

unaudited



ABN AMRO Bank N.V.

Abbreviated Financial Statements

2012

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1 Introduction

These are the abbreviated Financial Statements of ABN AMRO Bank N.V. for the year ended 31 December 2012.

ABN AMRO Bank N.V. is a wholly owned subsidiary of ABN AMRO Group N.V. ABN AMRO Group N.V. issued a so called 403 declaration in favour of ABN AMRO Bank N.V. Through the 403 declaration, ABN AMRO Group N.V. accepts joint and several liability for debts of ABN AMRO Bank N.V. arising from legal acts.

As the consolidated financial statements of ABN AMRO Group N.V. are publicly available, ABN AMRO Bank N.V. is not required to publish consolidated financial statements. The Annual Financial Report of ABN AMRO Group N.V. has been filed separately at the AFM and is not a part of these abbreviated Annual Financial Statements.

ABN AMRO Bank N.V. is only required to publish unconsolidated company financial statements in an abbreviated format, containing as a minimum an abbreviated income statement and an abbreviated statement of financial position.

These abbreviated Financial Statements are company financial statements. Subsidiaries of ABN AMRO Bank N.V. are not consolidated but recorded as participating interests in group companies.

The abbreviated Financial Statements 2011 of ABN AMRO Bank N.V. are restated. An overview of these adjustments is given below.

- ABN AMRO label mortgages are legally owned by ABN AMRO Hypotheken Group B.V. ABN AMRO Bank N.V. incorrectly recorded those mortgages on its statement of financial position. As a consequence Loans and receivables - customers and Due to banks are restated by EUR 35.0 billion to EUR 186.3 billion and EUR 127.5 billion as at 31 December 2011. Participating interest in group companies and Results from participating interest have been restated by EUR 57 million in 2011.
- In 2011 ABN AMRO Bank N.V. recorded an impairment of EUR 880 million of which EUR 230 million was incorrectly processed in the abbreviated Financial Statements 2011 of ABN AMRO Bank N.V.. As a consequence Loans and receivables - customers have been restated by EUR 230 million to Participating interest in group companies, Deferred tax assets and Current tax liabilities as at 31 December 2011. Results from participating interest are restated by EUR 173 million to Other operating result (EUR 231 million) and Income tax expense (EUR 58 million) in 2011.
-

These restatements have no impact on total equity at 31 December 2011 and have no impact on profit for the year 2011.

The abbreviated Financial Statements of ABN AMRO Bank N.V. are neither audited nor reviewed by an external auditor.

These abbreviated Financial Statements are presented in euros (EUR), which is the presentation currency of ABN AMRO Bank N.V., rounded to the nearest million (unless otherwise stated).

Certain figures in this document may not tally exactly due to rounding.

2 Managing Board report

The reported profit increased by EUR 283 million to EUR 948 million (2011: EUR 665 million). This increase was due to higher results from participating interests. Other operating results increased slightly.

3 Post balance sheet events

SNS Reaal

On 1 February, the Government of the Netherlands announced the nationalisation of SNS Reaal N.V. The Government of the Netherlands also announced the proposal of a EUR 1 billion one-off resolution levy for all banks to be levied in 2014. The impact of this proposal on the results of ABN AMRO is currently estimated to be in the range of EUR 200-250 million (net-of-tax), depending on the final details of the levy. ABN AMRO Bank will further assess the financial impact of the levy (exact amount and timing of booking) as soon as more details become available.

4 Statement ex article 5:25c Dutch Financial Supervision Act

Pursuant to article 5:25c sub 2 part c of the Dutch Financial Supervision Act (Wet op het financieel toezicht, Wft) and taking into account article 2:403 of the Dutch Civil Code ("DCC"), the members of the Managing Board hereby declare that to the best of their knowledge the abbreviated Financial Statements of ABN AMRO Bank N.V. of 2012 (as at and for the period ended 31 December 2012), which have been prepared in accordance with the exemptions stated in article 2:403 of the DCC, give a true and fair view of the assets, liabilities, financial position and profit/(loss) of ABN AMRO Bank N.V.

Amsterdam, 28 February 2013

Managing Board

Gerrit Zalm, Chairman
Jan van Rutte, Vice-Chairman
Johan van Hall
Caroline Princen
Wietze Reehoorn
Chris Vogelzang
Joop Wijn

unaudited

5 Abbreviated Financial Statements

ABN AMRO Bank N.V.

Company income statement

<i>(in millions)</i>	<i>2012</i>	<i>2011 (restated)</i>
Results from participating interests	999	633
Other operating result	-77	-89
Operating profit / (loss) before taxation	922	544
Income tax expense	-26	-121
Profit / (loss) for the year	948	665

ABN AMRO Bank N.V.

Company statement of financial position.

(in millions)

31 December 2012 31 December 2011

Assets		(restated)
Cash and cash equivalents	9,763	7,431
Financial assets held for trading	22,168	20,678
Financial investments	20,032	17,371
Loans and receivables - banks	205,065	220,839
Loans and receivables - customers	183,964	186,330
Participating interests in group companies	5,653	6,312
Equity accounted investments	421	379
Property and equipment	952	1,017
Goodwill and other intangible assets	42	98
Assets held for sale	55	68
Accrued income and prepaid expenses	4,194	4,191
Current tax assets	313	121
Deferred tax assets	874	1,137
Other assets	5,921	4,285
Total assets	459,417	470,258
Liabilities		
Financial liabilities held for trading	18,847	22,169
Due to banks	117,979	127,504
Due to customers	208,918	215,316
Issued debt	73,745	68,404
Subordinated liabilities	9,566	8,675
Provisions	813	1,071
Accrued expenses and deferred income	5,376	5,301
Current tax liabilities	20	166
Deferred tax liabilities	16	
Other liabilities	10,119	10,227
Total liabilities	445,399	458,833
Total equity	14,018	11,425
Total liabilities and equity	459,417	470,258

ABN AMRO Bank N.V.

Company statement of changes in equity.

<i>(in millions)</i>	<i>Share capital</i>	<i>Share premium reserve</i>	<i>Other reserves including retained earnings</i>	<i>Currency translation reserve</i>	<i>Available for sale reserve</i>	<i>Cash flow hedge reserve</i>	<i>Reserves participations</i>	<i>Total</i>
Balance at 31 December 2010	800	2,441	9,641	22	110	-976	61	12,099
Total comprehensive income			665	-22	-424	-714	21	-474
Dividend			-200					-200
Balance at 31 December 2011	800	2,441	10,106		-314	-1,690	82	11,425
Total comprehensive income			948	-3	290	-183	29	1,081
Dividend			-88					-88
Derecognition of the MCS liability		2,000						2,000
Settlement with ageas		-400						-400
Balance at 31 December 2012	800	4,041	10,966	-3	-24	-1,873	111	14,018

Other reserves including retained earnings also includes a legal reserve for participating interests of EUR 109 million (2011: EUR 93 million) which relates to profits from participating interests.



Annual Report 2012

ABN AMRO Group N.V.

Notes to the reader

Introduction

This is the Annual Report for the year 2012 of ABN AMRO, which consists of ABN AMRO Group N.V. and its consolidated subsidiaries. The Annual Report consists of the Managing Board report, Supervisory Board report, the Pillar 3 report, and the Annual Financial Statements. It also complies with the financial reporting requirements included in Title 9, Book 2 of the Dutch Civil Code, where applicable.

Presentation of information

The financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Some chapters in the Risk & Capital management section of this report contain audited information and are part of the Annual Financial Statements. These are: Risk management, Capital management, Liquidity & funding and Securitisation. Audited information in these sections is labelled as 'audited' in the respective headings.

The Risk & Capital management section also constitutes the Pillar 3 report. The Pillar 3 report is prepared in accordance with the Capital Requirements Directive (CRD). The CRD is legally enforced by Dutch law by the Financial Supervision Act (*Wet op het financieel toezicht* – Wft).

This Annual Report is presented in euros (EUR), which is the presentation currency of ABN AMRO, rounded to the nearest million (unless otherwise stated). All year-end averages in the Annual Report are based on month-end figures. Management does not believe that these month-end averages present trends materially different from those that would be presented by daily averages. Certain figures in this document may not tally exactly due to rounding. In addition, certain percentages in this document have been calculated using rounded figures.

This report can be downloaded from abnamro.com

For more information, please visit us at abnamro.com/ir or contact us at investorrelations@nl.abnamro.com

ABN AMRO Group N.V.

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ABN AMRO at a glance

Our profile

ABN AMRO is an all-round Dutch bank that offers a full range of products and services to retail, private, commercial and merchant banking clients. We build long-term, sustainable relationships with our clients in order to best serve their interests and are continuously strengthening our moderate risk profile. We have a clean balance sheet, limited trading and investment activities, low exposure to highly indebted countries and a good capital and liquidity position. We have a strong position in the Netherlands in all our business activities.

Our international growth businesses are Private Banking, Energy, Commodities & Transportation (ECT), Clearing and asset-based finance.

Our identity, mission and vision

Our identity is reflected in our core values, which are embedded in our culture: Trusted, Professional and Ambitious. We want to be trusted by our stakeholders and professional in everything we do, and we have the ambition to continuously improve.

Our history

R. Mees & Zoonen established

Hope & Co in 1762; Pierson, Heldring & Pierson in 1875



1720

Algemene Bank Nederland (ABN) created

from the merger between Nederlandsche Handel-Maatschappij and Twentsche Bank



1964

AMEV and Verenigde Spaarbank merge

to create AMEV/VSB, and are later joined by Belgium-based AG Group to create Fortis



1990

AMEV and Verenigde Spaarbank merge

to create AMEV/VSB, and are later joined by Belgium-based AG Group to create Fortis

1991

Formation of Nederlandsche Handel-Maatschappij

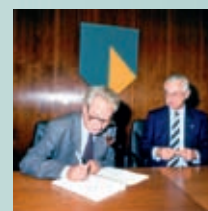
Twentsche Bank in 1861, Rotterdamsche Bank in 1863 and Amsterdamsche Bank in 1871



Amsterdam - Rotterdam Bank created

from the merger between Rotterdamsche Bank and Amsterdamsche Bank

ABN and Amro merge to form ABN AMRO



5 millionhouseholds
provide a stable
client basis**No.1**private bank in
the Netherlands
and no.3 in
the eurozone¹**365,000**Business Banking
clients**2,500**

Corporate Clients

Top 3global player
in the clearing
industry

Our mission

Our mission is:

- ▶ to be successful through the success of our clients;
- ▶ to strongly commit ourselves to and be positively recognised for our position on sustainability and transparency;
- ▶ to be an organisation that has the best talent and where people grow both professionally and personally.

Our vision

Our vision is to be a professional, all-round bank with a leadership role in the Dutch market. Internationally, we will be a capability-led bank in selected businesses and geographies. Our ambition is to be a top class employer.

¹ Source: based on Scorpio Private Banking Benchmark report 2012.

MeesPierson is created from the merger of Bank Mees & Hope and Pierson, Heldring & Pierson

**1993****1997**

Fortis acquires
MeesPierson



Generale Bank Nederland and VSB change their names upon merger:
Fortis Bank is born

**1998****2000**

Fortis acquires Generale Bank,
including Generale Bank Nederland

Fortis, Banco Santander and RBS acquire ABN AMRO Holding

**2007****2008**

Dutch government acquires
the Dutch activities of the Fortis Group



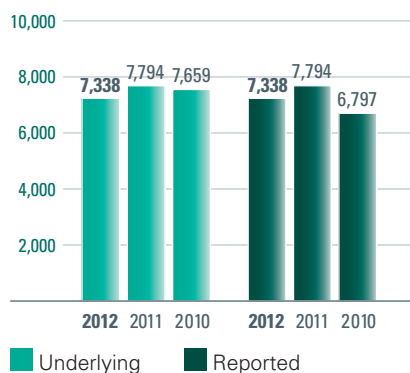
Legal merger between ABN AMRO and Fortis Bank Nederland becomes effective, creating the current ABN AMRO Group

**2010**

Figures at a glance

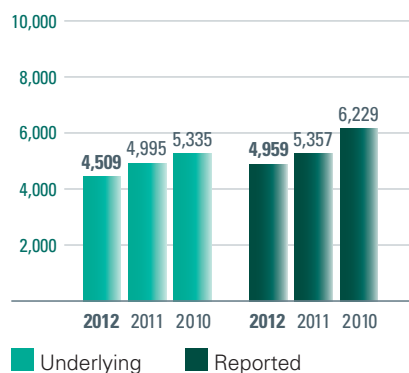
Operating income¹

(in millions)



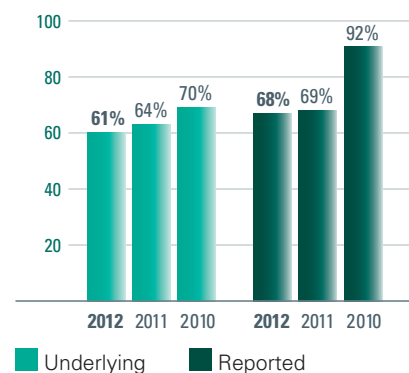
Operating expenses¹

(in millions)



Cost/income ratio¹

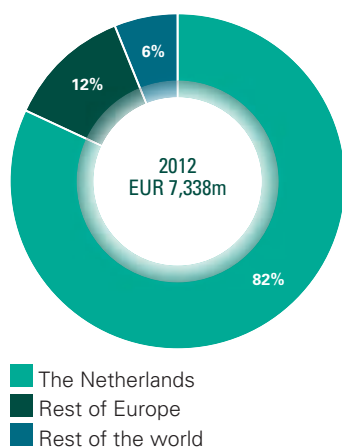
(in %)



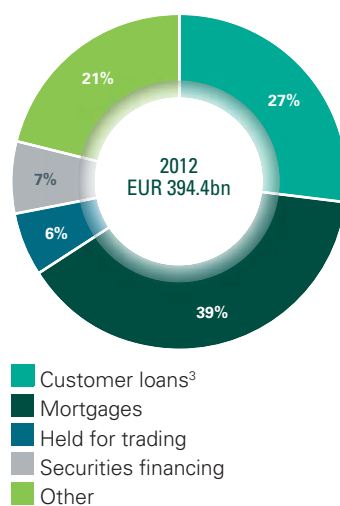
Capital, funding and liquidity

	2012	2011	2010
Risk-weighted assets (in billions)	121.5	118.3	116.3
Core Tier 1 ratio (Basel II)	12.1%	10.7%	10.4%
Tier 1 ratio (Basel II)	12.9%	13.0%	12.8%
Total Capital ratio (Basel II)	18.4%	16.8%	16.6%
Loan-to-deposit ratio	125% ²	130% ²	135%
Liquidity buffer (in billions)	68.0	58.5	47.9
RWA/Total assets (Basel II)	31%	29%	31%

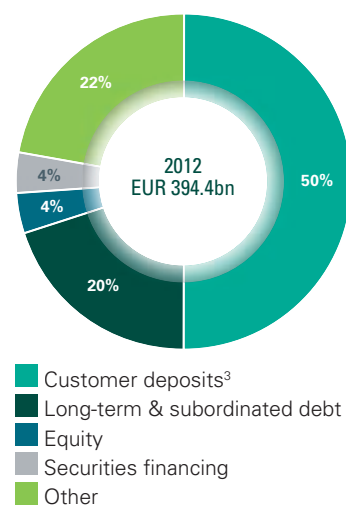
Operating income by region



Breakdown of assets



Breakdown of liabilities and equity



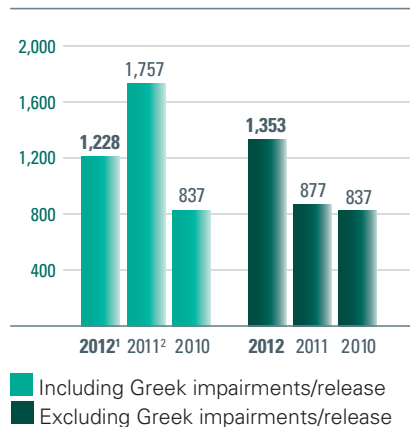
¹ Underlying excludes the impact of separation and integration-related items.

² Calculated according to a refined methodology. According to former methodology, 2011 would amount to 132.7%.

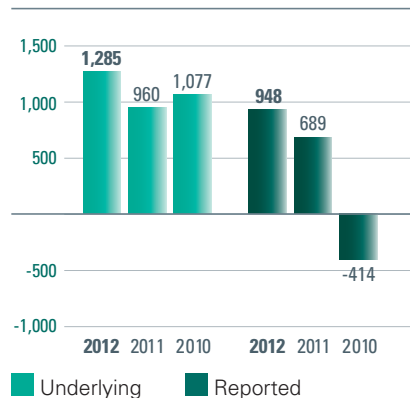
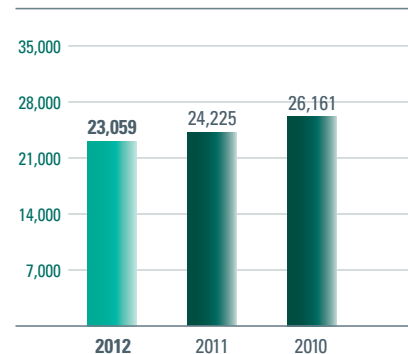
³ Excluding securities financing.

