentrations is therefore fundamental to Fortis Bank (Nederland) N.V.'s credit risk strategy of maintaining granular, liquid and diversified portfolios.

To avoid credit risk concentration, credit risk management aims to spread the credit risk across different sectors and countries and may set maximum levels for subgroups in either category. Fortis Bank (Nederland) N.V. further applies the concept of 'total one obligor'. This implies that certain groups of connected counterparties are considered to be a single counterparty in the management of credit risk exposure.

The table below shows Fortis Bank (Nederland) N.V.'s industry concentration of the customer credit portfolio as at 31 December.

		2009		2008		2007
	Carrying amount Due from customers	Total %	Carrying amount Due from customers	Total %	Carrying amount Due from customers	Total %
Industry sector						
Agriculture, forestry and fishing	1,096	0.87%	852	0.68%	956	0.73%
Oil and gas	1,339	1.07%	1,164	0.93%	1,634	1.25%
Basic metals	860	0.69%	830	0.67%	1,213	0.93%
Raw & intermediate materials	263	0.21%	80	0.06%	396	0.30%
Consumer goods	2,666	2.13%	2,926	2.35%	2,021	1.54%
Wood, pulp and paper products	154	0.12%	219	0.18%	227	0.17%
Technology, media and telecom	377	0.30%	431	0.35%	417	0.32%
Electricity, gas and water	1,817	1.45%	1,759	1.41%	1,879	1.43%
Chemicals, rubber and plastic products	909	0.73%	1,136	0.91%	1,327	1.01%
Construction and engineering	1,112	0.89%	1,075	0.86%	835	0.64%
Machinery and equipment	1,049	0.84%	1,782	1.43%	1,631	1.25%
Automotive	1,069	0.85%	452	0.36%	552	0.42%
Transportation	4,375	3.49%	3,779	3.03%	3,290	2.51%
Trade and commodity finance	481	0.38%	696	0.56%	679	0.52%
Retail	380	0.30%	578	0.46%	819	0.63%
Real estate	7,402	5.91%	6,966	5.59%	6,790	5.18%
Financial services	18,437	14.71%	17,569	14.09%	30,219	23.07%
Holdings & other services	3,221	2.57%	5,188	4.16%	4,777	3.65%
Public & social services	5,930	4.73%	5,090	4.08%	5,019	3.83%
Private persons	71,023	56.67%	71,534	57.37%	65,804	50.24%
Non-classified	1,368	1.09%	586	0.47%	486	0.37%
Total Due from customers net	**125,328**	**100%**	**124,692**	**100%**	**130,971**	**100%**
Impairments	(1,745)		(1,445)		(395)	
Total Due from customers gross	**127,073**		**126,137**		**131,366**	

Two relatively significant concentrations of credit risk exposures are observed in the categories of 'Private persons' and 'Financial services' with 56.7% and 14.7% of the total respectively. The first category consists mainly of residential mortgage loans and to a lesser extent of consumer loans. The second category – 'Financial services', –consists mainly of financial institutions including holding companies and investment and insurance companies.

The table below provides information on the geographic concentration of on-balance credit risk by location of Fortis Bank (Nederland) N.V. entities as at 31 December.

	2009		2008		2007	
	Credit risk exposure on balance	Percentage	Credit risk exposure on balance	Percentage	Credit risk exposure on balance	Percentage
On balance						
The Netherlands	163,612	93.4%	160,906	92.5%	202,925	90.9%
Other European countries	7,528	4.3%	11,013	6.3%	15,175	6.8%
Asia	1,689	1.0%	929	0.5%	3,719	1.7%
Other	2,320	1.3%	1,161	0.7%	1,335	0.6%
Total on balance	**175,149**	**100.0%**	**174,009**	**100.0%**	**223,154**	**100.0%**

The table below provides information on the geographic concentration of on-balance credit risk by location of customer and type of counterparty as at 31 December.

	2009		2008		2007	
	Credit risk exposure on balance	Percentage	Credit risk exposure on balance	Percentage	Credit risk exposure on balance	Percentage
On balance						
The Netherlands	121,663	69.5%	118,665	68.2%	109,113	48.9%
Other European countries	40,006	22.8%	41,748	24.0%	84,592	37.9%
Asia	2,178	1.2%	2,549	1.5%	5,489	2.5%
Other	11,302	6.5%	11,047	6.3%	23,960	10.7%
Total on balance	**175,149**	**100.0%**	**174,009**	**100.0%**	**223,154**	**100.0%**

In the following table, Government and Official Institutions includes mandatory reserve deposits with central banks for EUR 1,202 million (2008: EUR 549 million; 2007: EUR 1.5 billion). Credit Institutions comprises Due from banks (including Cash & cash equivalents) and Debt securities issued by banks. Trading assets are reported in the column Other.

	Government and official institutions	Credit institutions	Corporate customers	Retail customers	Other	Total
31 December 2009						
On balance						
The Netherlands	3,787	3,890	36,628	71,421	5,937	121,663
Other European countries	743	25,765	10,257	386	2,855	40,006
Asia	42	837	964	14	321	2,178
Other	198	3,033	7,023	108	940	11,302
Total on balance	**4,770**	**33,525**	**54,872**	**71,929**	**10,053**	**175,149**
31 December 2008						
On balance						
The Netherlands	2,347	3,798	35,603	70,805	6,112	118,665
Other European countries	34	25,732	12,059	383	3,540	41,748
Asia	27	1,756	550	14	202	2,549
Other	160	2,661	7,491	33	702	11,047
Total on balance	**2,568**	**33,947**	**55,703**	**71,235**	**10,556**	**174,009**
31 December 2007						
On balance						
The Netherlands	3,156	1,090	35,521	65,500	3,846	109,113
Other European countries	12	62,846	15,967	337	5,430	84,592
Asia	24	4,107	1,161	126	71	5,489
Other	147	6,914	14,207	41	2,651	23,960
Total on balance	**3,339**	**74,957**	**66,856**	**66,004**	**11,998**	**223,154**

6.4.6 Country risk

Country risk is defined as the risk that a counterparty is unable to meet its credit obligations due to political, social, economic or other events in a country. The countries' risk profile is regularly assessed based on an evaluation of the political, economic, transfer and convertibility risks.

Exposures to individual countries and cross-border exposure in aggregate are kept under continuous review. Allocation to the country limits is based on the country of residence of the borrower, the nature of the transaction or the existence of guarantees or collaterals that allow the transfer of country risk. In 2009 Fortis Bank (Nederland) N.V. comprehensively renewed and improved its policy and infrastructure for the management of country risk, setting up an entire new department to manage this category of risk.

6.4.7 Credit risk rating

Credit risk rating is the result of the risk rating assignment process, which is based on a qualified assessment and formal evaluation. This rating is the result of:

- an analysis of each obligor's financial history and estimation of its ability to meet debt obligations in the future;
- the quality and safety of an asset, based on the issuer's financial condition indicating the likelihood that a debt issuer will be able to meet scheduled interest and principal repayments.

The ultimate goal of the process is to calculate the expected loss within one year for every given borrower or asset. Fortis Bank (Nederland) N.V. has therefore drawn up a Master Scale, which ranges from 0 to 20 and gives an indication of the probability that a counterparty will default within one year.

The table below provides information on the quality of individually rated loans and off-balance-sheet credit commitments to customers (securitisations, unrated loans and off balance sheet credit commitments of Clearing, Funds & Custody and Global Markets & Institutional Banking, such as reverse repurchase agreements and securities lending transactions not included) according to the Fortis Bank (Nederland) N.V. Master Scale model.

FMS scale	*PD - %*	*31 December 2009*	*31 December 2008*
0	0	6,646	2,429
1-7	0.00 - 0.85	70,749	93,601
8-10	0.85 - 2.15	17,364	18,797
11-12	2.15 - 3.97	4,432	5,595
13-17	3.97 - 20.00	2,802	3,538
18-20	impaired	5,272	3,663
Total		**107,265**	**127,623**

The credit quality of Fortis Bank (Nederland) N.V.'s debt securities by investment grade at as 31 December is presented below.

	2009		2008		2007	
	Carrying value	Percentage	Carrying value	Percentage	Carrying value	Percentage
Investment grade						
AAA	485	15.8%	216	6.2%	28	0.9%
AA	454	14.7%			1	
A	2,139	69.5%	3,248	93.8%	2,951	97.5%
Investment grade	3,078	100.0%	3,464	100.0%	2,980	98.4%
Unrated					49	1.6%
Total investments in interest bearing investments net	3,078	100.0%	3,464	100.0%	3,029	100.0%
Impairments						
Total investments in interest bearing securities gross	**3,078**		**3,464**		**3,029**	

6.4.8 Credit risk mitigation

Risk mitigation is the technique of reducing credit risk. Fortis Bank (Nederland) N.V. primarily reduces credit risk by obtaining collateral. Security (collateral) is any commitment made or privilege given by a counterparty or third party to which Fortis Bank (Nederland) N.V. can seek recourse in the event of the counterparty's default in order to reduce credit losses. The lending activity is never purely based on collateral. Risk mitigation factors are always regarded as a secondary source of repayment.

Collateral and guarantees received as security for financial assets and commitments are as follows:

		Collateral received				
2009	Carrying amount	Financial instruments	Property, plant & equipment	Other collateral and guarantees	Collateral amounts in excess of credit exposure 1)	Unsecured Exposure
Cash and cash equivalents	10,002	65				9,937
Interest bearing investments	3,078	1,700				1,378
Due from banks	26,657	34,624		184	14,258	6,107
Due from customers						
Government and official institutions	2,645			202		2,443
Residential mortgage	66,527	144	92,093	607	30,904	4,587
Consumer loans	3,579	1,022		2		2,555
Commercial loans	36,580	17,691	12,409	3,799	16,221	18,902
Reverse repurchase agreements	2,774	2,773				1
Securities borrowing	9,823	9,755				68
Other loans	3,400	3,284	1,711	155	1,939	189
Total due from customers	125,328	34,669	106,213	4,765	49,064	28,745
Other receivables	2,667	2		310		2,355
Total on balance	167,732	71,060	106,213	5,259	63,322	48,522
Total off balance	48,834	454	3,735	551	1,111	45,205
Total credit exposure	**216,566**	**71,514**	**109,948**	**5,810**	**64,433**	**93,727**

		Collateral received				
2008	Carrying amount	Financial instruments	Property, plant & equipment	Other collateral and guarantees	Collateral amounts in excess of *credit exposure* [1)]	Unsecured Exposure
Cash and cash equivalents	9,859	6,748			4,201	7,312
Interest bearing investments	3,464	2,748		169		547
Due from banks	24,272	36,064	33	277	18,986	6,884
Due from customers						
Government and official institutions	1,972			163		1,809
Residential mortgage	66,638	431	86,476	581	23,382	2,532
Consumer loans	3,077	399	79	6		2,593
Commercial loans	41,256	30,901	11,363	3,821	27,652	22,823
Securities borrowing	8,307	8,296		4		7
Other loans [2)]	3,442	3,996	1,430	90	2,173	99
Total due from customers	124,692	44,023	99,348	4,665	53,207	29,863
Other receivables	3,029			446		2,583
Total on balance	165,316	89,583	99,381	5,557	76,394	47,189
Total off balance	55,188	246	1,202	625	156	53,271
Total credit exposure	**220,504**	**89,829**	**100,583**	**6,182**	**76,550**	**100,460**
2007						
Cash and cash equivalents	39,269	10,234		1,372	8,673	36,336
Interest bearing investments	3,029	1				3,028
Due from banks	38,768	32,257	42	163	8,684	14,990
Due from customers						
Government and official institutions	1,780			126		1,654
Residential mortgage	63,835	254	75,907	960	14,822	1,536
Consumer loans	3,104	983	81	13	508	2,535
Commercial loans	40,058	6,127	9,068	2,974	1,642	23,531
Securities borrowing	20,811	20,798	5			8
Other loans [2)]	1,383	3,487	(1,063)	367	1,881	473
Total due from customers	130,971	31,649	83,998	4,440	18,853	29,737
Other receivables	3,435	3		422		3,010
Total on balance	215,472	74,144	84,040	6,397	36,210	87,101
Total off balance	53,583	852	2,320	216	294	50,489
Total credit exposure	**269,055**	**74,996**	**86,360**	**6,613**	**36,504**	**137,590**

1) Collateral and guarantees received in excess of credit exposure equals the aggregated surplus of security received on an individual contract basis.

2) Other loans contains also macro hedging.

Collateral value is determined by means of a prudent valuation approach based on a range of criteria, including the nature and specific type of the collateral, its liquidity and the volatility of its price. It also incorporates the forced sale context in which the collateral would be required to be realised and the degree of priority of Fortis Bank (Nederland) N.V.'s rights.

6.4.9 Management of problem loans and impairments

Problem loans are primarily exposures for which signals have been detected indicating that the counterparty may become impaired in the future.

Problem loans are classified into different risk categories for individual counterparties and arrears buckets for groups of aggregated counterparties in order to optimise monitoring and review of these loans. Problem loans with ratings 18, 19 and 20 according to the Fortis Bank (Nederland) N.V. Master Scale have defaulted and are impaired. Other problem loans are still non-impaired, but will likely be impaired in the near future. The accrued risk profile of impaired loans makes it imperative that the Risk Management function, and in particular the Financial Recovery & Restructuring department, is intensively involved in handling these loans. Other problem loans are as yet non-impaired and closely monitored by the Risk Surveillance Unit.

Past due credit exposure

A financial asset is past due if a counterparty has failed to make a payment when contractually due or if it has exceeded an advised limit or has been advised of a limit smaller than its current outstanding. Financial assets that have reached the ‘90-days past due’ trigger are automatically classified as impaired.

The table below provides information on the ageing of past due financial assets not classified as impaired (financial assets that have reached the ‘90-days past due’ trigger are therefore not included).

	Gross carrying amount of assets (excluding impairments)	*< = 30 days past due*	*> 30 days & < = 60 days past due*	*> 60 days past due*	*Total past due*
2009					
Cash and cash equivalents	10,005				
Interest bearing investments	3,078				
Due from banks	26,545				
Due from customers					
Government and official institutions	2,643	74		143	217
Residential mortgage	65,828	631	286	155	1,072
Consumer loans	3,503	193	23	22	238
Commercial loans	34,627	1,367	361	242	1,970
Other	15,860	9	1	7	17
Total due from customers	122,461	2,274	671	569	3,514
Other receivables	2,626	378	34	72	484
Total	**164,715**	**2,652**	**705**	**641**	**3,998**
2008					
Cash and cash equivalents	9,859				
Interest bearing investments	3,464				
Due from banks	24,278				
Due from customers					
Government and official institutions	1,970		26	105	131
Residential mortgage	65,961	740	261	226	1,227
Consumer loans	3,016	74	22	23	119
Commercial loans	40,348	847	201	366	1,414
Other	11,607	5	4	5	14
Total due from customers	122,902	1,666	514	725	2,905
Other receivables	2,982	445	72	80	597
Total	**163,485**	**2,111**	**586**	**805**	**3,502**

	Gross carrying amount of assets (excluding impairments)	< = 30 days past due	> 30 days & < = 60 days past due	> 60 days past due	Total past due
2007					
Cash and cash equivalents	39,268				
Interest bearing investments	3,029				
Due from banks	38,768				
Due from customers					
Government and official institutions	1,779			125	125
Residential mortgage	62,972	758	2	2	762
Consumer loans	2,983	92	24	19	135
Commercial loans	39,663	2,187	163	443	2,793
Other	22,118	19	3	6	28
Total due from customers	129,515	3,056	192	595	3,843
Other receivables	3,422	318	57	80	455
Total	**214,002**	**3,374**	**249**	**675**	**4,298**

Collateral and guarantees received as security for past due but not impaired financial assets are detailed below:

		Collateral Received				
2009	*Carrying amount*	*Financial Instruments*	*Property, plant & equipment*	*Other collateral and guarantees*	*Collateral and guarantees in excess of credit exposure* [1)]	*Unsecured exposure*
Due from customers						
Government and official institutions	216			136		80
Residential mortgage	1,073	1	1,222		205	55
Consumer loans	237	17	78			142
Commercial loans	1,970	142	376	138		1,314
Other loans	18	300			286	4
Total due from customers	3,514	460	1,676	274	491	1,595
Other receivables	484			205		279
Total past due credit exposure	**3,998**	**460**	**1,676**	**479**	**491**	**1,874**
2008						
Due from customers						
Government and official institutions	131			127		4
Residential mortgage	1,226	2	1,266		238	196
Consumer loans	119	3	8	1		107
Commercial loans	1,414	1	322	58		1,033
Other loans	14	92			82	4
Total due from customers	2,904	98	1,596	186	320	1,344
Other receivables	598			370		228
Total past due credit exposure	**3,502**	**98**	**1,596**	**556**	**320**	**1,572**

	Carrying amount	Collateral Received: Financial Instruments	Property, plant & equipment	Other collateral and guarantees	Collateral and guarantees in excess of credit exposure [1]	Unsecured exposure
2007						
Due from customers						
Government and official institutions	125			111		14
Residential mortgage	763	2	854	3	224	128
Consumer loans	135	6				129
Commercial loans	2,794	60	574	19		2,141
Other loans	28	284			262	6
Total due from customers	3,845	352	1,428	133	486	2,418
Other receivables	455			259		196
Total past due credit exposure	**4,300**	**352**	**1,428**	**392**	**486**	**2,614**

1) *Collateral and guarantees received in excess of credit exposure' equals the aggregated surplus of security received on an individual contract basis.*

Impaired credit exposure

A financial asset is classified as impaired if one or more loss events are identified which have a negative impact on the estimated future cash flows related to that financial asset.

Events considered to be loss events include situations where:

- the counterparty is unlikely to pay in full its credit obligations, without recourse by Fortis Bank (Nederland) N.V. to actions such as realising collateral;
- the counterparty has a material credit obligation which is past due for more than 90 days (overdrafts will be considered as being overdue once the customer has exceeded an advised limit or been advised of a limit smaller than that currently outstanding).

In practice, Fortis Bank (Nederland) N.V. classifies loans as impaired in response to a series of obligatory and judgement-based triggers that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Obligatory triggers result in the counterparty being classified as impaired and include bankruptcy, financial restructuring and 90 days past due. Judgement-based triggers include, but are not limited to, elements such as negative equity, regular payment problems, improper use of credit lines and legal action by other creditors. They could – but do not necessarily – result in the counterparty being classified as impaired.

Loan or debt restructuring is the change of one or more terms of an existing loan or debt agreement for economic or legal reasons related to the debtor's financial difficulties. The change can imply, among other things, modification of the repayment schedule and/or interest rate or an addition of sureties or borrowers. In order to limit losses, the change can imply that the creditor grant a concession to the debtor that he would not otherwise consider, e.g. an absolute or contingent reduction of interest rate, debt amount or accrued interest or a combination of the three. A loan or debt restructuring process in itself does not constitute a trigger for changing a loan’s status from impaired to normal; restructured loans or debts therefore retain their impaired status after restructuring. As a consequence, the performing loan portfolio (i.e. non-impaired) contains no material credit exposure with respect to such restructured loans or debts as at 31 December 2009.

Impairment for specific credit risk is established if there is objective evidence that Fortis Bank (Nederland) N.V. will not be able to collect all amounts due in accordance with contractual terms. The amount of the impairment is the difference between the carrying amount and the recoverable amount, i.e. the present value of expected cash flows and the collateral value less selling costs, if the loan is secured.

The table below provides information on impairments and impaired credit risk exposure as at 31 December.

	2009			*2008*			*2007*		
	Impaired outstanding	*Impairments for specific credit risk*	*Coverage ratio*	*Impaired outstanding*	*Impairments for specific credit risk*	*Coverage ratio*	*Impaired outstanding*	*Impairments for specific credit risk*	*Coverage ratio*
Due from banks	168	(55)	32.7%	24	(24)	100.0%	1	(1)	100.0%
Due from customers									
Government and official institutions	3	(2)	66.7%	5	(2)	40.0%	3	(2)	66.7%
Residential mortgages	772	(57)	7.4%	718	(34)	4.7%	888	(24)	2.7%
Consumer loans	159	(66)	41.5%	136	(59)	43.4%	201	(82)	40.8%
Commercial loans	3,512	(1,522)	43.3%	2,218	(1,274)	57.4%	615	(225)	36.6%
Other	166	(26)	15.7%	158	(14)	8.9%	88	(13)	14.8%
Total due from customers	4,612	(1,673)	36.3%	3,235	(1,383)	42.8%	1,795	(346)	19.3%
Other receivables	46	(5)	10.9%	52	(5)	9.6%	18	(5)	27.8%
Total on balance	4,826	(1,733)	35.9%	3,311	(1,412)	42.6%	1,814	(352)	19.4%
Total off balance	445		0.0%	352		0.0%	85		0.0%
Total impaired credit risk exposure	**5,271**	**(1,733)**	**32.9%**	**3,663**	**(1,412)**	**38.5%**	**1,899**	**(352)**	**18.5%**

The increase in impaired credit risk exposure in 2009 reflects the impact of current adverse economic circumstances on the loan portfolio.

The following table provides details on collateral and guarantees received as security for financial assets and commitments classified as impaired:

		Collateral Received				
2009	*Impaired outstanding*	*Financial instruments*	*Property, plant & equipment*	*Other collateral and guarantees*	*Collateral and guarantees in excess of impaired credit exposure* [1)]	*Unsecured exposure*
Interest bearing investments						
Due from banks	168					168
Due from customers						
Government and official institutions	3					3
Residential mortgage	772		770		113	115
Consumer loans	159	1	41			117
Commercial loans	3,512	25	1,165	55		2,267
Other loans	166	309			144	1
Total due from customers	4,612	335	1,976	55	257	2,503
Other receivables	46			30		16
Total on balance	4,826	335	1,976	85	257	2,687
Total off balance	445					445
Total impaired credit exposure	**5,271**	**335**	**1,976**	**85**	**257**	**3,132**

2008	Impaired outstanding	Collateral Received: Financial instruments	Property, plant & equipment	Other collateral and guarantees	Collateral and guarantees in excess of impaired credit exposure [1]	Unsecured exposure
Due from banks	24					24
Due from customers						
Government and official institutions	5			2		3
Residential mortgage	718		1,030		526	214
Consumer loans	136	1	6		2	131
Commercial loans	2,218	1	491	2		1,724
Other loans	158	383			227	2
Total due from customers	3,235	385	1,527	4	755	2,074
Other receivables	52			45		7
Total on balance	3,311	385	1,527	49	755	2,105
Total off balance	352					352
Total impaired credit exposure	**3,663**	**385**	**1,527**	**49**	**755**	**2,457**
2007						
Due from banks	1					1
Due from customers						
Government and official institutions	3				(1)	2
Residential mortgage	888	4	1,109	25	276	26
Consumer loans	201	4	6		1	192
Commercial loans	615		197	4		414
Other loans	88	153		(1)	67	3
Total due from customers	1,795	161	1,312	28	343	637
Other receivables	18			13		5
Total on balance	1,814	161	1,312	41	343	643
Total off balance	85		7			78
Total impaired credit exposure	**1,899**	**161**	**1,319**	**41**	**343**	**721**

1) 'Collateral and guarantees received in excess of credit exposure' equals the aggregated surplus of security received on an individual contract basis.

The table below provides information on the duration of impairment, i.e. the period between the first impairment event of the financial asset and 31 December.

	< 1 year impaired	*> 1 year < 5 years impaired*	*> 5 years impaired*	*Total*
2009				
Cash and cash equivalents				
Interest bearing investments				
Due from banks	152	16		168
Due from customers				
Government and official institutions			3	3
Residential mortgage	412	261	99	772
Consumer loans	95	53	11	159
Commercial loans	1,469	1,965	78	3,512
Other	101	62	3	166
Total due from customers	2,077	2,341	194	4,612
Other receivables	39	7		46
Total on balance	2,268	2,364	194	4,826
Total off balance	357	73	15	445
Total impaired credit exposure	**2,625**	**2,437**	**209**	**5,271**

	< 1 year impaired	*> 1 year < 5 years impaired*	*> 5 years impaired*	*Total*
2008				
Cash and cash equivalents				
Interest bearing investments				
Due from banks	24			24
Due from customers				
Government and official institutions	2	3		5
Residential mortgage	604	113	1	718
Consumer loans	86	47	3	136
Commercial loans	1,852	325	41	2,218
Other	150	6	2	158
Total due from customers	2,694	494	47	3,235
Other receivables	51	2	(1)	52
Total on balance	2,769	496	46	3,311
Total off balance	195	157		352
Total impaired credit exposure	**2,964**	**653**	**46**	**3,663**

	> 1 year			
	< 1 year impaired	< 5 years impaired	> 5 years impaired	Total
2007				
Cash and cash equivalents				
Interest bearing investments				
Due from banks	1			1
Due from customers				
Government and official institutions		3		3
Residential mortgage	620	268		888
Consumer loans	147	52	2	201
Commercial loans	226	334	55	615
Other	73	12	3	88
Total due from customers	1,066	669	60	1,795
Other receivables	16	2		18
Total on balance	1,083	671	60	1,814
Total off balance	22	62	1	85
Total impaired credit exposure	**1,105**	**733**	**61**	**1,899**

Write-offs are based on Fortis Bank (Nederland) N.V.'s latest estimate of its recovery and represent the loss that Fortis Bank (Nederland) N.V. considers it will incur. Conditions for write-off may be that the obligor's bankruptcy proceedings have been finalised and securities have been exhausted, the obligor and/or guarantors are insolvent, all normal recovery efforts have been exhausted, or the economic loss term (i.e. the term within which all expenses will exceed the amount of recovery) has been reached.

Incurred but not reported impairments

Incurred but not reported (IBNR) impairments on loans represents losses inherent in components of the performing loan portfolio that have not yet been specifically identified.

The scope of the calculation of the IBNR impairments covers all financial assets found not to be individually impaired from the categories Due from customers, Due from banks and Trade Receivables. All related off-balance items such as unused credit facilities and credit commitments are also included.

The IBNR calculation combines the Basel II concept of expected loss on a one-year time horizon with intrinsic elements such as incubation period, macroeconomic factors and expert views.

6.5 Market risk

Market risk is the potential for loss resulting from unfavourable market movements, which can arise from trading or holding positions in financial instruments. Market risk can come from many different sources, including:

- interest rate fluctuations that affect bonds and other fixed-income assets;
- change in price level of securities which affect the value of trading and investment portfolios;
- foreign exchange fluctuations that affect future non-hedged cash flows;
- changes in volatility of interest rates or prices of security that affect the values of options or other derivatives;
- prepayment risk, deposit runs or other adverse customer behaviour linked to the evolution of market factors.

Market risk is broken down into two types: ALM risk and trading risk, depending on the purpose of the position taken. Positions taken with the aim of making short-term profit retain to trading risk; all other positions are addressed under ALM risk.

ALM Risk: the risk that the market value of assets net of liabilities decreases due to changes in interest rates, equity markets, foreign exchange rates or other market factors. The market value of assets, net of liabilities, is measured as an economic view of the company's equity. A decrease in the market value of assets net of liabilities directly decreases a company's total value, even if it does not suffer any losses on an earnings or cash-flow basis.

Trading risk: a trading portfolio is exposed to various sources of risk arising from changes in interest rates, foreign exchange rates, equity prices and commodity & energy prices, volatilities, spreads (bid/offer), credit spreads, dividend levels or other tradable characteristics. Trading risk is the risk of not anticipated change in the total value of the trading portfolio in response to fluctuations in these risk factors.

6.5.1 ALM risk

ALM risk management

The mission of the ALM function is to support, on an accurate and timely basis, management's understanding of market risk exposures undertaken in Fortis Bank (Nederland) N.V.'s balance sheet. This includes applying the concept of global limits to all types of market risk related to the balance sheet. ALM risk focuses on changes in value and earnings due to the volatility in interest rates, exchange rates and share prices. ALM risk does not take into account volatility in real estate prices and volatility in credit spreads.

The ALM team operates centrally and is organised around four pillars: data gathering, modelling and measuring analysis, reporting and transfer price. The ALM team's main responsibilities are:

- to establish a framework for risk management and control of all the banking activities with an inherent market risk;
- to ensure that global asset allocation is consistent with the strategy;
- to apply the concept of global limits to all types of market risk related to the banking book;
- to define the methodology for setting internal transfer pricing and to apply it to the different banking businesses.