Loan impairments

(in millions)

**Profit for the year¹**

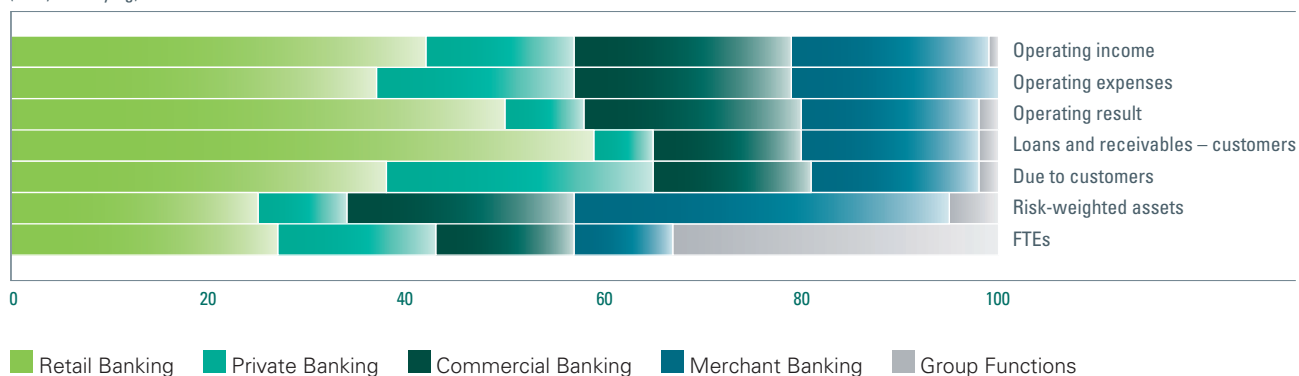
(in millions)

**FTEs****Performance indicators**

	2012	2011	2010
NII/average RWA	4.0%	4.4%	4.2%
NII/average total assets (bps)	120	125	124
Loan impairments/average RWA (bps)	98 ³	156 ³	72
Impaired ratio – customers	2.0%	2.0%	1.5%
Return on average RWA (bps)	103	85	93
ROE (based on IFRS equity)	10.0%	7.8%	8.9%
Assets under Management (in billions)	163.1	146.6	164.2

2012 Contribution by segment

(in %, underlying)



¹ 2012 includes a release of EUR 125 million (EUR 94 million net of tax) following the sale of part of the Greek government-guaranteed corporate exposures.

² 2011 includes EUR 880 million (EUR 660 million net of tax) of impairment charges for Greek government-guaranteed corporate exposures.

³ Excluding Greek impairments/release, 'Loan impairments/average RWA' would amount to 108 bps for 2012 and 78 bps for 2011.

Chairman's message 1

Looking back on 2012, it seems appropriate not only to consider the events that took place last year, but also to take stock of what we've achieved in the past four years, during which we completed a challenging task: separating the operations of two banks from their original organisations and merging the two companies to create a new bank. When we started out on our journey in 2009, the world was a very different place to what it is today. Amid a series of changes, we have built a new bank, the ABN AMRO of today.

Building a new bank – a review of the past four years

I am pleased to say we've accomplished what we set out to do in 2009: merge two large Dutch banks to form one solid bank. The circumstances of recent years made our job quite a challenge. For one, Europe moved straight from the credit crisis into a European sovereign debt crisis and the economy saw a double-dip recession. The Dutch economy, meanwhile, was hit by a series of unfavourable developments in 2012: consumer spending and business investment declined, while consumer and producer confidence waned amid uncertainty about the European sovereign debt crisis, the mortgage interest rate deduction, the future of pensions and an increase in the number of bankruptcies and unemployment levels. All this adds up to uncertainty in the financial markets and high impairment rates, while a series of new tax measures and regulations drove up costs for the bank. We also continued to shore up capital buffers in 2012, ahead of the introduction of Basel III.

Yet despite the challenging environment, we managed to bring together two banks on schedule – by the end of 2012. We migrated clients to a single IT platform, combined and tightened procedures, united two workforces and brought together two corporate cultures. All this was completed within budget and yielded the efficiency improvements envisioned at the outset.

In the retail operations, we expanded our services and now offer clients full-range expertise at larger branches in response to changing client needs, thereby reducing the number of bank branches from 654 to 408 at year-end 2012. We scaled up innovation and introduced electronic banking on a variety of mobile and other platforms. Clients can now apply for a mortgage by webcam, for instance, and can experience the benefits of mobile banking services every day. The international presence and product offering have been restored, giving commercial clients access to a broad spectrum of products internationally. For example, clearing services are now provided in all three main time zones.

Looking back over the past four years, we managed to successfully join together two organisations to form one forward-looking, client-centric bank.

Client-centric culture

One of the most important aspects of running a company is the culture. With this in mind, we have started to create a new DNA for the bank on various fronts and throughout the organisation.

The financial industry has a long way to go to restore consumer trust in the wake of a series of scandals that have damaged the image of banks in general. Our response to these external developments is to focus on becoming the bank we aspire to be, based on our core values: Trusted, Professional and Ambitious. For our part, we are committed to putting our values into practice every day. In this vein, the core values have been translated into behaviour and six Business Principles were embedded throughout the organisation.

 I aim to provide my clients with **the best solutions**

 I take **responsibility**

 I only take **risks** I understand

 I am committed to **sustainable** business practices

 I am a **passionate** professional

 I build relationships through **collaboration**

As a bank, we play an important role in society, connecting millions of individuals and households with hundreds of thousands of businesses. We take our responsibility seriously and strive at all times to put our clients' interests first, even if that means sacrificing a short-term gain for the benefit of the long term: by saying 'No' to a loan application, for instance, if we believe that such a loan would not be in our client's best interest.

Customer Excellence, which started out as a ripple in 2011, turned into a wave in 2012 as teams and departments bank-wide adopted this efficient, client-driven way of working. Customer Excellence – a combination of customer focus and operational excellence – is a new way of working that is based on lean management principles. Putting it into practice entails a transformation throughout the organisation, one which should help the bank achieve better service delivery to clients, more efficient processes and more motivated staff.

A corporate culture is only successful if it is embedded throughout the company and is beneficial from the client's perspective. Surveys show that client satisfaction is on the rise. Regulators, too, play an important role in promoting client-centricity: AFM, the Netherlands Authority for the Financial Markets, regularly investigates the performance of financial institutions in this area. We are pleased with the recognition of the AFM, which rates ABN AMRO high on client-centricity.

Alongside our own efforts to instil our values and principles across the bank, the Dutch financial regulators have been devoting more attention to culture and behaviour, a development we welcome. Because, when all is said and done, as a bank our standards and ethics are perhaps the single most important ingredient of success – for our clients and for the bank.

Sustainability and Diversity

ABN AMRO is dedicated to becoming a more sustainable bank. This past year, our Energy, Commodities & Transportation business introduced sustainability tools for most of the sectors in which it is active. ECT uses these tools to establish the environmental, social and ethical risks associated with its clients and transactions. Our Growth & Innovation Desk, meanwhile, advises fast-growing companies seeking financing on how to do business sustainably. And the recently established Philanthropy Advice service helps Private Banking clients in the Netherlands identify social and cultural recipients for their donations.

Aside from policies in various areas and industries – the environment, defence and shipping, to name a few – our commitment is most concretely reflected in the work

of the ABN AMRO Foundation. The Foundation's efforts range from small-scale initiatives to large projects. Employee volunteers coordinate community activities with their teams, while the Foundation organises a number of nationwide events. Whether they're volunteering to coach business start-ups, collecting food for the food bank, cooking and serving meals for the less fortunate or teaching at schools, many of our employees do their part every year to give back to the community. Over 50% of our staff in the Netherlands were engaged in volunteer activities through the ABN AMRO Foundation in 2012.

Our commitment to diversity remains firm. We are gradually on our way to meeting our target of placing women in 20% of senior positions and in 25% of upper middle-management positions by 2014, with percentages rising in 2012. In addition, our workforce was enriched by the new group of trainees that joined the company in 2012, 44% of whom were female and 16% were bicultural. To promote awareness of this issue, we organised a large diversity conference in 2012, where we offered workshops and shared best practices.

Financial results for 2012

It initially appeared that the global economy had got off to a good start in 2012. The eurozone economy was unexpectedly resilient in the first quarter of 2012 and the US got off on the right foot. Unfortunately, the economic recovery in the US was short-lived, and the eurozone saw GDP decline again as from the second quarter as domestic demand suffered under austerity measures, rising unemployment and uncertainty about the European sovereign debt crisis and the resulting financial turmoil.

The Netherlands has a very open economy which is highly dependent on international developments; these were fairly sombre in 2012. The Dutch economy grew slightly in the first half of 2012, ending a brief recession in 2011, with growth driven mainly by exports. However, consumer spending continued to decline, probably due to unfavourable developments on the Dutch housing market and damaged confidence. Uncertainty about the end of the European sovereign debt crisis, the future of the mortgage interest rate deduction, other government measures and pensions further dented consumer and business confidence and willingness to do business. All of this had a knock-on

effect on house sales, unemployment, business failures and the strongly cyclical market for commercial property. The adverse economic conditions drove the number of bankruptcies to record heights in 2012, though with big differences among sectors.

The traditional bank-client relationship has changed in recent years as the number of clients running into financial difficulties has risen. We feel a responsibility to serve our clients' interests, in good times and bad. Our Mortgage Care Team helps retail clients who are having trouble making ends meet, given the economic crisis. This dedicated team has been helping clients for years to steer clear of payment arrears and debt accumulation.

Despite the circumstances described above, the bank delivered satisfactory results for full-year 2012. The underlying net profit increased by 34% to EUR 1,285 million and the return on equity was 10%. The underlying operating result remained virtually unchanged and the underlying cost/income ratio improved to 61%, well within the target range for 2012 of 60-65%. The improvement was due in part to cost control and integration benefits, offset by the Dutch bank tax. The results for 2011 included a large write-down on Greek government-guaranteed corporate exposures, which explains the big increase in the underlying results. Excluding these impairments, divestments made and several large items, underlying net profit would have been 34% lower year-on-year and the return on equity would have been 8%.

The funding profile has improved materially compared to a few years ago, as maturities were lengthened, and currencies and the investor base were diversified. The loan-to-deposit ratio improved to 125% on 31 December 2012, down from 130% at year-end 2011. The capital position was further strengthened during the year and is considered to be good. At the end of 2012, the core Tier 1 ratio was 12.1% and the Tier 1 and total capital ratios were 12.9% and 18.4% respectively. Even though ABN AMRO is currently well positioned for Basel III, we would like to build up additional capital buffers in order to execute our strategic ambitions and to provide for the impact of other new regulations. Hence we have proposed, for reasons of prudence and in close consultation with the shareholder, a temporary reduction

of the payout ratio. Subject to the approval of the General Meeting of Shareholders, the dividend paid to the ordinary shareholder will be set at EUR 250 million for 2012. In the following years, we intend to gradually return to a dividend payout ratio of 40% over full-year net profit for 2015.

Moving the new bank forward

We have spent the past few years building a strong organisation out of the legacy of the separation and integration of ABN AMRO Bank and Fortis Bank Nederland and have emerged as a stable bank with many of our key capabilities strengthened. Today, ABN AMRO is a leading Dutch bank with the majority of revenues generated by interest income and fees & commissions. We have a clearly defined business model and a strong position in the segments of the Dutch market in which we operate. This is complemented by international growth areas in private banking, asset-based lending, ECT and clearing. In addition, we have a moderate risk profile characterised by a focus on traditional banking activities and limited trading and investment banking activities. The balance sheet is clean and the loan book diversified and safeguarded by focused risk management.

The banking landscape is changing at an unprecedented pace, and we are keen to respond alertly to the changes while maintaining a steady course. Changing client expectations and economic, technological and regulatory developments are putting significant pressure on the earnings model, requiring us to continuously review the bank's value propositions to its stakeholders. However, these changes also offer opportunities.

To prepare for the challenges of the future, we have extended our horizon to 2017 and made clear choices for our local and international operations. The refined elements of our strategy can be categorised into the following strategic priorities:

- ▶ Enhance client-centricity;
- ▶ Invest in our future;
- ▶ Strongly commit to a moderate risk profile;
- ▶ Pursue selective international growth;
- ▶ Improve profitability.

Enhance client-centricity: We aim to stand out from other banks based on the quality and relevance of our advice. We intend to differentiate ourselves by enhancing need-based client segmentation in Retail, Private, Commercial and Merchant Banking. We aim to meet clients' needs more proactively through advanced client analytics, segmentation and in-depth sector expertise and to develop our products, services and channels accordingly.

Invest in our future: We plan to re-engineer our IT landscape, gain a recognised position in sustainability and become a top class employer.

Our IT efforts so far have been focused on the integration while minimising inconvenience to clients. As technological innovations are constantly raising clients' expectations, we have made a fundamental choice to upgrade the IT landscape and standardise and rationalise processes in order to create a sound foundation on which we can operate. This will further improve products and services while at the same time structurally lowering back-office costs.

To gain a recognised position in sustainability, we will focus on a number of priority areas that help us deliver balanced and sustainable value to our stakeholders: a commitment to sustainable business operations; putting our clients' interests centre stage and building sustainable relationships; using our financial expertise for the benefit of society; and financing in a sustainable manner. Lastly, we intend to further improve transparency in all our interactions and communications with clients, investors and other stakeholders.

To ensure our attractiveness as an employer in the coming years, we aim to position the bank as a top class employer that enables employees to fully develop their talents. We have formulated three key aspirations: creating a meaningful corporate identity, achieving a culture of excellence and being the best place to work.

Strongly commit to a moderate risk profile: We are committed to maintaining a clean and strong balance sheet which we will optimise in response to changing regulations. We want our balance sheet to continue to be characterised by limited investment banking activities and primarily client-related trading activities. To further optimise the balance sheet, we intend to increase

the share of asset-based finance, gather more deposits to lower the loan-to-deposit ratio and curtail growth of the mortgage book. We plan to position ourselves well above regulatory requirements in terms of capital ratios.

Pursue selective international growth: In order to further diversify our exposure, we want to grow our business outside the Netherlands and increase the international operating income. We plan to expand businesses only in markets where we are currently present, and will only go for growth in activities at which we excel and are able to obtain a leading position. In doing so, we aim to leverage our existing market presence and expertise in activities such as Private Banking, Energy, Commodities & Transportation and Clearing. We aim to have the international operations generate 20-25% of total revenues in 2017, as opposed to the current level of 18%.

Improve profitability: We will strive to continue to improve the efficiency of our businesses. We have launched Customer Excellence, a way of working leading to better service and more efficient processes, and we will continue to pursue our ambitions in the important area of cost control.

Based on the above priorities, we target a cost/income ratio of 56-60% for 2017, including the additional costs of new regulations, government measures and taxation. In addition, we target a core Common Equity Tier 1 (CET1) ratio under Basel III comfortably above the regulatory

minimum, increasing it gradually to a range of 11.5-12.5% by 2017, and a return on equity of 9-12%. The previous commitments included a cost/income ratio between 60 and 65% by the end of 2012 and a cost/income ratio structurally below 60% by the end of 2014. These commitments were set at a time when regulations such as the Dutch bank tax and the new deposit guarantee scheme were not yet known in full. While we met our commitment for 2012, the cost of new regulations and the planned investment in new technology mean that meeting the target for 2014 will be a challenge. The 2017 targets are realistic goals – goals I have every confidence we will attain, given our strategy, determination and client-centricity.

So, despite the challenges that lie ahead and the modest economic outlook, I am optimistic. We are firmly on course and we have a strategy that positions us to seize opportunities, now and in the future. Equally important, we have the drive to build an even better bank. Considering what we have achieved in the past four years, and given the dedication, professionalism and perseverance of our staff, I am confident that we have what it takes to succeed in reaching our ambitions. And last, but certainly not least, I would like to thank our clients for putting their trust in us as we move forward. I am grateful to them for their continued loyalty in these uncertain times, and we will work hard every day to show that we are worthy of their trust.

Gerrit Zalm

Chairman of the Managing Board



corporate governance

Supervisory Board letter 2

2012 was a challenging and important year for ABN AMRO during which the bank made good progress towards realising its ambitions, despite difficult economic conditions. It was also the year in which ABN AMRO completed its integration activities. The Supervisory Board closely monitored the integration process in the past years and is pleased that this enormous operation was completed successfully and on schedule, clearing the road for management to set new goals.

The Supervisory Board was closely involved in defining the bank's long-term strategy, working together with the Managing Board in a number of informal sessions and workshops. The Supervisory Board challenged the Managing Board on the bank's earnings model and new strategic targets, the domestic and international activities and the international versus domestic expansion, focusing on the issue of local banking supervision and the potential impact on the bank's international network. Furthermore, the Supervisory Board discussed with the Managing Board the role of Markets, including product scope and growth opportunities. The corporate strategy was also discussed at regular Supervisory Board meetings and during a two-day off-site event. Following this intensive process, in November 2012 the Supervisory Board approved the long-term strategic ambitions and performance targets. The approval of the General Meeting of Shareholders is pending.

In performing its supervisory and advisory duties, the Supervisory Board devoted special attention to the bank's risk profile and capital, liquidity and funding positions. It also focused on improving the regulatory reporting process and on the data quality required for sound external and internal reporting. The Supervisory Board regularly received updates regarding the contacts with supervisory authorities and discussed the correspondence with these authorities. The follow-up of the bank in response to letters of supervisory authorities was also regularly discussed. The bank's Enterprise Risk Management Report, which is provided to the Supervisory Board on a regular basis, served as the basis for a number of discussions on the key risks run by the bank. The Supervisory Board paid increasing attention to the rise in the level of loan impairments and discussed credit risk mitigation and prevention measures in its meetings with the Managing Board.

Client-centricity was an important consideration in discussions during Supervisory Board meetings. During one of its meetings the Supervisory Board had an in-depth discussion on the bank's product approval process and the strengthening of this process. Members of the Supervisory Board visited Retail and Private Banking International businesses to focus on the actions taken with regard to client-centricity and to familiarise themselves with the bank's clients and products.

The Supervisory Board considers employee motivation to be an important condition for giving clients excellent service. As such, it discussed the outcome of the annual Culture Scan with the Managing Board and enquired as to how the Business Principles are embedded in the bank's day-to-day business.

Succession planning for the Managing Board and senior management was another important subject addressed by the Supervisory Board. Other significant focus areas in 2012 included the effectiveness of the bank's risk and control systems in the rapidly changing regulatory environment in which the bank operates.

2012 was also the year in which the members of the Supervisory Board passed the fit and proper test of De Nederlandsche Bank under the Dutch Financial Services Act (*Wet op het financieel toezicht*), which became mandatory on 1 June 2012. Furthermore, the Supervisory Board performed a full-scope review of its own performance, supported by an independent team of consultants.

More information on the activities and focus areas of the Supervisory Board, including its performance review, is provided in the Supervisory Board report of this Annual Report.

We would like to express our thanks to all employees across the organisation for their continued dedication and efforts in helping to move the bank forward.

We would also like to thank the Managing Board for an open and constructive working relationship in 2012.

On behalf of the Supervisory Board
Hessel Lindenberg

corporate governance 3

Good corporate governance is critical for us to realise our strategic ambition of being a trusted and professional partner for all our stakeholders, including clients, shareholders, investors, employees and society at large. The Managing Board and Supervisory Board appreciate the importance of good corporate governance and want the bank to be viewed as a frontrunner and a good example of corporate governance.