ALM assesses the full balance sheet each month receiving all cash flows within the bank. A dedicated ALM programme calculates the different measures including a range of exception reports. All changes in cash flows in a single month can be monitored to support full understanding of the position in comparison with previous years. Based on the analysis of the current position, expected changes in future position, targets set by the Asset & Liability Committee and based on economic assumptions the ALM department will advise on hedge transaction within a fixed set of on- and off balance instruments to continuously steer the position within the set targets. The Operational ALCO is the main body to supervise the execution of the transaction needed for managing the position.

ALM risk assessment

ALM risks are evaluated, monitored and reported according to the following types of sub-risk: interest rate risk, foreign exchange risk (also referred to as currency risk) and equity securities risk.

The four main sources of interest rate risk are:

- reprising risk, due to a mismatch of interest rate reprising between assets and liabilities (usual mismatch);
- changes in the structure of yield curves (parallel, flattening or steepening shifts);
- basis risk resulting from the imperfect correlation between different reference rates (for example swap rates and government bond yields);
- options, certain financial instruments carry embedded options (hidden or explicit) that will be exercised depending on movements in interest rates.

All figures in this section are before taxation.

ALM risk measurement, monitoring and reporting

Interest rate risk

Fortis Bank (Nederland) N.V. measures, monitors and controls its ALM interest rate risk using the following indicators:

- cash flow gap analysis;
- duration of equity;
- interest rate sensitivity of the market value of equity;
- Value-at-Risk (VaR);
- Earnings-at-Risk (EaR).

Duration of equity is an important indicator in managing interest rate risk. As duration measures the sensitivity of a parallel shift of the yield curve, the other indicators are used to measure other developments of the yield curve. Besides steering the value of equity, this also implies taking account of the developments in net income. This also motivates additional measures, such as preventing an increase in long-end positions on the curve.

Cash flow gap analysis

This illustrates the profile of the interest rate exposure over time and is used to quantify and compare interest rate-sensitive asset and liability exposures by different time buckets. The cash flow gap highlights the mismatch between asset and liability exposures at different maturities.

The tables below show Fortis Bank (Nederland) N.V.'s exposure to interest rate risk. The interest-sensitivity gap for a given time period is the difference between the amounts to be received and the amounts to be paid in that period.

Within Fortis Bank (Nederland) N.V.'s activities, cash flows of assets and liabilities are classified by expected repricing or maturity date, whichever is earlier. For assets and liabilities without maturity, the projected cash flows reflect the interest rate-sensitivity of the product. Liability products without maturity such as savings and current accounts have a significant part of the outstanding volume that is stable on a long-term basis and considered to be long-term funding. The derivatives are principally used to reduce Fortis Bank (Nederland) N.V.'s exposure to interest rate changes. Their fair value is reported separately in the table.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing Fortis Bank (Nederland) N.V.'s exposure to changes in interest rates.

	<1 month	*1-3 months*	*3-12 months*	*1-3 years*	*3-5 years*	*5-10 years*	*>10 years*
At 31 December 2009							
Banking							
Assets	107,743	17,426	88,534	26,835	17,821	33,087	13,406
Liabilities	(101,287)	(21,272)	(83,207)	(36,136)	(21,141)	(25,201)	(11,910)
Gap Assets - Liabilities	6,456	(3,846)	5,327	(9,301)	(3,320)	7,886	1,496
Derivatives	5,779	(7,548)	(5,037)	6,865	4,486	(3,863)	(664)
Total Gap	**12,235**	**(11,394)**	**290**	**(2,436)**	**1,166**	**4,023**	**832**
At 31 December 2008							
Banking							
Assets	103,781	23,331	67,852	30,457	26,531	32,226	17,002
Liabilities	(105,369)	(32,230)	(64,820)	(33,744)	(23,345)	(25,498)	(12,919)
Gap Assets - Liabilities	(1,588)	(8,899)	3,032	(3,287)	3,186	6,728	4,083
Derivatives	1,741	612	(955)	2,149	(347)	(767)	(2,453)
Total Gap	**153**	**(8,287)**	**2,077**	**(1,138)**	**2,839**	**5,961**	**1,630**
At 31 December 2007							
Banking							
Assets	131,035	4,651	28,960	7,302	7,335	12,468	5,477
Liabilities	(134,578)	(6,644)	(27,744)	(8,425)	(5,979)	(4,889)	(1,838)
Gap Assets - Liabilities	(3,543)	(1,993)	1,216	(1,123)	1,356	7,579	3,639
Derivatives	8,940	(1,482)	(4,906)	2,267	1,039	(3,115)	(2,691)
Total Gap	**5,397**	**(3,475)**	**(3,690)**	**1,144**	**2,395**	**4,464**	**948**

A positive or negative amount means a net receiving (paying) position in this time bucket. As more liabilities than assets are repriced in the short term, the derivatives position has a risk-reducing effect on the total gap. The significant gap of EUR 12,236 million (< 1 month) and EUR (11,394) million (1-3 months) partly compensate each other. For a more detailed explanation of the gap see note 5.2.2.

Duration of equity

Duration is a measure of the average timing of cash flows from an asset or a liability portfolio. It is computed on the basis of the market value (MV) of the cash flows (principal and interest). The MV is calculated based on the IRS curve.

Duration of equity measures Fortis Bank (Nederland) N.V.'s consolidated interest rate sensitivity. It is measured as the difference between the market value of the future weighted cash flows generated by the assets and the market value of the future weighted cash flow from the liabilities. The duration of equity is an overall indicator of the mismatch in duration of assets and liabilities.

The following table shows the absolute mismatch between the weighted durations of assets and liabilities of the Market Value for Fortis Bank (Nederland) N.V.

	31 December 2009	*31 December 2008*	*31 December 2007*
Duration of equity (in years)	5.0	14.2	5.3

Duration at the end of 2008 increased in line with the transfer of the stake in RFS Holdings to the Dutch State. During 2009 the duration was steered in the 5-9 year range in line with ALCO limits.

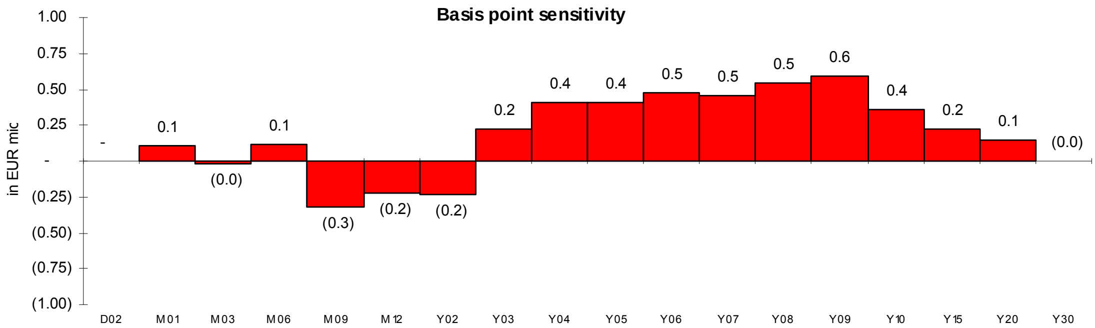
As per 31 December 2009 the target range for duration of equity set by ALCO is between 6 and 7 years.
Fortis Bank (Nederland) N.V. expects the duration of equity to be at the lower target level by the end of January 2010.

Interest rate sensitivity of the market value of equity

This approach consists of applying stress tests of +/- 100 basis point (bp) to the fair value of an instrument or portfolio. The table below shows the impact of an approximate 100 bp parallel shift in the yield curve on the market value of equity, i.e. the market value of all assets minus the market value of all liabilities. A 100 bp parallel shift up results in a decrease of the market value of equity by EUR 367 million.

	+100 bp	*-100 bp*
Interest rate sensitivity	367	(367)

The sensitivity is also calculated for the different tenors of the yield curve. The resulting basis point sensitivity indicates the value change of the market value of equity when a specific tenor changes one bp. This profile is used to assess the sensitivity when yield curves do not shift in parallel.



Value-at-Risk (VaR)

VaR is a statistical estimation that quantifies a possible maximum loss for a given probability and time horizon. Value-at-Risk is synonymous with money at risk and capital at risk. In principle, this concept could apply to all types of risks.

The table below shows the maximum loss in the event of a worst-case scenario[12] given a Value-at-Risk model (on a timeframe of two months and a confidence interval of 99%). This implies there is a 99% chance that the decrease in market value as a consequence of interest changes the next two months is less than EUR 186 million.

Interest-rate risk	186

Earnings-at-Risk

Earnings-at-Risk measures the sensitivity of future IFRS net income to hypothetical adverse changes in interest rates or equity market prices. Earnings-at-Risk assesses the impact of stress tests on the projected IFRS net income before tax.

	31 December 2009
+100 bp	-100
-100 bp	100

An upward parallel shift of 100 bps results in a decrease of net interest income of EUR 100 million. Within Fortis Bank (Nederland) N.V., the interest margin in the earnings at risk simulation is calculated with a constant duration of equity over the whole year. Earnings sensitivity at year-end 2009 was reduced significantly as a result of the debt-to-equity swap with the Dutch State. The sensitivity of the 'Treasury & Trading' position is not within the ALM scope.

12) *Worst-case scenarios are based on assumptions linked to a probability distribution which takes into account 10-year historical observations.*

Currency risk
Currency risk stems from a change in the exchange rate of that currency to the functional currency of Fortis Bank (Nederland) N.V. (Euros).

No currency risk is taken in the ALM position due to the application of the following principles:
- Loans and bond investments in currencies other than the functional currency of Fortis Bank (Nederland) N.V. must be hedged by a funding in the corresponding currency.
- Participating interests in currencies other than the functional currency of Fortis Bank (Nederland) N.V. must be hedged by a funding in the corresponding currency. Fortis Bank (Nederland) N.V.'s policy for its activities is to hedge via short-term funding in the corresponding currency where possible. Net investment hedge accounting is applied.
- The results of branches and subsidiaries in currencies other than the functional currency of Fortis Bank (Nederland) N.V.'s activities are hedged on a regular basis (monthly or quarterly).

Exceptions to this general rule must be approved by the ALCO. In 2009 Fortis Bank (Nederland) N.V. had no exceptions.

ALM risk – stress testing
When markets experience sudden, exceptional, or catastrophic events, a stress analysis is required in order to evaluate the underlying risk. ALM has developed a scenario analysis programme to identify and estimate various stressed market to market scenarios and their potential impact on the balance sheet value and on earnings.

Stress scenario analysis is performed on a quarterly basis for both Earnings and Value Reporting. There are no formal limits in place based on these factors. ALM currently looks at the market risk of the banking book of the balance sheet: interest rate risk, currency risk and equity risk in the banking book.

ALM therefore designed its stress tests only on the basis of these three underlying risks. Precise volatility has not been integrated into the scope.

With a view to managing its risks effectively, Fortis Bank (Nederland) N.V. analyses the results of its internal measurement systems, expressed in terms of the change in economic value relative to capital, using a standardised interest rate shock.[13] The standardised stress test reflects only a rough estimation of the risks of the balance sheet.

ALM internal models for stress tests
Fortis Bank (Nederland) N.V. has designed a common set of stress scenarios based on an internal model and a common methodology to all the different entities of Fortis Bank (Nederland) N.V. The stress scenarios are based on a quantitative backward-looking model, taking into account six interest rate scenarios, in conjunction with moves in foreign exchange rates and equity market.

13) *Fortis Bank (Nederland) N.V. also provides these results to the regulators in order to facilitate supervisors' monitoring of interest rate risk exposures across institutions.*

ALM risk – risk mitigating strategies

Within Fortis Bank (Nederland) N.V., interest rate risk is mitigated using a range of different instruments, the most important of which are derivatives, primarily interest rate swaps and options. Interest rate swaps are used to change the linear risk profile caused mainly by long-term assets such as fixed-rate mortgages and long-term liabilities, e.g. subordinated liabilities. Options are used to reduce the non-linear risk, which is caused mainly by embedded options sold to clients, e.g. caps and prepayment options.

As a result of a hedge, the economic impact of changes in the hedged item's net present value (NPV), caused by changes in the appropriate benchmark interest rate curve, is reduced by offsetting changes in the NPV of the hedging derivative financial instrument.

The risk being hedged is the interest rate risk, specifically fair value changes of fixed rate assets and liabilities due to changes in the designated benchmark interest rate. The designated interest rate is the rate prevailing in the hedging instrument. Any change in fair value of the hedged item due to credit risk above that inherent in the hedging instrument are excluded from the hedged risk.

Due to the strict rules governing the use of hedge accounting, not all economic hedges covering Fortis Bank (Nederland) N.V. interest rate risk exposure qualify as hedges under IFRS. For example, options used for economic hedging do not qualify as hedges. This means that, although an economic hedge exists, for accounting purposes Fortis Bank (Nederland) N.V. will bear the impact of the changes in the fair value of these options in profit or loss. This is the case, for example, for floating-rate mortgages where the caps are hedged using options. The fact that these options do not qualify as hedges under IFRS will lead to additional accounting volatility in profit or loss.

The table below gives an overview of the portfolio hedge accounting applied to ALM positions at year-end 2009. The notional amounts, market to market values and the basis point sensitivities for the hedged items (mortgages) and the hedging instruments (payer swaps) are shown.

	Hedged Risk	*Hedging instruments*
Notional amounts	65,515	36,934
Base point sensitivity	(23.7)	23.3

The ALM derivatives position at 31 December 2009 was characterised by a potential impact of EUR 23.6 million (before taxation) by a 1-bp yield curve shift. Portfolio hedging reduced most of this profit or loss volatility. During 2009 a value change for derivatives of EUR (402) million was mitigated by applying Fair Value hedge accounting.
At year-end 2009 the open derivatives accounting position was EUR 0.3 million (before taxation) for a 1-bp yield shift. The basis point sensitivity of the open accounting position remained stable during 2009. ALM successfully managed to maintain the basis point sensitivity EUR 0.7 million on average, by continuously improving the hedge-relationship between mortgages and derivatives (macro hedge accounting designation). There will, however, always be a certain amount of sensitivity.

A substantial part of the interest rate risk relating to Guaranteed Government Bonds (GGB) was hedged with plain vanilla receiver swaps up to a notional amount of EUR 4.4 billion. The economic hedge resulted in an accounting mismatch with an effect on Income statement of the valuation of the swaps. It was decided to put a micro fair value hedge in place to offset the accounting mismatch between the GGB issue (valued at amortised costs) and the receiver swap (valued at fair value).

6.5.2 Trading risk

Market risk arises from positions that are sensitive to changes in financial market prices and rates, e.g.:

- foreign exchange
- interest rates
- credit spread
- equities
- commodities.

There are two types of market risk, trading risk and ALM risk, depending on the purpose of the positions taken. The scope of this section is limited to trading risk only.

Trading at Fortis Bank (Nederland) N.V. is typically sales driven. About 90% of all trading originates from client demand. Virtually all of Fortis Bank (Nederland) N.V.'s trading activities are centralised at the Global Markets division of the Merchant Bank business line.

Trading risk management

Risk-taking is based on the Fortis Bank (Nederland) N.V. Risk Governance model: risk management organisation, risk policies and risk decision procedures are in place. Independent risk management provides information on a daily basis about trading risk profile to the Merchant Banking Risk Committee ('MBRC'), the ALCO and to the Management Board of Fortis Bank (Nederland) N.V. Integrated risk management systems are used to systematically measure, monitor, report and analyse trading risk.

Trading risk limits follow from Fortis Bank (Nederland) N.V. risk strategy. Set limits are restrictions reflecting the risk tolerance of Fortis Bank (Nederland) N.V., the nature of the bank's trading activities and the bank's perceived trading and management skills. Therefore a limit-setting framework is in place, serving two primary purposes:

- to protect Fortis Bank (Nederland) N.V. capital and earnings;
- to allow traders to take risks in support of customer business and to generate additional earnings.

Limits prevent the accumulation of trading risks beyond Fortis Bank (Nederland) N.V.'s appetite and reflect the mandates of the respective trading units.

Trading risk limits are approved by MBRC/ALCO and ratified by the Management Board. The following set of primary limits applies: Value-at-Risk (VaR), position limits and stress limits. All limits are reviewed at least once a year in connection with the average limit use, past performance, volatility of income and the new budget.

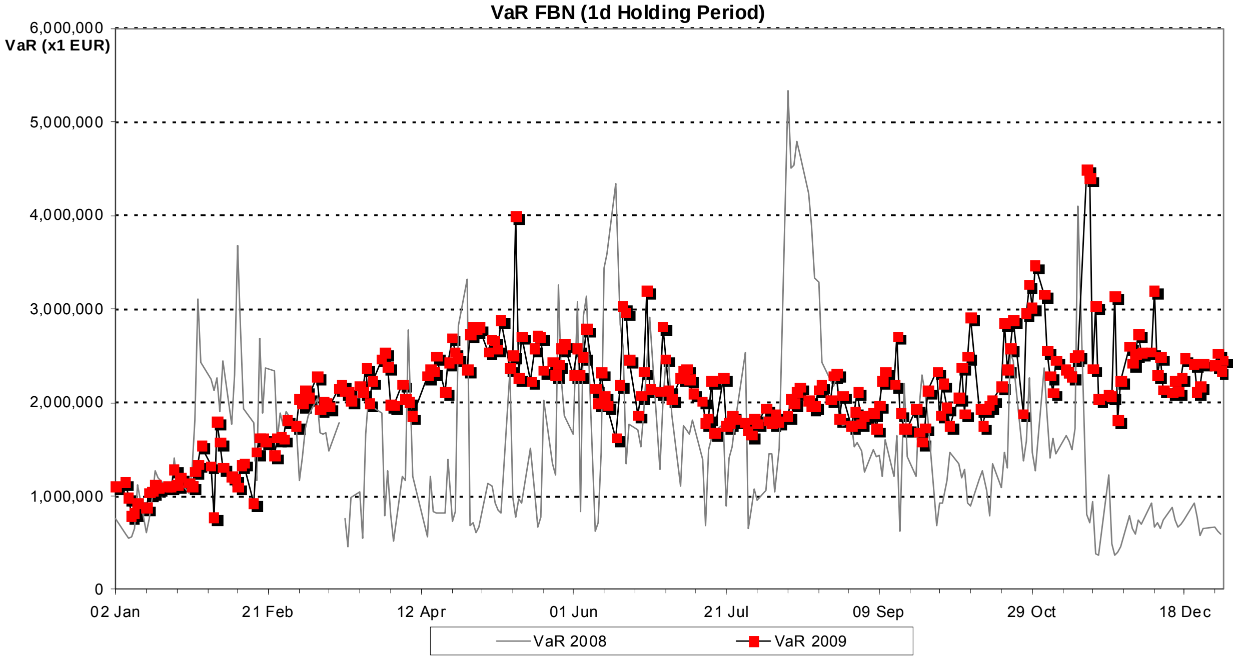
Trading risk measurement and monitoring

Fortis Bank (Nederland) N.V. applies the Value-at-Risk (VaR-method based) historical simulation methodology with full revaluation of derivative products, usually referred to as historical VaR.

To calculate the historical VaR for the majority of products and activities, Risk Management uses a tailor-made system. This system also supports the following trading risk management functions:

- official (end-of-day) Mark to Market (MtM) revaluation;
- stress testing and sensitivity analyses;
- back-testing.

Value-at-Risk including all Risk factors (in EUR)



	2009	2008	2007
VaR as of 31 December	2.5	0.6	0.6
Highest VaR	4.5	5.3	5.6
Lowest VaR	0.8	0.4	0.5
Average VaR	2.1	1.6	1.7

In 2009, Fortis Bank (Nederland) N.V. took on average higher risk exposure than in 2008.

Average VaR has increased due to the following reasons:

- As an immediate consequence of the separation from the Fortis Group, forex and rates trading was added to the legal scope of Fortis Bank (Nederland) N.V. (before separation, these trading activities were performed by the legal entity Forts Bank SA/NV)
- In addition, several new trading activities were introduced in the course of 2009, adding to the aggregated trading risk exposure as well.

The use of historical VaR in the management of trading risk

Historical VaR assuming a 1-day holding period and at a 99% confidence level is monitored in the daily risk reporting and risk limits are imposed on the basis of these numbers.

For the regulatory capital calculation according to the Basel II framework -Internal Models Approach- the VaR calculations are based on a holding period of 10 days. Fortis Bank (Nederland) N.V. addresses this by freezing the portfolio, while scaling the 1-day VaR appropriately to a 10-day holding period for regulatory capital purposes.

The economic capital of Fortis Bank (Nederland) N.V. is based on a VaR relative to a 1-year holding period (obtained by applying a scaling factor of the square root of (250) to the 1-day VaR) and an additional scaling factor to increase the confidence level from 99% to 99.97%. This does not include Event VaR.

The limits framework

Decisions about limits and other risks are taken based on four principles:

- exposures may only result in restricted volatility of income;
- new limits/products/activities must add value to Global Markets performance;
- diversification of revenues;
- limits will only be granted if the exposures under these limits can be determined, monitored and reported by Risk Management.

Trading risk limits are based on:

- a policy of maximising diversification of (market) risk-related activities;
- business focus (trading or client driven);
- type of trading activity (high/low volatility of prices);
- performance diversification effects;
- past performance, volatility of results and budgeted income;
- risk/return ratio;
- risk appetite;
- operational organisation;
- (risk) systems/infrastructure available.

Risk management differentiates between primary and secondary limits.

Primary limits are approved by MBRC/ALCO and ratified by the Management Board.

Defined primary limits:

- <u>VaR</u>: VaR is the statistical estimate of potential loss for a specified holding period and confidence level by Fortis Bank (Nederland) N.V. DNB approved the VaR model. VaR limits are required for each trading activity and must capture all sensitivity risks attached to a particular trading activity;
- <u>Position limits</u>: a set of limits, expressed as the exposure of a position to a shift in interest rates, prices or volatilities (sensitivity). Position limits are required for each trading activity;
- <u>Stress limits</u>*:* Required stress limits are particular to the approved risks taken in the business and typically yield the exposure to combined changes of two or more market variables.

Secondary limits, where all material trading risks are accurately measured and effectively controlled using the primary limits as stated above, additional limits are to be set when:
- prudent risk management requires additional limits and/or monitoring procedures
- additional limits and/or monitoring procedures are required to satisfy regulatory requirements
- practical considerations warrant additional limits and/or monitoring procedures

Primary limits are reviewed at least once a year. The review covers the average limit use, past performance, volatility of income and the new budget.

Primary limits are measured, monitored and reported by Risk Management on a daily basis

Risk Management reports limit excesses promptly to the competent business line CEOs and the Market Risk department within Fortis Bank (Nederland) N.V. Credit & Market Risk division. This department notifies in turn the managing director of the Credit & Market Risk division, Fortis Bank (Nederland) N.V.'s CRO and MBRC/ALCO.

Trading risk stress testing
Historical VaR is a statistical model used to predict possible future profits and losses under normal circumstances. To predict possible outcomes under severe market stress circumstances, Fortis Bank (Nederland) N.V. simulates extreme scenarios.

These extreme scenarios can either be historical or hypothetical. The historical ones can replicate past scenarios and account for situations that were recorded further in the past, e.g. the 1994 bond crisis. The hypothetical scenarios allow Fortis Bank (Nederland) N.V. to simulate new shocks with unforeseen magnitudes. The different scenarios are assessed on a regular basis and, when appropriate, are updated and extended.

Stress testing is an important risk management tool that is used by Fortis Bank (Nederland) N.V. as part of its internal risk management. Moreover, stress testing supplements other risk management approaches and measures. It plays a particular important role in providing forward looking assessments of risk and to overcome the limitations of models and historical data.

The profit or loss figures obtained from the tests are broken down for different levels of detail of the Global Markets trading organisation. Stress testing aims to increase management awareness of the risks (and income statement consequences) attached to extreme, adverse movements of market variables.

As a result, stress testing 'early warning signals' have been set up enabling all stakeholders to:
- have the same approach to the entity's risk appetite;
- be warned simultaneously;
- decide on remedial actions.

If stress testing results exceed the early warning signals, they are considered to be triggers for management action.

Trading risk back testing
Once the VaR has been calculated, the validity of the output is continuously tested. This is done through back testing, where Value-at-Risk forecasts are compared with the calculated market-to-market changes using daily market data variations. The number of outliers is benchmarked with statistical metrics to determine the reliability of the VaR model.
Back testing measures -on a one-year rolling window- the number of losses exceeding the VaR prediction given a confidence interval of 99%. It means that such losses should occur only once every 100 business days. Back-testing analysis revealed that Fortis Bank (Nederland) N.V. achieved this target in 2009.

6.6 Operational risk

All companies including banks are subject to operational risk because of the uncertainty inherent in all business undertakings and decisions. This risk can be broken down into business risk and event risk.

Business risk is the risk of negative pre-tax earnings caused by changes in volumes, margins and costs as a result of reputation risks, strategic risks and sensitivity to external business risk drivers, such as changes in the competitive and economic environment and political risks. Sensitivity to business risk drivers can be mitigated by effective management practices.

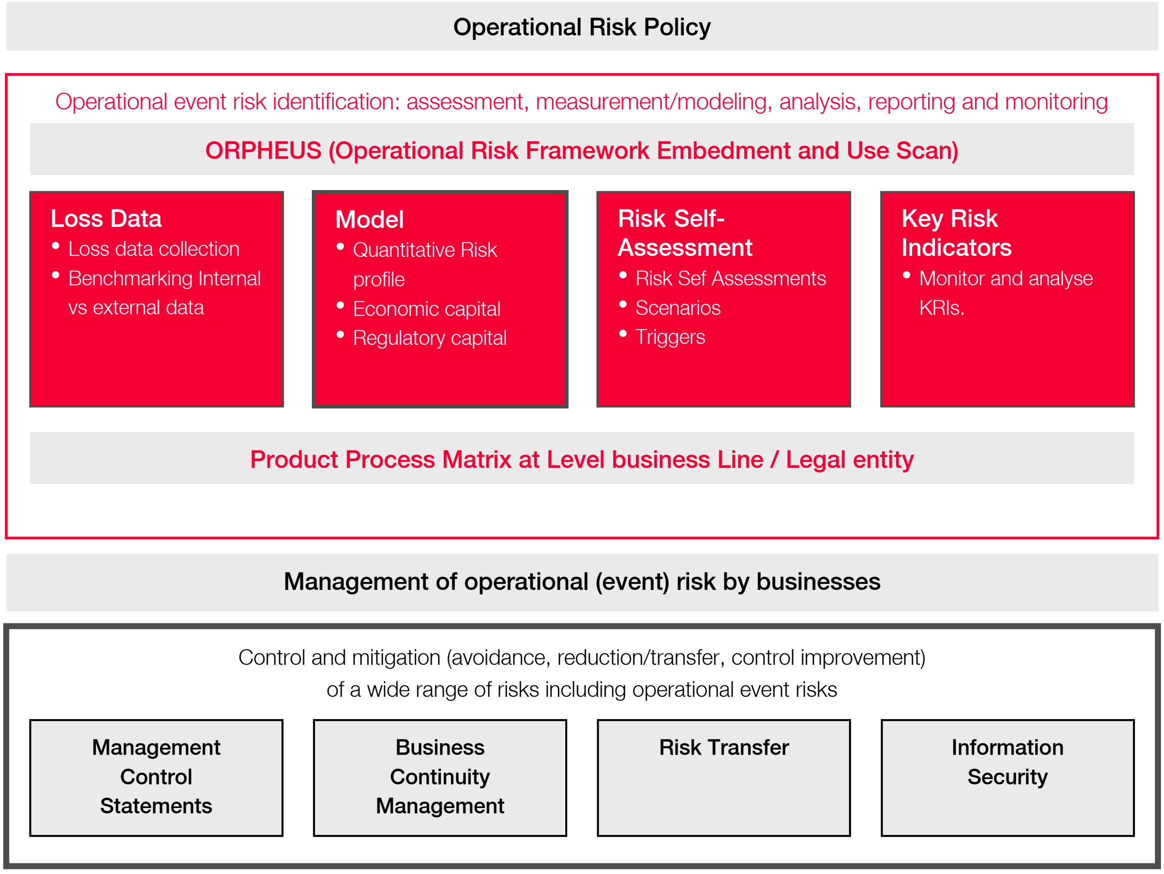
Event risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal and compliance risk, but excludes strategic and reputation risk. Some examples of event risk are wrongful execution of an order, fraud, litigation for non-compliance with law or client specified guidelines, natural disasters and terrorism. Mitigating actions can be risk avoidance, reduction, transfer or improving control.

6.6.1 Operational risk and management control

The operational risk management responsibilities are organised in accordance with the bank’s principle of three lines of defence’. The principles for operational risk responsibilities are outlined below:

- *Businesses*
  In accordance with their role as ‘first line of defence’, businesses hold primary responsibility for managing and mitigating operational risks in their cross-country business. Businesses are responsible for setting up and maintaining effective operational processes. To strengthen their ’first line of defence’, businesses/support functions integrate operational risk management activities in the business processes. To enable effective risk management, second line of defence operational risk managers are also present at local level (on-site, close to the business).
- *Central risk management*
  Central risk management assumes the role as ‘second line of defence’ to ensure that operational risks are identified, assessed, measured, managed and adequately documented across the businesses and to ensure that the operational risk profiles as assessed, measured and managed represent the true risk profile. Central risk management coordinates the implementation of operational risk-related initiatives, and provides support to the businesses on operational risk-related issues. To support businesses and legal entities in their ‘first line of defence’ operational risk responsibilities, Central risk management (in close cooperation with operational risk management in the businesses) provides an Operational Risk & Management Control framework, and develops and implements policies, guidelines and tools. Central risk management helps raise executive management’s awareness and understanding of key operational risks.

The Operational Risk & Management Control Framework is presented in the graph below.



This framework helps the organisation to increase operational risk awareness, monitor operational risk effectively and measure the operational risk profile and associated own fund requirements. To enable such a high-level approach, an all-encompassing Risk Management Organisation and an appropriate Operational Risk Policy have been consistently implemented for the entire bank, at legal entity and at business level. Global and local operational risk managers have been assigned to all bank-related businesses (including support functions) and relevant legal entities.

6.6.2 Operational risk assessment, measurement, reporting and monitoring

The following tools and techniques are used for the effective and efficient identification and management of operational event risks:

- **Loss data collection**: since 2001, the businesses have continuously registered loss data, including causal information, in a central loss database. Central Risk Management monitors the quality, completeness and timeliness of the registered information, analyses loss data and reports on operational losses on a monthly basis;
- **Risk assessments** are applied to assess exposure to operational event risk. Calculation of regulatory and economic operational risk capital is based on these risk assessments. Two forms of risk assessment are applied:
  - Risk Self Assessments (RSA), which focus on the operational processes and are relatively granular. Typically, the risks assessed in RSAs are high frequency / low impact risks. RSAs are held in the form of facilitated business sessions in which subject matter experts participate who, together, are able to assess all significant event risks of the product line or a specific product.
    Both internal and external loss data profiles are taken into account when identifying and quantifying operational event risks during an RSA. Analysis of the business environment and internal control factors is an integral part of the assessment.
    RSAs are conducted at least once per calendar year. In case of significant changes in the organisation, products, processes or systems, the RSAs are reviewed as soon as possible. The business operational risk manager is responsible for organising RSAs and ensuring that all operational activities are covered by RSAs. Central Risk Management performs a quality review on the RSAs and the businesses adopt quality improvement remarks of Central Risk Management.
  - Scenarios, which address operational event risks that surpass the relatively granular level of the RSAs. Typically, the risks assessed through scenarios are low frequency / high impact risks.
    Scenarios are reviewed at least once a year. Developments may occur that require review of a scenario earlier than the scheduled review. The scenarios are discussed and reviewed/approved by the business risk committees and additionally by the management team of Central Risk Management and by the Operational Risk Committee.
- **Key risk indicators (KRIs)** are defined by the businesses. The businesses use the KRIs in day-to-day management to follow up the evolution of operational event risks. The KRIs cover all major event risks that are identified in the RSAs and scenarios;
- **Own fund requirements** are calculated at Fortis Bank (Nederland) N.V. level using a model that complies with the criteria set by the advanced measurement approaches (AMA). Risk Assessment results are used as the primary input to ensure the level of own funds is in line with the organisational and business environment. Centrally calculated own funds requirements are allocated to the legal entities of Fortis Bank (Nederland) N.V. and to the businesses using a risk-sensitive allocation mechanism based on stand-alone operational risk profiles.

Central risk management coordinates reporting processes and is responsible for reporting on event risks and on the operational risk profiles of businesses and Fortis Bank (Nederland) N.V., as described in the Operational Risk & Management Control Framework. Significant operational risks, losses, claims or notifications of claims are reported as soon as they have materialised. Central risk management monitors the actual operational event risk losses versus the budgeted losses and reports on loss evolution to the Operational risk committee. The operational risk profile of the business will be reported to the Business risk committee and the management team of the business; the profile of Fortis Bank (Nederland) N.V. is reported to the Operational risk committee and Management Board.

Periodically, the Business risk committee (for businesses) or management team (for enabling functions) covers all relevant operational risk management issues. The operational risk managers of the businesses and enabling functions liaise on a regular basis on cross-business/enabling function operational risk issues.

Central risk management participates in the Business risk committees and the Operational risk committee. It is responsible for quarterly calculation and allocation of economic and regulatory operational event risk capital requirements to the business lines and legal entities, and reporting on capital requirements to the Management Board, to the Operational risk committee and to other relevant parties. The calculation is based on risk assessment data that are validated by the operational risk managers of the businesses. Central risk management ensures that an adequate level of regulatory and economic capital is calculated that needs to be held against operational event risks.

In addition to the focus on operational event risk, business risk (including strategic and reputation issues) is also within the scope of Operational risk & management control. However, event risk and business risk – and thus their management – are intertwined:

- methods of risk assessment, control assessment and remediation of weaknesses are similar;
- results of the operational (event) risk self-assessments serve as input for the risk assessment performed by senior management, as part of the annual management control statement procedure that is coordinated by Central risk management.

6.6.3 Operational control and mitigation

Fortis Bank (Nederland) N.V. has a variety of instruments to control and mitigate operational risk. Risk assessments, loss data analysis and key risk indicator movements enable the formalisation of actions to further control operational risks. These actions often relate to organisational and process context. Centrally coordinated operational risk mitigation techniques are business continuity management, information security measures, risk transfer measures and management control statements.

6.6.3.1 Business continuity management

Business continuity management (BCM) is a management process that identifies potential threats to an organisation and the impacts on business operations that those threats, if realised, might have, and that provides a framework for building organisational resilience with the ability to produce an effective response that safeguards the interests of its stakeholders, reputation, brand and value-creating activities.

As a financial services organisation, Fortis Bank (Nederland) N.V. acknowledges the importance of BCM. The bank's approach to this issue is described in the Business Continuity Management Policy,which is compliant with Dutch BCM regulations and is based on international regulations and best practice guidelines as issued by:

- Basel Committee on Banking Supervision: High Level Principles for Business Continuity;
- The Business Continuity Institute: Good Practice Guidelines (BCI GPG);
- The British Standards Institute.[14]

The Scope of BCM at Fortis Bank (Nederland) N.V. is:

- Internal: Fortis Bank (Nederland) N.V. in all its dimensions (i.e. all businesses and support functions, all countries, all legal entities and subsidiaries);
- External: any third parties that process Fortis Bank (Nederland) N.V. information or provide other vital services or products that support mission-critical Fortis Bank (Nederland) N.V. services (external outsourcing).

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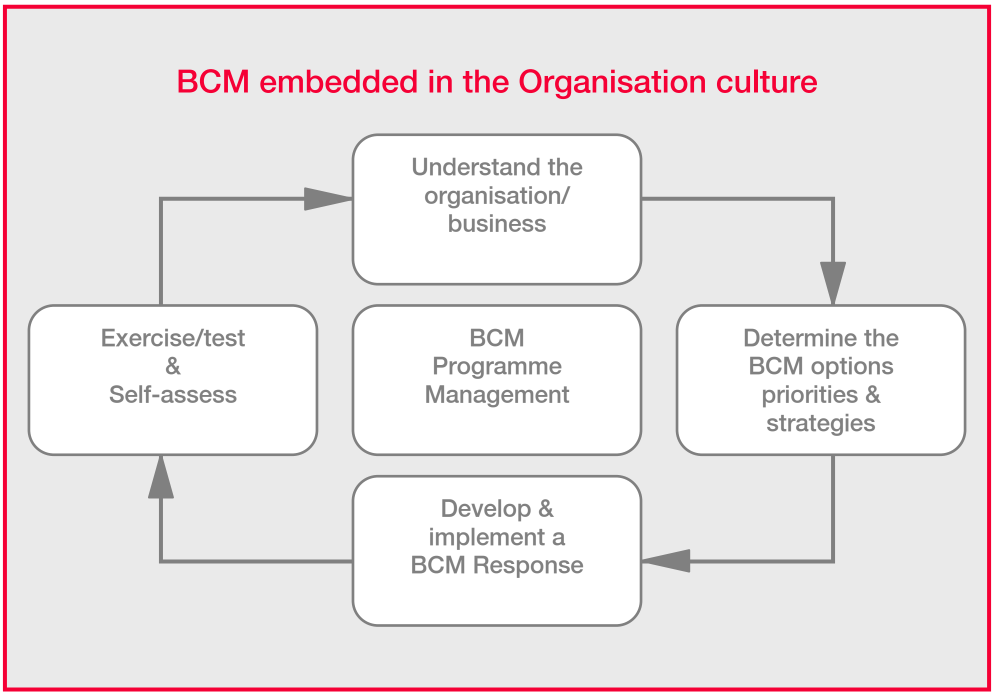
14) The Publicly Available Standard 56: Guide to Business Continuity (PAS 56) and the Standard BS25999-1: Code of Practice for Business Continuity Management.

The Fortis Bank (Nederland) N.V. BCM approach entails the following steps:



The Fortis Bank (Nederland) N.V. BCM approach is embedded in the organisational culture and implemented and maintained by BCM programme management, appropriate to the nature, size and complexity of the respective Fortis Bank (Nederland) N.V. businesses to which it applies.

Information about the organisation's critical services and the activities and resources required to deliver these services are subjected to business impact analysis and risk analysis in order to understand what is happening within the organisation.

Once BCM options and strategy are determined, a range of strategic and tactical options can be evaluated. This allows an appropriate response to be chosen for each critical service, so that Fortis Bank (Nederland) N.V. can continue to deliver these services at an acceptable level of operation during and following any disruption. The choices will take cognisance of the resilience and countermeasures already present at Fortis Bank (Nederland) N.V.

These actions result in the creation of a BCM response including plans that detail the steps to be taken to resume activities before, during and after an incident.

Business Continuity Plan

Crisis Management Plan	Business Recovery Plan(s)	Disaster Recovery Plan(s)

(What plans, process and organisational recovery structure does FBN have in place to manage a crisis and/or recover from a disaster within the set objectives?)

Recovery Solutions

(What does FBN have in place as technical recovery resources to ensure continuity of internal activities and internally outsourced activities?)

Recovery Solutions

(What contractual BCM arrangements have been put in place with third parties to ensure continuity of externally outsourced activities?)

Fortis Bank (Nederland) N.V. needs to be able to demonstrate that its strategies and plans are effective, credible and suitable for their purpose by exercising, testing and self-assessing the BCM response.

Defining and updating the Business Continuity Management Policy is the responsibility of the Corporate Continuity officer (CCO), who reports hierarchically to OR&MC. Formal approval and prioritisation are delegated by the Management Board to the Operational risk committee (ORC).

The Operational risk committee has specifically delegated tasks to the *Automatiseringscommissie* (IT Committee) to make available the required IT resources and to the Information Security and Business Continuity (ISBC) Implementation Board, comprising senior managers from the businesses and support functions, to manage policy implementation at strategic level. Fortis Bank (Nederland) N.V. has achieved this by setting up several key projects to drive business continuity improvement. The CCO is responsible for overall coordination, supporting business lines and support functions and the monitoring of business continuity at Fortis Bank (Nederland) N.V. through the ISBC Implementation Board.

Fortis Bank (Nederland) N.V. has a Business Continuity Team (BCT) in place that is chaired by the COO of the Management Board. A Business Continuity Support (BCS) team in OR&MC supports the Business Continuity Team. The BCS supports the BCT during crisis situations in order to accomplish an efficient response. Each of the bank's business and support functions has a business continuity organisation in place. The businesses and support functions have crisis management teams that are responsible for maintaining and testing the business continuity plan of their business or function. These teams are regularly trained to cope with crisis situations.

On the basis of information received from the businesses and support functions, the BCS creates an overview and reviews / monitors the Business Continuity organisation, implementation, testing, incidents and residual risks. The BCS enhances the resilience of Fortis Bank (Nederland) N.V. by organising training.

Management devotes attention to pandemic risks such as swine flu, providing a detailed view on the time and workload resistance of critical activities, vulnerability to external suppliers, and overall measures to be taken.

6.6.3.2 Information security

For a financial services provider like Fortis Bank (Nederland) N.V., information is critical. Financial services are knowledge- and information-intensive and reliable information is essential to the bank's success. Information must therefore be protected at all times against a wide range of threats. Fortis Bank (Nederland) N.V. does this by establishing a structured information security approach to assure the confidentiality, integrity and availability of information.

The Fortis Bank (Nederland) N.V. Information Security Policy defines the organisational framework, management and staff responsibilities and the information security directives that apply bank-wide and to third parties with whom the bank exchanges information. Furthermore, Fortis Bank (Nederland) N.V. extracts specific information security controls from existing international best practices like ISO/IEC 27001 and ISO/IEC 17799 – 2005.

Businesses and support functions pursue the Fortis Bank (Nederland) N.V. Information Security Policy on a 'comply or explain' basis. Defining Information Security strategy and policy is the responsibility of the Corporate Information Security Officer (CISO) who reports functionally to OR&MC. Formal approval and prioritisations are delegated by the Management Board to the Operational Risk Committee (ORC). The strategy for implementing policy utilises existing best practices at Fortis Bank (Nederland) N.V. as much as possible.
The Operational Risk Committee has specifically delegated tasks to the *Automatiseringscommissie* (IT Committee) to make available the required IT resources and to the Information Security and Business Continuity Implementation Board, comprising senior managers from the businesses and support functions, to manage policy implementation at strategic level. Fortis Bank (Nederland) N.V. has achieved this by setting up several key projects to drive information security (e.g. identity management, asset management, access control and security awareness) The CISO is responsible for overall coordination, supporting business lines and support functions and the monitoring of information security at Fortis Bank (Nederland) N.V. through the ISBC Implementation Board.

6.6.3.3 Risk transfer through insurance

Fortis Bank (Nederland) N.V. recognises insurance as a valid instrument for transferring the effects of operational risk to the external market. Central Risk Management coordinates this insurance centrally and handles the transfer of specific event risks such as financial losses due to fraud, computer crime, professional liability and personal liability.

In line with industry practices, Fortis Bank (Nederland) N.V. purchases the following insurance policies from third-party insurers:

- Combined Bankers Blanket Bond, Computer Crime and Professional Liability Insurance
- Directors and Officers Insurance

6.6.3.4 Management control statements (MCS)

In keeping with industry practice Fortis Bank (Nederland) N.V. has a process in place by which senior management of the whole of Fortis Bank (Nederland) N.V. analyse and report on the effectiveness of internal control (in a broad sense) and define necessary actions to remedy any significant failings or weaknesses in the internal risk control process. Assessments of event risk and business risk are input for this process, in addition to information regarding other types of risk, reports by Compliance and Audit, etc.

Based on this risk assessment, management teams sign their management control statements and formulate action plans (when necessary) to improve management/control. The MCS is confirmed at year-end of the functioning of the risk management and internal control system during the year. Central Risk Management coordinates quarterly reporting on the follow-up to those action plans.

7 Supervision and solvency

As a financial institution, Fortis Bank (Nederland) N.V. is subject to prudential supervision by the Dutch central bank (DNB).

7.1 Supervision

Prudential supervision includes the verification on a monthly basis that Fortis Bank (Nederland) N.V. ensures the availability of own funds at least equal to the sum of the solvency requirements. The elements of own funds and the solvency requirements for the banking activities are calculated in accordance with the corresponding sector rules. Fortis Bank (Nederland) N.V. met all requirements in 2009, 2008, and 2007.

7.2 Solvency

The on- and off balance sheet credit commitments and the bank's trading positions are weighted according to the level of risk involved (risk weighted commitments). The minimum requirement for core capital (Tier 1) is 4%, while total qualifying capital must be maintained at a minimum of 8% of risk weighted commitments.

	2009	*2009*	*2008*	*2008*	*2007*	*2007*
	Basel II	*Basel I*	*Basel II*	*Basel I*	*Basel II*	*Basel I*
Credit risk	34,856	65,881	39,459	69,737	44,004	74,677
Operational risk	8,056		6,161		4,396	
Country risk		821		921		725
Market risk	460	460	274	274	448	448
Total Risk weighted commitments	**43,372**	**67,162**	**45,894**	**70,932**	**48,848**	**75,850**
Financial ratios						
Tier 1 ratio	15.3%	10.0%	11.1%	7.4%	47.6%	11.2%
Total capital ratio	20.4%	13.4%	16.6%	11.2%	17.2%	11.2%
Basel II including Transitional Floor						
Transitional floor (% of Basel I RwC)	80.0%		100.0%		100.0%	
Tier 1 ratio	12.5%		7.4%		11.2%	
Total capital ratio	16.7%		11.2%		11.2%	

In 2009 DNB declared Fortis Bank (Nederland) N.V. to be compliant for reporting its required capital based on the most advanced calculations of the own funds requirements under Basel II. Fortis Bank (Nederland) N.V. may continue to apply the Advanced Internal Ratings Based Approach (AIRBA) to credit risk, the Advanced Measurement Approach (AMA) to operational risk for the majority of the bank's portfolio, and Value-at-Risk to market risk.

One of the conditions set by DNB is that some of the probability of default models can be used internally in risk management processes, but the associated capital requirement should at least be equal to the capital requirement calculated under the Standardised Approach. This results in an increase of required capital of EUR 108 million and an add-on in RWA of EUR 1.4 billion.

Separation and integration temporarily require EUR 221 million of additional capital. In addition, changes in the way securitised mortgages held on balance are calculated resulted in a permanent additional capital requirement of EUR 64 million.

DNB also reduced the capital floor it imposed on Fortis Bank (Nederland) N.V. in 2008 of 100% of Basel I to a capital floor of 80% of Basel I. This corresponds to the transitional arrangements for solvency requirements under Basel II.

On 31 December 2009, Fortis Bank (Nederland) N.V. reported a solvency ratio of 16.7% and a Tier 1 ratio of 12.5% under Basel II including the application of the transitional floor set at 80%.

The reconciliation of Total equity to Tier 1 capital is shown in the table below.

	2009	2008	2007
Total equity	**4,722**	**3,019**	**22,418**
(Non-)innovative hybrid capital instruments	2,081	2,435	2,427
Minority interests	(2)	(2)	(392)
Participations in financial institutions	(5)	(5)	(15,287)
Intangible assets	(128)	(162)	(193)
Expected dividend			(400)
Other deductions	42	(14)	(110)
Tier 1 capital (Basel I)	**6,710**	**5,271**	**8,463**

Capital management

Fortis Bank (Nederland) N.V.'s regulatory capital is broken down into two Tiers, Tier 1 capital and Tier 2 capital.

Tier 1 capital

Tier 1 capital is composed of shareholders' equity, minority interests, non-innovative Tier 1 capital, and innovative Tier 1 capital instruments after deduction of the elements mentioned below.

Shareholders' equity consists of share capital, share premium reserve, unrealised gains and losses, reserves and net profit attributable to shareholders. The unrealised gains and losses are excluded from Tier 1 capital computation except for the unrealised losses on available-for-sale equities which are fully deducted from Tier 1 capital.

Minority interests reflect the equity of minority shareholders in a subsidiary.

DNB allows in its common equity non-innovative hybrid instruments such as profit-sharing certificates. Those non-innovative instruments must meet the criteria set by DNB including the requirements that they must be permanent and should have a loss absorption capacity similar to shares.

Innovative Tier 1 instruments are deeply subordinated debt instruments, senior only to shareholders' equity and non-innovative Tier 1 debt. They do not have a maturity date and have a relatively high capacity for loss absorption. They must also meet strict rules predefined by DNB.

Outstanding (non-)innovative Tier 1 instruments at Fortis Bank (Nederland) N.V. are:

- Non-cumulative non-voting perpetual preference shares;
- Non-voting preference shares.

Tier 2 capital

Tier 2 capital is subdivided into upper Tier 2 and lower Tier 2 capital. Upper Tier 2 capital consists of debt instruments with an indefinite term (i.e. cumulative preference shares) and other financial instruments that meet certain specified criteria such as 90% of positive revaluations on available-for-sale equities (after tax). Lower Tier 2 capital consists of other long-term subordinated liabilities that meet certain specified criteria and (cumulative) preference shares with a fixed term (not available within Fortis Bank (Nederland) N.V.).

Deductions from Tier 1 and Total Capital

Regulators apply deductions and prudential filters to Tier 1 capital. The main elements which need to be deducted or filtered out from Tier 1 capital are:

- Goodwill, which is the difference between the purchase price and net asset value of the acquired company;
- Other intangibles such as concessions, patents and licenses;
- Own treasury shares;
- 50% of participating interests and subordinated loans (and other capital instruments qualifying as own funds) of more than 10% in not fully consolidated credit or other financial institutions;
- 50% of participating interests and subordinated loans (and other capital instruments qualifying as own funds) of more than 20% in insurance companies;
- Expected but not yet declared dividend;
- Unrealised gains and losses on AFS bonds (unrealised gains and losses on AFS real estate are not included in IFRS figures and therefore no adjustment is made for solvency calculation);
- Unrealised gains on AFS equities which are partially (90%) included in Tier 2; unrealised losses do impact Tier 1 as those losses are deducted from Tier 1 capital;
- In case of a provision shortfall (i.e. provision shortage compared to IRB measurement of expected loss), 50% of this shortage will be deducted from Tier 1 capital and 50% will be deducted from Tier 2 capital. The excess provision amounts, if any, are eligible as an element of Tier 2 capital.

Furthermore, the regulation also foresees the following deductions on Tier 2 capital if the Tier 2 capital is sufficient to carry out the deduction. If not the (remaining) deduction will be taken from Tier 1 capital:

- 50% of participating interests of more than 10% in not fully consolidated credit institutions or other financial institutions;
- 50% of participating interests of more than 20% in insurance companies;
- 50% of subordinated loans and other capital instruments issued by companies referred to in 1) and 2) which qualify as own funds of these companies, and which are held by Fortis Bank (Nederland) N.V. (or a subsidiary).

In 2007 the deductions on participating interests related almost completely to the investment in RFS Holdings B.V. which was sold at the end of 2008.

Market and supervisory consideration

In view of the overall stability of the financial sector, DNB is considering an increase in the level of required solvency for major players in the market. The central bank has not yet announced the exact increase it wishes to introduce, if any. If it does announce an increase, Fortis Bank (Nederland) N.V. may need to strengthen its Tier 1 capital in order to meet the new requirements. This could give rise to discussions with shareholders about converting liabilities into equity.

8 Post-employment benefits and other long-term employee benefits

Post-employment benefits are employee benefits, such as pensions and post-employment medical care, which are payable when employment ends. Other long-term employee benefits are employee benefits which do not fall due fully within twelve months of the period in which the employees rendered the related service, including jubilee premiums and long-term disability benefits.

8.1 Post-employment benefits

8.1.1 Defined benefit pension plans and other post-employment benefits

Fortis Bank (Nederland) N.V. operates defined benefit pension plans covering the majority of its employees. Some plans are funded partly by means of employee contributions.

Under these plans, benefits are calculated based on years of service and level of salary. Pension obligations are determined on the basis of mortality, employee turnover, wage drift and economic assumptions such as inflation and discount rate. Discount rates by country or region are set on the basis of the yield (at closing date) of debt securities of similar duration issued by blue-chip companies or by the government in the absence of a representative corporate market.

In addition to pensions, post-employment benefits also include other expenses such as reimbursement of part of the health insurance premiums and favourable conditions on financial products, such as mortgage loans, which continue to be granted to employees after retirement.

The following table provides details of the amounts shown in the balance sheet as at 31 December regarding pension plans and other post-employment benefits.

	Defined benefit pension plans				
	2009	*2008*	*2007*	*2006*	*2005*
Present value of funded obligations	2,186	2,012	1,824	1,932	2,135
Present value of unfunded obligations	82	99	136	151	
Defined benefit obligation	**2,268**	**2,111**	**1,960**	**2,083**	**2,135**
Fair value of plan assets	(2,139)	(1,948)	(1,864)	(1,813)	(1,756)
	129	**163**	**96**	**270**	**379**
Unrecognised actuarial gains (losses)	(61)	2	179	111	(117)
Unrecognised past service cost	(4)	(6)	(8)	(10)	(5)
Unrecognised assets due to Asset ceiling					
Other amounts recognised in the balance sheet					
Net Defined benefit liabilities (assets)	**64**	**159**	**267**	**371**	**257**
Amounts in the balance sheet:					
Defined benefit liabilities	86	160	270	374	257
Defined benefit assets	(22)	(1)	(3)	(3)	
Net Defined benefit liabilities (assets)	**64**	**159**	**267**	**371**	**257**

	Other post-employment benefits				
	2009	2008	2007	2006	2005
Present value of funded obligations					
Present value of unfunded obligations	66	64	64	59	259
Defined benefit obligation	**66**	**64**	**64**	**59**	**259**
Fair value of plan assets					
	66	**64**	**64**	**59**	**259**
Unrecognised actuarial gains (losses)	10	10	10	11	10
Unrecognised past service cost					
Unrecognised assets due to Asset ceiling					
Other amounts recognised in the balance sheet					
Net Defined benefit liabilities (assets)	**76**	**74**	**74**	**70**	**269**
Amounts in the balance sheet:					
Defined benefit liabilities	76	74	74	70	269
Defined benefit assets					
Net Defined benefit liabilities (assets)	**76**	**74**	**74**	**70**	**269**

Defined benefit liabilities are classified under Accrued interest and other liabilities (see note 30) and Defined benefit assets are classified under Accrued interest and other assets (see note 22).

Experience adjustments are actuarial gains and losses that arise because of differences between the actuarial assumptions made at the beginning of the year and actual experience during the year.

The following table shows experience adjustments to plan assets and plan liabilities.

	Defined benefit pension plans				
	2009	2008	2007	2006	2005
Experience adjustments on Plan assets, gain (loss)	14	(95)	(132)	5	49
As % of plan assets as at 31 December	0.7%	(4.9%)	(6.8%)	0.3%	0.8%
Experience adjustments on Defined benefit obligation, gain (loss)	29	(50)	4	23	28
As % of Defined benefit obligation as at 31 December	1.3%	(2.4%)	0.2%	1.1%	0.3%

	Other post-employment benefits				
	2009	2008	2007	2006	2005
Experience adjustments on Plan assets, gain (loss)					
As % of plan assets as at 31 December					
Experience adjustments on Defined benefit obligation, gain (loss)	3	3	(4)	87	4
As % of Defined benefit obligation as at 31 December	4.5%	4.7%	(6.3%)	20.9%	1.0%

The following table reflects changes in net pension liability (asset) as recognised in the balance sheet.

	Defined benefit pension plans		Other post-employment benefits	
	2009	2008	2009	2008
Net Defined benefit liabilities (assets) as at 1 January	**159**	**267**	**74**	**74**
Total defined benefit expense	48	27	9	7
Employer's contributions	(114)	(108)		
Participants' contributions paid to the employer				
Benefits directly paid by the employer	(31)	(29)	(7)	(7)
Acquisitions and disposals of subsidiaries	(1)			
Transfer	4	3		
Foreign exchange differences	1	(1)		
Other	(2)			
Net Defined benefit liabilities (assets) as at 31 December	**64**	**159**	**76**	**74**

The table below shows changes in the Defined benefit obligation.

	Defined benefit pension plans		Other post-employment benefits	
	2009	2008	2009	2008
Defined benefit obligation as at 1 January	**2,111**	**1,960**	**64**	**64**
Current service cost	45	43	3	3
Interest cost	117	105	3	3
Actuarial losses (gains) on defined benefit obligation	53	68	(2)	
Participants' contributions	(1)			
Participants' contributions paid to the employer				
Benefits paid	(44)	(38)		
Benefits paid directly paid by the employer	(31)	(29)	(7)	(7)
Past service cost - non-vested benefits				
Past service cost - vested benefits			4	2
Curtailments				
Settlements		(1)		
Acquisitions and disposals of subsidiaries	(7)			
Transfer	4	3		
Foreign exchange differences				
Other	21		1	(1)
Defined benefit obligation as at 31 December	**2,268**	**2,111**	**66**	**64**

The following table shows changes in the fair value of plan assets.