We redefined our vision on corporate governance in 2012. Corporate governance gives meaning to who we are, what we stand for, what we aim for and how we connect with each other and the world around us. Based on this vision, we launched a number of initiatives to further strengthen our corporate governance in 2012. An important step is the implementation of the Dutch Guidance on Board Effectiveness, which ABN AMRO employees co-authored. This guidance, which is based on the UK Guidance on Board Effectiveness, aims to optimise the effectiveness of Managing Boards and Supervisory Boards in relation to their stakeholders. Another initiative taken in this respect includes further enhancement of employee participation within ABN AMRO.

Corporate structure

ABN AMRO Group is a public company with limited liability incorporated on 18 December 2009 under Dutch law. The company has a two-tier board consisting of a Managing Board and a Supervisory Board. The memberships of the Supervisory Boards of ABN AMRO Group and ABN AMRO Bank are the same, as are the memberships of the Managing Boards of ABN AMRO Group and ABN AMRO Bank and the committees of these boards.

As set out in its Articles of Association, ABN AMRO Group voluntarily applies the mitigated structure regime (*gemitigeerd structuurregime*). Pursuant to article 2:153 of the Dutch Civil Code, a declaration has been filed with the commercial register stating that ABN AMRO Group complies with the criteria for a full structure regime (*volledig structuurregime*) with effect from 8 April 2011.



From left to right:
Chris Vogelzang,
Johan van Hall,
Caroline Princen,
Jan van Rutte,
Gerrit Zalm,
Joop Wijn and
Wietze Reehoorn

Managing Board

Composition

The Supervisory Board determines the number of members of the Managing Board, the minimum being two people. The composition of the Managing Board matches the Managing Board profile in terms of combined experience and expertise, and mixture of age and gender.

An overview of the current composition of the Managing Board including key information on the backgrounds and terms of office of each Board member is provided in the Composition of the Managing Board section of this report and on abnamro.com.

There were no retirements from the Managing Board in 2012. Managing Board members are appointed for a maximum period of four years. Reappointments are also for a maximum period of four years. In respect of best practice provision II.1.1 of the Dutch Corporate Governance Code, all members of the Managing Board are deemed to have been appointed on 1 April 2010 immediately following the legal transfer of ABN AMRO Bank to ABN AMRO Group. The formal dates of appointment may relate to the incorporation of ABN AMRO Group and, as such, may differ slightly. The current tenures of all members of the Managing Board will therefore terminate at the annual General Meeting of Shareholders of ABN AMRO Group in 2014.

Responsibilities

The members of the Managing Board collectively manage ABN AMRO and are responsible for its strategy, structure and performance. In carrying out their duties, the members of the Managing Board are guided by the interests and continuity of ABN AMRO and its businesses, taking into due consideration the interests of all of ABN AMRO's stakeholders, such as its clients and employees, its shareholders, investors and society at large. The Managing Board is accountable for the performance of its duties to the Supervisory Board and to the General Meeting of Shareholders.

Appointment, suspension and dismissal

Managing Board members are appointed by the General Meeting of Shareholders. The Supervisory Board nominates one or more candidates for each vacant seat. If the candidate nominated by the Supervisory Board is not appointed, the Supervisory Board is asked to nominate a new candidate. If the new candidate is not appointed either, then the General Meeting of Shareholders is free to appoint a candidate of its choice. The Chairman of the Managing Board is appointed by the Supervisory Board from among the members of the Managing Board.

Only candidates who pass the fit and proper test of De Nederlandsche Bank under the Dutch Financial Supervision Act are eligible for appointment.

The Supervisory Board and the General Meeting of Shareholders have the authority to suspend members of the Managing Board. Members of the Managing Board can only be dismissed by the General Meeting of Shareholders.

Managing Board committees

The Managing Board has established a number of committees that are responsible for decision-making on certain subjects and for advising the Managing Board on certain matters. These committees include three risk-related committees: the Group Risk Committee, the Asset & Liability Committee and the Central Credit Committee. More information on the delegated authority of these risk-related committees is provided in the Risk management section of this report. In addition, the Managing Board has installed a Group Disclosure Committee, responsible for advising on disclosures of the bank and the Transition Management Committee, which was among other things responsible for overseeing the integration and now deals with other bank-wide projects.



From left to right:
Steven ten Have,
Annemieke Roobeek,
Hans de Haan,
Bert Meerstadt,
Peter Wakkie,
Marjan Oudeman,
Hessel Lindenberg and
Rik van Slingelandt

Supervisory Board

Composition

The General Meeting of Shareholders determines the minimum number of members of the Supervisory Board, which must in any case be three people. The composition of the Supervisory Board should match the Supervisory Board profile in terms of combined experience and expertise, independence and variety of ages and genders. The full profile of the Supervisory Board is available on abnamro.com, as an annex to the Rules of Procedure of the Supervisory Board. An overview of the current composition of the Supervisory Board, including key information on the backgrounds and the terms of office of each Board member, is provided in the Composition of the Supervisory Board section of this report and on abnamro.com.

The Supervisory Board evaluated the desired profile and competence of the Supervisory Board in 2012 and is of the opinion that its composition is currently in accordance with its profile. In terms of experience and expertise, all areas specified in the profile of the Supervisory Board are covered. This includes expertise relating to management and organisation, cost management, accountancy and

business economics, the Dutch and international banking sector, risk management, remuneration and HRM, sustainability and corporate social responsibility, international issues, legal matters, the development of products and services, and the markets in which the bank is active. The Supervisory Board has at least three financial experts. In 2012, all members of the Supervisory Board passed the fit and proper test of DNB under the Dutch Financial Services Act (*Wet op het financieel toezicht*). The Supervisory Board confirms that all members of the Supervisory Board are independent within the meaning of provision III.2.2 of the Dutch Corporate Governance Code.

In accordance with the best practice provisions of the Dutch Corporate Governance Code, Supervisory Board members at ABN AMRO are appointed for a maximum of three 4-year terms.

The Supervisory Board has prepared a retirement and reappointment schedule, which is available in the Supervisory Board's Rules of Procedure published on abnamro.com. There were no retirements from the Supervisory Board in 2012.

Responsibilities

The Supervisory Board supervises the Managing Board as well as ABN AMRO's general course of affairs and its business. In addition, it is charged with assisting and advising management. In performing their duties, the members of the Supervisory Board are guided by the interests and continuity of ABN AMRO and its enterprise and take into account the relevant interests of ABN AMRO's stakeholders. Certain powers are vested in the Supervisory Board, including the approval of certain decisions by the Managing Board.

The Rules of Procedure of the Supervisory Board are available on abnamro.com.

Appointment, suspension and dismissal

Members of the Supervisory Board are appointed by the General Meeting of Shareholders following nomination by the Supervisory Board. A nomination may be rejected by the General Meeting of Shareholders by a special majority.

The General Meeting of Shareholders and the Central Works Council have the right to recommend candidates for nomination. With respect to one-third of the members of the Supervisory Board, the Supervisory Board must place a candidate recommended by the Central Works

Council on the nomination, unless it objects to the recommendation. If the Supervisory Board's objection to the recommendation is well founded, the Central Works Council will nominate a new candidate. Only candidates who have passed the fit and proper test of DNB under the Dutch Financial Services Act (*Wet op het financieel toezicht*) are eligible for appointment.

Members of the Supervisory Board can be suspended by the Supervisory Board. The General Meeting of Shareholders has the authority to dismiss the entire Supervisory Board. In accordance with Dutch law, individual members of the Supervisory Board can only be dismissed by court order following a suspension by the Supervisory Board.

Supervisory Board Committees

Composition

The Supervisory Board has established three committees to prepare its decision-making and to advise the Supervisory Board on certain matters: the Audit Committee, the Remuneration, Selection & Nomination Committee and the Risk & Capital Committee. The Rules of Procedure of the Supervisory Board include the terms of reference of the committees of the Supervisory Board and are available on abnamro.com.

	Audit Committee	Risk & Capital Committee	Remuneration, Selection & Nomination Committee
Hessel Lindenberg (Chairman)	Member	Member	Member
Hans de Haan	Chairman	Member	
Steven ten Have			Member
Bert Meerstadt	Member		
Marjan Oudeman			Member
Annemieke Roobeek		Member	
Rik van Slingelandt	Member	Chairman	Member
Peter Wakkie		Member	Chairman

Audit Committee

The Audit Committee is tasked, among other things, with the direct supervision of all matters relating to financial strategy and performance, including the selection of

and relationship with the external auditor, the effectiveness of the accounting systems, financial disclosures and related aspects of internal risk management and internal control.

Risk & Capital Committee

The Risk & Capital Committee advises the Supervisory Board on subjects relating to risk management and risk control and prepares the Supervisory Board's decision-making in these areas. The committee is in charge of the annual approval of the bank's risk appetite; the periodical assessment of its strategy; the regular review of its risk profile; the assessment of its risk management functions and the testing of its risk framework. The committee is also tasked with supervision of the bank's capital and liquidity position and its funding. The committee periodically discusses legal and compliance-related matters.

Remuneration, Selection & Nomination Committee

The responsibilities of the Remuneration, Selection & Nomination Committee include preparation of the selection, nomination and re-nomination of the members of the Supervisory and Managing Boards. To this end, the committee is involved in drafting selection criteria and appointment procedures, and in preparing and periodically reviewing succession plans of these Boards. The committee periodically assesses the performance of the members of both Boards. Its remuneration-related tasks include advising the Supervisory Board on remuneration for members of the Managing Board and advising on remuneration of selected members of senior management responsible for the control functions and reward policies for other Identified Staff.

Introduction programme and lifelong learning programme

Introduction programme

Upon their appointment, all members of the Supervisory Board follow an introductory programme designed to ensure that they have the relevant knowledge to fulfil their duties, including thorough knowledge of ABN AMRO. The programme provides the information needed for participation in the lifelong learning programme. As the knowledge, background and experience of newly appointed members of the Supervisory Board differ, the curriculum of the introductory programme is tailor-made.

Lifelong learning programme

A lifelong learning programme for the Supervisory Board and the Managing Board has been put in place at ABN AMRO and is designed to keep the members' expertise up to date and to broaden and deepen their knowledge where necessary. In most cases members of the Supervisory Board and Managing Board participate in the same courses to foster knowledge-sharing between the Boards.

The programme curriculum is continuously being developed to ensure a balanced programme which covers all relevant aspects of the bank's performance and takes into account current developments in the financial industry.

Topics covered in 2012 include macroeconomics, financial accounting, the Dutch Financial Services Act (*Wet op het financieel toezicht*), ABN AMRO's policies regarding provisions and the manner in which ABN AMRO deals with fraud and integrity issues. A workshop on market risk management was organised in cooperation with a well-known global consulting firm and a workshop on the developments in Asia was organised in cooperation with an Asia-focused advisory firm. Another session took place in July 2012 covering topics such as ABN AMRO's vision on putting clients' interests first and the influence of the subconscious in the boardroom. The programme also includes visits to business lines and subsidiaries.

Corporate governance codes and regulations

Dutch Corporate Governance Code

We believe that corporate governance codes that meet high international standards significantly boost confidence in companies and that compliance with these codes by financial institutions is crucial to restoring trust in the financial sector as a whole. Although ABN AMRO – as a non-listed company – is not required to adhere to the Dutch Corporate Governance Code, we continue to attach importance to a transparent governance structure and therefore aim to comply with the Dutch Corporate Governance Code.

We hold the view that, given ABN AMRO Group's specific corporate structure, several parts of the Dutch Corporate Governance Code either do not apply or need to be adapted to fit ABN AMRO's structure. This is explained on abnamro.com.

We are pleased to confirm that ABN AMRO has observed the applicable principles and best practice provisions of the Dutch Corporate Governance Code in 2012, with the exception of the best practice provisions II.3.2 – II.3.4 and III.6.1 – III.6.3. These best practice provisions deal with real and apparent conflicts of interest between the company and Managing Board or Supervisory Board members respectively and how to handle such conflicts of interest. ABN AMRO complies with these best practice provisions, except where one or more members of the Managing Board or Supervisory Board have a conflict of interest that is exclusively the result of the fact that the composition of the Managing Board and the Supervisory Board of ABN AMRO Group and ABN AMRO Bank are identical. The Managing Board and the Supervisory Board will ensure that such a conflict of interest – whether real or apparent – has no disproportionate negative impact on ABN AMRO Group.

Dutch Banking Code

The Dutch Banking Code sets out principles that banks with a banking licence issued by DNB should observe in terms of corporate governance, risk management, audit and remuneration. Although ABN AMRO Group does not have a banking licence, the Dutch Banking Code does apply to ABN AMRO Bank as the main entity within the Group that holds a banking licence.

We are committed to complying with the Dutch Banking Code and devote a great deal of effort to ensuring that the spirit of the code is reflected in the behaviour of employees and in the culture of the bank. As such, we are pleased to confirm that ABN AMRO Bank complies with the principles of the Dutch Banking Code. A principle-by-principle overview of the manner in which ABN AMRO Bank complies with the Dutch Banking Code is published on abnamro.com.

Throughout 2012 we continued to improve the manner in which we apply the principles of the Dutch Banking Code across the entire Group, taking into account the focus areas indicated by the Dutch Banking Code Monitoring Committee. ABN AMRO participated in the annual examination by the Dutch Banking Code Monitoring Committee of the application of the principles related to the remuneration policy, the results of which have not yet been published. Information on ABN AMRO's remuneration policies is provided in the Remuneration Report of the Supervisory Board included in this report, and in the HR section of the report. In September 2012, ABN AMRO participated in the examination the Dutch Banking Code Monitoring Committee launched on implementation of the code in the areas of client-centricity and risk management.

We continued to focus on client-centricity throughout 2012. Important factors in this respect are the close involvement of senior management and a consistent focus on client-centricity in our training, communication and product development efforts. Retail & Private Banking makes use of an internal dashboard to monitor all activities relating to putting clients first, which is then regularly discussed in the Managing Board. The involvement of senior management helps to demonstrate to staff that the principle of putting clients first is at the core of our business. More information on the efforts we have undertaken to further improve client focus and the duty of care towards clients is provided in the Business, Operating & Financial Review section of this report.

With regard to risk management, the three lines of defence model was optimised and further embedded in the organisation in 2012. This has resulted in increased attention to risk monitoring, credit portfolio maintenance and review. We raised risk awareness in the first line by offering staff extensive risk training and rolling out monitoring dashboards, giving the first line of defence integrated risk reporting to promote a dialogue on this important issue. We also reviewed and strengthened our international risk governance, including the International Risk Charter, which details the responsibilities of the various components of the risk management organisation

in those countries where ABN AMRO has more than one business. In addition, a Risk Control & Follow-up Dashboard was developed in 2012, the purpose of which is to show risk assessment by the business lines in relation to the opinion of the assessment of the 'in control' status for each business line by control functions. And we strengthened risk management by improving cascading of the bank-wide risk appetite to the relevant business lines. Measures taken to strengthen the risk management and governance frameworks are reported on in more detail in the Risk management section of this report.

Subsidiaries of ABN AMRO Bank and the Dutch Banking Code

On 31 December 2012, ABN AMRO Bank had five direct and indirect Dutch subsidiaries with a banking licence: ABN AMRO Clearing Bank N.V., ABN AMRO Groenbank B.V., ABN AMRO Hypotheken Groep B.V., Direktbank N.V., and International Card Services B.V. ABN AMRO applies the principles of the Dutch Banking Code to all these Dutch bank subsidiaries on a consolidated basis. A principle-by-principle explanation of the manner in which the Dutch bank subsidiaries comply with the Dutch Banking Code is published on abnamro.com.

Subsidiaries and international governance

ABN AMRO has designed group-wide policies and standards to ensure that all relevant parts of the organisation adhere to governance principles and requirements. Considering the varying business activities, local regulatory requirements, organisations and risk frameworks of subsidiaries and branches, actual implementation of the group-wide policies and standards may differ between the subsidiaries and branches. All entities in the international network adhere to ABN AMRO's principles of risk governance and moderate risk profile.

We enhanced the bank's international governance model in 2012, including simplification of the governance model and further empowerment of local management and local Risk & Control functions.

An overview of ABN AMRO's main subsidiaries and a description of their activities is provided in the Legal structure paragraph of this section.