	Defined benefit pension plans		Other post-employment benefits	
	2009	2008	2009	2008
Fair value of plan assets as at 1 January	**1,948**	**1,864**		
Expected return on plan assets	100	117		
Actuarial gains (losses) on plan assets	14	(104)		
Employer's contributions	113	137		6
Participants' contributions				
Benefits paid	(44)	(67)		(6)
Administration costs	(5)			
Settlements				
Acquisitions and disposals of subsidiaries	(6)			
Transfer				
Foreign exchange differences	(1)	1		
Other	20			
Fair value of plan assets as at 31 December	**2,139**	**1,948**		

Actuarial gains (losses) on plan assets are mainly the difference between the actual and expected return.

The following table shows the actual return on plan assets for defined benefit pension plans.

	2009	2008	2007
Actual return on plan assets	111	18	(32)

Calculation of the plan assets for any given year is based on the period from mid-December of the previous year to mid-December of the current year. Therefore, an amount of EUR 98 million of the actual return on plan assets of 2009 relates to the return of mid-December 2008 until 31 December 2008.

The following table shows changes in the total of unrecognised actuarial gain (losses) on liabilities and assets.

	Defined benefit pension plans		Other post-employment benefits	
	2009	2008	2009	2008
Unrecognised actuarial gains (losses) as at 1 January	**2**	**179**	**10**	**10**
Actuarial gains (losses) on defined benefit obligation	(53)	(68)	2	
Actuarial gains (losses) on plan assets	14	(104)		
Recognised actuarial losses (gains) resulting from asset ceiling				
Curtailments				
Settlements				
Amortisation of unrecognised actuarial losses (gains) on defined benefit obligation	(21)	(5)	(1)	(1)
Amortisation of unrecognised actuarial losses (gains) on plan assets				
Acquisitions and disposals of subsidiaries				
Transfer				
Foreign exchange differences				
Other	(3)		(1)	1
Unrecognised actuarial gains (losses) as at 31 December	**(61)**	**2**	**10**	**10**

The total pension costs amounts EUR 48 million. An amount of EUR 5 million is recognised in interest expenses, EUR 27 million is recognised in staff expenses (see note 42) and EUR 16 million relates to the contributions of the employees.

The following table shows the principal actuarial assumptions used for the eurozone countries.

	Defined benefit pension plans						*Other post-employment benefits*					
	2009		*2008*		*2007*		*2009*		*2008*		*2007*	
	Low	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
Discount rate	2.4%	5.2%	5.2%	5.6%	4.7%	5.4%	2.4%	4.2%	4.8%	5.5%	4.2%	4.2%
Expected return on plan assets as at 31 December	4.6%	4.6%	4.7%	4.7%	6.0%	6.0%						
Future salary increases (price inflation included)	1.0%	2.6%	2.8%	3.5%	2.5%	3.3%	1.0%	1.0%	3.5%	3.5%	2.3%	2.3%
Future pension increases (price inflation included)	1.0%	2.0%	2.2%	2.2%	1.9%	1.9%	1.0%	1.0%	2.5%	2.5%	1.8%	1.8%
Medical cost trend rates							6.0%	6.0%	6.0%	6.0%	4.3%	4.3%

Assumptions regarding the future mortality tables are based on publications by the Dutch Association of Insurers (*Verbond van Verzekeraars*; report Towers, Watson, CRC 2003). The expected longevity for current pensioners at the age of 65 years is 17.8 years for males and 22.1 years for females.

The decrease of the low discount rate for early retirement in 2009 is related to the decrease of the bond rates on the financial markets.

The plan assets comprise predominantly fixed-income securities and investment contracts with insurance companies. Fortis Bank (Nederland) N.V.'s internal investment policy stipulates that investment in derivatives and emerging markets for the purpose of funding pension plans is to be avoided. Fortis Bank (Nederland) N.V. intends to gradually adjust its asset allocation policy in the future to ensure a closer match between the duration of the assets and that of the pension liabilities. The asset mix of the plan assets is as follows:

	2009	*2008*	*2007*
Equity securities	15%	16%	20%
Debt securities	81%	81%	66%
Real estate	2%	2%	4%
Convertibles	2%	0%	4%
Other	0%	1%	6%

The category Other consists mainly of mortgage loans and high-yield bonds. Investments in hedge funds are limited. Derivatives are used only to limit the plan exposures to interest rate risk. Pension plan assets are invested in global equity and debt markets.

The expected return on assets is based on the real asset mix of the particular fund and the expected return of the various investment categories.

To administer pension plan assets, Fortis Bank (Nederland) N.V. applies general guidelines for tactical asset allocation based on criteria such as geographical distribution and rating. ALM studies are carried out periodically in order to keep the investment strategy in line with the structure of the pension benefit obligation. According to these guidelines and the results of the studies, the asset allocation is determined for each scheme at company level.

The employer’s contributions expected to be paid for post-employment benefit plans for next year are as follows:

	Defined benefit pension plans
Expected contribution for next year	135

8.1.2 Defined contribution plans

Fortis Bank (Nederland) N.V. operates a number of defined contribution plans worldwide. The employer’s commitment in a defined contribution plan is limited to the payment of contributions calculated in accordance with the plan regulations. In 2009 employer contributions for defined contribution plans amounted to EUR 18 million (2008: EUR 17 million; 2007: EUR 26 million) and are included in Staff expenses (see note 42). Defined contribution plans with guaranteed interest are accounted for and represented as defined contribution plans, since no material provisions are expected.

8.2 Other long-term employee benefits

Other long-term employee benefits include jubilee premiums and long-term disability benefits. The table below shows liabilities related to other long-term employee benefits included in the balance sheet under Accrued interest and other liabilities (see note 30).

	2009	*2008*	*2007*
Defined benefit obligation	25	24	23
Fair value of plan assets			
Net liability	**25**	**24**	**23**
Other amounts recognised in the balance sheet			
Net defined benefit liabilities (assets)	**25**	**24**	**23**
Amounts in the balance sheet:			
Defined benefit liabilities	25	24	23
Defined benefit assets			
Net defined benefit liabilities (assets)	**25**	**24**	**23**

The following table shows the changes in Liabilities for other long-term employee benefits during the year.

	2009	*2008*
Net defined liability as at 1 January	**24**	**23**
Total expense	2	3
Employers' contributions		
Participants' contributions paid to the employer		
Benefits directly paid by the employer		(1)
Foreign exchange differences		
Acquisitions and divestments of subsidiaries		
Transfer		
Other	(1)	(1)
Net defined liability as at 31 December	**25**	**24**

The table below provides the range of actuarial assumptions applied in calculating the Liabilities for other long-term employee benefits.

	2009		2008		2007	
	Low	*High*	*Low*	*High*	*Low*	*High*
Discount rate	5.0%	5.0%	4.8%	5.5%	4.7%	4.8%
Salary increase	2.6%	2.6%	3.5%	3.5%	3.3%	5.0%

Expenses related to other long-term employee benefits are shown below. Interest cost is included in interest expenses, all other expenses are included in Staff expenses (see note 42).

	2009	*2008*	*2007*
Current service cost	1	2	2
Interest cost	1	1	1
Net actuarial losses (gains) recognised immediately			
Total expense	**2**	**3**	**3**

9 Employee share option and share purchase plans

Before 3 October 2008, Fortis Bank (Nederland) N.V. determined each year whether the Fortis options would be allocated to employees depending on merit and performance. After 3 October 2008, Fortis Bank (Nederland) N.V. put no stock option programme in place.

Before 2008, Fortis Group offered options on Fortis shares to key employees as well as senior managers in order to strengthen their commitment to Fortis Group and to align their interests. The features of the option plans may vary from country to country depending on local tax regulations. This Fortis Group option plan was named ESOP (Executive Share Option Plan) and had the following main features:

- Annual plan with options with a 3- to 5-year vesting period;
- Compensation plan with four gradations of 800, 1500, 3500, or 7000 options granted yearly;
- Offered to senior managers and key personnel;
- Approximately 800 persons involved within Fortis Group (participating countries only).

If Fortis Bank (Nederland) N.V. or one of its subsidiaries granted options on Fortis Group shares to its employees, the related expenses were invoiced by Fortis Group and recorded as staff expenses amortised over five years. The exercise or expiration of these options had no impact on the accounts of Fortis Bank (Nederland) N.V.
In 2008 the ESOP stock option plan granted 966,300 Fortis Group shares to employees of Fortis Bank (Nederland) N.V. (2007: 903,487). The costs related to this stock option plan for 2009 amounted to EUR 1 million (2008: EUR 1 million; 2007: EUR 4 million).

10 Remuneration of Management Board and Supervisory Board

The remuneration, including pension-related payments, of the current four members of the Management Board payable by Fortis Bank (Nederland) N.V. was EUR 2.1 million in 2009 (for current and former members in total EUR 3.2 million). Total remuneration of current and former members was EUR 4.0 million in 2009 and EUR 3.1 million in 2008. The number of employee stock options Fortis Group granted to the Management Board in April 2008 was 17,500; 2007: 39,239). The strike price of these employee stock options was EUR 15.06. Fortis Bank (Nederland) N.V. has no stock option programme in place nor any other long-term incentive programmes.

The table below shows the remuneration paid in thousands of Euros in 2009.

	2009				
Name	*Base salary*	*Variable remuneration*	*Total regular income*	*Pension related payments*	*Severance payments*
J.C.M. van Rutte *	600	0	600	210	
F.M.R. van der Horst	400	0	400	120	
J.R. Dijst	250	0	250	59	
H.P.F.E. Bos	345	0	345	104	
F. Demmenie **	319	0	319	101	798
F.J. van Lanschot **	300	0	300	105	
J.G.H. Helthuis **	200	0	200	47	50
Total	**2,414**	**0**	**2,414**	**746**	**848**

** Member of the Transition Team*

*** No longer a member of the Management Board at 31 December 2009*

In 2009 no variable income, short-term incentives or long-term incentives were received by these statutory members of the Management Board.

The pension related payments consists of pension contribution and life-course savings scheme contributions. Life-course savings scheme contributions are deposits from Fortis Bank (Nederland) N.V. on a life-course savings account opened by the employee in his/her name. If the employee does not wish to receive the contribution in this manner, the employer will pay the contribution to the employee as gross wages.

Two former members of the Management Board received in total a severance payment of EUR 0.8 million.

As announced in the 2008 Annual Financial statements Fortis Bank (Nederland) N.V. has reviewed its remuneration policy, including bonus incentives. The Management Board of Fortis Bank (Nederland) N.V. has decided to forgo its variable remuneration and its bonus for the year 2009, as it did in 2008.

The remuneration of the members of the Management Board is decided by the Supervisory Board based on recommendations made by the Remuneration Committee, in compliance with the Remuneration Policy for members of the Management Board of Fortis Bank (Nederland) N.V. as adopted by the General Meeting of Shareholders and HR policies.

Members of the Management Board receive a remuneration that reflects the executive functions they perform within Fortis Bank (Nederland) N.V., established in accordance with the Remuneration Policy for members of the Management Board of Fortis Bank (Nederland) N.V.

The remuneration of members of the Supervisory Board of Fortis Bank (Nederland) N.V. was EUR 0.4 million (2008: EUR 0.2 million; 2007: EUR 0.3 million).

The remuneration of the members of the Supervisory Board must be approved by the General Meeting of Shareholders.

11 Audit fees

Since 28 June 2008 all legal bodies to which article 382a Title 9 BW 2 is applicable are required to disclose the audit fees that have been paid to the external auditor. During the following financial years, Fortis Bank (Nederland) N.V. paid the following audit fees to KPMG:

	2009	2008	2007
Financial statements audit fees	5	5	5
Other audit fees	1		
Tax advisory fees	3	1	1
Other non-audit fees	3	1	
Total	**12**	**7**	**6**

Apart from the audit fees paid to KPMG, fees were paid to other audit firms (EUR 1 million) resulting in total fees paid to audit firms of EUR 13 million in 2009 (2008: EUR 8 million; 2007: EUR 6 million).

12 Related parties

Parties related to Fortis Bank (Nederland) N.V. include the Dutch State as shareholder, associates, pension funds, joint ventures, the Management Board, the Supervisory Board, close family members of any person referred to above, entities controlled or significantly influenced by any person referred to above and any other related entities.

As part of its business operations Fortis Bank (Nederland) N.V. frequently enters into transactions with related parties. Such transactions mainly relate to loans and deposits and are entered into under the same commercial and market terms that apply to non-related parties.

The loans granted by the Dutch State can be divided into long-term and short-term funding. The short-term funding is comprised of two different loans for a total amount of EUR 3,250 million. These loans have an interest rate of 6.525% (for EUR 250 million) and 1.831% (for EUR 3,000 million) and will mature on 30 May 2010 and 31 August 2010 respectively.

The long-term funding is comprised of 14 loans for a total amount of EUR 4,575 million. These loans have interest rates ranging from 1.935% to 4.624% and maturities ranging from 2011 to 2027.

The remuneration of the Management Board and the Supervisory Board is described in note 10.

Total outstanding loans and advances to members of the Management Board of Fortis Bank (Nederland) N.V. amounts to EUR 3.2 million (2008: EUR 3.7 million and 2007: EUR 1.9 million). The outstanding loans and advances to members of the Management Board and the Supervisory Board consist in principle of consumer mortgages. These loans and advances have been granted under standard personnel conditions or client conditions.

Credits, loans and bank guarantees in the ordinary course of business may be granted by Fortis Bank (Nederland) N.V. companies to Executive Managers or to close family members of Board Members and close family members of executive managers. At 31 December, there were no outstanding credits, loans or bank guarantees, other than the ones included in the ordinary course of business noted above.

Transactions entered into with the following related parties for the year ended 31 December are summarised below:

- associates;
- joint ventures;
- other related parties.

	2009	2008	2007
Income and expenses - Related parties			
Interest income	99	49	6,296
Interest expense	(742)	(471)	(8,171)
Fee and commission income			99
Dividend and other investment income			
Realised gains			98
Other income		2	163
Fee and commission expense			(6)
Operating, administrative and other expenses	(39)	(23)	(88)

In 2007 related parties included entities within Fortis Group.

	31 December 2009			31 December 2008			31 December 2007		
	Associates and joint ventures	*Other*	*Total*	*Associates and joint ventures*	*Other*	*Total*	*Associates and joint ventures*	*Other*	*Total*
Balance sheet - Related parties									
Investments in associates				319		319	843		843
Cash and cash equivalents							10	32,135	32,145
Assets held for trading							9	4,338	4,347
Due from customers	254		254	269		269	293	9,778	10,071
Due from banks							125	11,332	11,457
Other assets	5	19	24	6		6	24	1,530	1,554
Liabilities held for trading							45	2,043	2,088
Due to customers		5,925	5,925		40,375	40,375		15,230	15,230
Due to banks				1,457		1,457	333	53,897	54,230
Debt certificates, subordinated liabilities									
and other borrowings		1,900	1,900		3,250	3,250	139	19,968	20,107
Other liabilities		6	6		41	41	41	3,184	3,225

The decrease of related parties is due mainly to the sale of RFS Holdings B.V. on 24 December 2008 and the separation from Fortis Group.

On 31 December 2009, the total amount of debt guaranteed by the Dutch government under the State Guaranteed Notes programme came to EUR 9.3 billion. The average maturity of the paper issued is 3.1 years.

13 Information on segments

13.1 General information

The primary format for the segment reporting is based on business segments.

Fortis Bank (Nederland) N.V. is organised on a worldwide basis into three businesses, which are subdivided into business segments (for details see below):

- Retail Banking;
- Private Banking;
- Merchant Banking.

Fortis Bank (Nederland) N.V.'s segment reporting reflects the full economic contribution of the businesses of Fortis Bank (Nederland) N.V. The aim is direct allocation to the businesses of all balance sheet and income statement items for which the businesses have full managerial responsibility.

Segment information is prepared based on the same accounting policies as those used in preparing and presenting Fortis Bank (Nederland) N.V.'s Financial Statements (as described in note 1) and by applying appropriate allocation rules.

Transactions between the different businesses are executed under standard commercial terms and conditions.

13.2 Banking

Retail Banking

Retail Banking offers international financial services to retail customers including individuals, the self-employed, members of the independent professions and small businesses. Fortis Bank (Nederland) N.V. operates through a variety of distributions channels to deliver service and advice on every aspect of individual banking, saving, investment, credit and insurance.
Up until year-end 2008 Fortis Hypotheek Bank was reported under Asset and Liability Management (ALM). As from 30 June 2009 Fortis Hypotheek Bank is fully reported under Retail Banking. Figures for 2008 and 2007 have been adjusted for comparison purposes.

Private Banking

Private Banking, operating under the MeesPierson label, offers integrated wealth management solutions to high net worth individuals, their family and their businesses. MeesPierson's relationship managers are supported by internal and external specialists in wealth structuring, including estate planning, investing, financing and insurance. This integrated service model ensures that clients receive the highest standard of service and personal attention.

Merchant Banking

Merchant Banking provides financial solutions to corporate and institutional clients active in the Netherlands and abroad. It wants to be the partner of choice for European medium-sized enterprises by offering added-value solutions through a cohesive network of business centres. Merchant Banking offers a broad range of banking services, including debt, equity and structured finance, trading and financial risk hedging, financial advisory and structuring. Merchant Banking provides high-level support throughout the value chain of the energy, commodities and transportation industries and is a strong player in clearing, custody, fund services, securities lending and trust services, combining the strength of an international presence in three time zones with local expertise and proximity to its clients.

Other

This includes balance sheet items, revenues and costs for support functions, operations and Asset and Liability Management (ALM). The figures reported are those after allocation to the business segments.

Allocation rules

Segment reporting uses balance sheet allocation rules, balance sheet squaring mechanisms, a fund transfer pricing system, rebilling of support and operation expenses and overhead allocation. The balance sheet allocation and squaring methodology are geared towards reporting information on segments to reflect the bank's business model.

Under the bank's business model segments do not act as their own treasurer in bearing interest rate risks, foreign exchange risks and liquidity risks, by funding their own assets with their own liabilities, or by having direct access to the financial markets. The interest, currency and liquidity risks are removed by transferring them from the segments to the internal central bankers. This is reflected in the fund transfer pricing system. A key role in this system is attributed to Asset and Liability Management (ALM). The results of ALM are allocated to the segments based on the regulatory capital used and the interest margin generated within the segments.

Support and operations departments provide services to the segments, including Human Resources and Information Technology. The costs and revenues of these departments are charged to the segments on the basis of service level agreements (SLAs) reflecting the economic consumption of the products and services provided. SLAs ensure that costs and revenues are charged based on actual use and at standard rates. Differences between actual costs and rebilled costs based on standard rates are passed on to the business segments in a final allocation.

13.3 Balance sheet of banking segments

						31 December 2009
	Retail Banking	*Private Banking*	*Merchant Banking*	*Other Banking*	*Eliminations*	*Total Banking*
Assets						
Cash and cash equivalents	1,904	74	28,293	35,690	(55,959)	10,002
Assets held for trading	9	42	16,396	128	(344)	16,231
Due from banks	80,400	7,036	82,138	50,007	(192,924)	26,657
Due from customers	70,407	4,652	78,670	90,053	(118,454)	125,328
Investments:						
- Held to maturity				*33*		*33*
- Available for sale	*21*	*11*	*2,242*	*548*		*2,822*
- Held at fair value through profit or loss			*129*	*356*		*485*
- Investment property		*30*		*7*	*(3)*	*34*
- Associates and joint ventures	*53*		*381*	*3*		*437*
Total investments	74	41	2,752	947	(3)	3,811
Other receivables	104	2	2,432	161	(32)	2,667
Property, plant and equipment	4	30	83	476	(238)	355
Goodwill and other intangible assets	4	6	129	45	(23)	161
Accrued interest and other assets	702	52	3,794	2,443	(2,612)	4,379
Deferred tax assets	17		35	142		194
Total assets	**153,625**	**11,935**	**214,722**	**180,092**	**(370,589)**	**189,785**
Liabilities						
Liabilities held for trading	9	21	24,229	158	(253)	24,164
Due to banks	84,605	4,748	135,590	77,900	(265,700)	37,143
Due to customers	56,980	7,020	54,412	48,357	(105,370)	61,399
Debt certificates	8,088	33		39,571	(125)	47,567
Subordinated liabilities	254	1	131	4,658	(336)	4,708
Other borrowings			78	35		113
Provisions	11	27	60	86	(60)	124
Current tax liabilities	218	1	44	(139)		124
Deferred tax liabilities	3		69	(33)		39
Accrued interest and other liabilities	3,457	84	109	4,777	1,255	9,682
Total liabilities	**153,625**	**11,935**	**214,722**	**175,370**	**(370,589)**	**185,063**
Shareholders' equity				4,716		4,716
Minority interests				6		6
Total equity				**4,722**		**4,722**
Total liabilities and equity	**153,625**	**11,935**	**214,722**	**180,092**	**(370,589)**	**189,785**

						31 December 2008
	Retail Banking	*Private Banking*	*Merchant Banking*	*Other Banking*	*Eliminations*	*Total Banking*
Assets						
Cash and cash equivalents	2,876	468	30,245	33,803	(57,533)	9,859
Assets held for trading	30	220	13,857	85	(244)	13,948
Due from banks	48,318	5,410	89,770	53,920	(173,146)	24,272
Due from customers	69,448	4,306	80,364	78,668	(108,094)	124,692
Investments:						
- Held to maturity				*30*		*30*
- Available for sale	*12*	*18*	*3,443*	*69*		*3,542*
- Held at fair value through profit or loss			*151*			*151*
- Investment property		*58*	*29*	*7*	*(4)*	*90*
- Associates and joint ventures	*50*		*335*	*3*		*388*
Total investments	62	76	3,958	109	(4)	4,201
Other receivables	80	4	2,920	74	(49)	3,029
Property, plant and equipment	4	1	118	581	(290)	414
Goodwill and other intangible assets		94	78	19	(9)	182
Accrued interest and other assets	775	113	2,748	2,530	(2,797)	3,369
Deferred tax assets	166		44	627	(600)	237
Total assets	**121,759**	**10,692**	**224,102**	**170,416**	**(342,766)**	**184,203**
Liabilities						
Liabilities held for trading	30	219	23,546	164	(243)	23,716
Due to banks	72,463	4,569	111,240	98,013	(264,976)	21,309
Due to customers	36,581	5,748	87,251	37,584	(75,366)	91,798
Debt certificates	10,326		457	17,571	(103)	28,251
Subordinated liabilities	255	1	237	6,507	(439)	6,561
Other borrowings			226	31		257
Provisions	14	19	30	69	(35)	97
Current tax liabilities	94	2	189	(38)		247
Deferred tax liabilities	163	1	47	(137)		74
Accrued interest and other liabilities	1,833	133	879	7,633	(1,604)	8,874
Total liabilities	**121,759**	**10,692**	**224,102**	**167,397**	**(342,766)**	**181,184**
Shareholders' equity				2,944		2,944
Minority interests				75		75
Total equity				**3,019**		**3,019**
Total liabilities and equity	**121,759**	**10,692**	**224,102**	**170,416**	**(342,766)**	**184,203**

	Retail Banking	*Private Banking*	*Merchant Banking*	*Other Banking*	*Eliminations*	*Total Banking*
						31 December 2007
Assets						
Cash and cash equivalents	10,311	304	42,664	53,645	(67,655)	39,269
Assets held for trading	138	58	22,008	958	(45)	23,117
Due from banks	41,728	9,987	113,877	44,462	(171,286)	38,768
Due from customers	35,831	4,571	81,373	61,181	(51,985)	130,971
Investments:						
- Held to maturity				*35*		*35*
- Available for sale		*17*	*3,112*	*72*		*3,201*
- Held at fair value through profit or loss			*123*			*123*
- Investment property		*37*	*38*	*7*	*(3)*	*79*
- Associates and joint ventures	*2*		*1,481*	*24,250*		*25,733*
Total investments	2	54	4,754	24,364	(3)	29,171
Reinsurance and other receivables	63	6	3,363	38	(35)	3,435
Property, plant and equipment	4	3	75	550	(264)	368
Goodwill and other intangible assets		94	106	47	(23)	224
Accrued interest and other assets	473	170	4,283	5,103	(3,132)	6,897
Deferred tax assets	12		6	140		158
Total assets	**88,562**	**15,247**	**272,509**	**190,488**	**(294,428)**	**272,378**
Liabilities						
Liabilities held for trading	138	54	51,367	921	(14)	52,466
Due to banks	58,396	4,952	155,542	96,188	(243,767)	71,311
Due to customers	23,269	10,159	56,568	33,368	(53,374)	69,990
Debt certificates	102		88	32,707	(101)	32,796
Subordinated liabilities	37	1	272	11,652	(310)	11,652
Other borrowings			280	1,091		1,371
Provisions	9	4	54	30	(18)	79
Current and deferred tax liabilities	93	6	362	321		782
Accrued interest and other liabilities	6,518	71	7,976	(8,208)	3,156	9,513
Total liabilities	**88,562**	**15,247**	**272,509**	**168,070**	**(294,428)**	**249,960**
Shareholders' equity				21,763		21,763
Minority interests				655		655
Total equity				**22,418**		**22,418**
Total liabilities and equity	**88,562**	**15,247**	**272,509**	**190,488**	**(294,428)**	**272,378**

13.4 Income statement of banking segments

	Retail Banking	Private Banking	Merchant Banking	Other Banking	Eliminations	Total Banking
						2009
Income						
Interest income	5,678	297	6,252	5,274	(9,121)	8,380
Interest expense	(4,788)	(232)	(5,749)	(5,582)	9,121	(7,230)
Net interest income	890	65	503	(308)		1,150
Fee and commission income	149	86	848	33	(19)	1,097
Fee and commission expense	(45)	(12)	(299)	(36)	19	(373)
Net fee and commission income	104	74	549	(3)		724
Dividend, share in result of associates and joint ventures and other investment income	3	8	(1)	2		12
Realised capital gains (losses) on investments	6	(6)	90			90
Other realised and unrealised gains and losses	4	8	187	(96)		103
Other income	(218)	(25)	(77)	797	(22)	455
Total operating income	**789**	**124**	**1,251**	**392**	**(22)**	**2,534**
Change in impairments	(111)	(17)	(266)	(2)		(396)
Net operating income	**678**	**107**	**985**	**390**	**(22)**	**2,138**
Expenses						
Staff expenses	(173)	(62)	(402)	(259)		(896)
Depreciation and amortisation of tangible and intangible assets	(2)	(2)	(16)	(49)		(69)
Other expenses	(210)	(22)	(268)	(384)	22	(862)
Allocation expense	(194)	(38)	(307)	539		
Total expenses	**(579)**	**(124)**	**(993)**	**(153)**	**22**	**(1,827)**
Profit before taxation	**99**	**(17)**	**(8)**	**237**		**311**
Income tax expense	(10)	6	70	30		96
Net profit for the period	**89**	**(11)**	**62**	**267**		**407**
Net profit attributable to minority interests				1		1
Net profit attributable to shareholders	**89**	**(11)**	**62**	**266**		**406**
Net revenues from external customers	906	126	1,184	(16)		2,199
Net revenues internal	(228)	(19)	(199)	406	(22)	(16)
Net revenues	**678**	**107**	**985**	**390**	**(22)**	**2,138**

	Retail Banking	Private Banking	Merchant Banking	Other Banking	Eliminations	Total Banking
						2008
Income						
Interest income	6,230	417	23,081	10,343	(22,714)	17,357
Interest expense	(5,445)	(332)	(22,375)	(10,917)	22,714	(16,355)
Net interest income	785	85	706	(574)		1,002
Fee and commission income	137	123	814	35	(1)	1,108
Fee and commission expense	(40)	(18)	(192)	(36)	1	(285)
Net fee and commission income	97	105	622	(1)		823
Dividend, share in result of associates and joint ventures and other investment income	1	11	21	(902)		(869)
Realised capital gains (losses) on investments	3		16	(16,826)		(16,807)
Other realised and unrealised gains and losses	36	6	275	114		431
Other income	59	9	97	53	11	207
Total operating income	**981**	**216**	**1,737**	**(18,136)**	**(11)**	**(15,213)**
Change in impairments	(77)	(14)	(1,202)	(10)		(1,303)
Net operating income	**904**	**202**	**535**	**(18,146)**	**(11)**	**(16,516)**
Expenses						
Staff expenses	(177)	(63)	(433)	(222)		(895)
Depreciation and amortisation of tangible and intangible assets	(1)	(2)	(14)	(50)		(67)
Other expenses	(230)	(49)	(280)	(500)	11	(1,048)
Allocation expense	(223)	(58)	(195)	476		
Total expenses	**(631)**	**(172)**	**(922)**	**(296)**	**11**	**(2,010)**
Profit before taxation	**273**	**30**	**(387)**	**(18,442)**		**(18,526)**
Income tax expense	(53)	(4)	(73)	186		56
Net profit for the period	**220**	**26**	**(460)**	**(18,256)**		**(18,470)**
Net profit attributable to minority interests		(1)	3	14		16
Net profit attributable to shareholders	**220**	**27**	**(463)**	**(18,270)**		**(18,486)**
Net revenues from external customers	866	197	496	(18,056)		(16,497)
Net revenues internal	38	5	39	(90)	(11)	(19)
Net revenues	**904**	**202**	**535**	**(18,146)**	**(11)**	**(16,516)**

	Retail Banking	Private Banking	Merchant Banking	Other Banking	Eliminations	Total Banking
						2007
Income						
Interest income	3,252	593	22,358	11,265	(18,299)	19,169
Interest expense	(2,631)	(489)	(21,614)	(11,199)	18,299	(17,634)
Net interest income	621	104	744	66		1,535
Fee and commission income	172	145	835	16		1,168
Fee and commission expense	(50)	(13)	(161)	(18)		(242)
Net fee and commission income	122	132	674	(2)		926
Dividend, share in result of associates and joint ventures and other investment income		10	24	193		227
Realised capital gains (losses) on investments	4	1	59	62		126
Other realised and unrealised gains and losses	9	9	368	201		587
Other income	146	58	163	(128)	(14)	225
Total operating income	**902**	**314**	**2,032**	**392**	**(14)**	**3,626**
Change in impairments	(40)	(4)	13	(10)		(41)
Net operating income	**862**	**310**	**2,045**	**382**	**(14)**	**3,585**
Expenses						
Staff expenses	(187)	(76)	(470)	(222)		(955)
Depreciation and amortisation of tangible and intangible assets	(1)	(2)	(11)	(46)		(60)
Other expenses	(176)	(43)	(265)	(440)	14	(910)
Allocation expense	(239)	(45)	(216)	500		
Total expenses	**(603)**	**(166)**	**(962)**	**(208)**	**14**	**(1,925)**
Profit before taxation	**259**	**144**	**1,083**	**174**		**1,660**
Income tax expense	(84)	(23)	(240)	1		(346)
Net profit for the period	**175**	**121**	**843**	**175**		**1,314**
Net profit attributable to minority interests		5	5	8		18
Net profit attributable to shareholders	**175**	**116**	**838**	**167**		**1,296**
Net revenues from external customers	743	287	1,932	622		3,584
Net revenues internal	119	23	113	(240)	(14)	1
Net revenues	**862**	**310**	**2,045**	**382**	**(14)**	**3,585**

13.5 Geographic segmentation

Fortis Bank (Nederland) N.V.'s activities are managed on a worldwide basis. The table below shows key figures based on the location of the Fortis Bank (Nederland) N.V. companies.

	Net profit	*Total income*	*FTEs*	*Total assets*
31 December 2009				
The Netherlands	(117)	1,559	7,115	174,425
Other European countries	517	852	1,128	11,768
Asia	8	62	227	1,575
Other countries	(2)	61	385	2,017
Total	**406**	**2,534**	**8,855**	**189,785**
31 December 2008				
The Netherlands	(18,477)	(15,925)	7,482	167,482
Other European countries	(67)	525	1,548	14,954
Asia	48	115	466	843
Other countries	10	72	297	924
Total	**(18,486)**	**(15,213)**	**9,793**	**184,203**
31 December 2007				
The Netherlands	996	2,840	7,689	244,229
Other European countries	213	571	1,542	23,198
Asia	46	120	461	3,802
Other countries	41	95	311	1,149
Total	**1,296**	**3,626**	**10,003**	**272,378**

In 2009 net profit of Other European countries was influenced by the gain on Fortis Capital Company Ltd. and the sale of Fortis Intertrust Group. In 2008 net profit of The Netherlands was impacted by the sale of RFS Holdings B.V.

Notes to the balance sheet

14 Cash and cash equivalents

Cash includes cash on hand, available balances with central banks and other financial instruments with a term of less than three months from the date on which they were acquired. The composition of Cash and cash equivalents was as follows as at 31 December:

	31 December 2009	31 December 2008	31 December 2007
Cash on hand	136	125	106
Balances with central banks readily convertible in cash			
other than mandatory reserve deposits	3,157	2,361	114
Due from banks	2,561	4,284	34,473
Due from customers, current accounts	3,878	2,694	4,234
Other	273	395	342
Total	**10,005**	**9,859**	**39,269**
Less: impairments	(3)		
Total cash and cash equivalents	**10,002**	**9,859**	**39,269**

The average book value of Cash and cash equivalents for 2009 amounted to EUR 9,568 million (2008: EUR 27,326 million; 2007: EUR 27,685 million). The average yield in 2009 was 2.2% (2008: 2.5 %; 2007: 2.5 %).

There were no amounts subject to withdrawal and usage restrictions.

15 Assets and liabilities held for trading

15.1 Assets held for trading

	31 December 2009	31 December 2008	31 December 2007
Debt securities:			
- Government bonds	12		
- Corporate debt securities	1,386	477	148
Equity securities	10,622	6,735	15,825
Total trading securities	**12,020**	**7,212**	**15,973**
Derivatives held for trading			
Over the counter (OTC)	4,066	6,687	7,057
Exchange traded	144	49	76
Total trading derivatives	**4,210**	**6,736**	**7,133**
Other assets held for trading	1		11
Total assets held for trading	**16,231**	**13,948**	**23,117**

Details of the derivative financial instruments are shown in note 31.

15.2 Liabilities held for trading

The table below shows the composition of Liabilities held for trading.

	31 December 2009	31 December 2008	31 December 2007
Short security sales	20,392	17,286	44,725
Derivative financial instruments:			
Over the counter (OTC)	3,518	6,385	7,723
Exchange traded	248	44	16
Total derivatives held for trading	3,766	6,429	7,739
Other liabilities held for trading	6	1	2
Total liabilities held for trading	**24,164**	**23,716**	**52,466**

The following table shows the maturities for liabilities held for trading as at 31 December.

	2009	2008	2007
Not later than 3 months	2,905	8,679	25,286
Later than 3 months and not later than 1 year	465	1,174	338
Later than 1 year and not later than 5 years	2,433	1,197	1,673
Later than 5 years	520	1,158	197
No maturity	17,841	11,508	24,972
Total	**24,164**	**23,716**	**52,466**

16 Due from banks

Due from banks consists of the following:

	31 December 2009	31 December 2008	31 December 2007
Interest-bearing deposits	186	450	3,037
Loans and advances	3,893	5,354	1,334
Securities borrowing transactions	20,974	17,197	32,942
Mandatory reserve deposits with central banks	1,202	549	1,453
Other	458	752	3
Total	**26,713**	**24,302**	**38,769**
Less: impairments	(56)	(30)	(1)
Due from banks	**26,657**	**24,272**	**38,768**

In 2009 the average carrying amount of Due from banks was EUR 26,133 million (2008: EUR 47,666 million; 2007: EUR 39,341 million).

In accordance with monetary policy, the various banking businesses are required to place amounts on deposit with the central banks in the countries where Fortis Bank (Nederland) N.V. operates. Together with the amount that is reported under Cash and cash equivalents, the total balance held with central banks came to EUR 4,359 million at year-end 2009 (2008: 2,910 million; 2007: EUR 1,567 million). The average outstanding balance with central banks (Cash and cash equivalents plus Due from banks) during 2009 amounted to EUR 2,769 million (2008: EUR 1,687 million; 2007 EUR 1,499 million).

Impairments on Due from banks

Changes in the impairments on Due from banks are as follows:

	2009	2008
Balance as at 1 January	**30**	**1**
Acquisitions/divestments of subsidiaries		
Increase in impairments	41	34
Release of impairments	(12)	(4)
Write-offs of uncollectible loans		
Foreign exchange differences and other adjustments	(3)	(1)
Balance as at 31 December	**56**	**30**

Note 6 describes in greater detail the impairments for specific credit risk and incurred but not reported (IBNR).

17 Due from customers

The composition of Due from customers is as follows:

	31 December 2009	31 December 2008	31 December 2007
Government and official institutions	2,647	1,975	1,782
Residential mortgage	66,600	66,680	63,873
Consumer loans	3,662	3,152	3,193
Commercial loans	38,139	42,565	40,310
Reverse repurchase agreements	2,774		
Securities borrowing transactions	9,823	8,307	20,811
Financial lease receivables	204	230	265
Factoring	1,513	1,823	1,913
Other loans		1	282
Held at fair value through profit or loss			
Fair value adjustment from hedge accounting	1,711	1,404	(1,063)
Total	**127,073**	**126,137**	**131,366**
Less: impairments	(1,745)	(1,445)	(395)
Due from customers	**125,328**	**124,692**	**130,971**

In 2009 the average amount of Due from customers was EUR 132,287 million (2008: EUR 134,312 million; 2007: EUR 136,834 million). The average yield in 2009 was 4.1% (2008: 4.6%; 2007: 4.3%).

Reverse repurchase agreements are agreements involving the purchase of a financial asset and resale back to the seller at a future date and at a specified price.

Other structured loans and contracts, including derivatives, are designated as Held at fair value through profit or loss, reducing a potential accounting mismatch. Furthermore, Fortis Bank (Nederland) N.V. hedges interest rate exposure of fixed-rate mortgages on a portfolio basis (macro hedging), using interest rate swaps.

As a result of the hedge, the volatility of changes in the hedged item's net present value (NPV) of future cash flows due to changes in the appropriate benchmark interest rate curve will be reduced by offsetting changes in the fair value of the hedging derivative financial instrument.

Hedged mortgages are prepayable fixed-rate mortgages with the following features:
- denominated in local currency (Euro);
- fixed term to maturity or repricing;
- prepayable amortising or fixed principal amounts;
- fixed interest payment dates;
- no interest rate options;
- accounted for on an amortised cost basis.

Mortgages with these features form a portfolio from which the hedged item is designated (fair value hedge accounting for a portfolio hedge of interest rate risk or 'macro hedge'). More than one group (or portfolio) of mortgages can be identified as the hedged item within the fixed rate mortgage portfolio. Mortgages included in a portfolio hedge of interest rate risk need to share the risk characteristics being hedged.

When notional swap cash flows exceed 95% of expected mortgage cash flows in any given month, the expected monthly mortgage cash flows on either side of the swap cash flow are designated as hedged items until all notional swap cash flows are matched. Mortgage cash flows are allocated to monthly time buckets based on expected repricing dates. Fortis Bank (Nederland) N.V. estimates repricing dates using a prepayment rate applied to the contractual cash flows and repricing dates of the mortgage portfolio.

The hedging instruments are plain vanilla interest rate swaps entered into with external counterparties at market rates prevailing at the time of the transaction.

Changes in the fair value of mortgages which are attributable to the hedged interest rate risk are recorded under Fair value adjustment from hedge accounting in order to adjust the carrying amount of the loan. The difference between the fair value and the carrying value of the hedged mortgages at designation of the hedging is amortised over the remaining life of the hedged item and is also reported in Fair value adjustment from hedge accounting.

Financial lease receivables

Receivables related to financial lease agreements as at 31 December are comprised of:

	Minimum lease payments			*Present value of the minimum lease payments receivable*		
	2009	*2008*	*2007*	*2009*	*2008*	*2007*
Gross investment in financial leases:						
Not later than 3 months	4	10	36	4	10	32
Later than 3 months and not later than 1 year	12	38	57	12	37	56
Later than 1 year and not later than 5 years	134	166	114	119	151	103
Later than 5 years	69	32	74	69	32	74
Total	**219**	**246**	**281**	**204**	**230**	**265**
Unearned finance income	15	16	16			

Impairments on Due from customers

The following table shows the changes in impairments on Due from customers.

	2009	*2008*
Balance as at 1 January	**1,445**	**395**
Acquisitions/divestments of subsidiaries	19	
Increase in impairments	505	1,445
Release of impairments	(123)	(243)
Write-offs of uncollectible loans	(95)	(132)
Foreign exchange differences and other adjustments	(6)	(20)
Balance as at 31 December	**1,745**	**1,445**

The impairments for specific credit risk and incurred but not reported (IBNR) are described in more detail in note 6.

18 Investments

The composition of Investments is as follows:

	31 December 2009	31 December 2008	31 December 2007
Investments			
- Held to maturity	33	30	35
- Available for sale	2,831	3,552	3,210
- Held at fair value through profit or loss	485	151	123
- Investment property	34	90	79
- Associates and joint ventures	437	410	25,733
Total, gross	**3,820**	**4,233**	**29,180**
Impairments:			
- on investments available for sale	(9)	(10)	(9)
- on investments in associates and joint ventures		(22)	
Total impairments	**(9)**	**(32)**	**(9)**
Total	**3,811**	**4,201**	**29,171**

18.1 Investments held to maturity

The amortised cost and estimated fair value of Fortis Bank (Nederland) N.V.'s Investments held to maturity as at 31 December are as follows:

	2009		2008		2007	
	Carrying amount	Fair values	Carrying amount	Fair values	Carrying amount	Fair values
Government bonds	33	33	30	30	35	35
Total investments held to maturity	**33**	**33**	**30**	**30**	**35**	**35**

There were no impairments on Held to maturity investments at 31 December 2009, 2008 and 2007.

18.2 Investments available for sale

The fair value and amortised cost of Available for sale investments including gross unrealised gains and gross unrealised losses are as follows:

	Historical/ amortised cost	*Gross unrealised gains*	*Gross unrealised losses*	*Impairments*	*Fair Value*
31 December 2009					
Treasury bills and other eligible bills	4				4
Government bonds	523	1			524
Corporate debt securities	2,155	7	(1)		2,161
Structured credit instruments		3	(3)		
Private equities and venture capital	27	6	(3)	(2)	28
Equity securities	32	1			33
Other investments	39	40		(7)	72
Total	**2,780**	**58**	**(7)**	**(9)**	**2,822**
31 December 2008					
Treasury bills and other eligible bills					
Government bonds					
Corporate debt securities	3,419	6	(1)		3,424
Structured credit instruments	10				10
Private equities and venture capital	34	10	(1)	(3)	40
Equity securities					
Other investments	41	34		(7)	68
Total	**3,504**	**50**	**(2)**	**(10)**	**3,542**
31 December 2007					
Treasury bills and other eligible bills					
Government bonds	46				46
Corporate debt securities	2,948				2,948
Private equities and venture capital	67	12	(1)	(2)	76
Equity securities					
Other investments	35	103		(7)	131
Total	**3,096**	**115**	**(1)**	**(9)**	**3,201**

Government bonds detailed by country of origin

The government bonds detailed by country of origin were as follows as at 31 December:

	Historical/ amortised cost	Gross unrealised gains (losses)	Impairments	Fair Value
31 December 2009				
Belgian national government	102			102
Dutch national government	162	2		164
French national government	106	1		107
Spanish national government	153	(2)		151
Total	**523**	**1**		**524**
31 December 2008				
All government bonds were sold during 2008.				
31 December 2007				
Dutch national government	46			46
Total	**46**			**46**

Net unrealised gains and losses on Available for sale investments included in equity

	31 December 2009	*31 December 2008*	*31 December 2007*
Available for sale investments in equity securities and other investments:			
Carrying amount	133	108	207
Gross unrealised gains and losses	44	44	114
- Related tax	(8)	(7)	(25)
Net unrealised gains and losses	**36**	**37**	**89**
Available for sale investments in debt securities:			
Carrying amount	2,689	3,434	2,994
Gross unrealised gains and losses	7	4	
- Related tax	(2)	(1)	
Net unrealised gains and losses	**5**	**3**	

Available for sale investments in equity securities include private equities, venture capital and all other investments, excluding debt securities.

Impairments on investments available for sale

	2009	2008
Balance as at 1 January	**10**	**9**
Increase in impairments		1
Release of impairments		
Reversal on sale/disposal		
Foreign exchange differences and other adjustments	(1)	
Balance as at 31 December	**9**	**10**

18.3 Investments held at fair value through profit or loss

The following table provides information as at 31 December about the Investments that are held at fair value and for which unrealised gains or losses are recorded through profit or loss.

	31 December 2009	31 December 2008	31 December 2007
Government bonds	356		
Private equities and venture capital	129	125	123
Equity securities		26	
Total investments held at fair value through profit or loss	**485**	**151**	**123**

In the Merchant Banking segment, some investments made by private equity entities of Fortis Bank (Nederland) N.V. are measured at fair value through profit or loss, reflecting the business of investing in financial assets to profit from their total return in the form of interest or dividend and changes in fair value. Some other investments with embedded derivatives are also designated at fair value through profit or loss, reducing a potential accounting mismatch.

18.4 Investment property

Investment property mainly comprises residential, commercial and mixed use real estate, located primarily in the Netherlands. The following table shows the changes in Investment property for the year ended at 31 December.

	2009	2008
Acquisition cost as at 1 January	**95**	**80**
Acquisitions/divestments of subsidiaries	(62)	
Additions/purchases		22
Capital improvements		
Disposals		
Transfer from (to) property, plant and equipment		
Foreign exchange differences	2	(9)
Other		2
Acquisition cost as at 31 December	**35**	**95**
Accumulated depreciation as at 1 January	**(5)**	**(1)**
Acquisitions/divestments of subsidiaries	5	
Depreciation expense	(1)	(3)
Reversal of depreciation due to disposals		
Transfers from (to) real estate held for own use		
Foreign exchange differences		
Other		(1)
Accumulated depreciation as at 31 December	**(1)**	**(5)**
Impairments as at 1 January		
Increase in impairments charged to income statement		
Reversal of impairments credited to income statement		
Reversal of impairments due to disposals		
Impairments as at 31 December		
Net investment property as at 31 December	**34**	**90**
Fair values supported by market evidence	31	58
Fair values subject to an independent valuation	6	35
Total fair value of investment property at 31 December	**37**	**93**

18.5 Investments in associates and joint ventures

The following table provides an overview of the most significant Investments in associates and joint ventures as at 31 December.

	2009		2008	2007
	% of ownership	Carrying amount	Carrying amount	Carrying amount
Joint ventures				
SR Hypotheken	50.0%	50	48	47
Car Carriers	50.0%	45		
Associates				
Debra International Finance Cooperatiëve UA	25.0%	210	210	210
Caipora International Finance Cooperatiëve UA	25.0%	107	107	107
Alma Maritime	36.2%	8		
Bassdrill	23.2%	8		
European Merchant Services B.V.	49.0%	3	2	
Garant 42 N.V.	49.5%	2	2	
Trifleet Leasing	25.0%	2		
RFS Holdings B.V.				24,201
BAFB				990
NIB Capital Foreign Debt fund V			1	150
Principal Finance Investments Holding B.V.			15	24
Other		2	3	4
Total		**437**	**388**	**25,733**

RFS Holdings B.V. acquired the ABN AMRO shares in which Fortis Bank (Nederland) N.V. had a participating interest of 33.8% until 24 December 2008. On that date the participating interest was sold to the Dutch State.

Fortis Bank (Nederland) N.V.'s interests in its principal associates for the year ended 31 December are as follows:

	Total assets	Total liabilities	Total income	Net profit
2009				
Caipora International Finance Cooperatiëve UA	429		35	17
Debra International Finance Cooperatiëve UA	838		77	37
2008				
Caipora International Finance Cooperatiëve UA	429		35	17
Debra International Finance Cooperatiëve UA	838		77	37
NIB Capital Foreign Debt fund V	1	1	17	16
2007				
RFS Holdings B.V.	485,556	470,763	4,127	530
BAFB	1,008		21	21
Caipora International Finance Cooperatiëve UA	429		35	17
Debra International Finance Cooperatiëve UA	838		64	30
NIB Capital Foreign Debt fund V	200		21	19

19 Other receivables

The table below shows the components of Other receivables as at 31 December.

	31 December 2009	31 December 2008	31 December 2007
Fees and commissions receivable	5	34	31
Factoring receivables	1,387	1,769	1,959
Receivables related to securities transactions with banks	190	42	30
Receivables related to securities transactions with customers	793	917	1,256
Other	297	272	164
Total gross	**2,672**	**3,034**	**3,440**
Impairments	(5)	(5)	(5)
Net total	**2,667**	**3,029**	**3,435**

Other receivables include receivables related to VAT and other indirect taxes as well as transitory balances related to clearing activities.

20 Property and equipment

The table below shows the carrying amount for each category of Property and equipment as at 31 December.

	31 December 2009	31 December 2008	31 December 2007
Land and buildings held for own use	115	119	129
Leasehold improvements	104	146	146
Equipment	136	149	93
Total	**355**	**414**	**368**

Changes in Property and equipment

Changes in Property and equipment for the years 2009 and 2008 are shown below.

	Land and Buildings held for own use	Leasehold improve-ments	Equipment	Total
				2009
Acquisition cost as at 1 January	**160**	**236**	**374**	**770**
Acquisitions/divestments of subsidiaries	(4)	(5)	(6)	(15)
Additions		4	45	49
Reversal of cost due to disposals		(60)	(123)	(183)
Foreign exchange differences	2		(1)	1
Other	1	2	(9)	(6)
Acquisition cost as at 31 December	**159**	**177**	**280**	**616**
Accumulated depreciation as at 1 January	**(39)**	**(89)**	**(225)**	**(353)**
Acquisitions/divestments of subsidiaries	1	2	5	8
Depreciation expense	(3)	(14)	(39)	(56)
Reversal of depreciation due to disposals		28	112	140
Foreign exchange differences			(1)	(1)
Other	(1)		4	3
Accumulated depreciation as at 31 December	**(42)**	**(73)**	**(144)**	**(259)**
Impairments as at 1 January	**(2)**	**(1)**		**(3)**
Divestments of subsidiaries				
Increase of impairments charged to the income statement				
Reversal of impairments credited to the income statement				
Reversal of impairments due to disposals		1		1
Impairments as at 31 December	**(2)**			**(2)**
Property, plant and equipment as at 31 December	**115**	**104**	**136**	**355**

				2008
	Land and Buildings held for own use	*Leasehold improve-ments*	*Equipment*	*Total*
Acquisition cost as at 1 January	**168**	**267**	**369**	**804**
Acquisitions/divestments of subsidiaries				
Additions		24	89	113
Reversal of cost due to disposals	(1)	(53)	(79)	(133)
Foreign exchange differences	(9)			(9)
Other	2	(2)	(5)	(5)
Acquisition cost as at 31 December	**160**	**236**	**374**	**770**
Accumulated depreciation as at 1 January	**(35)**	**(121)**	**(276)**	**(432)**
Acquisitions/divestments of subsidiaries				
Depreciation expense	(3)	(17)	(32)	(52)
Reversal of depreciation due to disposals		49	75	124
Foreign exchange differences	1		2	3
Other	(2)		6	4
Accumulated depreciation as at 31 December	**(39)**	**(89)**	**(225)**	**(353)**
Impairments as at 1 January	**(4)**			**(4)**
Divestments of subsidiaries				
Increase of impairments charged to the income statement		(3)		(3)
Reversal of impairments credited to the income statement	2		(1)	1
Reversal of impairments due to disposals		2	1	3
Impairments as at 31 December	**(2)**	**(1)**		**(3)**
Property, plant and equipment as at 31 December	**119**	**146**	**149**	**414**

Fair value of Land and buildings held for own use
The fair value of Land and buildings is set out below.

	31 December 2009	*31 December 2008*	*31 December 2007*
Total fair value of Land and buildings held for own use	**175**	**202**	**227**
Total carrying amount	115	119	129
Gross unrealised gain/loss	60	83	98
Taxation	(15)	(22)	(25)
Net unrealised gain/loss (not recognised in equity)	**45**	**61**	**73**

The depreciation of buildings is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The real estate is divided into the following components: structure, closing, techniques and equipment, heavy finishing and light finishing.

The maximum useful life of the components is as follows:

Structure	50 years for offices and retail; 70 years for residential
Closing	30 years for offices and retail; 40 years for residential
Techniques and equipment	20 years for offices; 25 years for retail and 40 years for residential
Heavy finishing	20 years for offices; 25 years for retail and 40 years for residential
Light finishing	10 years for offices, retail and residential

Land has an unlimited useful life and is therefore not depreciated. IT, office and equipment are depreciated over their respective useful lives, which have been determined individually. As a general rule, residual values are considered to be zero.

21 Goodwill and other intangible assets

Goodwill and other intangible assets as at 31 December are as follows:

	2009	2008	2007
Goodwill	124	162	193
Purchased software	28	14	10
Internally developed software	5	6	21
Other intangible assets	4		
Total	**161**	**182**	**224**

Under IFRS, goodwill is tested for impairment at least annually by comparing the recoverable amount to the carrying value. Other intangible assets are amortised in accordance with the expected lives of the assets.

Other intangible assets include intangible assets with definite useful lives, such as concessions, patents, licences, trademarks and other similar rights. In general, software is amortised over a maximum of five years and other intangible assets have an expected useful life of 10 years at most.

Internally developed software concerns mainly large-scale administrative and organisational investment projects that introduce or replace an important business platform or model. The costs incurred in the development phase for these internal projects are capitalised according to IAS 38 Intangible assets.

With the exception of goodwill, Fortis Bank (Nederland) N.V. does not have intangible assets with indefinite useful lives.

Changes in Goodwill and other intangible assets

Changes in Goodwill and other intangible assets for the years 2009 and 2008 are shown below.

					2009
	Goodwill	Purchased software	Internally developed software	Other intangible assets	Total
Acquisition cost as at 1 January	**168**	**62**	**12**		**242**
Acquisitions/divestments of subsidiaries	(19)	(1)		1	(19)
Additions	3	26	1	4	34
Adjustments arising from subsequent changes in value of assets and liabilities					
Reversal of cost due to disposals		(7)	(7)	(1)	(15)
Foreign exchange differences	(22)				(22)
Other		1			1
Acquisition cost as at 31 December	**130**	**81**	**6**	**4**	**221**
Accumulated amortisation as at 1 January		**(46)**			**(46)**
Acquisitions/divestments of subsidiaries					
Amortisation expense		(10)	(1)	(1)	(12)
Reversal of amortisation due to disposals		4		1	5
Foreign exchange differences					
Other					
Accumulated amortisation as at 31 December		**(52)**	**(1)**		**(53)**
Impairments as at 1 January	**(6)**	**(2)**	**(6)**		**(14)**
Divestments of subsidiaries					
Increase in impairments charged to the income statement		(1)	(1)		(2)
Reversal of impairments credited to the income statement					
Other		2	7		9
Impairments as at 31 December	**(6)**	**(1)**			**(7)**
Goodwill and other intangible assets as at 31 December	**124**	**28**	**5**	**4**	**161**

The amount on the line Acquisitions/divestments of subsidiaries in the column Goodwill relates for EUR 22 million to the divestment of Fortis Intertrust Group.
The negative amount on Foreign exchange differences relates mainly to GBP.

					2008
	Goodwill	*Purchased software*	*Internally developed software*	*Other intangible assets*	*Total*
Acquisition cost as at 1 January	**193**	**50**	**21**		**264**
Acquisitions/divestments of subsidiaries	(26)				(26)
Additions		14	15		29
Adjustments arising from subsequent changes in value of assets and liabilities					
Reversal of cost due to disposals		(9)	(24)		(33)
Foreign exchange differences	1				1
Other		7			7
Acquisition cost as at 31 December	**168**	**62**	**12**		**242**
Accumulated amortisation as at 1 January		**(40)**			**(40)**
Acquisitions/divestments of subsidiaries					
Amortisation expense		(7)	(5)		(12)
Reversal of amortisation due to disposals		7	4		11
Foreign exchange differences					
Other		(6)	1		(5)
Accumulated amortisation as at 31 December		**(46)**			**(46)**
Impairments as at 1 January					
Divestments of subsidiaries					
Increase in impairments charged to the income statement	(6)	(3)	(26)		(35)
Reversal of impairments credited to the income statement					
Foreign exchange differences					
Other		1	20		21
Impairments as at 31 December	**(6)**	**(2)**	**(6)**		**(14)**
Goodwill and other intangible assets as at 31 December	**162**	**14**	**6**		**182**

Additions of software and other intangible assets during the year relate to internally developed software.