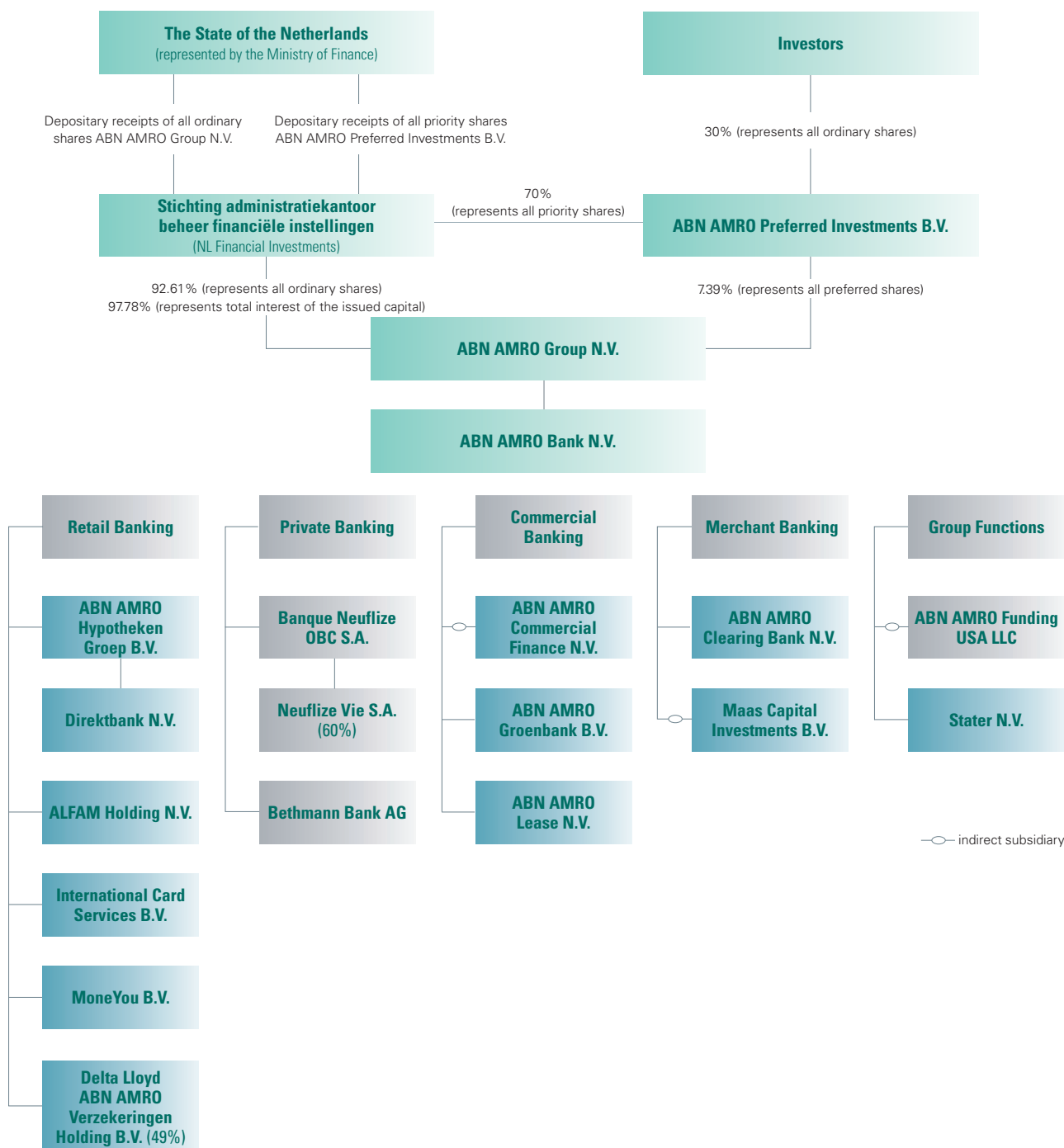
General Meeting of Shareholders

At least one General Meeting of Shareholders is normally held each year within six months of the close of the financial year. The agenda for the annual General Meeting of Shareholders must contain certain matters as specified in ABN AMRO's Articles of Association and under Dutch law, including, among other things, the adoption of the Annual Financial Statements. The General Meeting of Shareholders is also entitled to approve important decisions regarding the identity or the character of ABN AMRO, including major acquisitions and divestments, and annually adopts the 3-year strategic plan, the risk appetite statement and the funding plan. The Supervisory Board, the Managing Board or shareholders representing at least 10% of the issued share capital may convene additional extraordinary General Meetings of Shareholders at any time.

The annual General Meeting of Shareholders of ABN AMRO Group was held on 10 April 2012. Agenda items included the adoption of the 2011 annual accounts, the dividend for the year 2011, the 2012 capital and funding plan and corporate social responsibility. On 18 December 2012 an extraordinary General Meeting of Shareholders was held. Agenda items included ABN AMRO's strategy, ABN AMRO's risk appetite and the re-appointment of the external auditor. The General Meeting of Shareholders passed two resolutions outside a meeting, relating to the remuneration of the Managing Board and the issuance of one ordinary share to NLF. This share was issued within the framework of the settlement reached with Ageas in June 2012. This settlement brought to a close all outstanding disputes between ABN AMRO, the Dutch State and Ageas in relation to the equity transactions which resulted in the acquisition of the Dutch activities of the former Fortis Group by the Dutch State on 3 October 2008.

Legal structure

Global structure of ABN AMRO at 31 December 2012



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.

Shareholder structure

All ordinary shares in the capital of ABN AMRO Group are held by NLFI. All class A non-cumulative preference shares in the capital of ABN AMRO Group are held by ABN AMRO Preferred Investments B.V. All ordinary shares

in the capital of ABN AMRO Preferred Investments B.V. are held by two institutional investors and all priority shares in the capital of ABN AMRO Preferred Investments B.V. are held by NLFI. No other shares have been issued by ABN AMRO Group and ABN AMRO Group's shares are not publicly listed.

On 29 September 2011, the Dutch State transferred its share capital in both ABN AMRO Group and ABN AMRO Preferred Investments B.V. to NLFI. NLFI issued exchangeable depositary receipts for shares (without the cooperation of ABN AMRO Group) to the Dutch State in return for acquiring and holding, in its own name, the share capital in both ABN AMRO Group and ABN AMRO Preferred Investments B.V. In connection with the Ageas settlement, ABN AMRO Group N.V. issued one additional ordinary share to NLFI in June 2012. NLFI issued an exchangeable depositary receipt for this share to the Dutch State (without the cooperation of ABN AMRO Group).

NLFI holds a total voting interest of 97.78% in ABN AMRO. As sole holder of all issued exchangeable depositary receipts, the Dutch State holds an equal indirect interest in ABN AMRO. NLFI is responsible for managing the shares and exercising all rights associated with these shares under Dutch law, including voting rights. However, material or principal decisions require the prior approval of the Dutch Minister of Finance, who will also be able to provide binding voting instructions with respect to such decisions. NLFI's objectives exclude disposing of or encumbering the shares, except pursuant to an authorisation from and on behalf of the Dutch Minister of Finance.

The authorised and issued share capital of ABN AMRO Group N.V. as at 31 December 2012 are reported in the Annual Financial Statements included in this report.

It was concluded that the class A non-cumulative preference shares in the capital of ABN AMRO Group held by ABN AMRO Preferred Investments B.V. no longer qualify for regulatory capital treatment. Prior to the end of March 2013, ABN AMRO expects to call these preference shares.

Main subsidiaries

Other information on ABN AMRO's main operating companies is provided below. A more comprehensive

overview of ABN AMRO's subsidiaries is provided in the Other information section of the Annual Financial Statements.

Retail Banking

ABN AMRO Hypotheken Groep

ABN AMRO Hypotheken Groep B.V. (AAHG) is the supplier of all ABN AMRO-labelled residential mortgage products and is the legal and economic owner of the residential mortgage portfolios of its Florius brand.

Direktbank

Direktbank N.V. (Direktbank) is a subsidiary of AAHG and sells mortgages and service products and works exclusively with independent mortgage advisors.

MoneYou

MoneYou B.V. (MoneYou) operates as an internet bank offering savings accounts of ABN AMRO Bank to consumers and commercial clients and residential mortgages in the Netherlands, Belgium and Germany.

Alfam

ALFAM Holding N.V. (Alfam) is ABN AMRO's competence centre for consumer finance. Alfam sells consumer loans via intermediaries under four different labels: Alpha Credit Nederland, Credivance, Defam and GreenLoans.

International Card Services

International Card Services B.V. (ICS) is ABN AMRO's credit card specialist. ICS issues more than 25 different credit cards in partnership with companies, promotes, manages and processes credit card transactions and offers other financial services, such as revolving credit facilities. ICS is active in the Netherlands, Belgium and Germany.

ABN AMRO Verzekeringen

Delta Lloyd ABN AMRO Verzekeringen Holding B.V. (ABN AMRO Verzekeringen) is a joint venture with Delta Lloyd N.V. in which ABN AMRO holds a 49% stake. ABN AMRO Verzekeringen offers life and non-life insurance products to consumers and commercial clients under the ABN AMRO brand. ABN AMRO acts as an intermediary for ABN AMRO Verzekeringen by selling and providing advice on a comprehensive range of life and non-life insurance products, for which ABN AMRO receives commission payments. ABN AMRO is able to offer a complete package of insurance products to clients.

Private Banking

Banque Neuflyze OBC

Banque Neuflyze OBC S.A. (Banque Neuflyze OBC) is 99.9%-owned by ABN AMRO Bank. Banque Neuflyze OBC offers a unique private banking model based on an integrated approach to private and commercial wealth articulated around dedicated advisory and products offer. Banque Neuflyze and its subsidiaries cover a range of activities including traditional banking services, asset management and discretionary portfolio (though Neuflyze OBC Investissements, Neuflyze Private Assets, its leading assets managers), life insurance (with Neuflyze Vie) and advisory services, estate planning, financial engineering, corporate finance, art advisory and real estate.

Neuflyze Vie

Neuflyze Vie S.A. (Neuflyze Vie) is a joint venture between Banque Neuflyze OBC (60%) and AXA (40%). Neuflyze Vie is a life insurance company and was created to offer life insurance products for (ultra) high net-worth individuals and has developed customised solutions with a focus on unit-linked contracts.

Bethmann

Bethmann Bank AG (Bethmann), a wholly-owned subsidiary of ABN AMRO Bank, enjoys a strong local heritage and brand recognition in the German market. Bethmann covers all major regions of Germany and offers all Private Banking and Private Wealth Management related services.

Commercial Banking

ABN AMRO Commercial Finance

With reference to the capital (liquidity and solvency) requirement, ABN AMRO Commercial Finance B.V. (AACF) provides bridging credits on debtors and inventory. AACF provides finance loans up to 90% of the debtors' and 50% to 70% of the manufacturers' products. Its present client portfolio comprises a wide range of clients. AACF is active in the Netherlands, France, Germany and the United Kingdom.

ABN AMRO Groenbank

ABN AMRO Groenbank B.V. (ABN AMRO Groenbank) finances sustainable projects based on the fiscal green scheme provided for in the Dutch tax system. ABN AMRO Groenbank takes savings deposits and investment cash from Retail & Private Banking clients and makes this

capital available to businesses that invest in sustainable projects in the Netherlands. Financing of sustainable projects has been put on hold following recent changes to the Dutch fiscal green scheme; however, ABN AMRO Groenbank continues to attract funds.

ABN AMRO Lease

ABN AMRO Lease N.V. (ABN AMRO Lease) delivers asset-based solutions (equipment lease and finance) to SMEs, a broad range of national and international operating corporations and the public sector. ABN AMRO Lease provides lease finance for their customers (vendor finance) to manufacturers of equipments. ABN AMRO Lease is active in the Netherlands, Belgium, Germany and the United Kingdom with dedicated sales teams operating in close cooperation with C&MB client segments, Commercial Banking International and AACF.

Merchant Banking

ABN AMRO Clearing

ABN AMRO Clearing Bank N.V. (ABN AMRO Clearing) is recognised as a global leader in derivatives and equity clearing and one of the few players currently able to offer global market access and clearing services on more than 85 of the world's leading exchanges. ABN AMRO Clearing operates from several locations across the globe and offers an integrated packages of direct market access clearing and custody services covering options, equity, futures, commodities, energy and fixed income.

Maas Capital Investments

Maas Capital Investment B.V. (MCI), part of ABN AMRO's ECT business, is a financier for the shipping sector. MCI does this through financial lease constructions or by a (minority) shareholders interest.

Group Functions

ABN AMRO Funding USA

ABN AMRO Funding USA LLC (ABN AMRO Funding USA) is the entity active in the US market in issuing ABN AMRO's US dollar CP funding for clients operating in the US and for clients with US dollar loans.

Stater

Stater N.V. (Stater) offers administration services of mortgage loans. Stater works for ABN AMRO, AAHG, Direktbank and other parties supplying mortgage loans.

Supervisory Board report 4

The Supervisory Board is pleased to present the Supervisory Board report for 2012.

In this report, the Supervisory Board provides an overview of the most important activities and focus areas in 2012, including those of its committees. The report also looks back on the performance evaluation, which was conducted this year under independent supervision, as required by the Dutch Banking Code.

A description of the duties and responsibilities of the Supervisory Board including the procedures for appointment, suspension and dismissal is provided in the Corporate governance section of this report. The current composition of the Supervisory Board, including key information on the background and terms of office of each Board member, is provided in the Composition of the Supervisory Board section of this report.

Supervisory Board meetings

The Supervisory Board met on seven occasions in 2012 during plenary scheduled meetings. All plenary scheduled meetings were held in the presence of the members of the Managing Board and the Company Secretary. Other members of senior management were regularly invited to present specific topics. One of the meetings was a two-day event at an off-site location dedicated mainly to the company's strategy. Another two-day session was held at a foreign subsidiary office, allowing the

Supervisory Board to better understand the local business activities. In addition to the regular scheduled meetings, teleconference meetings were convened at short notice to discuss urgent matters.

The Supervisory Board also held four private meetings without other attendees to independently discuss matters relating to the functioning of the Managing Board and its individual members and to allow for more informal discussions between the Supervisory Board members.

All Supervisory Board members were present at all regular meetings held in 2012, except that one member missed out on one meeting. Outside the Supervisory Board meetings, members of the Supervisory Board and the Managing Board were in contact on a regular basis. The Chairman of the Supervisory Board and the Company Secretary prepared the agenda for the meetings of the Supervisory Board in 2012.

Activities and focus areas in 2012

In accordance with its formal duties and responsibilities, the Supervisory Board reviewed matters relating to all aspects of ABN AMRO's activities, performance, strategy and management. In addition, the Supervisory Board served as a sounding board to the Managing Board. The Supervisory Board's focus areas in 2012 are described below.

Corporate strategy and inherent business risks

Throughout 2012 the Supervisory Board actively engaged with the Managing Board on the long-term strategic goals and performance targets of the bank. In this respect, the Managing Board and the Supervisory Board worked together in a number of informal sessions and workshops. Additionally, one Supervisory Board session was dedicated mainly to the company's strategy. In November 2012, the Supervisory Board approved the long-term strategic goals and performance targets. The approval of the General Meeting of Shareholders as required under ABN AMRO's Articles of Association is pending. Furthermore, the Supervisory Board approved the risk appetite for 2013 and assured itself that the current risk appetite framework is suitable for its purposes. ABN AMRO's risk appetite is reviewed yearly in light of the continuously changing market environment, based on internal insight, best practices and new regulations.

Design and effectiveness of risk management and control systems

The Supervisory Board reviewed the Enterprise Risk Management Reports on four occasions in 2012. In these reports the actual and forecasted risk profile is benchmarked against the risk appetite. In addition, updates regarding capital, liquidity risk, credit risk and other risks were presented to and discussed by the Supervisory Board. The Risk & Capital Committee reported its deliberations and findings on the Group's risk management functions and framework to the full Supervisory Board for further discussion.

The Supervisory Board kept itself closely abreast of the capital structure and funding strategy. Throughout 2012, it extensively discussed the implementation of

capital adequacy and liquidity requirements under the Basel Committee regulations. The Supervisory Board participated in a recovery plan dry run in 2012, which yielded valuable information.

On four occasions, the Supervisory Board discussed the main findings of Group Audit on the control processes following feedback from the Audit Committee. The Supervisory Board devoted special attention to the improvements to the regulatory reporting process and the data quality required for this process, and closely monitored the steps taken in this respect. The Supervisory Board also monitored the strengthening of the control framework in respect of the Markets business. The findings of Group Audit, the follow-up of reported items, management's focus on the key risks impacting ABN AMRO and the discussions with management on management control issues gave the Supervisory Board sufficient assurance regarding the information provided by the Managing Board in the annual Management Control Statement.

Financial reporting

The Supervisory Board reviewed the Annual Report 2012, the Annual Financial Statements 2012 and all annexed information, the Interim Financial Report 2012 and the quarterly press releases of ABN AMRO Group N.V. The Supervisory Board evaluated and discussed these documents with the Managing Board, Group Audit and KPMG (the independent external auditor) and took note of the independent auditor's report that KPMG issued on the Annual Financial Statements 2012. The Annual Financial Statements were authorised for issue by the Supervisory Board and Managing Board on 28 February 2013.

Throughout 2012 the Supervisory Board was regularly updated on the main findings of the audit conducted by the independent external auditor, with the assistance of the Audit Committee. This included follow-up by management of the findings reported in the independent external auditor's management letter. Particular attention was devoted to the need to further strengthen certain areas of internal control, financial reporting and regulatory reporting. Following observations by the independent

external auditor in this respect, management gave top priority to improving the quality of the related processes as requested by the Supervisory Board. Other subjects dealt with in this context included re-assessment of the recoverable amounts and impairments of the Greek government-guaranteed corporate loans and the need to implement a revised policy and procedure for netting assets and liabilities from current client accounts, which was identified in the integration process at the end of 2011. After consultation with the independent external auditor, the Supervisory Board confirmed that the levels of provisioning proposed by the Managing Board are in accordance with the relevant IFRS standards.

Compliance with primary and secondary legislation and claims handling

On four occasions the Supervisory Board received updates on the material compliance matters and effectiveness of the compliance procedures in 2012. Furthermore, all relevant legal files and proceedings were discussed on at least three occasions.

A Dutch housing association experienced serious liquidity problems in 2012. The Supervisory Board, the Audit Committee and the Risk & Capital Committee discussed and evaluated the matter on multiple occasions. The Chairman of the Supervisory Board temporarily stepped down as chairman of the board of the Centraal Fonds Volkshuisvesting, the financial supervisory authority for housing associations in the Netherlands, to avoid any perception of a conflict of interest. In view of the fact that ABN AMRO's external auditor (KPMG) served as external auditor for the housing association, the Audit Committee also evaluated the relationship with the external auditor and established that there was no conflict of interest.

The Supervisory Board further considered all material new legislation to be observed by ABN AMRO, such as the Basel Committee regulations and FATCA US tax regulations. The Supervisory Board also discussed 'know your customer' requirements for the financial industry.

The Supervisory Board was closely involved in the decision-making regarding the settlement with Ageas, which brought to a close all outstanding disputes between ABN AMRO, the Dutch State and Ageas in relation to the equity transactions which resulted in the acquisition of the Dutch activities of the former Fortis group by the Dutch State on 3 October 2008.

Relationships with the shareholder and other stakeholders, corporate social responsibility

In addition to the annual General Meeting of Shareholders, one extraordinary General Meeting of Shareholders was convened in 2012. Apart from these two General Meetings of Shareholders, the Chairman of the Supervisory Board regularly met with the Board of Directors of NLF1, the majority shareholder. Two shareholders' resolutions were adopted outside a meeting.

The Supervisory Board and its individual members maintained regular contact with the Works Councils throughout 2012. Another consultative meeting between the Supervisory Board, the Managing Board and the Central Works Council took place in 2012. The meeting was fully dedicated to ABN AMRO's strategy.