Impairment on goodwill

The breakdown of goodwill and impairments for the main cash-generating units as at 31 December 2009 is as follows:

	Goodwill amount	*Segment*	*Method used for recoverable amount*
Cash-generating unit (CGU)			
Fortis Bank (C.I.) Ltd	63	Private Banking	Value in use
Fortis Commercial Finance	9	Merchant Banking	Value in use
Fortis Factoring	7	Merchant Banking	Value in use
Atradius Factoring	36	Merchant Banking	Value in use
MeesPierson Private & Trust Holding	6	Private Banking	Value in use
FMM Investments N.V.	3	Private Banking	Value in use
Total	**124**		

Impairment testing on goodwill is performed at least annually by comparing the recoverable amount of cash-generating units (CGU) to their carrying amount. The recoverable amount is determined by the highest of the value in use or fair value less costs to sell. The type of acquired entity determines the definition of the type of CGU. Currently all CGUs are defined at (legal) entity level.

The recoverable amount of a CGU is assessed through a discounted cash flow model of the anticipated future cash flows of the CGU. The key assumptions used in the cash flow model depend on input reflecting various financial and economic variables, including the risk-free rate in a given country and a premium to reflect the inherent risk of the entity being evaluated. These variables are determined on the basis of management’s judgement.

Besides the discount rates states in the table below, calculation of the value in use was also based on cash flows, projected on past experience, actual operating results and the 5-year budget plan. Cash flows for a further 5-year period were extrapolated using the long term growth rate mentioned by the CGU.

If the entity is listed on a stock exchange, its market price is also considered as an element in the evaluation.

	Discount rate 2009	*Long term growth rate* 2009	*Impairment loss* 2009	*Goodwill amount* 2009	*Goodwill amount* 2008	*Goodwill amount* 2007
Entity						
Fortis Bank (C.I.) Ltd	10.1%	0.0%		63	62	62
Atradius Factoring	9.4%	2.5%		36	36	36
Fortis Commercial Finance	9.5%	2.5%		9	9	9
Fortis Factoring	9.4%	2.5%		7	8	7

Based on the goodwill impairment test of 2009 no additional impairment on goodwill was booked (2008: EUR 6 million). There were no impairments on goodwill in 2007.

22 Accrued interest and other assets

The table below shows the components of Accrued interest and other assets as at 31 December.

	31 December 2009	31 December 2008	31 December 2007
Deferred other charges	11	12	8
Accrued interest income	892	1,391	2,094
Accrued other income	480	381	1,691
Derivatives held for hedging purposes	24		729
Defined benefit assets	22	1	3
Current income tax receivable	259	172	219
Balancing temporary amounts between trade date and settlement date	1,845	269	347
Other	846	1,144	1,808
Total gross	**4,379**	**3,370**	**6,899**
Impairments		(1)	(2)
Accrued interest and other assets	**4,379**	**3,369**	**6,897**

Derivatives held for hedging purposes contain the positive fair value of all derivatives qualifying as hedging instruments in fair value. The hedging strategies are further explained in note 6.

All purchases and sales of financial assets requiring delivery within the time frame established by regulation or market convention are recognised on the trade date, i.e. the date when Fortis Bank (Nederland) N.V. becomes a party to the contractual provisions of the instrument. Other contains balancing temporary amounts between trade date and settlement date.

More details on pension plans and related pension assets are provided in note 8.

23 Due to banks

The table below shows the components of Due to banks.

	31 December 2009	31 December 2008	31 December 2007
Deposits from banks:			
Demand deposits	1,338	1,134	10,093
Time deposits	4,602	3,880	35,984
Deposits from central banks	10,663		
Other deposits	2,088	3,783	12
Total deposits	**18,691**	**8,797**	**46,089**
Repurchase agreements	10,092		243
Securities lending transactions	7,066	12,367	24,768
Other	1,294	145	211
Total due to banks	**37,143**	**21,309**	**71,311**

In 2009 the average balance of Due to banks amounted to EUR 28,998 million (2008: EUR 72,771 million; 2007: EUR 82,823 million). The average yield was 4.7% in 2009 (2008: 7.3%; 2007: 7.6%). There were no non-interest bearing deposits from banks in 2009 (2008: EUR 6 million; 2007: EUR 2 million).

Contractual terms of deposit held by banks

Deposits held by banks by year of contractual maturity as at 31 December are as follows:

	2009	2008	2007
Not later than 1 year	17,571	6,668	44,785
Later than 1 year and not later than 2 years	1,004	1,005	1,029
Later than 2 years and not later than 3 years	4	1,004	2
Later than 3 years and not later than 4 years	40	3	
Later than 4 years and not later than 5 years	4	3	211
Later than 5 years	68	114	62
Total deposits	**18,691**	**8,797**	**46,089**

24 Due to customers

The components of Due to customers are as follows:

	31 December 2009	31 December 2008	31 December 2007
Demand deposits	32,101	28,339	31,759
Saving deposits	7,641	5,821	8,232
Time deposits	20,187	55,307	18,674
Other deposits	4		48
Total deposits	**59,933**	**89,467**	**58,713**
Repurchase agreements	913		
Securities lending transactions	296	2,280	4,181
Other borrowings	257	51	7,096
Total due to customers	**61,399**	**91,798**	**69,990**

The average balance of Due to customers amounted to EUR 82,882 million in 2009 (2008: EUR 74,285 million; 2007: EUR 68,267 million). The average yield was 1.4% in 2009 (2008: 3.6%; 2007: 4.8%).

The increase in time deposits in 2008 is attributable to the funding from the Dutch State as described in note 12 Related parties.

Maturity dates of customer deposits

The maturity dates of customer deposits as at 31 December are shown below.

	2009	2008	2007
Not later than 1 year	54,988	81,360	56,454
Later than 1 year and not later than 2 years	1,180	3,921	240
Later than 2 years and not later than 3 years	462	1,031	236
Later than 3 years and not later than 4 years	278	106	156
Later than 4 years and not later than 5 years	395	157	83
Later than 5 years	2,630	2,892	1,544
Total customer deposits	**59,933**	**89,467**	**58,713**

25 Debt certificates

The following table shows the types of Debt certificates issued by Fortis Bank (Nederland) N.V. and the amounts outstanding as at 31 December.

	31 December 2009	*31 December 2008*	*31 December 2007*
Saving certificates	100	102	102
Funding programme:			
- Residential Mortgage Backed Securities (RMBS)	*22,254*	*24,090*	*27,777*
- Euro Commercial Paper	*11,055*		
- State Guaranteed Notes	*9,328*		
- French Certificates de Dépôt	*2,980*		
- Euro Medium Term Notes	*1,657*	*3,671*	*4,917*
- Debt issuance programme	*165*		
Total funding programme	47,439	27,761	32,694
Other	28	388	
Total at amortised cost	**47,567**	**28,251**	**32,796**
Held at fair value through profit or loss			
Total debt certificates	**47,567**	**28,251**	**32,796**

Euro Commercial Paper is a short-term funding instrument with a maximum maturity of one year. This paper was issued in 2009 in guaranteed form (guaranteed by the Dutch State) and in un-guaranteed form. State Guaranteed Notes refers to a long-term funding instrument guaranteed by the Dutch State. These notes were issued in 2009 with maturities varying from 18 months to 5 years. French Certificates de Dépôts refers to a short-term funding instrument with a maximum maturity of one year which is governed by French law. The certificates were issued in 2009 and not guaranteed by the French State. Euro Medium Term Notes refers to a long-term funding instrument with different maturities. Notes issued under the Debt Issuance Programme were issued in 2009 with a maturity of one year.

The average balance of Debt certificates amounted to EUR 38,226 million in 2009 (2008: EUR 31,353 million; 2007: EUR 27,095). The average yield was 2.4% in 2009 (2008: 5.2%; 2007: 5.0%).

The contractual maturity of the balance outstanding as at 31 December of Debt certificates valued at amortised cost is shown below.

	2009	*2008*	*2007*
Not later than 1 year	21,906	6,659	2,910
Later than 1 year and not later than 2 years	6,114	1,000	7,678
Later than 2 years and not later than 3 years	12,699	5,370	2,677
Later than 3 years and not later than 4 years	235	4	5,225
Later than 4 years and not later than 5 years	4,029	126	11,414
Later than 5 years	2,584	15,092	2,892
Total debt certificates	**47,567**	**28,251**	**32,796**

26 Subordinated liabilities

The following table provides a specification of the Subordinated liabilities as at 31 December.

	31 December 2009	31 December 2008	31 December 2007
Liability component of subordinated convertible securities	2,034	2,070	2,106
Other hybrid and Tier 1 liabilities		450	548
Other subordinated liabilities	2,674	4,041	8,998
Total subordinated liabilities	**4,708**	**6,561**	**11,652**

The average balance for Subordinated liabilities was EUR 6,166 million in 2009 (2008: EUR 11,125 million; 2007: EUR 4,345 million). The average yield was 4.2% in 2009 (2008: 6.0%; 2007: 4.5%).

26.1 Subordinated convertible securities: MCS

On 7 December 2007, Fortis Bank (Nederland) N.V., Fortis Bank SA/NV and the Fortis Holdings issued Mandatory Convertible Securities (MCS) with a nominal amount of EUR 2 billion. The MCS pay semi-annual coupons, in arrears, at an annual rate of 8.75%. Accordingly, payments were made on 7 June 2009 and 7 December 2009.

For regulatory purposes, the MCS are treated as Tier 1 capital, but they are included as a subordinated liability in the balance sheet. The MCS constitute unsecured and subordinated obligations of Fortis Bank (Nederland) N.V., Fortis Bank SA/NV and Fortis Holdings. As set out in the prospectus, the obligations of the issuers of the MCS are joint and several. The MCS are subordinated to all other loans, subordinated loans and preference shares, but rank senior to ordinary shares.

All outstanding MCS will be mandatorily converted on 7 December 2010 into a number of Fortis Holdings shares to be determined in accordance with the prospectus. The issuers and holders have the right to convert the MCS prior to maturity into Fortis Holdings shares in the events set out in the prospectus, and subject to specific terms and conditions.

The MCS is recorded in the balance sheet as at 31 December as follows:

	2009	2008
Equity component	**(131)**	**(131)**
Liability component		
Balance as at 1 January	**2,070**	**2,106**
Issued		
Interest expense	139	139
Interest paid	(175)	(175)
Balance as at 31 December	**2,034**	**2,070**

26.2 Other hybrid and Tier 1 liabilities

In 2008 Other hybrid and Tier 1 liabilities consisted of Non-cumulative non-voting perpetual preference shares in the amount of EUR 450 million.

Non-cumulative non-voting perpetual preference shares

On 29 June 1999 Fortis Capital Company Ltd (FCC), a wholly-owned subsidiary of Fortis Bank (Nederland) N.V., issued 450,000 class A1 preference shares with a total nominal value of EUR 450 million in order to strengthen Fortis Bank (Nederland) N.V.'s Tier 1 capital on a permanent basis. FCC made the net proceeds of this issue available to Fortis Bank (Nederland) N.V. in the form of a subordinated loan. The preference shares are listed and traded on Euronext Amsterdam by NYSE Euronext.

On 31 March 2009, FCC notified holders of class A1 preference shares that it had decided not to redeem the preference shares for cash on the first call date (29 June 2009). In accordance with the subsequent stock conversion procedure as set out in the offering memorandum, holders of 362,511 preference shares exercised their right to exchange the preference shares into (twinned) ordinary shares of Fortis SA/NV and Fortis N.V. (together Fortis Holdings). However, on 15 April 2009 Fortis Holdings instructed FCC, as permitted by the stock conversion procedure, to redeem the preference shares for which conversion notices had been provided through cash settlement.

FCC was forced to bring a summary hearing against Fortis Holdings to ensure compliance with its absolute and unconditional contractual undertaking to deliver to FCC upon cash settlement the required cash amount per converted preference share (EUR 362,511,000 in total). On 25 June 2009, the court ruled in favour of all FCC's claims and Fortis Holdings subsequently paid to FCC the full amount due, which enabled FCC to exchange the 362,511 preference shares for cash on 29 June 2009.

Fortis Holdings have initiated court proceedings against FCC and Fortis Bank (Nederland) N.V. claiming compensation for the amount paid on 29 June 2009. These proceedings are pending. FCC and Fortis Bank (Nederland) N.V. continue to have the opinion that Fortis Holdings is not entitled to any compensation.

Holders of the remaining 87,489 preference shares have not exercised their conversion right as part of the stock conversion procedure. Since 29 June 2009, the dividend on these preference shares, which remain outstanding, has been payable quarterly in arrears and is calculated on the paid-up value of the preference shares at three-month EURIBOR plus 260 basis points.

Following the cash settlement of 362,511 class A1 preference shares, an amount of EUR 362,511,000 is accounted for as a profit [15] and the remaining EUR 87,489,000 is accounted for as other subordinated liabilities.

In the second half of 2009, Fortis Bank (Nederland) N.V. reassessed the tax treatment of the cash settlement of Fortis Capital Company, in Jersey, and concluded that this income should be exempt of tax.
On 30 June 2009 a provisional tax expense of EUR 92.4 million was taken into account based on the preliminary assessment made at that time. This tax expense was reversed in the second half of 2009 based on the reassessment.

26.3 Other subordinated liabilities

Other subordinated liabilities mainly consist of two loans from the Dutch State. These loans have an interest rate of 1.935% (EUR 1,650 million) and 6.525% (EUR 250 million) and mature in 2017 and 2010 respectively.

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15. Pending the outcome of the appeal by Fortis Holdings.

27 Other borrowings

The table below shows the components of Other borrowings as at 31 December.

	2009	2008	2007
Other	113	257	1,371
Total other borrowings	**113**	**257**	**1,371**

Other

Other borrowings, excluding finance lease obligations, are classified by remaining maturity in the table below.

	2009	2008	2007
Not later than 3 months			886
Later than 3 months and not later than 1 year	19	5	149
Later than 1 year and not later than 5 years	14	45	82
Later than 5 years	80	207	254
Total	**113**	**257**	**1,371**

28 Provisions

The table below shows the breakdown of Provisions as at 31 December.

	31 December 2009	31 December 2008	31 December 2007
Credit commitments	15	15	6
Restructuring	23	4	5
Other	86	78	68
Total provisions	**124**	**97**	**79**

Provisions for credit commitments are allowances covering credit risk on Fortis Bank (Nederland) N.V.'s credit commitments recorded off-balance that have been identified individually or on a portfolio basis as impaired. The amount of the impairment is the present value of the cash flows, which Fortis Bank (Nederland) N.V. expects to be required to settle its commitment.

Restructuring provisions cover the costs of restructuring plans for which implementation has been formally announced by Fortis Bank (Nederland) N.V.'s management. Restructuring provisions are related to the integration of recently acquired entities and to the further streamlining of the global Fortis Bank (Nederland) N.V. organisation and infrastructure. Restructuring provisions include allowances for staff and other operating expenses.

Other provisions consist mainly of provisions for tax litigations and legal litigation.

The tax and legal litigation provisions are based on best estimates available at the year-end based on the opinion of legal and tax advisors. The timing of the outflow of cash related to these provisions is by nature uncertain given the unpredictability of the outcome and the time involved in concluding litigations.

Changes in Provisions during the year are as follows:

	Credit commitments	Restruc-turing	Other	Total
At 1 January 2008	**6**	**5**	**68**	**79**
Acquisition and divestment of subsidiaries				
Increase of provisions	17	4	45	66
Reversal of unused provisions	(8)		(3)	(11)
Utilised during the year			(31)	(31)
Accretion of interest				
Foreign exchange differences				
Other		(5)	(1)	(6)
At 31 December 2008	**15**	**4**	**78**	**97**
Acquisition and divestment of subsidiaries			(4)	(4)
Increase of provisions	4	6	33	43
Reversal of unused provisions	(4)	(8)	(2)	(14)
Utilised during the year			(8)	(8)
Accretion of interest		1		1
Foreign exchange differences				
Other		20	(11)	9
At 31 December 2009	**15**	**23**	**86**	**124**

29 Current and deferred tax

The table below summarises the tax position as at 31 December:

	2009			2008			2007		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
Assets	259	194	453	172	237	409	219	158	377
Liabilities	124	39	163	247	74	321	730	52	782

The components of deferred tax assets and deferred tax liabilities as at 31 December are shown below.

	Balance sheet			Income statement		
	2009	2008	2007	2009	2008	2007
Gross analysis of tax position:						
Assets						
Assets held for trading (trading securities /derivative financial instruments /other assets held for trading)	5	587		(581)	585	(73)
Liabilities held for trading (short security sales / derivative financial instruments /other liabilities held for trading)		120	(56)	(120)	176	33
Investments (Held to maturity/Available for sale)						
Investment property		1	1	(1)		
Property, plant and equipment		18	17	(18)		
Due from customers	2	59	26	(30)	33	6
Impairments on loans	1	27	28	(26)		(1)
Provisions for pensions and post-retirement benefits	14	236	238	(222)		
Other provisions	2	17	17	(15)	1	1
Accrued expenses and deferred income	2			2		
Unused tax losses	327	168	78	163	84	55
Other	43	67	13	(39)	1	(117)
Gross deferred tax assets	**396**	**1,300**	**362**	**(887)**	**880**	**(96)**
Unrecognised deferred tax assets	(129)	(127)	(76)	(7)	(44)	(56)
Net deferred tax assets	**267**	**1,173**	**286**	**(894)**	**836**	**(152)**
Liabilities:						
Assets held for trading (trading securities /derivative financial instruments /other assets held for trading)		376	256	234	(120)	(168)
Liabilities held for trading (short security sales / derivative financial instruments /other liabilities held for trading)		39		39	(39)	
Investments (Held to maturity/Available for sale)	52	14	36		5	4
Property, plant and equipment	8	7	7	(1)		
Due from customers	24	79	60	55	(19)	13
Impairments on loans		5	7	5	2	(2)
Debt certificates and subordinated liabilities						
Other provisions	9	77	75	68		
Deferred policy acquisition costs			1			
Deferred expense and accrued income	2	50	1	48		
Tax exempt realised reserves						
Other	17	363	(263)	486	(624)	264
Total deferred tax liabilities	**112**	**1,010**	**180**	**934**	**(795)**	**111**
Deferred tax income (expense)				**40**	**41**	**(41)**
Net deferred tax	**155**	**163**	**106**			

The maturity for the net position unused tax losses and unrecognised deferred tax asset for 2009 is EUR 24 million (2008: EUR 38 million) within 5 years and EUR 174 million (2008: EUR 3 million) for more than 5 years.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority. The amounts offset in the balance sheet are:

	2009	2008	2007
Deferred tax asset	194	237	158
Deferred tax liability	39	74	52
Net deferred tax	**155**	**163**	**106**

30 Accrued interest and other liabilities

The composition of Accrued interest and other liabilities as at 31 December is as follows:

	31 December 2009	31 December 2008	31 December 2007
Deferred revenues	196	579	455
Accrued interest expense	2,153	2,122	3,160
Accrued other expenses	487	1,144	1,393
Derivatives held for hedging purposes	1,912	1,612	
Defined benefit liabilities	161	234	344
Other employee benefit liabilities	118	123	136
Accounts payable	50	206	62
VAT and other taxes payable	39	42	42
Other liabilities	4,566	2,812	3,921
Total	**9,682**	**8,874**	**9,513**

Derivatives held for hedging purposes contains the negative fair value of all derivatives qualifying as hedging instruments in fair value hedges. The hedging strategies are further explained in note 6.

Further details on pension liabilities can be found in note 8. Other employee-benefit liabilities relate to, among other things, other post-employment benefits (see note 8), social-security charges, termination benefits and accrued-vacation days.

All purchases and sales of financial assets requiring delivery within the time frame established by regulation or market convention are recognised on the trade date, i.e. the date when Fortis Bank (Nederland) N.V. becomes a party to the contractual provisions of the instrument.

Part of the line Other employee benefit liabilities are obligations for early departure programmes which are based on the arrangements in the collective labour agreements. The obligations are set up when the collective labour agreements are finalised and the cash outflows are in line with the terms of the collective labour agreements.

The line Other liabilities includes EUR 0 million (2008: EUR 750 million; 2007: EUR 815 million) regarding the carrying value of non-derivative financial instruments designated as hedging instruments in net investment hedges and EUR 1,912 million (2008: EUR 1,591 million; 2007: EUR 0 million) is related to non-derivative financial liabilities designated as hedging instruments in fair value hedges.

The remainder of the line Other liabilities mainly consists of balancing temporary amounts between trade date and settlement date.

In 2008 Accrued interest and other liabilities also includes payments for services rendered in relation to the Separation Agreement between Fortis Bank (Nederland) N.V. and Fortis Bank SA/NV.

31 Derivatives

Derivatives include forwards, futures, swaps and option contracts, all of which derive their value from underlying interest rates, foreign exchange rates, commodity values, equity instruments or credit instruments.

A derivative contract may be traded either on an exchange or over-the-counter (‘OTC’). Exchange traded derivatives, which include futures and option contracts, are standardised and generally do not involve significant counterparty risk due to the margin requirements of the individual exchanges. OTC derivative contracts are individually negotiated between contracting parties. Financial instruments can also include embedded derivatives, i.e. components of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary similar to a stand-alone derivative.

The notional amounts of derivative contracts are not recorded in the balance sheet as assets or liabilities and do not represent the potential for gain or loss associated with such transactions. The exposure to the credit risk associated with counterparty non-performance is limited to the positive fair value of the derivative contracts.

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating interest rate payments. Fortis Bank (Nederland) N.V. uses interest rate swaps to modify the interest rate characteristics of certain assets and liabilities. For example, based on long-term debt, an interest rate swap can be entered into to convert a fixed interest rate instrument into a floating interest rate instrument, in order to reduce the interest rate mismatch. Fortis Bank (Nederland) N.V. also uses interest rate swaps to hedge the risk of price fluctuations of the trading securities.

Interest rate futures are exchange traded instruments and represent commitments to purchase or sell a designated security or money market instrument at a specified future date and price.

Interest rate forward agreements are OTC derivative instruments in which two parties agree on an interest rate and period which serve as a reference point in determining a net payment to be made by one party to the other, depending on the prevailing market rate at a future point in time.

Interest rate options are interest rate protection instruments that if exercised, involve the obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current rate and an agreed upon rate applied to a notional amount. Exposure to losses on all interest rate contracts will increase or decrease over their respective life’s as interest rates fluctuate.

Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final payments in different currencies. The value of swap contracts depends upon their maturity dates, interest and foreign exchange rates, and the timing of payments.

Foreign exchange contracts, which include spot, forward and future contracts, represent agreements to exchange payments in different foreign currencies at an agreed exchange rate, on an agreed settlement date. These contracts are used to hedge net capital and foreign exchange exposure.

Foreign exchange option contracts are similar to interest rate option contracts, the difference being that they are based on currency exchange rates rather than interest rates. The value of these contracts will increase or decrease over their respective lives as currency exchange and interest rates fluctuate.

In exchange–traded foreign exchange contracts, exposure to off–balance sheet credit risk is limited, as these transactions are executed on organised exchanges that assume the obligations of counterparties and generally require security deposits and daily settlement of margins.

A commodity forward or future contract is a contract where the underlying is a commodity. A commodity swap is a swap where exchanged cash flows are dependent on the price of an underlying commodity. A commodity option is an option either to buy or to sell a commodity contract at a fixed price until a specified date.

Credit derivatives allow credit risk to be isolated from all other risks as well as from the instrument with which it is associated, so that the credit risk can be passed from one party to another. In a credit default swap, the buyer/beneficiary pays a premium and acquires the right to sell back a reference bond to the seller/guarantor if a credit event occurs.

A total return swap is a contract in which the beneficiary agrees to pay the guarantor the total return on the reference asset, which consists of all contractual payments as well as any appreciation in the market value of the reference asset.

Equity derivatives include equity swaps, options, futures and forward contracts. An equity swap is a swap in which the cash flows that are exchanged are based on the total return on a stock market index or on individual equity securities and an interest rate (either a fixed rate or a floating rate). Equity (or stock) options give the right to buy (in the case of a call option) or to sell (in the case of a put option) a fixed number of shares of a company, at a given price, before or on a specified date.

31.1 Derivatives held for trading

The Derivatives held for trading as at 31 December are composed of the following:

	Assets		Liabilities	
	Fair values	Notional amount	Fair values	Notional amount
2009				
Foreign exchange contracts				
Forwards and futures	493	45,001	348	42,235
Interest and currency swaps	61	1,709	67	1,718
Options	16	1,427	20	1,395
Total	**570**	**48,137**	**435**	**45,348**
Interest rate contracts				
Forwards and futures				123
Swaps	1,339	56,355	1,310	56,355
Options	560	15,590	560	15,590
Total	**1,899**	**71,945**	**1,870**	**72,068**
Commodity contracts				
Forwards and futures				
Swaps	16	231	14	231
Options				
Total	**16**	**231**	**14**	**231**
Equity/Index contracts				
Forwards and futures	61	1,207	1	96
Swaps	555	11,245	246	5,834
Options and warrants	1,092	6,362	1,183	6,359
Total	**1,708**	**18,814**	**1,430**	**12,289**
Credit derivatives				
Swaps				
Total				
Other	**17**	**81**	**17**	**83**
Balance as at 31 December	**4,210**	**139,208**	**3,766**	**130,019**
Over the counter (OTC)	4,065	137,981	3,518	128,951
Exchange traded	145	1,227	248	1,068
Total	**4,210**	**139,208**	**3,766**	**130,019**

	Assets		Liabilities	
	Fair values	*Notional amount*	*Fair values*	*Notional amount*
2008				
Foreign exchange contracts				
Forwards and futures	1,949	61,667	1,849	58,986
Interest and currency swaps	125	1,773	130	1,784
Options	54	2,166	51	2,162
Total	**2,128**	**65,606**	**2,030**	**62,932**
Interest rate contracts				
Forwards and futures				
Swaps	1,200	52,574	1,264	52,574
Options	888	15,864	889	15,867
Total	**2,088**	**68,438**	**2,153**	**68,441**
Commodity contracts				
Forwards and futures				
Swaps	55	194	55	194
Options				
Total	**55**	**194**	**55**	**194**
Equity/Index contracts				
Forwards and futures		166		1
Swaps	107	691	435	685
Options and warrants	2,353	3,696	1,751	5,420
Total	**2,460**	**4,553**	**2,186**	**6,106**
Credit derivatives				
Swaps		536		536
Total		**536**		**536**
Other	**5**	**105**	**5**	**105**
Balance as at 31 December	**6,736**	**139,432**	**6,429**	**138,314**
Over the counter (OTC)	6,687	138,626	6,385	137,673
Exchange traded	49	806	44	641
Total	**6,736**	**139,432**	**6,429**	**138,314**

	Assets		Liabilities	
	Fair values	*Notional amount*	*Fair values*	*Notional amount*
2007				
Foreign exchange contracts				
Forwards and futures	1,079	92,370	977	92,271
Interest and currency swaps	49	1,117	48	1,121
Options	34	3,264	34	3,271
Total	**1,162**	**96,751**	**1,059**	**96,663**
Interest rate contracts				
Forwards and futures		14		14
Swaps	843	114,326	769	114,324
Options	203	13,206	203	13,273
Total	**1,046**	**127,546**	**972**	**127,611**
Commodity contracts				
Forwards and futures				
Swaps	17	197	16	197
Options				
Total	**17**	**197**	**16**	**197**
Equity/Index contracts				
Forwards and futures	76	470	453	2,775
Swaps	363	30,424	1,076	14,542
Options and warrants	4,378	24,397	4,037	17,678
Total	**4,817**	**55,291**	**5,566**	**34,995**
Credit derivatives				
Forwards and futures				
Options				
Swaps		224		224
Other				
Total		**224**		**224**
Other	**91**	**131**	**126**	**131**
Balance as at 31 December	**7,133**	**280,140**	**7,739**	**259,821**
Over the counter (OTC)	7,057	279,635	7,723	259,594
Exchange traded	76	505	16	227
Total	**7,133**	**280,140**	**7,739**	**259,821**

31.2 Derivatives held for hedging purposes

The Derivatives held for hedging are mainly related to fair value hedges. Fortis Bank (Nederland) N.V. uses derivatives, principally interest rate swaps, for hedging purposes in the management of its own asset and liability portfolios. For structural positions a portfolio hedge of interest rate risk is applied to a part of the mortgage portfolio and microhedge is applied to a part of the issued debt securities. Customer deposits in foreign currency are used to hedge the foreign currency translation risk in the net investment in foreign operations.

Hedging derivatives as at 31 December are shown below.