The Supervisory Board recognises the importance of putting the client's interests first. In 2012, the Supervisory Board extensively discussed the bank's product approval process and the strengthening of this process. The impact of new European SEPA payment regulations and the consequences for clients were also discussed. Members of the Supervisory Board visited Retail businesses to focus on the actions taken with regard to client-centricity and to familiarise themselves with the bank's retail clients and retail products. ABN AMRO's internal client-centricity dashboard was one of the topics addressed. This dashboard aims to monitor all activities of the bank relating to putting clients first. Also, a number of client cases relating to mortgages were discussed. To gain a better understanding of the interests of all internal and external stakeholders, members of the Supervisory Board also went on a company visit to an international subsidiary.

The Supervisory Board recognises the importance of direct contact with all key stakeholders and actively monitors material correspondence with the main supervisory authorities. A delegation from the Supervisory Board met with representatives from the Dutch central bank in 2012 to discuss, among other things, the outcome of the Supervisory Review and Evaluation Process (SREP) conducted by the Dutch central bank.

The Supervisory Board endorses the company's ambition to be a top class employer. A delegation from the Supervisory Board attended an off-site event with ABN AMRO trainees which was organised to encourage dialogue between the Supervisory Board and junior staff on topics such as leadership, the future of ABN AMRO and diversity.

Activities and focus areas of Supervisory Board Committees

Audit Committee

The Audit Committee met on four occasions in 2012. All members of the Audit Committee were present at each of these meetings. In addition, these meetings were attended by the Chairman of the Managing Board, the CFO, the CRO, the head of Group Audit and the independent external auditor. Other members of senior management were also present for relevant items on the agenda. In addition, the Chairman of the Audit Committee regularly held individual discussions with the independent external auditor, the head of Group Audit and the CFO, and took notice of the four-year independent external quality review of Group Audit. All issues discussed were reported to the Supervisory Board.

The Audit Committee reviewed and discussed the Annual Report 2012 of ABN AMRO Group N.V. and the Annual Financial Statements 2012 and all annexed information together with the Managing Board. Particular attention was devoted to the loan impairments, the Greek exposure and the accounting of the bank tax. The Audit Committee also reviewed the Interim Financial Report 2012, quarterly press releases and the auditor's report on the financial statements together with the Managing

Board and the independent external auditor. In addition, the Audit Committee took notice of the financial reports issued to the supervisory authorities. The loan loss impairments were regularly reviewed by the Audit Committee throughout 2012. The Audit Committee discussed the bank's fiscal policy and fiscal position.

The performance of the external auditor (KPMG) was evaluated and discussed, resulting in a proposal to the general meeting of shareholders to reappoint KPMG for the financial years 2013 and 2014. Following this proposal, the general meeting of shareholders, reappointed KPMG.

The Audit Committee discussed the audit reports of Group Audit, which present opinions about, among other things, governance, risk and compliance processes on a quarterly basis. In addition, the Audit Committee discussed the main findings from the audit on 'soft controls' conducted by the independent external auditor. The Audit Committee also discussed the status of the implementation of SEPA regulations, ABN AMRO's compliance with FATCA US tax regulations and the reports received from supervisory authorities. The Audit Committee approved the Audit Charter (which was amended slightly), adopted the audit plan for Group Audit for 2013 and evaluated the functioning of Group Audit.

The Audit Committee further closely monitored the progress made on improving regulatory reporting and other information required by the supervisory authorities.

Members of the Audit Committee and the Supervisory Board were informed of the implications of new Dutch legislation relating to the position of the external auditor.

Remuneration, Selection & Nomination Committee

The Remuneration, Selection & Nomination Committee met on four occasions in 2012. All members of the committee were present at all meetings held in 2012, except that one member missed out on one meeting. In addition, the meetings were attended by the Chairman of the Managing Board, the member of the Managing Board responsible for Integration, Communication & Compliance and representatives of HR.

In 2012, the Remuneration, Selection & Nomination Committee discussed succession planning for the Managing Board and senior management and the application of the remuneration policy for senior management. Other important topics discussed related to variable remuneration for senior international staff members and the approval of the list of Identified Staff members in line with the bank's policies. The committee also discussed the regulatory impact of Dutch remuneration-related laws and regulations in an international context. The Committee discussed the setting of collective financial and non-financial targets for the Managing Board in order to measure performance at Group level in 2012 and the performance in connection with the targets over the year 2011. The approval of variable remuneration for the selected members of senior management responsible for the control functions was another topic on the agenda. The committee discussed material retention, exit and welcome packages and the highest variable incomes. Furthermore, the committee provided advice on the conclusion of the new collective labour agreement in 2012 and the merger of ABN AMRO Pensioenfond and Pensioenfond Fortis Bank Nederland.

Risk & Capital Committee

The Risk & Capital Committee met on four occasions in 2012. All members of the Risk & Capital Committee were present at each of these meetings. In addition, these meetings were attended by the Chairman of the Managing Board, the CFO and the CRO. The heads of Group Audit, ALM/Treasury, Central Risk Management, Compliance and Legal were also present at meetings. All issues discussed during the Risk & Capital Committee meetings were reported to the full Supervisory Board in subsequent meetings of the Supervisory Board.

During each meeting, the Committee extensively discussed the company's enterprise risk profile, paying special attention to credit risks. In view of the substantial amount of loan impairments in 2012, the Committee held in-depth discussions with representatives from the Financial Recovery & Restructuring department to analyse the background of potential losses and to discuss lessons learned with a view to the bank's credit processes. The Committee provided recommendations to the Supervisory

Board on the effectiveness of the compliance procedures and related control processes. Particular attention was devoted to embedding compliance procedures and related control processes within ABN AMRO's foreign businesses following the global risk assessment. The Committee also provided recommendations to the Supervisory Board on approval of the adjusted risk appetite in 2012. Recurring agenda items included updates on the bank's capital structure and funding plan, the implementation of Basel II and Basel III requirements and updates on all material compliance issues and legal files.

The Risk & Capital Committee performed in-depth reviews of ABN AMRO's securities financing activities, the bank's response to cybercrime, its activities in the area of Energy, Commodities & Transportation and its off-balance sheet instruments in 2012, strengthening the Committee's understanding of the associated risks and control processes.

Performance evaluation

The Supervisory Board reviews its performance and that of the Supervisory Board committees on an ongoing basis. The Supervisory Board is currently carrying out a full-scope review of its own performance over the full year 2012, supported by independent specialists from a well-known corporate advisory firm. This includes an evaluation of the introductory and lifelong learning programmes, the composition of the Supervisory Board and the Managing Board, the expertise present in the Supervisory Board, the dynamics of the board, time management and succession planning. Other important topics covered in the evaluation are the Supervisory Board's role with respect to strategy, risk management and internal control. The results of the evaluation will be discussed in a plenary session of the Supervisory Board.

remuneration report 5

This section sets out the remuneration for the Managing Board and Supervisory Board and other categories of employees as indicated below.

Remuneration philosophy

ABN AMRO's remuneration philosophy is based on the bank's profile: a stable bank with a moderate risk profile that faces the future with ambition. Internal factors such as the organisation, targets, values, long-term interests and positioning have been taken into account in designing a sustainable and responsible policy that reflects the position the bank aims to play in the Netherlands and abroad.

In addition to the remuneration philosophy, ABN AMRO adheres to external regulations and guidelines which now regulate the remuneration environment in the financial sector. These are:

- ▶ the Dutch Banking Code;
- ▶ the Dutch Regulation on Sound Remuneration Policies pursuant to the Financial Supervision Act 2011 (*Regeling beheerst beloningsbeleid Wft 2011 – RBB*);
- ▶ the principles laid down in the Capital Requirements Directive (CRDIII);
- ▶ the Guidelines on Remuneration Policies and Practices as formally adopted on 10 December 2010 by the Committee of European Banking Supervisors (CEBS Guidelines).

The Dutch act on limitation of liability DNB and AFM and bonus prohibition for state-supported enterprises (*Wet aansprakelijkheidsbeperking DNB en AFM en bonusverbod staatsgesteunde ondernemingen*, or Bonus Prohibition Act) was published and added to the applicable legislation for ABN AMRO in mid-2012.

Remuneration policy changes in 2012

The Supervisory Board executes the remuneration policy for the Managing Board members. This policy has been in place since their appointment date, 1 April 2010.

The Supervisory Board reviews the policy over time in line with market practice and considering the company's strategy, risk awareness, targets and corporate values. External requirements with respect to governance, the international context and relevant market data are also taken into account. The Supervisory Board approves the general remuneration principles laid down in the ABN AMRO Global Reward Policy and assesses the general principles and exceptions embedded in the applicable governance structures. Whenever relevant, the Supervisory Board receives input from control functions such as Risk, Compliance, HR and Audit.

With effect from 2011 and in accordance with the bank's risk profile, risk appetite and strategy, ABN AMRO has adhered to all relevant remuneration restrictions within its related and/or associated companies, branch offices, and direct and indirect subsidiaries, including those established in off-shore financial centres. The rules apply not only to the Managing Board, but also to those staff whose professional activities could have a material impact on the bank's risk profile, i.e. a group of so-called Identified Staff consisting of members of the Managing Board, all members of the Management Group¹, staff responsible for independent control functions, other risk takers and other employees whose total remuneration takes them into the same remuneration bracket as senior managers and risk takers.

With effect from 2011, the Supervisory Board – at the proposal of the Remuneration, Selection & Nomination Committee – amended the remuneration policy for the Managing Board and also approved changes in the remuneration policies for Identified Staff. The general remuneration principles and variable compensation plan were formally approved by the shareholders. ABN AMRO's variable compensation plan meets the current remuneration guidelines for the financial sector. The variable compensation component is linked to long-term value creation, integrated risk management, a risk-awareness culture and ownership and was applied for the first time in 2012 with respect to variable compensation awards reflecting the 2011 performance year.

Pursuant to the Bonus Prohibition Act that came into force with retrospective effect to 2011, new restrictions for the members of the Managing Board became applicable. As a result, the Supervisory Board decided that Managing Board Members may not participate in ABN AMRO's new RBB-compliant variable compensation plan during the period of state support.

Remuneration principles for Managing Board and Identified Staff

The following sections provide details of the remuneration principles for the Managing Board and for employees that qualify as Identified Staff.

Managing Board

ABN AMRO aims for a level of total compensation slightly below the median of the relevant markets. The peer group against which the remuneration proposals for the Managing Board have been assessed consists of financial and non-financial companies both in the Netherlands and in Europe. All are companies with which ABN AMRO competes in attracting and retaining talent and competent managers. In selecting a comparator group for the Managing Board remuneration, the Supervisory Board used a peer group of companies that are comparable to ABN AMRO in terms of size and scope and are active in financial and non-financial markets. The basic reference group for financial institutions consists of 14 companies within the Netherlands, Belgium, Germany, France and the United Kingdom; in addition, a cross-industry market analysis was performed against companies listed on the Dutch AEX, i.e. both financial and non-financial companies.

Due to the implementation of the Bonus Prohibition Act, the variable compensation element that formed part of the agreed and benchmarked remuneration package has been abolished with effect from the 2011 performance year. After careful consideration and with due observance of the one-off transition arrangement included in the Bonus Prohibition Act, the Supervisory Board decided to award the members of the Managing Board a temporary fixed allowance. This allowance of EUR 100,000, which represents 16.67% of the 2011 annual salary, applies effectively as from 1 January 2012 for as long as the Bonus Prohibition Act is applicable to ABN AMRO. The Chairman of the Managing Board is not entitled to this allowance. For the calendar year 2012, all six Managing Board Members have waived their entitlement to this allowance.

¹ The Management Group is a group of senior managers positioned in management layers below the Managing Board level. The majority of this group is employed on a Dutch employment contract and are based in the Netherlands, whereas a smaller part is positioned abroad and may be employed under a non-Dutch contract.

Management Group and other Identified Staff

The reward packages for the Management Group members also aim at a level of total direct compensation just below market median levels within a relevant peer group consisting of companies in both the financial and non-financial sectors. In principle, variable compensation for the Management Group is capped at 100% of base salary.

Remuneration packages for Identified Staff based in the Netherlands who are not Management Group members are governed by the ABN AMRO collective labour agreement. When deciding on the exact composition of the pay package for Identified Staff based in markets outside the Netherlands, ABN AMRO takes account of the relevant business dynamics (e.g. market conditions, local labour and tax legislation).

Composition of remuneration package for Identified Staff

The remuneration packages for Identified Staff have been structured in accordance with the regulations for the financial sector described above. Where applicable, the short-term and long-term variable components implemented in 2010 have been integrated into one variable element, so that the typical remuneration package for Identified Staff consists of the following components:

- annual base salary;
- annual variable remuneration (with deferred payout);
- benefits and other entitlements.

The table below provides further information on the variable compensation plan for Identified Staff:

Performance period	1 year		
Performance measures	Group level (30%)	Management Group Financial: RARORAC, Cost/Income ratio, Stable funding, Tier 1 ratio, Cost ceiling	Other Identified Staff Financial measures: 40%-50% Non-financial measures: 40%-50%
		Non-Financial: Progress with regard to integration, Customer satisfaction, Employee engagement/culture, Sustainability (including diversity)	Personal development KPIs for 10%-20% The minimum weight per measure: 10%
	Business unit level (40%)	Financial: RARORAC, Cost ceiling	A different distribution applies to Control Functions. Their KPIs will not be profit driven and there should be no linkage to the business they control
		Non-Financial: Progress with regard to integration, Customer satisfaction, Employee engagement/culture, Sustainability (including diversity)	
	Individual (30%)	Individual performance rating	
Up-front payment (directly after performance period)	In principle: up to 60%	50% in cash	
		50% in non-cash instruments (fluctuates with the value of ABN AMRO) ¹	
Deferral period		3 years (tranche vesting: 1/3 vests every year)	
Measures for malus assignment (in any of the following situations, the deferred part will not vest)	If reassessment of initial performance gives reason for applying malus. Malus can also be applied in the event of:	Evidence of misconduct or serious error by the staff member (e.g. breach of code of conduct or other internal rules, especially concerning risks)	
		The institution and/or the business unit subsequently suffers a significant downturn in its financial performance (specific indicators are to be used)	
		The institution and/or the business unit in which the staff member works suffers a significant failure of risk management	
		Significant changes in the institution’s economic or regulatory capital base	
Deferred payment (respectively 2 years, 3 years, 4 years after the performance period)	In principle: up to 40%	50% in cash	
		50% in non-cash instruments (fluctuates with the value of ABN AMRO) ¹	

¹ Retention period for non-cash instruments is a minimum of 2 years.

The overview shows that performance is measured during a one-year performance period at various levels – group, business unit and individual level – by means of (partly) risk-adjusted financial and non-financial performance indicators.

A maximum of 60% of the annual variable compensation is paid out after the performance year, with the remaining 40% being deferred over a three-year period. The deferred part will only become unconditional in equal instalments in the three years following the first payment and after an explicit ex post risk assessment called the malus assessment.

Both the up-front and the deferred parts of variable compensation are paid out in cash (50%) and in non-cash instruments (50%). The non-cash instruments fluctuate in line with the net asset value of ABN AMRO. A two-year retention period is applied to the non-cash instruments, so that any unconditional instruments will need to be retained for an additional two years. For a specific group of Identified Staff, the settlement in cash of the non-cash instruments is capped at 50% of the applicable maximum amount of variable compensation.

The Supervisory Board has discretionary power to adjust any variable compensation downwards to a suitable amount if, in its opinion, payment of the compensation would be unacceptable under the principle of reasonableness and fairness. The Supervisory Board decided that on the basis of the reassessment as performed by the Group Control Functions, there was no reason to apply a collective or individual malus for the first deferred variable compensation tranche with respect to the 2011 performance period. This means that one third of the deferred variable compensation awards with respect to the 2011 performance year will now be granted to the Identified Staff involved.

The Supervisory Board is authorised to reclaim any variable remuneration over any performance period if the award, calculation or payment has been based on incorrect data or if the performance conditions were not achieved in hindsight. The employee will then be obliged to repay any amount paid.

Personal hedging or insurance linked to remuneration and liability in order to circumvent the risk control effects that have been embedded in the variable compensation plan are not permitted.

Details on remuneration of Managing Board in 2012

Further details on remuneration of Managing Board

a. Annual base salary

The annual base salary in 2012 for the six members of the Managing Board amounted to EUR 607,500. The Chairman's salary during 2012 was EUR 759,375. Salary adjustments for the Managing Board follow the developments in the collective labour agreement for the banking industry (*Algemene Bank CAO*) which provided for a 1.25% increase as per 1 January 2012.

b. Variable remuneration

Although the remuneration package for the members of the Managing Board provides for a variable compensation component, the Bonus Prohibition Act does not allow such compensation opportunity for board members of financial institutions that fall under the scope of this Act. The members of the Managing Board will therefore not be entitled to receive variable compensation with respect to the 2012 performance year.

c. Benefits

In 2012, the Chairman and the members of the Managing Board participated in the ABN AMRO pension scheme. The pensionable salary of the Managing Board members is 100% of the annual base salary minus the defined reduction (known in Dutch as *franchise*). The standard retirement age of Managing Board members is 65, based on an average income accrual (2.15% per year). Early retirement is an option. The ABN AMRO pension fund manages the pension plan.

Managing Board members are also eligible to receive additional benefits, such as the use of a company car and a designated driver.

d. Severance

In the event of redundancy, a severance payment up to a maximum of twelve monthly salaries will apply. Managing Board members are appointed for a period of four years. All current Managing Board Members and the Chairman were appointed on 1 April 2010. Further information is provided in the composition of the Managing Board section. Details on the remuneration of the individual members of the Managing Board in 2012 are provided in note 42 to the Annual Financial Statements.

Managing Board 2012 Performance

Collective financial and non-financial targets are set for all Managing Board members in order to measure performance at Group level. The Supervisory Board opted for collective targets so as to emphasise cooperation within the Managing Board as well as individual targets such as individual leadership and specific focus areas of the members of the Managing Board. Weighting of the individual elements amounts to 20% of the performance criteria, whereas the financial and non-financial targets each have a weighting of 40%.

The Supervisory Board assessed the Managing Board's performance against the Group-wide financial performance targets, and the set non-financial parameters. Financial performance targets consisted of criteria such as RARORAC, cost ceiling and various capital and liquidity ratios whereas in the non-financial Group-wide criteria such as client and employee satisfaction, culture, sustainability and progress with respect to the integration were included.

Although all Managing Board Members delivered above-target performances in 2012, the members of the Managing Board are not eligible to receive variable remuneration in relation to their performance as a consequence of the scope of the Bonus Prohibition Act.

Expected developments in 2013

Further restrictions on remuneration policies in the form of an amendment to the Capital Requirements Directive (CRD IV) are expected to be implemented in 2013, possibly with effect from 2014. In the Netherlands, additional legislation based on the intentions of the recent coalition agreement is expected to be developed in the course of 2013. The Supervisory Board will take all such measures into account in keeping ABN AMRO's remuneration policies aligned with relevant and applicable developments.

Disclosure further to Regulation on Sound Remuneration Policies pursuant to the Financial Supervision Act 2011 (*Regeling Beheerst Beloningsbeleid Wft 2011*)

The following tables provide information on aggregated pay for Identified Staff, broken down into:

- ▶ Business segment;
- ▶ Fixed and variable;
- ▶ Cash and phantom shares;
- ▶ Maturity of vesting and pay settlement.

Aggregated total compensation over 2012 per business

(in thousands)

Business segment	Aggregated figure
Retail & Private Banking	17,240
Commercial & Merchant Banking	28,262
Other	20,980
Total	66,482

Details of aggregated total compensation over 2012

(in thousands)	Number of Identified Staff	Aggregated figure
Fixed compensation over 2012	194	43,994
Variable compensation over 2012	182	22,488
<i>of which in cash</i>		11,671
<i>of which in performance certificates</i>		10,817
<i>of which unconditional (up-front payment)</i>		13,835
<i>of which conditional (deferred payment)</i>		8,653
Sign on bonus over 2012	-	-
Severance pay over 2012	1	-
Highest severance pay over 2012 ¹		

¹ Not disclosed for confidentiality reasons.

Remuneration of Supervisory Board members

The remuneration of members of the Supervisory Board is set by the General Meeting of Shareholders based on a proposal of the Supervisory Board. The remuneration of Supervisory Board members is proportional to the time required to perform their duties and is independent of

ABN AMRO's financial results. ABN AMRO does not grant shares or options to Supervisory Board members in lieu of remuneration. The remuneration did not change over 2012.

Details on the remuneration of members of the Supervisory Board in 2012 are provided in note 42 to the Annual Financial Statements.

central works council 6

The Central Works Council represents approximately 20,000 employees of ABN AMRO in the Netherlands. The bank also has four Works Councils representing the business segments and various Works Councils representing the subsidiaries.

The Central Works Council and the other Works Councils are composed of elected members and, together with the European Staff Council, are the bank's employee representation bodies. The bank considers these bodies to be stakeholders. Important decisions can be implemented more successfully if they are taken with the involvement of the Works Councils. The Works Councils have the legal authority to advise on, give their consent to and introduce proposals relating to the bank's employees.

Requests for advice in 2012

The Central Works Council issued advice on the following subjects in 2012:

- ▶ The bank's long-term strategy;
- ▶ Merger of the ABN AMRO and FBN pension funds;
- ▶ Transfer of investment bankers from RBS to ABN AMRO Bank N.V.;
- ▶ Sale of Solveon Incasso B.V. to Lindorff Group AB;
- ▶ Downsizing and restructuring of the Redeployment Centre;
- ▶ Changes in the relationship between ABN AMRO Bank N.V. and ABN AMRO Hypothekengroep;
- ▶ Redistribution of Risk Management within Retail Banking;
- ▶ Closing down the New World of Work project group;
- ▶ Outsourcing of HR Services to RAET.

Tripartite consultation

The Central Works Council, Managing Board and Supervisory Board meet once a year. This tripartite consultative meeting is the result of an agreement made between these three parties in June 2011 which lays down the details of their relationship.

During 2012 the three parties discussed the bank's long-term strategy, including how scenario planning fits in with the development of the bank's strategy, future scenarios and the consequences for the bank, staff and clients.

Shareholders' meeting

The Central Works Council made use of its statutory right to speak at the General Meeting of Shareholders of 10 April 2012. The chairman of the Central Works Council highlighted the role of the Council, looked back on 2011 and discussed items relevant to the Central Works Council for 2012. These items included concerns about employment in 2012 and the years ahead, the ageing staff, renewal of the collective labour agreement and redundancy scheme, and the future of the bank. The Central Works Council will again make use of its right to speak at the General Meeting of Shareholders in 2013.

Consultation with the Board in 2012

The discussions between the representative Board member, Caroline Princen, and the Central Works Council were held in an open and constructive atmosphere. The two parties met on seven occasions in meetings and on various other occasions. Furthermore, the Central Works Council met with the Chairman of the Managing Board on two occasions. Topics of discussion included general affairs, the annual and interim financial results, and the strategy of the bank. The dialogue was conducted in a constructive, trusted manner.

Central Works Council survey

The Central Works Council held two employee surveys at the end of 2011. Under the heading 'What will the bank look like in 2017?', staff were asked their opinion on the bank's vision and strategy. The response to this survey was good: more than one-quarter of the workforce participated. The Central Works Council incorporated the survey responses into its vision, which it shared with the Chairman of the Managing Board and the representative Board member, Caroline Princen. The Council also took part in the bank's leadership programme, experiencing how the bank aims to inspire its leaders in creating a culture of cooperation, trust and long-standing relationships.

responsibility statement 7

Pursuant to section 5:25c sub 2 part c of the Dutch Financial Supervision Act, the members of the Managing Board state that to the best of their knowledge:

- ▶ The Annual Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of ABN AMRO Group N.V. and the companies included in the consolidation;
- ▶ The Annual Report gives a true and fair view of the state of affairs on the balance sheet date and the course of business during the financial year 2012 of ABN AMRO Group N.V. and of its affiliated companies, of which data is included in its Annual Financial Statements;
- ▶ The Annual Report describes the material risks with which ABN AMRO Group N.V. is faced.

Amsterdam, 28 February 2013

The Managing Board

Gerrit Zalm, Chairman

Jan van Rutte, Vice-Chairman

Johan van Hall, Member

Caroline Princen, Member

Wietze Reehoorn, Member

Chris Vogelzang, Member

Joop Wijn, Member

Managing Board report

business & strategy

economic environment 8

The global economic slowdown caused the Dutch economy to stagnate in 2012, as reflected in the weak housing market, higher unemployment and a rise in the number of business failures, particularly among small and mid-sized businesses. In this section, we describe the macroeconomic developments that unfolded in 2012 that are relevant to ABN AMRO and we look ahead to 2013.

Global economic slowdown in 2012

The global economy has climbed its way out of the credit crisis in recent years, but has not been left unharmed and is not back to its pre-crisis condition. The eurozone was particularly problematic, as it moved from the credit crisis directly into the European sovereign debt crisis. Sentiment is no longer depressed by the crisis, but the risks have yet to disappear. It initially appeared that 2012 had got off to a good start, with global trade rising in early January thanks largely to favourable developments in the world's largest economy, the United States, and in emerging economies.

The economic recovery in the US was short-lived, unfortunately: the economy turned sluggish, creating uncertainty among businesses and consumers. The causes were the escalating European sovereign debt crisis and the impending fiscal cliff in the US. The prospect of increased taxes and reduced government spending in the US had an unfavourable effect on the growth outlook. This made consumers cautious, while businesses postponed their investment plans. Confidence indicators fell in the course of the year.

The situation was aggravated by the restrictive measures introduced by policymakers in emerging countries in 2011, slowing down growth in the first part of 2012. Europe's recession depressed demand for products from Asia and Eastern Europe, and sluggish growth in Asia weakened demand for commodities, which mainly hit Latin America. All of this held back growth in many emerging economies, including China, India and Brazil. Nonetheless, growth figures in these countries remained far above levels of industrial countries thanks to the combination of population and productivity growth: 6% in emerging Asia and around 3% in emerging Latin America.

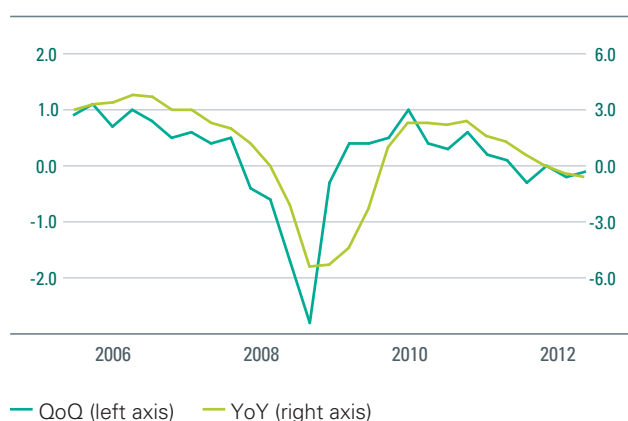
The decline in business confidence lowered the levels of investment and inventories. As these components have a relatively high import content, global trade slowed even more sharply than overall activity. The slowdown in trade growth was widespread geographically, with declines in both advanced and emerging market economies. However, the decline in trade growth relative to gross domestic product (GDP) growth was particularly pronounced in the eurozone and Japan.

Fortunately, 2012 saw a series of diverging developments which kept the global downturn from worsening. First of all, commodity prices declined, with oil prices falling in the second quarter. The decrease was subsequently largely cancelled out, mainly as a result of turbulence in the Middle East and a spike in prices of agricultural commodities due to the dry summer in the Midwest of the US. A rise in income due to lower commodity prices ultimately failed to materialise. Second, the US job market picked up, although only moderately, and the housing market increasingly set the pace of the US economy.

European sovereign debt crisis

The graph below shows the long-term development of economic growth figures in the eurozone. The eurozone economy was unexpectedly resilient in the first quarter of 2012, with the German economy avoiding a contraction. The two subsequent quarters saw a decline in GDP compared with the previous quarter. Domestic demand in the eurozone weakened under austerity measures, rising unemployment and uncertainty about the European sovereign debt crisis and the resulting financial turmoil.

Economic growth in the eurozone



Source: Bloomberg

Greece was the main trouble spot in Europe in 2012. The danger was that the Greek problem would spread to bigger economies, travelling from Greece to Italy and Spain. This threat had been present since mid-2011, when European leaders required financial institutions to partially

write off their loans to the Greek government. This decision set off a series of preventive sales of Spanish and Italian government bonds in the financial sector, causing the interest rate gap between these countries' government bonds and German government bonds to widen.

The run-up to the Greek elections and problems in Spanish regions and among Spain's banks set off a fresh round of turbulence in 2012. Various policy measures were introduced in the year under review to head off this turmoil, most of which were initially cheered; ultimately, however, enthusiasm waned. Still, the outlook for the eurozone started improving in the course of 2012. To counter the financial problems, government leaders made agreements on budget deficit ceilings and sanctions for non-compliance.

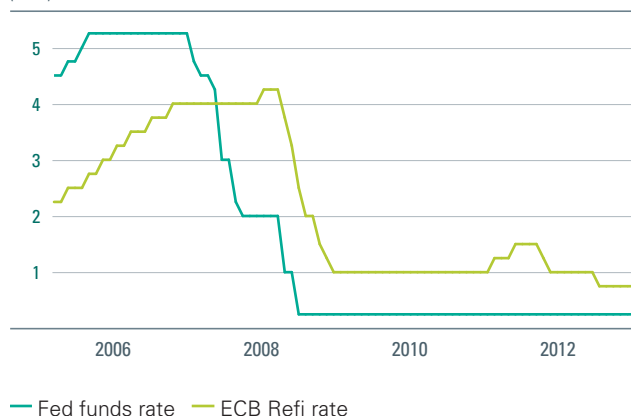
Greece made progress in its debt rescheduling, and in September the German constitutional court ratified the permanent bailout fund known as the European Stability Mechanism (ESM, successor to EFSF, the temporary bailout fund). The ESM can give banks support directly, after effective European banking supervision is in place. The European Commission put forth proposals for European banking supervision in 2012, in order to prevent banks and national governments from keeping each other from taking action. Eurozone banks will be subject to the direct supervision of a single, central regulator, the European Central Bank (ECB).

Central banks' response

In addition to these positive developments, central banks tried to tackle sluggish growth by reducing interest rates and provided liquidity to the market by acquiring securities. Declining inflation in 2012 paved the way for a more relaxed monetary policy, and the ECB lowered interest rates and lent banks more than EUR 1 trillion at lower rates for three years (LTROs, or longer-term refinancing operations). The US central bank, the Fed, has kept interest rates at close to 0% since the end of 2008 (see graph).

Interest rates of central banks

(in %)



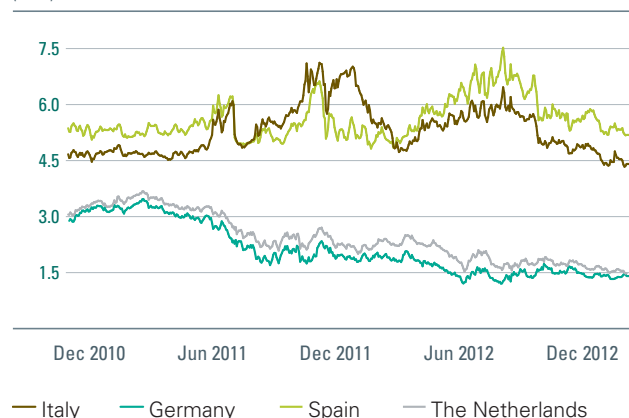
Source: Bloomberg

Apart from reducing official interest rates, which becomes increasingly difficult whenever short-term rates reach the lower limit, central banks can influence capital market interest rates by acquiring securities. We refer to the ECB's Outright Monetary Transactions programme (OMT) to buy government bonds. The Fed was more aggressive and, in an effort to push down long-term interest rates, bought huge volumes of mortgage bonds and government loans and, under 'Operation Twist', exchanged short-term loans from its own portfolio for long-term loans in the market.

The ECB's decision in September to acquire an unlimited amount of government bonds, under certain conditions, significantly impacted sentiment in the financial markets. The ECB can push down yields on government bonds of peripheral countries, reducing the effects of the European sovereign debt crisis. The announcement of OMT alone was enough to cause yields on Spanish and Italian bonds to fall (see graph). Low interest rates help to keep government finances on a sustainable footing. Total sovereign debt maturing in advanced economies is set to increase slightly in 2013 and 2014. However, if austerity measures help to curtail budget deficits, the total sovereign financing need should stabilise compared to 2012.

Interest rates of Germany, Italy, Spain and the Netherlands

(in %)



Source: Datastream

There is a greater chance that the European sovereign debt crisis will ultimately be put to rest, as the ECB feels responsible and governments are willing, if necessary, to intervene; they simply cannot afford to fail. If the crisis escalates, governments could go bankrupt – and that would lead to significant losses in the financial sector throughout the eurozone and beyond, threatening the future of pensions, lending and financial stability.

Bank funding conditions

Bank funding conditions soon improved after the ECB announced OMT and demonstrated its willingness to step up as a lender of last resort. Debt issuance volumes increased and spreads on senior unsecured debt and covered bonds declined. Despite the pickup in debt issuance at the end of the year, total issuance declined significantly compared with 2011. Eurozone banks have only refinanced half of their maturing debt. The negative net issuance is both a reflection of the ongoing deleveraging and restructuring process and the less acute need to refinance as a result of the three-year LTRO.

The ECB's decision to introduce OMT has stemmed the flow of deposits from banks in the periphery to 'safe haven' banks in the core countries. Furthermore, several banks from distressed countries gained access to debt markets.

However, the cost of issuing new debt remains highly dependent on the county of issuer, and funding risk remains an issue. All in all, the global situation for banks is still challenging. Profitability is muted given the combination of high levels of unemployment, still high levels of non-performing assets and depressed residential property values. Fortunately, banks have already strengthened their solvency positions as they reduced risk-weighted assets and spurred Tier 1 capital levels by higher retained earnings.

Dutch economy weakens

The Netherlands has a very open economy which is highly dependent on international developments. The Dutch economy grew slightly in the first half of 2012, ending a brief recession in 2011, with growth driven mainly by exports. However, consumer spending continued to decline, in contrast with the trend in surrounding countries, probably due to unfavourable developments on the Dutch housing market, which forced families to review their finances, damaged confidence and put a damper on construction. Uncertainty about the end of the European sovereign debt crisis, the future of the mortgage interest rate deduction, other government measures and pensions further harmed consumer and business confidence and willingness to do business. All of this had a knock-on effect on house sales, unemployment, business failures and the strongly cyclical market for commercial property. The result was that the Netherlands saw its economic growth lag behind Germany, France and Belgium in 2012; this was already the case in 2011, and we fear this will not change in 2013. The weak performance caused rating agencies Fitch and S&P to change the outlook of the Netherlands.

Adverse economic conditions drove up the number of bankruptcies in 2012, though with big differences among sectors. The construction sector recorded the most in absolute numbers. This was due mainly to the turmoil in the commercial property market, which is highly sensitive to economic developments. In addition, the demand for commercial property is structurally declining, partly as a result of the increase in teleworking.

Dutch housing market stagnates

A particular cause for concern in 2012 was the Dutch housing market, which has been sluggish in recent years due to the economic situation in the Netherlands and abroad. The number of house sales fell in 2012 for the sixth consecutive year. House prices have fallen to an average of more than 16% below levels in 2008, when they peaked, and homeowners have seen their assets decline in value, making them cautious about spending money. All this adds up to a vicious circle, with the economic downturn and housing slump reinforcing each other.

Meanwhile, the number of mortgages in arrears increased, though this remains at a comparatively low level. The Dutch mortgage market is relatively large and sensitive to changes in fiscal conditions. A large part of 2012 was dominated by uncertainty about the future of the mortgage interest rate deduction and about other aspects of the government's housing policy. The new government has pushed through reforms both in the rental and the owner-occupied segments. This is important because confidence can only be restored if it is clear what the rules are for the coming years. The housing market would therefore benefit from a longer period of stable policy. On the bright side, homes are now more affordable thanks to the decline in both capital-market interest rates and house prices.

Developments in the Dutch banking market

Economic developments in recent years have impacted Dutch banks. Revenues came under pressure due to weaker demand for certain banking products. Costs were driven up by preparations for and the introduction of new or revised regulations. Loan impairments increased due to a rise in defaults and a decline in the value of commercial property portfolios, among other things. These developments did not affect the profits and capital ratios of all banks equally, due in part to differences in scale and geographic scope and the relative impact of loan impairments. Friesland Bank and SNS Reaal proved unable to survive on a stand-alone basis and were acquired by Rabobank and the Dutch government, respectively.