	Assets		Liabilities	
	Fair values	*Notional amount*	*Fair values*	*Notional amount*
2009				
Interest rate contracts				
Swaps	24	41,334	1,912	41,334
Total	**24**	**41,334**	**1,912**	**41,334**
Net investment hedges				
Balance as at 31 December 2009	**24**	**41,334**	**1,912**	**41,334**
Fair values supported by observable market data				
Fair values obtained using a valuation model	24		1,912	
Total	**24**		**1,912**	
Over the counter (OTC)	24	41,334	1,912	41,334
Exchange traded				
Other				
Total	**24**	**41,334**	**1,912**	**41,334**

	Assets		Liabilities	
	Fair values	*Notional amount*	*Fair values*	*Notional amount*
2008				
Interest rate contracts				
Swaps		33,893	1,591	33,893
Total		**33,893**	**1,591**	**33,893**
Net investment hedges			21	
Balance as at 31 December 2008		**33,893**	**1,612**	**33,893**
Fair values supported by observable market data			21	
Fair values obtained using a valuation model			1,591	
Total			**1,612**	
Over the counter (OTC)		33,893	1,591	33,893
Exchange traded				
Other			21	
Total		**33,893**	**1,612**	**33,893**

	Assets		Liabilities	
	Fair values	*Notional amount*	*Fair values*	*Notional amount*
2007				
Interest rate contracts				
Swaps	729	31,326		31,326
Total	**729**	**31,326**		**31,326**
Balance as at 31 December 2007	**729**	**31,326**		**31,326**
Fair values supported by observable market data	729			
Fair values obtained using a valuation model				
Total	**729**			
Over the counter (OTC)	729	31,326		31,326
Total	**729**	**31,326**		**31,326**

32 Fair values of financial assets and financial liabilities

The following table presents the carrying amounts and fair values of financial assets and financial liabilities on the Fortis Bank (Nederland) N.V. consolidated balance sheet. A description of the methods used to determine the fair value of financial instruments is given below.

					2009
	Carrying value	*Level 1: Fair value Quoted market data in active markets*	*Level 2: Fair value Valuation techniques based on observable market inputs*	*Level 3: Fair value Valuation techniques not based on observable market inputs*	*Total Fair value*
Assets					
Trading securities	12,020	12,020			12,020
Trading derivatives	4,210	171	4,039		4,210
Investments - Available for sale	2,822	814	2,008		2,822
Investments held at fair value through profit or loss	485	376		109	485
Total financial assets	**19,537**	**13,381**	**6,047**	**109**	**19,537**
Liabilities					
Liabilities held for trading – Short security sales	20,392	20,392			20,392
Liabilities held for trading – Derivative financial instruments	3,766	248	3,518		3,766
Other financial liabilities	6	6			6
Total financial liabilities	**24,164**	**20,646**	**3,518**		**24,164**

					2008
	Carrying value	*Level 1: Fair value Quoted market data in active markets*	*Level 2: Fair value Valuation techniques based on observable market inputs*	*Level 3: Fair value Valuation techniques not based on observable market inputs*	*Total Fair value*
Assets					
Trading securities	7,212	7,212			7,212
Trading derivatives	6,736	1,706	5,030		6,736
Investments - Available for sale	3,542	1,022	2,520		3,542
Investments held at fair value through profit or loss	151	47		104	151
Total financial assets	**17,641**	**9,987**	**7,550**	**104**	**17,641**
Liabilities					
Liabilities held for trading– Short security sales	17,286	17,286			17,286
Liabilities held for trading– Derivative financial instruments	6,429	1,606	4,823		6,429
Other financial liabilities	1	1			1
Total financial liabilities	**23,716**	**18,893**	**4,823**		**23,716**

	Carrying value	Level 1: Fair value Quoted market data in active markets	Level 2: Fair value Valuation techniques based on observable market inputs	Level 3: Fair value Valuation techniques not based on observable market inputs	Total Fair value
					2007
Assets					
Trading securities	15,973	15,973			15,973
Trading derivatives	7,133	579	6,554		7,133
Investments - Available for sale	3,201	923	2,278		3,201
Investments held at fair value through profit or loss	123	22		101	123
Total financial assets	**26,430**	**17,497**	**8,832**	**101**	**26,430**
Liabilities					
Liabilities held for trading– Short security sales	44,725	44,725			44,725
Liabilities held for trading– Derivative financial instruments	7,739	1,488	6,251		7,739
Other financial liabilities	2	2			2
Total financial liabilities	**52,466**	**46,215**	**6,251**		**52,466**

Fair value is the amount for which an asset could be exchanged, a liability settled or an equity instrument granted between knowledgeable, willing parties in an arm's length transaction.

Fortis Bank (Nederland) N.V. uses the following methods, in the order listed, in determining the fair value of financial instruments:

- Level 1: quoted price in an active market;
- Level 2: valuation techniques based on observable market inputs;
- Level 3: valuation techniques not based on observable market inputs.

Level 1
When a financial instrument is traded in an active and liquid market, its quoted market price or value provides the best evidence of fair value. No adjustment is made to the fair value of large holdings of shares, unless there is a binding agreement to sell the shares at a price other than the market price. The appropriate quoted market price for an asset held or a liability to be issued is the current bid price, and for an asset to be acquired or a liability held, the ask price. Mid-market prices are used as a basis for establishing fair values of assets and liabilities with offsetting market risks.

Level 2
If no active market price is available, fair values are estimated using valuation techniques based on market conditions existing at the reporting date. This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted market prices for similar instruments in markets that are considered less than active or valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3
This category includes instruments where the valuation technique includes inputs not based on observable market data and the unobservable inputs have a significant effect on the instrument's valuation.

If there is a valuation technique commonly used by market participants to price an instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, Fortis Bank (Nederland) N.V. applies that technique.

Valuation techniques that are well established in financial markets include recent market transactions, discounted cash flows and option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price, and should be consistent with accepted economic methodologies for pricing financial instruments.

Fair values of Private Equity investments are based on the European Venture Capital Association valuation guidelines, using business multiples of similar entities on Enterprise Value/EDITBA and Price/Cash flow.

The basic principles in estimating fair value are:

- maximise market inputs and minimise internal estimates and assumptions;
- change estimation techniques only if an improvement can be demonstrated or if a change is necessary because of changes in the availability of information.

The fair value presented is the ‘clean’ fair value, which is the total fair value or ‘dirty’ fair value less interest accruals. Interest accruals are reported separately.

Methods and assumptions used in determining fair value are largely dependent on whether the instrument is traded on financial markets and what information is available to be incorporated into the valuation models. A summary of different financial instrument types along with the fair value treatment is included below.

OTC derivate contracts are individual arrangements between specific counterparties and therefore cannot be the subject of a Level 1 measurement as there is unlikely to be an active market for an “identical” instrument. Quoted market prices provide the most reliable fair value for derivatives traded on a recognised exchange. Fair value for derivatives not traded on a recognised exchange is considered to be the value that could be realised through termination or assignment of the derivative.

Common valuation methodologies for an interest rate swap incorporate a comparison of the yield of the swap with the current swap yield curve. The swap yield curve is derived from quoted swap rates. Dealer bid and offer quotes are generally available for basic interest rate swaps involving counterparties whose securities are investment-grade.

Factors that influence the valuation of an individual derivative include the counterparty’s credit standing and the complexity of the derivative. If these factors differ from the basic factors underlying the quote, an adjustment to the quoted price may be considered.

The fair value (FV) calculation of financial instruments not actively traded on financial markets can be summarised as follows:

Instrument Type	Fortis Bank (Nederland) N.V. Products	FV Calculation
Instruments with no stated maturity	Current accounts, saving accounts, etc.	Nominal value.
Instruments without optional features	Straight loans, deposits, etc.	Discounted cash flow methodology; discounting yield curve is the swap curve plus spread (assets) or the swap curve minus spread (liabilities); spread is based on commercial margin computed based on the average on new production during last 3 months.
Instruments with optional features	Mortgage loans and other instruments with optional features	Product is split and linear (non-optional) component is valued using a discounted cash flow methodology and option component valued based on option pricing model.
Subordinated loans	Subordinated loans	Discounted cash flow methodology in which spread is based on subordination cost for Fortis Bank (Nederland) N.V. based on market quotations.
Private equity	Private equity and non-quoted participation investments	In general based on the European Venture Capital Association valuation guidelines, using amongst others Enterprise Value/EBITDA, Price/Cash flow and Price/Earnings.
Preference shares (non-quotes)	Preference shares	If the share is characterised as a debt instrument, a discounted cash flow model is used.

Fortis Bank (Nederland) N.V. has a policy in place aimed at quantifying and monitoring pricing uncertainties related to the calculation of fair values using valuation techniques and internal models. Related uncertainties are a feature of the ‘model risk’ concept.

Model risk arises when the product pricing requires valuation techniques which are not yet standardised or for which input data cannot be directly observed in the market, leading to assumptions on the input data themselves.

The development of new, sophisticated products in the market has resulted in the development of mathematical models to price them. These models in turn depend on assumptions regarding the stochastic behaviour of underlying variables, numerical algorithms and other possible approximations needed to replicate the complexity of the financial instruments.

Furthermore, the underlying hypotheses of a model depend on the general market conditions (e.g. specific interest rates, volatilities) prevailing at the time it is developed. There is no guarantee that the model will continue to yield adequate results should market conditions change drastically.

Any related model uncertainty is quantified as accurately as possible and is the basis in adjusting the fair value calculated by the valuation techniques and internal models.

Notes to the income statement

33 Exceptional items

Fortis Capital Company

In 2009 Other income includes a sum of EUR 363 million paid by Fortis Holdings to Fortis Capital Company Ltd. ('FCC'). As described in the sections Report of the Management Board and Capital, this relates to the cash settlement of 362,511 class A1 shares. For further details, see note 26.

Madoff fraud

On Thursday 11 December 2008, Bernard L. Madoff, founder of Bernard L. Madoff Investment Securities LLC, was arrested by US federal law enforcement and charged with a single count of securities fraud. The Securities and Exchange Commission (SEC) also charged Mr Madoff with securities fraud. While Fortis Bank (Nederland) N.V. has no direct exposure to Bernard L. Madoff Investment Securities LLC, parts of the bank do have exposures to certain funds it provides collateralised lending to. If, as a result of the alleged fraud, the value of the assets of these funds is nil and the respective clients cannot meet their obligations, Fortis Bank (Nederland) N.V.'s loss could amount to approximately EUR 1 billion. Even though the facts surrounding the alleged fraud are not completely clear yet, a provision has been taken amounting to EUR 972 million before tax.

In 2009 Change in impairments included an amount of EUR 16 million related to the recovery of the Madoff fraud losses.

Sale of participating interest in RFS Holdings B.V.

On 24 December 2008, Fortis Bank (Nederland) N.V. sold and transferred its stake in RFS Holdings B.V. to the Dutch State. With respect to the future integration of Fortis Bank (Nederland) N.V. and ABN AMRO, the Management Board and the Dutch State preferred to have the direct controlling interest in ABN AMRO at the Dutch State. The transfer allowed Fortis Bank (Nederland) N.V. to improve its governance structure. The transfer of RFS Holdings B.V. for an amount of EUR 6.5 billion had a positive effect on the solvency and liquidity position of Fortis Bank (Nederland) N.V.

RFS Holdings B.V. was recorded as an equity associate for EUR 24.2 billion. The realised capital loss at Fortis Bank (Nederland) N.V. amounted to EUR 16.8 billion. The transactions had a positive impact on the capital ratio of 0.9%.

Financing costs for the parts of RFS Holdings B.V. belonging to Fortis Bank (Nederland) N.V. until 24 December 2008 amounted to EUR 441 million after tax. This amount is accounted for in the Income statement of 2008.

34 Net interest income

The following table shows the breakdown of interest income and expenses by product for the year ended 31 December.

	2009	2008	2007
Interest income			
Interest income on cash equivalents	206	672	679
Interest income on due from banks	551	5,482	7,048
Interest income on investments	101	124	217
Interest income on due from customers	5,428	6,203	5,911
Interest income on derivatives held for trading	1,305	3,231	4,041
Other interest income	789	1,645	1,273
Total interest income	**8,380**	**17,357**	**19,169**
Interest expenses			
Interest expenses due to banks	1,357	5,307	6,321
Interest expenses due to customers	1,124	2,686	3,254
Interest expenses on debt certificates	912	1,630	1,352
Interest expenses on subordinated liabilities	261	668	197
Interest expenses on other borrowings	11	19	75
Interest expenses on liabilities held for trading and derivatives	1,512	3,818	5,120
Interest expenses on other liabilities	2,053	2,227	1,315
Total interest expenses	**7,230**	**16,355**	**17,634**
Net interest income	**1,150**	**1,002**	**1,535**

In 2009 the interest on impaired loans amounted to EUR 45 million (2008: EUR 42 million; 2007: EUR 27 million). In 2008 the interest expense included an amount of EUR 582 million related to the financing costs of RFS Holdings B.V.

Net Interest income decreased, due mainly to the separation from Fortis Bank SA/NV in October 2008. Before separation Fortis Bank (Nederland) N.V. was funded by Fortis Bank SA/NV on a gross basis. This funding was replaced by net funding from DSTA leading to sharp decreases in interest income and expenses from and to banks and an increase in expenses to customers. The decline in absolute interest rates, lower inter-banking market volumes and reduced Securities Lending activities led to further decrease in interest income and expenses.

35 Dividend and other investment income

This table provides details of dividend and other investment income for the year ended 31 December.

	2009	2008	2007
Dividend and other investment income			
Dividend income from equity securities	10	22	29
Rental income from investment property	4	5	8
Total dividend and other investment income	**14**	**27**	**37**

36 Share in result of associates and joint ventures

The share in result of associates and joint ventures is as follows for the year ended 31 December:

	2009	*2008*	*2007*
Share in result of associates and joint ventures	(2)	(896)	190
Share in result of associates and joint ventures	**(2)**	**(896)**	**190**

The result of the participation of Fortis Bank (Nederland) N.V. in RFS Holdings B.V. was EUR (905) million in 2008 (2007: EUR 179 million).

37 Realised capital gains and losses on investments

For the year ended 31 December, Realised capital gains and losses on investments are broken down as follows:

	2009	2008	2007
Debt securities	2		13
Equity securities	5	39	60
Real estate	(3)	2	63
Subsidiaries, associates and joint ventures	88	(16,845)	(12)
Other	(2)	(3)	2
Realised capital gains (losses) on investments	**90**	**(16,807)**	**126**

In 2009 the realised capital gains and losses include an amount of EUR 81 million related to the sale of Fortis Intertrust Group.

In 2008 the realised capital gains and losses included an amount of EUR (16,822) million relating to the sale of RFS Holdings B.V. to the Dutch State.

38 Other realised and unrealised gains and losses

Other realised and unrealised gains and losses as included in the income statement for the year ended 31 December are presented below.

	2009	2008	2007
Assets/liabilities held for trading	175	332	378
Assets and liabilities held at fair value through profit or loss	(20)	(15)	57
Hedging results:			
- Net result on Fair value hedging instruments	*(379)*	*(2.343)*	*764*
- Net result on Fair value hedged items (attributable to the hedged risk)	*313*	*2.466*	*(612)*
- Net Investment hedging	*1*		
Total Hedging results	(65)	123	152
Other	13	(9)	
Other realised and unrealised gains and losses	**103**	**431**	**587**

All gains and losses arising from a change in the fair value of a financial asset or a financial liability, excluding interest accruals recorded under Interest income and Interest expense, are recorded in Other realised and unrealised gains and losses.

Assets and liabilities held for trading, including derivatives held for trading, are acquired principally for the purpose of generating a profit from short-term fluctuations in the price or the dealer's margin. Initial recognition is at fair value (usually the consideration paid or received). Subsequent measurement is at fair value with changes in fair value recorded in the income statement.

All changes in fair value of the assets and liabilities held at fair value through profit or loss are reported above. This includes unrealised gains and losses from revaluations and realised gains and losses upon derecognition of the assets or liabilities.

Hedging results contain the changes in fair value attributable to the hedged risk – mainly interest-rate risk – of hedged assets and liabilities and the changes in fair value of the hedging instruments.

Total hedging results include ineffectiveness of fair value hedges of EUR (66) million (2008: EUR 123 million; 2007: EUR 152 million). Ineffectiveness from the hedge of a net investment in foreign operations amounted to EUR 1 million (2008: EUR 0 million; 2007: EUR 0 million).

39 Net Fee and commission Income

Fee and commission income and expenses for the year ended 31 December is specified in the table below.

	2009	2008	2007
Fee and commission income			
Securities and custodian services	500	393	404
Reinsurance commissions and insurance and investment fees	16	16	22
Asset management	230	297	314
Payment services	252	268	274
Guarantees and commitment fees	74	80	62
Other service fees	25	54	92
Total fee and commission income	**1,097**	**1,108**	**1.168**
Fee and commission expense			
Securities and custodian services	249	174	124
Reinsurance commissions and insurance and investment fees	20	19	23
Asset management	5	6	12
Payment services	60	56	45
Guarantees and commitment fees	20	16	6
Other service fees	19	14	32
Total fee and commission expense	**373**	**285**	**242**
Net Fee and commission income	**724**	**823**	**926**

40 Other income

Other income includes the following elements for the year ended 31 December.

	2009	2008	2007
Other income			
Operating lease income	8	5	3
Income from Fortis Group companies	24	144	130
Cash settlement of 362,511 class A1 shares	363		
Other	60	58	92
Total other income	**455**	**207**	**225**

The Cash settlement of 362,511 class A1 shares was paid by Fortis Holdings to Fortis Capital Company Ltd. ('FCC'), as described in the sections Report of the Management Board and Capital.

The line Other contains a negative goodwill of EUR 34 million.

41 Change in impairments

The Changes in impairments for the year ended 31 December are as follows:

	2009	2008	2007
Change in impairments on:			
Cash and cash equivalents	3		
Due from banks	29	30	(1)
Due from customers	382	1.202	25
Credit commitments – customers	(1)	10	8
Investments in equity securities and other		1	7
Investments in associates and joint ventures	(22)	22	
Other receivables	1	1	
Property, plant and equipment	1	1	
Goodwill and other intangible assets	2	35	
Accrued interest and other assets	1	1	2
Total change in impairments	**396**	**1,303**	**41**

In 2008 the Change in impairments included an amount of EUR 972 million relating to the Madoff fraud. In 2009 Change in impairments included an amount of EUR 16 million relating to the recovery of the Madoff fraud losses.

42 Staff expenses

Staff expenses for the year ended 31 December are as follows:

	2009	2008	2007
Staff expenses			
Salaries and wages	679	700	747
Social security charges	68	73	68
Pension expenses relating to defined benefit plans	27	6	31
Defined contribution plan expenses	18	17	26
Other	104	99	83
Total staff expenses	**896**	**895**	**955**

Note 8 contains further details on Post-employment benefits and Other long-term employee benefits, including pension costs related to defined benefit plans and defined contribution plans.

Other includes the costs for non-monetary benefits such as medical costs, termination benefits, restructuring costs and the share based payments.

43 Depreciation and amortisation of tangible and intangible assets

The Depreciation and amortisation of tangible and intangible assets for the year ended 31 December is as follows:

	2009	2008	2007
Depreciation on tangible assets			
Buildings held for own use	3	3	4
Leasehold improvements	14	17	17
Investment property	1	3	1
Equipment	39	32	34
Amortisation on intangible assets			
Purchased software	10	7	4
Internally developed software	1	5	
Other intangible assets	1		
Depreciation and amortisation of tangible and intangible assets	**69**	**67**	**60**

44 Other expenses

Other expenses for the year ended 31 December are as follows:

	2009	2008	2007
Other expenses			
Operating lease rental expenses and related expenses	76	97	100
Professional fees	79	90	70
Marketing and public relations costs	50	52	50
Information technology costs	159	149	145
Maintenance and repair expenses	16	28	31
External staff costs	74	78	73
Travelling	18	21	27
Documentation and office supplies	35	31	28
Insurance	17	15	12
External training	12	13	13
Security	11	12	11
Utilities	9	13	11
Post, telephone and transport	37	52	56
Integration costs	5		12
Separation costs	78	62	
Costs charged by Fortis Group companies	11	150	83
Other	175	185	188
Total other expenses	**862**	**1.048**	**910**

As at 31 December 2009 the provision for DSB Bank amounted to EUR 19 million due to compensation provided under the deposit guarantee scheme, which is accounted for in the line Other. The line Other includes also expenses for temporary staff, consultants and training.

45 Income tax expenses

The components of Income tax expenses for the year ended 31 December are as follows:

	2009	2008	2007
Current tax expenses for the current period	22	170	(272)
Adjustments recognised in the period for current tax of prior periods	43	6	(16)
Previously unrecognised tax losses, tax credits and temporary differences increasing (reducing) current tax expenses	(9)	(161)	(17)
Total current tax expenses	**56**	**15**	**(305)**
Deferred tax arising from the current period	54	86	21
Impact of changes in tax rates on deferred taxes		(4)	
Deferred tax arising from the write-down or reversal of a write-down of a deferred tax asset	(7)	(44)	(60)
Previously unrecognised tax losses, tax credits and temporary differences reducing deferred tax expense	(7)	3	(2)
Total deferred tax expenses	**40**	**41**	**(41)**
Total income tax expenses	**96**	**56**	**(346)**

Profit before taxation includes income items on which no income tax is payable as well as expenses which are not tax deductible.

For 2009 the actual income tax expenses amounted to EUR 96 million (income). The main drivers were tax-exempt income, including the cash settlement of class A1 shares Fortis Capital Company Ltd., and a release of a tax provision.

In 2008 the income tax expense included an amount of EUR 141 million related to the financing costs of RFS Holdings B.V and an amount of EUR 50 million related to the Madoff fraud.

Below is a reconciliation of the expected income tax expense to the actual income tax expense. The average rate was (7.3)% in 2009 (2008: 24.1%; 2007: 22.8%).

	2009	2008	2007
Profit before taxation	311	(18,526)	1,660
Applicable tax rate	25.5%	25.5%	25.5%
Expected income tax expense	(79)	4,724	(423)
Increase (decrease) in taxes resulting from:			
Tax exempt income	52	(4,173)	154
Share in result of associates and joint ventures	(1)	(230)	47
Disallowed expenses	8	(167)	6
Previously unrecognised tax losses and temporary differences		7	2
Write-down and reversal of write-down of deferred tax assets	(8)	(67)	(87)
Impact of changes in tax rates on temporary differences		(4)	
Foreign tax rate differential	94	(4)	(5)
Adjustments for current tax of prior years	40	5	(16)
Other	(10)	(43)	(24)
Actual income tax expenses	**96**	**56**	**(346)**

Notes to off-balance sheet items

46 Commitments and guarantees

Commitments and guarantees include acceptances, commitments to extend credit, letters of credit, suretyships and financial guarantees. Fortis Bank (Nederland) N.V.'s exposure to credit loss in the event of non-performance by the counterparty is represented by the contractual notional amounts of those instruments. Fees received from these activities are recorded in the income statement when the service is delivered.

Acceptances are used by customers to effect payments for merchandise sold in import-export transactions.

Credit commitments are agreements to extend a loan to a customer as long as there are no violations of any conditions laid down in the agreement. Commitments generally have fixed expiration dates or other termination clauses. The geographic and counterparty distribution of loan commitments approximates the distribution of outstanding loans. These commitments are generally unsecured and if necessary, collateral may be required.

Letters of credits either ensure payment by Fortis Bank (Nederland) N.V. to a third party for a customer's foreign or domestic trade or are conditional commitments issued by Fortis Bank (Nederland) N.V. to guarantee the performance of a customer to a third party. Fortis Bank (Nederland) N.V. evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on credit evaluation of the counterparty. Collateral could consist of the goods financed as well as of cash deposits. Most documentary credits are taken out, though in many cases this is followed by immediate payment.

Surety ships and financial guarantees are used to guarantee performance of a customer. The credit risk involved in issuing these guarantees is essentially the same as that involved in extending loan facilities to customers. These surety ships and guarantees may be unsecured.

The following is a summary of the credit related commitments of Fortis Bank (Nederland) N.V. at 31 December.

	2009	*2008*	*2007*
Credit related commitments			
Government and official institutions	612	617	604
Credit institutions	371	791	1,001
Corporate	32,995	38,510	33,538
Retail	9,158	9,286	10,614
Total	**43,136**	**49,204**	**45,757**
Credit related commitments given			
Guarantees and letters of credit	2,327	2,470	2,830
Banker's acceptances	48	124	58
Documentary credits	3,338	3,405	4,944
Total other credit commitments gross	**5,713**	**5,999**	**7,832**
Total other credit related commitments	**48,849**	**55,203**	**53,589**

Of these commitments around EUR 4,261 million have a maturity of more than one year (2008: EUR 4,206 million; 2007: EUR 5,631 million).

Liquidity requirements to support calls under guarantees and credit commitments are considerably less than the contractual amounts outstanding, as many of these commitments will expire or terminate without being funded.

The impairments related to credit commitments amounted to (EUR 1 million) at year-end 2009 (2008: EUR 10 million; 2007: EUR 8 million).

In addition to the items included in contingent liabilities, Fortis Bank (Nederland) N.V. has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries.

47 Contingent liabilities

Like any other financial institution, Fortis Bank (Nederland) N.V. is sometimes involved in various claims, disputes and as a defendant in legal proceedings arising in the ordinary course of the banking business.

Fortis Bank (Nederland) N.V. makes provisions for such matters when, in the opinion of management, who consult with legal advisers, it is probable that a payment will have to be made by Fortis Bank (Nederland) N.V., and when the amount can be reasonably estimated.

In respect of further claims and legal proceedings against Fortis Bank (Nederland) N.V. of which management is aware (and which, according to the principles outlined above, have not been provided for), it is the opinion of management, after due consideration of appropriate professional advice, that such claims are without merit, can be successfully defended or that the outcome of these actions is not expected to result in a significant loss in the Fortis Bank (Nederland) N.V. Consolidated Financial Statements.

48 Lease agreements

Fortis Bank (Nederland) N.V. has entered into lease agreements to provide for office space, office equipment and vehicles. The following table reflects future commitments for non-cancellable operating leases as at 31 December.

	2009	*2008*	*2007*
Not later than 3 months	1	1	1
Later than 3 months and not later than 1 year	4	4	4
Later than 1 year and not later than 5 years	13	13	7
Later than 5 years			
Total	**18**	**18**	**12**

49 Assets under management

Assets under management include investments for own account and funds under management. Funds under management include investments that are managed on behalf of clients, either private or institutional, and on which Fortis Bank (Nederland) N.V. earns a management or advice fee. Discretionary capital (capital actively managed by Fortis Bank (Nederland) N.V.) as well as advisory capital is included in funds under management.

Eliminations in the various tables relates to the funds under management of clients invested in funds managed by Fortis Bank (Nederland) N.V. that otherwise would be counted double.

The following table provides a breakdown of Assets under management by investment type and origin.

	31 December 2009	*31 December 2008*	*31 December 2007*
Investments for own account:			
- Debt securities	3,078	3,463	3,029
- Equity securities	261	260	330
- Real estate	34	90	79
- Other	438	388	25,733
Total investments for own account	**3,811**	**4,201**	**29,171**
Funds under Management:			
- Debt securities	11,951	10,064	14,774
- Equity securities	13,774	14,166	18,229
- Real estate	33	21	
- Eliminations			(2,530)
Total funds under management	**25,758**	**24,251**	**30,473**
Total assets under management	**29,569**	**28,452**	**59,644**

Changes in funds under management by segment are shown below.

	Retail Banking	*Private Banking*	*Merchant Banking*	*Eliminations*	*Total*
Balance at 31 December 2007	**1,418**	**31,493**	**92**	**(2,530)**	**30,473**
In/out flow	(301)	288	(17)	433	403
Market gains /losses	(236)	(2,815)		225	(2,826)
Other		(5,609)	(62)	1,872	(3,799)
Balance at 31 December 2008	**881**	**23,357**	**13**		**24,251**
In/out flow	161	122	3		286
Market gains /losses	(112)	1,548	8		1,444
Other	(690)	484	(17)		(223)
Balance at 31 December 2009	**240**	**25,511**	**7**		**25,758**

The line Other includes transfers between segments, the impact of acquisitions and divestments and currency translation differences. The decrease in the line Other at Retail Banking is due mainly to the sale of ASR Bank N.V.

50 Post-balance sheet date events

On 26 January 2010 Fortis Bank (Nederland) N.V. announced that it had issued a EUR 4 billion senior unsecured bond among a wide group of investors in the Netherlands and abroad. The bond consists of two tranches of EUR 2 billion each, one maturing after two years and the other after five years.