Lower profitability combined with stricter capital requirements prompted both Dutch and foreign banks active in the Netherlands to reconsider their existing mix of activities, choices in new lending, dividend policies and geographic allocation of capital. The relatively large share of mortgages on Dutch banks' balance sheets and the situation on the housing market made banks cautious in their mortgage lending. Furthermore, a number of foreign banks gave priority in lending to their home markets, slowed down growth of their Dutch activities and, in some cases, sold off portfolios.

Given the total volume of lending, the Dutch credit market grew only slightly in 2012. There are indications that lending in the SME market was under pressure, as banks tightened their lending conditions in the course of the year. Higher costs of long-term lending caused both banks and corporates to seek out alternative ways to serve clients in long-term lending. Consequently, there has been an increasing trend toward disintermediation, whereby banks connect clients wishing to invest directly with other parties, rather than collecting clients' savings and investing the money for them.

Banks worked to bring down costs by continually seeking out opportunities to improve efficiency, restructure their organisations and outsource work, and continued to comply with requirements imposed by the European Commission in connection with having received state aid. ABN AMRO, for example, reduced its Dutch branch network in response to the shift from branch visits to mobile and online banking.

Credit ratings of several Dutch banks were downgraded in 2012, resulting in higher costs; however, this hardly limited the opportunities for most banks to raise funding.

Access to liquidity was an important theme for a number of banks, as interbank lending declined drastically. There was still a great deal of distrust of banks from eurozone periphery countries, keeping the eurozone interbank market fragmented. The ECB largely took over the role of this interbank market in the year under review. A number of parties made use of the ECB's LTRO facility.

These themes will continue to dominate the Dutch banking market in 2013. On balance, the Dutch funding gap (loans minus savings) shrank. The gap remains structurally large, however, due to the sizeable mortgage portfolios of banks and the large mandatory pension savings of households.

Looking ahead to 2013

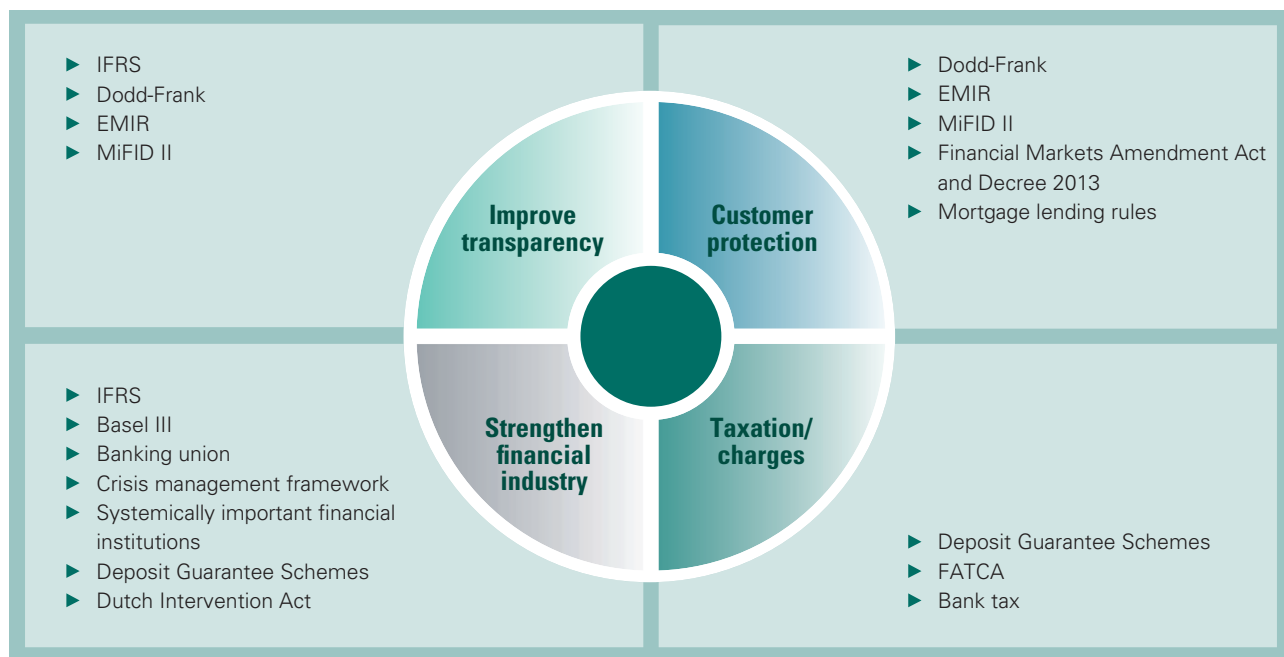
Late 2012 saw the early stages of a slight economic recovery in 2013. The European sovereign debt crisis is no longer an acute problem, and central banks are doing what needs to be done. The ECB's decision to acquire government bonds caused a turnaround, and leading indicators in the US, such as the ISM index (which reflects business confidence), are pointing to a recovery. A significant revival in 2013 is unlikely, however, as most industrial countries are cutting spending. China could possibly relax policy, but will presumably not introduce a full-scale stimulus. Policymakers in the eurozone are making progress and intervening to prevent financial chaos, but have not put a definite end to the European sovereign debt crisis. Unless the crisis escalates again, we expect the global economy to gradually pick up in 2013, with the US and emerging markets in the lead and the eurozone following behind. We expect the Dutch economy to contract slightly in 2013.

regulatory environment 9

The global financial crisis, which started in 2007, has forced governments around the globe to bail out banks and other financial institutions in order to prevent a meltdown of the financial system. This crisis has led to a widespread call for tighter regulation and stricter supervision for financial institutions and specifically banks. Legislators and regulators are introducing a wide range of proposals, which are scheduled to come into effect in the coming years.

These proposals are being introduced by local governments as well as supranational authorities such as the European Commission (EC). The volume of these changes and the severity of their impact will lead to a material impact on all financial institutions and especially on banks. ABN AMRO will need to allocate a significant amount of resources to prepare for these changes. Certain proposals will potentially have an effect on the bank's operations and financial position. Proposals such as the Dutch bank tax or the new Basel III framework are expected to lead to significant additional costs which will likely be reflected in the costs of products and services offered to clients.

The volume of all regulatory changes which are expected the coming years makes it impossible to give a complete overview of our regulatory environment. Here the focus is on the major regulatory changes that are expected to impact the bank. The following figure gives an overview of the major regulations and proposals that are set to affect the bank.



Regulation or legislation	Current status	Implementation date
Basel III/CRD IV	Proposals	Expected January 2014
IFRS	Various	Various
Banking union	Proposals	Expected July 2013
EMIR	Further implementing measures pending	August 2012
MiFID II	Proposals	Expected 2015
Crisis management framework	Proposals	Expected 2018
DGS (EU)	Proposals	Unclear
DGS (Dutch)	Final Proposals	Expected 2015
Bank Tax (Dutch)	Implemented	October 2012
Mortgage Lending Rules	Implemented	January 2013
SiFi	Proposals	Expected 2016-2019
Financial Markets Amendment Act and Decree 2013	Finalised	2013
Dutch Intervention Act	Implemented	June 2012
Dodd-Frank	Further implementing measures pending	July 2010
FATCA	Proposals	Unclear

Global regulation

On a global level, the two major regulatory developments are the introduction of Basel III and changes in accounting standards, especially IFRS 9 and IAS 19.

Basel III

One of the most significant regulatory developments is the introduction of Basel III. Basel III, which provides guidance on capital requirements and liquidity risk, was introduced by the Basel Committee on Banking Supervision. These proposals will be implemented in the European Union (EU) through a new Capital Requirements Directive and Capital Requirements Regulation, also known as CRD IV. The Basel III and CRD IV proposals include stricter definitions of and an increase in the amount and quality of the buffers of bank capital and bank liquidity. Furthermore, certain new liquidity leverage ratios will be introduced.

ABN AMRO is currently preparing for the introduction and adoption of these proposals, which was initially scheduled for 1 January 2013. In December 2012, the European Parliament postponed the introduction. Implementation as of 1 January 2014 seems the most likely course of events. More detailed information is provided in the Risk & Capital Management section of this report.

IFRS

Besides specific regulatory changes targeted at banks, ABN AMRO also faces changes in accounting standards and interpretations. In the wake of the financial crisis, the standard on financial instruments recognition and measurement, IAS 39, was criticised for its complexity and difficulties in practice. Therefore, IAS 39 is expected to be replaced by IFRS 9 during the coming years. IFRS 9 is expected to have a significant impact on impairment methodologies. In addition, the presentation of financial instruments on the statement of financial position and hedge accounting will be more in line with business practice. ABN AMRO is currently preparing for the implementation and adoption of IFRS 9. The currently known introduction date is 1 January 2015.

The revised IAS 19 standard on employee benefits came into effect on 1 January 2013. The most significant change compared to the prior standard is the elimination of the so-called "corridor" method. This elimination leads to the direct recognition of actuarial gains and losses in other comprehensive income. As a result of this amended standard, the equity position of ABN AMRO will be more volatile. More quantitative information is provided in note 30 to the Annual Financial Statements.

Projects on offsetting, consolidation, fair value measurements, revenue recognition and lease accounting are also conducted by the IASB and are expected to impact the bank from 2013 onwards. The planned IFRS changes are further explained in note 1 to the Annual Financial Statements.

EU regulations

In addition to global regulations, the EU is working on a broad range of measures aimed at bringing more stability and transparency to the European financial sector. Among them are the banking union, EMIR, MiFID II, crisis management framework and a renewed Deposit Guarantee Scheme Directive.

Banking union

In September 2012 the EC introduced a proposal for an EU banking union. In this so-called Single Supervisory Mechanism (SSM), the responsibility for specific supervisory tasks related to financial stability of all eurozone banks is expected to move from all national central banks to the European Central Bank (ECB). Within this unified supervisory system, the ECB will initially have direct responsibility for around 150 banks across the eurozone. Among these approximately 150 banks are eurozone banks with assets exceeding EUR 30 billion. This brings ABN AMRO in scope of this new SSM. The ECB will be able to require eurozone banks to take remedial action to ensure their viability and intervene to prevent breach of capital requirements.

The aim is to have a single supervisory handbook, as well as a single rule book, for all bank supervisors throughout the European Economic Area. National supervisors are expected to continue to play an important role in the day-to-day supervision and preparing and implementing ECB decisions.

The SSM may result in stricter requirements on capital and liquidity. ECB supervision is expected to be phased in automatically on 1 July 2013 for the most significant European systemically important banks, and on 1 January 2014 for all other banks. All banks in the eurozone are therefore expected to come under European supervision by 1 January 2014.

EMIR

The EU regulation on OTC derivatives, central counterparties and trade repositories (EMIR) came into force in August 2012. Full implementation requirements are expected to come into force in 2013. EMIR requires any party that has entered into an OTC derivatives contract to report and risk-manage their derivative positions. It will apply directly to any entity (financial or non-financial) established in the EU that has entered into a derivatives contract, and applies indirectly to non-EU counterparties trading with EU parties.

Implementation of EMIR will increase ABN AMRO's reporting requirements on outstanding derivative contracts. Furthermore, certain types of OTC derivatives contracts will need to be cleared through a central counterparty. For contracts that are not centrally cleared, ABN AMRO will need to comply with certain operational risk management requirements, including the increased exchange of collateral.

MiFID II and MiFIR

MiFID II and MiFIR are aimed at strengthening investor protection within the EU. This is done by the introduction of a new set of rules to increase market transparency and is expected to change the way certain instruments, such as bonds, commodities, derivatives and structured finance instruments, are traded.

At this stage, both the European Parliament and the European Council are in the process of finalising their own compromise text of MiFID II and MiFIR. Final implementation is expected to take place in 2015.

MiFID II and MiFIR also introduce a new regulated platform, the so-called Organised Trading Facility, which is designed to regulate all forms of organised trading, in addition to regulated markets and multi-trading facilities. Furthermore, the proposals include a partial ban on granting and receiving inducements for certain investment services. This is in addition to the general ban on referral fees (see below under Financial Markets Amendment Act 2013).

In anticipation of these proposals, ABN AMRO has entered into a covenant with the AFM whereby ABN AMRO in principle agrees that distribution fees from investment managers are no longer payable to the bank for the sale of investment funds to its clients. The covenant will enter into force on 1 January 2014.

Crisis management framework

In June 2012, the EC adopted proposals for a framework for the recovery and resolution of financial institutions. The proposals have a three pillar approach aimed at prevention, early intervention and resolution. The resolution pillar includes bail-in powers for regulators. Other resolution powers include the sale of business, the temporary setting up of a bridge bank and transfer of assets to a bad bank.

It is uncertain when and how these proposals will be adopted. However, in their current form, they could negatively affect the position of certain categories of ABN AMRO's bondholders and the credit rating attached to certain categories of debts instruments then outstanding. These measures could, among other things, increase our cost of funding and thereby have an adverse impact on our funding ability, financial position and results of operation.

Deposit Guarantee Schemes Directive

The EC and the European Parliament are currently drafting a proposal for a revision of the Deposit Guarantee Scheme (DGS) at a European level. The DGS guarantees repayment of certain client deposits held at European banks in the event of bankruptcy. The revision mainly deals with harmonisation and simplification of protected deposits, faster payout and improved financing of schemes (with the emphasis on ex-ante financing rather than ex-post). The precise details of this proposal are currently under negotiation between the EC and the European Parliament, but implementation is expected by 2014 at the latest.

The EU proposals are similar to the current Dutch system (see below under Dutch Deposit Guarantee Scheme), although certain elements differ, for example inclusion of corporate deposits in the EU proposal. It is currently unclear what extra demands the EU proposals will place on Dutch banks on top of those in the Dutch DGS.

Dutch regulations

In response to the global economic downturn of recent years, and the direct effects on the Dutch economy, the Dutch government has introduced various measures aimed at protecting deposit holders and mortgage owners and at stabilising the Dutch banking sector.

Dutch Deposit Guarantee Scheme

The Dutch government has announced the introduction of a new financial levy intended to pre-fund the Dutch Deposit Guarantee Scheme (DGS). This scheme guarantees client deposits at Dutch banks up to a maximum amount of EUR 100,000 in the event of bankruptcy. The duty will be levied on risk-bearing liabilities that fall under the Deposit Guarantee Scheme. The levy was initially planned to come into force on 1 July 2013. However, the Ministry of Finance has suggested in its letter to Parliament in connection with the nationalisation of SNS Reaal N.V. on 1 February 2013 that entry into force be postponed for another two years. Under the new DGS, banks will be required to pay a quarterly contribution into a fund for the Deposit Guarantee Scheme. If the scheme is invoked, the fund will pay out. If the fund is insufficient, the costs arising from the shortfall will be divided among the banks in line with the present system. The new pre-funding system is expected to increase ABN AMRO's expenses for the Deposit Guarantee Scheme.

Bank tax

In 2011, the Dutch government announced its intention to introduce a bank tax. According to the government, the main purpose of this bank tax is to price in the implicit government guarantee for the Dutch banking sector. An act to introduce the bank tax in the Netherlands entered into force in 2012. The tax rates have been raised compared with the earlier proposals (described in the 2011 Annual Report) such that the anticipated annual revenue generated by the bank tax from Dutch banks will increase from EUR 300 million to EUR 600 million.

Due to the introduction of the bank tax, ABN AMRO incurred a EUR 112 million surcharge in 2012, increasing expenses and the cost/income ratio. This measure will lead to costs in subsequent years.

Financial Markets Amendment Act and Decree 2013

The 2013 Financial Markets Amendment Act and Decree introduce both new and additional rules to existing law, in respect of a great number of financial services related issues. One of these is a ban on referral fees for specific complex financial products or significant household financial decisions, such as mortgages, life insurance and pension insurance. The goals are to increase transparency for consumers and ensure that the interests of consumers and their advisors are aligned. Financial advisors will be required to provide transparency related to costs, terms of service and relations with relevant third parties. This ban is expected to come into effect in July 2013.

Mortgage lending rules

A number of rules and regulations applying to the Dutch mortgage market entered into force in January 2013. These include fiscal measures that only allow tax deduction of interest payments for new borrowers of annuity or linear mortgages. This will probably lead to a gradual decrease over the coming years of the amount of interest-only mortgages in ABN AMRO's portfolio.

The new rules also impose a gradual decrease in the maximum loan-to-value rate. The loan-to-value rate will decrease from 105% as per 1 January 2013 to 100% as per 1 January 2018. Furthermore, new rules have been introduced for paid advisory services in the mortgage market. Clients will have to pay for the mortgage advice provided, and referral fees will no longer be payable. To promote competition in the mortgage market, new transparency rules have been introduced. These rules require mortgage lenders to publish their fees on their websites and to provide specific information on offers and renewal offers to new and existing clients.

Systemically Important Financial Institutions

In September 2012, the Dutch legislator published a consultation document on additional capital buffers for system-relevant banks and investment firms.

The consultation document anticipates a gradual introduction of CRD IV into Dutch law. According to the document, the Dutch central bank is to determine the amount of the systemic risk buffer depending on the likelihood of an institution's situation disrupting the stability of the Dutch financial system.

This could lead to additional Tier 1 capital add-ons of 1-3% relative to risk-weighted assets. It is expected that the relevant additional buffers will need to be accrued from 2016 onwards and fully implemented at the end of 2018. ABN AMRO was designated as a systemically important bank in 2011.

Dutch Intervention Act

In anticipation of the EC proposals for a crisis management framework, the Dutch Intervention Act (*Wetsvoorstel bijzondere maatregelen financiële ondernemingen*) entered into force in June 2012 (with retrospective effect to January 2012). The act provides a framework ensuring timely and orderly resolution of financial institutions in the event of serious problems, without the necessity to enter into bankruptcy proceedings. The act grants substantial new powers to De Nederlandsche Bank (DNB) and the Dutch Minister of Finance, enabling them to deal with ailing Dutch banks prior to insolvency. The Dutch Intervention Act empowers DNB or the Minister of Finance, as applicable, to commence proceedings leading to:

- ▶ transfer of all or part of the business (including deposits) of the relevant bank to a private sector purchaser;
- ▶ transfer of all or part of the business of the relevant bank to a "bridge bank";
- ▶ public ownership (nationalisation) of the relevant bank and expropriation of debt securities. Subject to certain exceptions, once any of these proposed proceedings have been initiated by DNB or the Minister of Finance, the relevant counterparties of such bank would not be entitled to invoke events of default or set off their claims against the bank.