On 29 January 2010 Fortis Bank (Nederland) N.V. announced that it had finalised the sale of Fortis Intertrust Group to Waterland, having received all regulatory and other necessary approvals. The sale- and purchase agreement had already been signed on 7 September 2009.

Fortis Bank (Nederland) N.V.
Company Financial Statements

Company balance sheet

(before profit appropriation)

	31 December 2009	31 December 2008	31 December 2007
Assets			
Cash and cash equivalents	25,803	20,121	49,987
Assets held for trading	9,832	9,235	18,174
Due from banks	51,649	51,413	68,666
Due from customers	87,755	89,342	94,456
Investments:			
- Held at fair value through profit or loss	*356*		
- Available for sale	*31,269*	*15,094*	*4,228*
- Investment property	*3*	*3*	*4*
- Associates and joint ventures			*24,201*
Total investments	31,628	15,097	28,433
Participation interest in group companies	5,722	5,233	3,392
Reinsurance and other receivables	183	58	61
Property, plant and equipment	244	292	266
Goodwill and other intangible assets	23	9	23
Accrued interest and other assets	4,768	3,884	6,673
Deferred tax assets	636	885	143
Total assets	**218,243**	**195,569**	**270,274**
Liabilities			
Liabilities held for trading	17,383	17,525	38,692
Due to banks	74,702	55,798	102,229
Due to customers	84,864	103,263	82,563
Debt certificates	25,305	3,705	4,926
Subordinated liabilities	5,042	6,530	11,622
Other borrowings			850
Provisions	70	73	37
Current tax liabilities		67	497
Deferred tax liabilities		245	198
Accrued interest and other liabilities	6,161	5,419	6,897
Total liabilities	**213,527**	**192,625**	**248,511**
Issued capital and reserves	4,716	2,944	21,763
Issued capital and reserves	**4,716**	**2,944**	**21,763**
Total liabilities and equity	**218,243**	**195,569**	**270,274**

Company income statement

	2009	*2008*	*2007*
Result from participating interests after tax	1,269	2,450	320
Other result after taxes	(863)	(20,936)	976
Net profit attributable to shareholders	**406**	**(18,486)**	**1,296**

Company statement of changes in equity

	Share capital	Share premium reserve	Other reserves	Currency translation reserve	Net profit attributable to shareholders	Legal statutory reserves	Unrealised gains and losses	Issued capital and reserve
Balance at 31 December 2007	**643**	**16,867**	**2,838**	**(15)**	**1,296**	**68**	**66**	**21,763**
Net profit for the period					(18,486)			(18,486)
Revaluation of investments							3	3
Foreign exchange differences				(3)				(3)
Transfer	275	(275)						
Appropriation of profit			1,296		(1,296)			
Dividend			(395)					(395)
Increase of capital	97							97
Other changes in equity			(22)			(13)		(35)
Balance at 31 December 2008	**1,015**	**16,592**	**3,717**	**(18)**	**(18,486)**	**55**	**69**	**2,944**
Net profit for the period					406			406
Revaluation of investments							(28)	(28)
Foreign exchange differences				(2)				(2)
Other non-owner changes in equity								
Appropriation of profit			(18,486)		18,486			
Dividend								
Increase of capital		1,350						1,350
Other changes in equity			54			(8)		46
Balance at 31 December 2009	**1,015**	**17,942**	**(14,715)**	**(20)**	**406**	**47**	**41**	**4,716**

Legal and statutory reserves include non-distributable profit of participations relating to the negative revaluation of financial instruments through the income statement that are not traded on an active market, in accordance with Part 9, Book 2 of the Dutch Civil Code (BW 2, article 390(1)). Currency translation reserve and unrealised gains and losses are also non-distributable reserves.

An overview of the relationship between equity and solvency requirements is provided in note 7 of the Consolidated Financial Statements 2009 of Fortis Bank (Nederland) N.V.

Explanatory notes to the balance sheet and income statement

General

The company financial statements are part of the 2009 Financial Statements of Fortis Bank (Nederland) N.V. The information provided in the notes to the consolidated balance sheet and income statement also applies to the company financial statements, unless stated otherwise below.

In the 2008 Annual Report, Fortis Bank Nederland (Holding) N.V. announced its intention to simplify its legal structure. In the legal structure then, Fortis Bank (Nederland) N.V. was a subsidiary of Fortis Bank Nederland (Holding) N.V. By way of a legal merger in accordance with the Dutch Civil Code, Fortis Bank (Nederland) N.V. (the ‘Disappearing Company’) merged into Fortis Bank Nederland (Holding) N.V. (the ‘Acquiring Company’). As a result, the Acquiring Company acquired all assets and liabilities of the Disappearing Company by universal succession. The transfer by universal succession of title implies that for the transferable assets there are no special transfer requirements nor is there a need for cooperation by third parties, other than execution of the notarial deed of merger. The Disappearing Company ceased to exist. On the effective date of the merger (1 September 2009), Fortis Bank Nederland (Holding) N.V. changed its statutory name into Fortis Bank (Nederland) N.V. For comparison purposes all figures for 2008 and 2007 have been adapted in the Fortis Bank (Nederland) N.V. company financial statements.

In the separate profit and loss account of Fortis Bank (Nederland) N.V., use has been made of the exemption referred to in Section 402 of Book 2 of the Dutch Civil Code.

Principles for the measurement of assets and liabilities and the determination of the result

In determining the principles for the recognition and measurement of assets and liabilities and determination of the result for its separate financial statements, Fortis Bank (Nederland) N.V. makes use of the option provided in section 2:362 (8) of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the separate financial statements of Fortis Bank (Nederland) N.V. are the same as those applied for the consolidated EU-IFRS financial statements. Participating interests over which significant influence is exercised are stated on the basis of the equity method. These consolidated EU-IFRS financial statements are prepared according to the standards laid down by the International Accounting Standards Board and adopted by the European Union (hereinafter referred to as EU-IFRS) and with part 9 of book 2 of the Dutch Civil Code.

Participating interests in group companies are carried at Net Asset Value in accordance with Part 9, Book 2 of the Dutch Civil Code (“BW 2 titel 9”).

The share in the result of participating interests consists of the share of Fortis Bank (Nederland) N.V. in the result of these participating interests. Results on transactions, where the transfer of assets and liabilities occurs between Fortis Bank (Nederland) N.V. and its participating interests and between participating interests themselves, are done at arm’s length basis.

Assets held for trading

The following table provides a specification of the assets held for trading as at 31 December.

	31 December 2009	31 December 2008	31 December 2007
Debt securities:			
Government bonds	12		
Corporate debt securities	1,386	476	148
Equity securities	3,912	1,971	10,664
Total trading securities	**5,310**	**2,447**	**10,812**
Derivative financial instruments:			
- Over the counter (OTC)	4,503	6,788	7,286
- Exchange traded	19		76
Total derivative financial instruments	**4,522**	**6,788**	**7,362**
Total assets held for trading	**9,832**	**9,235**	**18,174**
Fair value of trading securities by observable market data	**5,310**	**2,447**	**10,812**

Due from banks

Due from banks consisted of the following as at 31 December.

	31 December 2009	31 December 2008	31 December 2007
Interest-bearing deposits	5,621	5,562	7,773
Loans and advances	24,742	28,139	26,627
Securities lending transactions	16,058	17,195	32,539
Other	5,228	517	1,727
Total	**51,649**	**51,413**	**68,666**

Due from customers

Due from customers consisted of the following as at 31 December.

	31 December 2009	31 December 2008	31 December 2007
Government and official institutions	2,635	1,964	1,771
Residential mortgage	6,234	8,116	7,494
Consumer loans	1,454	1,003	1,020
Commercial loans	63,462	69,157	63,494
Reverse repurchase agreements	2,773		
Securities borrowing transactions	9,967	8,293	20,872
Other loans	1,857	1,857	76
Total	**88,382**	**90,390**	**94,727**
Less: impairments	(627)	(1,048)	(271)
Due from customers	**87,755**	**89,342**	**94,456**

Investments

The sharp increase in Investments available for sale was mainly caused by acquisitions of mortgage-backed securities from Special Purpose Vehicles (SPVs).

Investments in associates for 2007 included an amount of EUR 19,447 million of goodwill relating to RFS Holdings B.V.

Participating interests in group companies

Participating interest in group companies are carried at Net Asset Value in accordance with Part 9, Book 2 of the Dutch Civil Code ("BW 2 titel 9"). The share in the results of participating interests in group companies is reported in accordance with the principles of valuation and profit determination that apply to the Consolidated Financial Statements.

Movements in participating interests in group companies are shown below.

	2009	2008
Balance as at 1 January	**5,233**	**3,392**
Result from participating interests	1,269	2,450
Dividend paid	(94)	(526)
Foreign exchange differences	(4)	
Other changes	(682)	(83)
Balance as at 31 December	**5,722**	**5,233**

Due to banks

Due to banks consisted of the following as at 31 December.

	31 December 2009	31 December 2008	31 December 2007
Deposits from banks:			
Demand deposits	3,117	3,152	18,435
Time deposits	12,046	8,059	38,476
Other deposits	39,442	29,969	20,307
Total deposits	**54,605**	**41,180**	**77,218**
Repurchase agreements	10,092		243
Securities lending transactions	10,005	14,618	24,768
Total due to banks	**74,702**	**55,798**	**102,229**

Due to customers

Due to customers consisted of the following as at 31 December.

	31 December 2009	31 December 2008	31 December 2007
Demand deposits	33,876	27,291	32,411
Saving deposits	7,599	5,263	7,270
Time deposits	37,939	64,236	24,278
Other deposits	4		
Total deposits	**79,418**	**96,790**	**63,959**
Repurchase agreements	912		
Securities lending transactions	4,512	6,422	11,788
Other borrowings	22	51	6,816
Total due to customers	**84,864**	**103,263**	**82,563**

Debt certificates

Debt certificates include bond and other issued negotiable debt certificates, such as certificates of deposit and accepted bills issued by the company, which are not subordinated, with either fixed or floating interest rates.

	31 December 2009	31 December 2008	31 December 2007
Savings certificates	100	102	102
Commercial paper	17,703	3,603	4,824
Other	7,502		
Total debt certificates	**25,305**	**3,705**	**4,926**

Subordinated liabilities

The bonds and loans referred to under this item are subordinated to all current and future liabilities. Early redemption in full or in part requires the permission of the Dutch central bank. See also note 26.

	31 December 2009	31 December 2008	31 December 2007
Liability component of subordinated convertible securities	2,034	2,070	2,106
Other hybrid and Tier 1 liabilities		9	98
Other subordinated liabilities	3,008	4,451	9,418
Total subordinated liabilities	**5,042**	**6,530**	**11,622**

Issued capital and reserves

Issued capital

As at 31 December 2009 the authorised share capital amounted to EUR 1,176,856,500 distributed over 2,203,711 ordinary shares, 150,000 non-cumulative A preference shares and two non-cumulative B preference shares (convertible into ordinary shares), each share having a nominal value of EUR 500.

As at 31 December 2009, issued and paid-up capital amounted to EUR 940.5 million ordinary shares and EUR 75.0 million) preference shares distributed over 1,880,946 ordinary shares and 150,000 non-cumulative preference shares, each with a nominal value of EUR 500. The non-cumulative preference shares comprise 150,000 Class A shares (5.85%). The share premium on the preference class A shares are registered on separate accounts and are allocated to the class of shares.

Assets and liabilities of group companies

The following assets and liabilities are with group companies:

	31 December 2009	31 December 2008	31 December 2007
Cash and cash equivalents	21,710	15,711	18,785
Assets held for trading	746	1,052	549
Due from banks	27,654	28,458	33,024
Investments	30,743		4,177
Due from customers	31,371	48,215	28,997
Accrued interest and other assets	1,166	1,272	1,417
Liabilities held for trading	1,338	2,153	1,125
Due to banks	39,724	36,810	39,494
Due to customers	31,121	19,343	24,408
Subordinated liabilities	473	473	473
Accrued interest and other liabilities	183	1,458	535

Rental and lease commitments

There were no long-term rental or lease commitments at year-end 2009.

Issued guarantees

In addition to the amounts shown on the balance sheet, there are unquantified guarantees under the collective guarantee scheme by virtue of Article 84 of the Credit System Supervision Act of 1992.

For a few group companies established in the Netherlands, general guarantees have been issued within the scope of Article 403, Book 2 of the Dutch Civil Code (see the note regarding the list of the major subsidiaries and associated companies of Fortis Bank (Nederland) N.V. Subsidiaries for which a general guarantee has been issued are marked with a footnote).

Remuneration of Management Board

Remuneration details are provided in note 10 of the Consolidated Financial Statements.

Amsterdam, 3 March 2009

Other information

Management Board

J.C.M. van Rutte (Chairman)
J.R. Dijst
H.P.F.E. Bos
F.M.R. van der Horst

Supervisory Board

J.H.M. Lindenbergh (Chairman)
Mrs. I. Brakman
M. Enthoven
E.A.J. van de Merwe
Mrs. A.P.M. van der Veer-Vergeer
Mrs. H.M. Vletter-Van Dort

Major subsidiaries, branches and associated companies

Major consolidated companies

ALFAM Holding N.V., Bunnik [1]	100
Beluga [2]	0
Dolphin [2]	0
B.V. Financieringsmaatschappij N.O.B., Amsterdam [1]	100
Direktbank N.V., Amsterdam [1]	100
Delphinus [2]	0
European Multilateral Clearing Facility N.V., Amsterdam [1]	78
Fortis Bank Global Clearing N.V., Amsterdam [1]	100
Fortis Commercial Finance Holding N.V., 's Hertogenbosch [1]	100
Fortis Groenbank B.V., Amsterdam [1]	100
Fortis GSLA B.V., Amsterdam	100
Fortis Hypotheek Bank N.V., Rotterdam [1]	100
Fortis Private Equity Holding Nederland B.V., Utrecht	100
Goldfish [2]	0
NeSBIC Groep B.V., Utrecht	100
Solid 2005-I B.V. [2]	0
International Card Services B.V. Amsterdam [1]	100
Fortis Bank (Cayman) Ltd., George Town, Cayman Islands	100
MeesPierson (C.I) Limited, St Peter Port, Guernsey, Channel Islands	100
Fortis Bank (Curaçao) N.V., Willemstad, Netherlands Antilles	100
Fortis Bank (N.A.) N.V., Willemstad, Netherlands Antilles	100
Fortis Capital Company Limited, St. Helier, Jersey	5
Fortis Clearing Americas LLC, Chicago, USA	100
Fortis Clearing Sydney Pty., Sydney, Australia	100
Fortis Clearing Hong Kong Limited, Hong Kong	100
Fortis Shoken Kabushiki Kaisha, Tokyo, Japan	100
Fortis Fund Services (Ireland) Limited, Dublin, Ireland	100
Fortis Prime Fund Solutions Administration Services (Ireland) Limited, Dublin, Ireland	100
Fortis Holdings (UK) Ltd., London, United Kingdom	100
Fortis (Hong Kong) Ltd., Hong Kong	100
Fortis Information Bank Holdings (Ireland) Limited, Dublin, Ireland	100
Fortis Prime Fund Solutions Bank (Ireland) Limited, Dublin, Ireland	100
FBN Holding USA LLC, New York, USA	100
FBN Holding International AG, Zug, Switzerland	100
Fortis (Isle of Man) Limited, Douglas, Isle of Man	100
"Fortis de Hondsrug" B.V., Amsterdam [1]	100
Maas Capital Investments B.V., Rotterdam [1]	100
MeesPierson Investment Holding B.V., Amsterdam	100

Branches of Fortis Bank (Nederland) N.V.:
Frankfurt, Germany
London, United Kingdom
Oslo, Norway
Paris, France
Singapore, Singapore

Representative offices of Fortis Bank (Nederland) N.V.:
Dubai, UEA
Sao Paulo, Brasil

Branches of Fortis Bank Global Clearing N.V.:
Brussels, Belgium
Frankfurt, Germany
London, United Kingdom
Singapore, Singapore

Branches of International Card Services B.V.:
Diegem, Belgium
Düsseldorf, Germany

Major non-consolidated companies:

Holland Venture B.V., Amsterdam 33

The full list of participating interests as referred to in Article 414, Book 2 of the Dutch Civil Code has been filed with the Trade Register.

1) *A statement of liability within the meaning of Article 403, subsection 1, paragraph f, Book 2 of the Dutch Civil Code has been issued for these companies.*
2) *In accordance with SIC 12 and IAS 27 these securitisation transactions are consolidated in the financial figures of Fortis Bank (Nederland) N.V.*

Provisions of the Articles of Association concerning profit appropriation

Profit appropriation will occur in accordance with Article 19 of the Articles of Association of Fortis Bank (Nederland) N.V., which reads as follows:

Article 19

19.1 The Company may only make distributions to shareholders and other parties entitled to the profit available for distribution up to no more than the amount of the distributable reserves. Losses will not be charged to the share premium account attached to the A preference shares, the share premium account attached to the B preference shares, or the A dividend reserve.

19.2 Any distribution of profit is made after adoption of the financial statements showing that such distribution is permitted.

19.3 The profit realised in a financial year will first be used to form such reserves as the Management Board will determine subject to approval from the Supervisory Board.

19.4 a From the profit remaining after applying the stipulation of the previous paragraph, if possible and at the option of the Management Board subject to approval from the Supervisory Board, a dividend will be distributed on the A preference shares or a dividend will be added to the A dividend reserve equal to a dividend percentage calculated on the time weighted averages of the nominal amount of the A preference shares, the balance of the A dividend reserve and the balance of the share premium account attached to the A preference shares during the financial year to which the profit relates; this dividend percentage is immediately set at five and eighty-five hundredths percent (5.85%). If and to the extent that as a result of the reservation referred to in paragraph 3 of this article, the remaining profit is insufficient to make the distributions on the A preference shares or additions to the A dividend reserve referred to in the previous sentence, the deficit will be added to the A dividend reserve at the expense of the amount to be reserved.

No further distributions or reservations of profit will be made on the A preference shares or for the A preference shares.

b The dividend percentage of the A preference shares will be adjusted as of the first of January two thousand and thirteen and every five (5) years thereafter based on the arithmetic average of the five (5) year interest rate swap denominated in Euros as published by Bloomberg on page "EUSA5 Currency HP <GO>" on the last ten (10) working days prior to the dividend review date, plus a mark-up to be determined by the Management Board subject to approval from the Supervisory Board, with a maximum of three hundred (300) basis points, depending on the market conditions prevailing at that time.

c In the event that the prices on the Bloomberg page mentioned above are not (or no longer) available or the Bloomberg page referred to above is not (or no longer) available and thus no dividend percentage can be calculated as described above, then subject to approval from the Supervisory Board, the Management Board will designate a similar page from a similar institute on which the prices mentioned are available to be used to calculate the dividend percentage mentioned above.

19.5 Then, from the profit remaining after applying the stipulations of the previous paragraphs, five and seven tenths percent (5.7%) of the time weighted averages of the nominal amount of the B preference shares and the balance of the share premium account attached to the B preference shares during the financial year to which the profit relates is distributed on the B preference shares. No further distributions of profit will be made on the B preference shares.

19.6 The profit remaining after applying the stipulations in the previous paragraphs is at the free disposal of the General Meeting with the proviso that no dividends can be distributed as long as the balance of the A dividend reserve is positive at the time of the dividend distribution.

19.7 The shares held by the Company in its share capital are not included when calculating the profit distribution, unless these shares are encumbered with a right of usufruct.

19.8 Pursuant to a proposal from the Management Board approved by the Supervisory Board and subject to Section 2:105 of the Dutch Civil Code, the General Meeting may resolve to make distributions at the expense of a reserve, with the exception of the share premium accounts attached to the ordinary shares, the A preference shares, the B preference shares, and the A dividend reserve. Subject to approval from the Supervisory Board and subject to the stipulations of Section 2:105 of the Dutch Civil Code, the Management Board may resolve to make distributions at the expense of the share premium account attached to the A preference shares and/or the A dividend reserve.

19.9 Subject to the stipulations of Section 2:105 of the Dutch Civil Code and with the approval of the Supervisory Board, the Management Board may distribute interim dividends if and in as far as the profit permits this. Interim dividends can also be distributed exclusively for one class of shares. Interim dividends can not be distributed on the ordinary shares and the B preference shares if the balance of the A dividend reserve is positive at the time of the dividend distribution in question.

19.10 Pursuant to a proposal from the Management Board approved by the Supervisory Board, the General Meeting may resolve to distribute all or part of the dividends on ordinary shares and/or B preference shares in a form other than cash.

19.11 (Interim) distributions will be made payable on a date determined by the Management Board; this date will be no later than the fifth (5th) working day following the date of the distribution resolution.

19.12 (Interim) distributions which have not been claimed within five years after they became payable will revert to the Company.

19.13 For the purpose of the stipulations of this article, a calendar year is deemed to consist of three hundred and sixty (360) calendar days.

Profit appropriation

For the year 2009, the Supervisory Board endorses the proposal to be made by the Management Board to the General Meeting of Shareholders not to pay any dividends on any of the outstanding ordinary shares and to reserve the dividend on the non-cumulative A preference shares held by Fortis FBN(H) Preferred Investments B.V.

The profit appropriation is as follows (x EUR 1 million):

Addition to Other reserves	EUR 394
Addition to Dividend reserve	EUR 12

To the Shareholders, Supervisory Board and Management Board of Fortis Bank (Nederland) N.V.

Auditor's report

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements 2009 of Fortis Bank (Nederland) N.V., Amsterdam as set out on pages 91 to 274. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2009, the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2009, the company income statement for the year then ended and the notes.

Management's responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Fortis Bank (Nederland) N.V. as at 31 December 2009, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Fortis Bank (Nederland) N.V. as at 31 December 2009 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Dutch Civil Code, we report, to the extent of our competence, that the management board report presented as a separate document is consistent with the financial statements as required by 2:391 sub 4 of the Dutch Civil Code.

Amstelveen, 3 March 2009

KPMG ACCOUNTANTS N.V.
D. Korf RA

Forward-looking statements to be treated with caution

Some of the statements contained in this Annual Report, including but not limited to the statements made in the sections entitled Message from the Chairman, Business Overview and Report of the Management Board and in note 6 Risk management refer to future expectations and other forward-looking perceptions that are based on management's current views, estimates and assumptions concerning future events. These forward-looking statements are subject to certain risks and uncertainties that may mean actual results, performance or events differ materially from those such statements express or imply, including but not limited to management's expectations regarding cost and revenue synergies arising from the integration of the banking operations, e.g. branch closures and levels of restructuring costs, the impact of recent acquisitions and the levels of provisions relating to the credit and investment portfolios. Other more general factors that may impact Fortis Bank (Nederland) N.V.'s results include but are not limited to:

- general economic conditions, in particular economic conditions in the Netherlands;
- changes in interest rates and the performance of financial markets;
- the frequency and severity of insured loss events;
- mortality, morbidity and persistency levels and trends;
- foreign exchange rates, including Euro / US dollar exchange rate;
- changes in competition and pricing environments, including increasing competition in the Netherlands;
- changes in domestic and foreign legislation, regulations and taxes;
- regional or general changes in asset valuations;
- occurrence of significant natural or other disasters;
- inability to economically reinsure certain risks;
- adequacy of loss reserves;
- regulatory changes relating to the banking, insurance, investment and/or securities industries;
- changes in the policies of central banks and/or foreign governments;
- general competitive factors on a global, regional and/or national scale.

Glossary and abbreviations

Amortised cost
The amount at which a financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation/accretion of any premium/discount, and minus any write-down for impairment.

Asset backed security
A bond or a note backed by loan paper (not being mortgages) or accounts receivable.

Associate
A company in which Fortis Bank (Nederland) N.V. has significant influence but which it doesn't control.

Basis point (bp)
One hundredth of a percentage point (0.01%).

Clean fair value
The fair value excluding the unrealised portion of the interest accruals.

Clearing
Administrative settlement of securities, futures and options transactions through a clearing organisation and the financial institutions associated with it (clearing members).

Credit spread
The yield differential between government bonds and corporate bonds or credits.

Custody
An agreement, usually between an investor and a bank (or possibly an agent or a trust company), whereby the investor deposits for safekeeping securities, gold or other valuables with the bank, which in turn takes the valuables into safekeeping for a fee.

Derivative
A financial instrument such as a swap, a forward, a future contract and an option (both written and purchased). This financial instrument has a value that changes in response to changes in various underlying variables. It requires little or no net initial investment, and is settled at a future date.

Discounted cash flow method
An approach to valuation, whereby projected future cash flows are discounted at an interest rate that reflects the time value of money and a risk premium that reflects the extra return investors demand for the risk that the cash flow might not materialise after all.

Embedded derivative
A derivative instrument that is embedded in another contract - the host contract. The host contract might be a debt or equity instrument, a lease, an insurance contract or a sale or purchase contract.

Employee benefits
All forms of considerations given by an entity in exchange for service rendered by employees, in addition to their pay or salary.

Factoring
A form of corporate financing in which a company transfers outstanding debts to a factoring company that, for a fee, assumes responsibility for the debtor records, risk coverage and financing.

Fair value
The amount for which an asset (liability) can be bought (incurred) or sold (settled), between knowledgeable, willing parties in an arm's length transaction.

Fair value hedge
A hedge of an exposure to changes in the fair value of a recognised asset or liability (or a portion thereof) or a firm commitment. The exposure is attributable to a particular risk and will affect reported net income.

Finance lease
A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Goodwill
This represents the excess of the fair value of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the business combination over Fortis Bank (Nederland) N.V. interest in the fair value of assets acquired and liabilities and contingent liabilities assumed.

Hedge accounting
Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

IFRS
International Financial Reporting Standards, used as a standard for all listed companies within the European Union as of 1 January 2005 to ensure transparent and comparable accounting and disclosure.

Impairment
A decline in value whereby the carrying amount of the asset exceeds the recoverable amount. In such a case, the carrying amount will be reduced to its recoverable amount through the income statement.

Intangible asset
An identifiable non-monetary asset which is recognised at cost if and only if it will generate future economic benefits and if the cost of the asset can be measured reliably.

Investment property
Property held by Fortis Bank (Nederland) N.V. to earn rental income or for capital appreciation.

Joint venture
A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Macro hedge
A hedge used to eliminate the risk of a portfolio of assets.

Mortgage backed security
An investment instrument that represents ownership of an undivided interest in a group of mortgages. Principal and interest from the individual mortgages are used to pay investors' interest on the securities as well as to repay the principal investment.

Net-investment hedge
A hedge used to reduce the financial risks of a reporting entity's share in the net assets of a foreign entity by entering into transactions that give an offsetting risk profile.

Notional amount
Amount of currency units, number of shares, a number of units of weight or volume or other units specified in a derivative contract.

Option
A privilege sold by one party to another that offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security at an agreed-upon price during a certain period of time or on a specific date.

Private equity
Equity securities of companies that are not listed on a public exchange. Investors looking to sell their stake in a private company have to find a buyer in the absence of a marketplace.

Provision
Liabilities involving uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation to transfer economic benefits, such as cash flows, as a result of past events and a reliable estimate can be made at the balance sheet date.

Reverse repurchase agreement
The purchase of securities with an agreement to resell them at a higher price at a specific future date.

Securities lending transaction
A loan of a security from one counterparty to another, who must eventually return the same security as repayment. The loan is often collateralised. Securities lending allows an entity in possession of a particular security to earn enhanced returns.

Subordinated bond (loan)
A loan (or security) that ranks below other loans (or securities) with regard to claims on assets or earnings.

Subsidiary
Any company, of which Fortis Bank (Nederland) N.V., either directly or indirectly, has the power to govern the financial and operating policies so as to obtain the benefits from its activities (‘control’).

Surety ship
A bond issued by an entity on behalf of a second party, guaranteeing that the second party will fulfil an obligation or series of obligations to a third party. In the event that the obligations are not met, the third party will recover its losses via the bond.

Tier 1 ratio
Core capital of a bank expressed as a percentage of the risk-weighted balance sheet total.

Trade date
The date when Fortis Bank (Nederland) N.V. becomes a party to the contractual provisions of a financial asset.

VaR
Abbreviation of Value-at-Risk. A technique which uses the statistical analysis of historical market trends and volatilities to estimate the likelihood that a given portfolio’s losses will exceed a certain amount.

Venture capital
In general, financing provided by investors to start-up firms and small businesses with perceived long-term growth potential.

Abbreviations

AFS	Available for sale
ALM	Asset and liability management
CDS	Credit default swap
Euribor	Euro inter bank offered rate
HTM	Held to maturity
IBNR	Incurred but not reported
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
OTC	Over the counter
SPE	Special purpose entity

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