On 1 February 2013 the Dutch Minister of Finance announced the nationalisation of SNS Reaal N.V., acting under powers granted to him under the Dutch Intervention Act.

A EUR 1 billion one-off resolution levy for all banks was also proposed to be levied in 2014. The impact of this proposal on the results of ABN AMRO is currently estimated to be in the range of EUR 200-250 million (after tax) depending on the final details of the levy.

US regulations

In response to the global financial crisis, which has its origins in the US, the US government has introduced the Dodd-Frank Act, which is expected to have a material impact on the banking industry. ABN AMRO has limited activities in the US but the scope of these acts could potentially have an impact. Furthermore, in order to enhance tax revenues, the US government has introduced FATCA.

Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was passed into US law on 21 July 2010. The Dodd-Frank Act has been hailed as the most sweeping financial services regulatory reform legislation in the US since 1933. The legislation covers a broad spectrum of issues ranging from systematic supervision, changes to the regulation of investment advisors and regulation of over-the-counter (OTC) derivatives, to measures aimed at improving consumer protection.

Most of the impact on ABN AMRO's businesses is expected to result from the rules on OTC derivatives that are primarily used in the Markets business. For example, various provisions, such as mandatory clearing of swaps, trade execution through swap execution facilities, and reporting of OTC derivatives, will apply to us when transacting with US persons. Other provisions will apply only if ABN AMRO is required to register as a swap entity with the applicable US regulator.

Currently, there are two main regulatory agencies that are expected to issue further implementing rules: the U.S. Commodity Futures Exchange Commission (CFTC) and the Securities and Exchange Commission (SEC). The CFTC has issued almost all of its rules and regulations, while the SEC has not.

The major remaining outstanding rules of the CFTC are those relating to capital of registered swap entities, swap execution facilities and uncleared swap margins. Furthermore, the cross-border application of the rules on OTC derivatives has not been finalised.

Based on the information gathered to date, ABN AMRO has not registered as a swap dealer with the CFTC. The SEC has not published registration rules and as of year-end 2012, there was no registered swap entity for those derivatives under its jurisdiction.

ABN AMRO is monitoring legal developments and OTC derivatives volumes to determine the need for registration.

FATCA

The Foreign Account Tax Compliance Act (FATCA) was enacted by US authorities in March 2010. The objective of FATCA is to increase the ability to detect US persons evading tax by holding accounts with so-called Foreign Financial Institutions (FFIs). FATCA imposes a maximum of 30% withholding tax on all US source payments to an FFI unless the FFI complies with client due diligence, certain reporting and withholding requirements. An FFI can be FATCA compliant by concluding an FFI Agreement directly with the US tax authorities or by way of operating in a so-called Intergovernmental Agreement (IGA) jurisdiction. In such an IGA jurisdiction, a local government has entered into an agreement with the United States, to implement FATCA and the FATCA obligations are incorporated in local law.

The first major milestone for FATCA compliance is scheduled for 1 January 2014. We expect most of the jurisdictions in which we operate to conclude IGAs which will relieve possible legal impediments to the implementation of FATCA. We intend to become FATCA compliant, and we expect FATCA to have an impact on client on-boarding processes, client administration and reporting systems. In addition, we cannot rule out the possibility of clients being requested to provide additional or updated information and documentation.

focus on the future

With the end of the integration in sight, we decided that it was time to conduct an in-depth review of our strategy for the coming years. In doing so, we based our longer-term vision on our solid fundamentals: a strong domestic focus and market position complemented by select international activities, and a moderate risk profile. To ensure our success in a rapidly changing world, our focus in the years ahead will be on the following five strategic priorities:

- ▶ Enhance client-centricity;
- ▶ Invest in our future;
- ▶ Strongly commit to a moderate risk profile;
- ▶ Pursue selective international growth;
- ▶ Improve profitability.

The following section describes our strategy for the coming years in greater detail.

Strategy
2012



2013

2014

2015

2016

2017



strategy 10

Changing client expectations and economic, technological and regulatory developments offer the banking industry opportunities. At the same time, these trends are putting significant pressure on earnings models and are forcing banks to continuously review their value propositions to stakeholders.

Within this changing environment, our mission is to be successful through the success of our clients. We are strongly committed to and want to be positively recognised for our position on sustainability and transparency. And we want to be an organisation that has the best talent and where people grow both professionally and personally.

Fulfilling our mission in this challenging context has prompted us to thoroughly assess our own market position and capabilities. As a result, we have refined our strategic direction. Our long-term strategy builds on many elements of our current DNA, but also focuses on specific strategic priorities in the coming years while setting out ambitious targets. The following chapter presents the highlights of our strategic direction.

One of the building blocks in creating the long-term strategy is the SWOT analysis of the bank.

Strategic context

We have spent the past few years building a strong organisation out of the legacy of the separation and integration of ABN AMRO Bank and Fortis Bank Nederland. We have emerged as a stable bank with many of our key capabilities rebuilt or strengthened. ABN AMRO remains a strong brand in the Netherlands and we benefit from continued high brand awareness abroad. We have restored our international network and the product capabilities we lost as a result of the separation. We have strengthened our risk management capabilities and governance, have a good capital position and completely restructured our funding profile. Meanwhile, we continue to have proven access to the wholesale funding market.

Strengths	Weaknesses
<ul style="list-style-type: none"> ▶ Recognised for professionalism, expertise, and relevant and high-quality advice; ▶ Strong domestic market share in retail, private and commercial banking segments; ▶ Recognised capabilities in private banking, trade and transactions activities and asset-based finance; ▶ Diversified mix of activities that matches our moderate risk profile; ▶ Strong brand equity both domestically and internationally. 	<ul style="list-style-type: none"> ▶ Large balance sheet allocation to the Dutch market (resulting in a funding gap); ▶ Alignment and scale of international businesses suboptimal in several countries; ▶ Solid but complex IT landscape (following the integration of past few years); ▶ Higher cost/income ratio than other international banks; ▶ Acquisition ban and price leadership restrictions resulting from the EC state aid decision.
Opportunities	Threats
<ul style="list-style-type: none"> ▶ Introducing new products and solutions responding to upcoming regulations; ▶ Increasing client demand for transparent and sustainable solutions; ▶ Technological solutions for distinguished client segments; ▶ Higher economic growth in our locations outside Europe. 	<ul style="list-style-type: none"> ▶ A wide range of existing and upcoming regulations; ▶ Jeopardised level playing field with international competitors (differences in regulations and taxation); ▶ Long period of weak economic conditions in domestic and Western European markets; ▶ New entrants competing in specific business lines, segments or products.

While we were integrating the two banks, we remained a stable provider of loans. We have introduced efficient multi-channel access to our products and services using innovative new technologies. Furthermore, we have simplified our retail product offering. As a result of these and numerous other initiatives, client satisfaction, as measured by several surveys, has improved.

We optimised our portfolio by making focused acquisitions and strategic divestments, such as the acquisition of LGT, a private bank in Germany, and the divestment of our commercial insurance broker activities and our Swiss private banking activities.

Having completed the integration, we continue to build on our existing DNA:

- ▶ We are a leading Dutch bank with the majority of revenues generated by interest income and fees & commissions;
- ▶ We have a clearly defined business model:
 - ▶ Strong position in the Netherlands in all our business activities;
 - ▶ International growth areas in Private Banking, asset-based lending, ECT and Clearing.
- ▶ We have a moderate risk profile:
 - ▶ Enhanced risk management and control framework;
 - ▶ Diversified loan book and good capital position;
 - ▶ Limited trading and investment banking activities;
- ▶ We strive for excellent execution capabilities with a strong focus on improving service to clients, lowering our cost base and achieving integration synergies.

To prepare for the challenges of the future, we made clear choices for our local and international operations. The refined elements can be categorised into the following strategic priorities:

- ▶ Enhance client-centricity;
- ▶ Invest in our future;
- ▶ Strongly commit to a moderate risk profile;
- ▶ Pursue selective international growth;
- ▶ Improve profitability.

Enhance client centricity

We aim to stand out from other banks based on the quality and relevance of our advice. We intend to further distinguish ourselves by enhancing our need-based client segmentation in Retail, Private, Commercial and Merchant Banking. We aim to anticipate different client needs through advanced client analytics, segmentation and in-depth sector expertise and to develop our products, services and channels accordingly.

In the Netherlands, we plan to consolidate our Retail Banking business and focus on tackling the more complex financial issues of our most promising client segments and increasing our focus on the quality of our advice. We will continue to enhance our internet and mobile solutions.

We intend to strengthen our position in the lower segments of private banking while further optimising our advice model.

We will further increase our focus on commercial clients for whom we are the principal bank and will expand service to clients through teams with in-depth sector expertise. We will concentrate on operating efficiently while keeping client satisfaction high, further standardising and simplifying solutions that meet the less complex needs of our Commercial Banking clients. In Merchant Banking, we plan to build on product/market combinations in which we have proven capabilities.

Invest in our future

Top class employer

We aim to further develop our attractiveness as an employer in the coming years, positioning the bank as a top class employer that enables employees to fully develop their talents. To become a top class employer, we focus on three key aspirations: creating a meaningful corporate identity, achieving a culture of excellence and being the best place to work. We want to create a culture of excellence defined by Customer Excellence, diversity, leadership and continuous learning and an innovative and inspiring working environment in which employees can make the most of their talent.

Recognised position in sustainability

We operate in a complex, rapidly-changing environment in which various developments are generating risks and opportunities for our key stakeholders: our clients, investors, employees and society. To address risks and seize opportunities alertly and effectively, we will focus on a number of priority areas that help us deliver balanced and sustainable value to our stakeholders:

- ▶ We are committed to sustainable business operations;
- ▶ We put our clients' interests centre stage and build sustainable relationships;
- ▶ We use our financial expertise for the benefit of society;
- ▶ We finance and invest for clients in a sustainable manner.

Additionally, we intend to further improve transparency in all our interactions and communications with clients and other stakeholders.

Re-engineering the IT landscape and optimising processes

Technological innovations have a major impact on the behaviour of our clients, and offer new opportunities for improving our products and services. To prepare for the future, we have made fundamental choices. We aim to upgrade the IT landscape and standardise and rationalise processes to create a sound foundation from which we will operate. We strive to execute this transition gradually, thereby minimising inconvenience to clients. Furthermore, we will increase the capabilities of working more closely with innovative partners in order to develop new and better products and services. As part of our heightened focus on innovation, we will start an Innovation Centre in 2013, driven by clients and social, sustainable and technological trends.

The strategy in this area is underpinned by the following aspirations;

- ▶ Easiest to do business with – reducing lead times and improving quality of service for the end client through simplification, standardisation and digitisation of processes;
- ▶ Create value through innovation – continue to provide innovative solutions to our clients;
- ▶ Best-in-class productivity – significantly reducing costs through rationalisation, reducing the complexity of our IT landscape and increasing the level of straight-through processing (STP);
- ▶ Attract, develop and retain the best external partners – working closely with partners to bring innovations to the market.

We expect to invest a total of approximately EUR 0.7 billion up to 2017 to structurally lower our cost base and enable us to achieve our business objectives. This investment aims to structurally lower the gross cost base by approximately 2-3 percentage points of group cost/income ratio by 2017 and is expected to further decrease the cost base in the years thereafter.

Strongly commit to a moderate risk profile

We are committed to maintaining and optimising a clean and strong balance sheet. We want our balance sheet to continue to be characterised by limited exposure to sovereigns with high country risk and by limited trading and investment banking activities. To further optimise the balance sheet, we intend to increase the share of asset-based finance, gather more deposits to lower the loan-to-deposit ratio and curtail growth of our mortgage book.

We focus on asset-based finance where the bank has a strong leading position in the Netherlands and Western Europe. This should lower the bank's risk profile, contribute to profitability, enhance cross-selling opportunities and reduce RWA consumption.

We also focus on attracting client deposits in order to become less dependent on wholesale and interbank funding. Our web-based bank, MoneYou, is therefore targeting a stable, sustainable market share in the Netherlands, Germany and Belgium. We focus on matched growth of client assets and liabilities over time where possible.

Our current balance sheet has a high concentration of Dutch mortgages. We intend not to grow our nominal mortgage book, focusing first and foremost on fully serving our primary clients. This decision should ensure further diversification and contribute to a lower loan-to-deposit ratio in the future.

All our capital allocation will principally be based on risk-adjusted performance measures to ensure that return targets are met. We will devote significant attention to the major changes made to capital and liquidity requirements for banks under the Basel III framework. We plan to position ourselves well above regulatory requirements in terms of capital ratios (CET1). Consequently, the expected higher capital costs will be reflected in our pricing. The key goals of our funding strategy are to increase client deposits and to diversify our funding sources.

Pursue selective international growth

In order to diversify our income base and risk exposure, we want to grow our business selectively worldwide and increase our international operating income. To this end, we aim to leverage strong capabilities in select international markets with higher growth outlooks.

Our ambition is to increase revenues generated by our international business from 18% in 2012 to 20-25% of our total revenue in 2017. Our guiding principles for international growth are:

- ▶ We expand only those businesses that have strong and proven capabilities (capability-led growth);
- ▶ Based on a moderate risk profile, we aim to match our local assets and liabilities over a period of time (asset and liability-matched model);
- ▶ We build on the ABN AMRO brand awareness.

These principles have the following implications for our international proposition. We aim to:

- ▶ continue to grow our international private banking activities and our global specialist businesses, including ECT and Clearing;
- ▶ in addition to our global businesses, focus on our asset-based financing businesses (Commercial Finance and Lease) in Western Europe;
- ▶ collect additional deposits via our international private banking activities and MoneYou;
- ▶ continue to follow and serve our Dutch clients to help them achieve their international ambitions;
- ▶ enhance efficiency by increasing the scale of our activities and improving cross-business coordination and cooperation;
- ▶ mainly be active in surrounding countries and in the major global financial and trading centres;
- ▶ serve our clients through partner banks in locations where we do not have a local presence.

Improve profitability

External developments are putting pressure on our current earnings models, requiring us to differentiate the way we serve our clients in order to maintain and improve our profitability.

We strive to continuously improve the efficiency of our businesses. We have launched several cost control and efficiency improvement initiatives during the past years, such as Customer Excellence, and we will continue to pursue our ambitions in the important area of cost control. Our target is to bring our cost/income ratio between 56 and 60% by 2017, including the additional costs of new regulations, government measures and taxation.

The projects currently running will continue and new initiatives are planned to help us achieve our cost/income target, including:

- ▶ Continue the roll-out of Customer Excellence, which combines operational excellence with customer focus;
- ▶ Enter the next stage of simplifying and standardising products and the product portfolio;
- ▶ Develop and encourage the use of self-service applications for our clients;
- ▶ Take the next step in rationalising and modernising our IT landscape;
- ▶ Shift our focus of servicing clients from branches to online and mobile solutions.

As a result of these cost and efficiency initiatives, we expect the number of FTEs to decrease by 1-3% per year.

Our financial ambition

Our financial ambition for 2017 is to achieve a return on equity between 9 and 12%.¹ To ensure optimum use of our capital, we will focus rigorously on applying risk-adjusted performance measures and the use of low RWA intensive solutions for our clients.

We aim to reach a CET1 ratio (under Basel III) well above regulatory requirements, resulting in a CET1 ratio between 11.5 and 12.5%¹ in 2017.

We will continue to focus on structural cost control and efficiency improvement. Including the additional costs of new regulations, government measures and taxation, we will strive to bring our cost/income ratio down to between 56% and 60% by 2017.

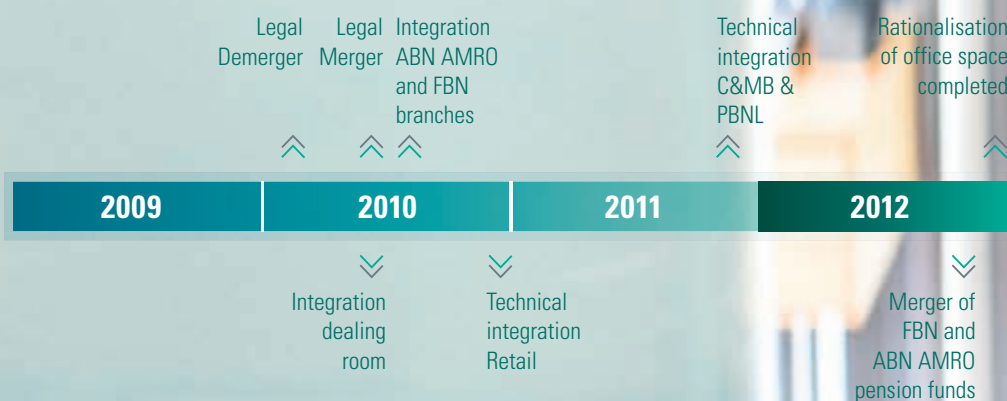
Performance indicator	Target 2017
Return on Equity	9-12%
CET1 ratio	11.5-12.5%
Cost/income ratio	56-60%

¹ Assuming no further volatility of the pension liability after first adoption of IAS19 (as revised in 2011) as per 1 January 2013.

a fully integrated bank

It was an enormous, complex operation, but we are proud that we completed it within budget and on schedule: the integration of the former ABN AMRO Bank and FBN. Achieved at the end of 2012, this milestone marks the end of a four-year period during which we dedicated a vast amount of resources and management attention to building a new, fully unified ABN AMRO. While building the new bank, we kept our business up and running and minimised inconvenience to our clients.

The following section of this report looks back on four years of integration.





integration 11

“2012 was a landmark year for our bank, the year in which we finalised the integration of ABN AMRO Bank and FBN. Between 2009 and 2012, we joined together every aspect of the operations of the two banks. When we embarked on our journey in 2009, our goal was to complete this complex operation by the end of 2012, and I am pleased to say we have been successful in our efforts. We finalised the integration on schedule and within budget, while minimising inconvenience to our clients. Throughout the process, we continuously improved and addressed any problems that arose with maximum efficiency, thanks to the joint efforts of many employees and disciplined execution. And, as promised, the envisaged synergies emerged along the way. All in all, we have successfully combined two organisations into one solid, streamlined bank. While tackling this enormous challenge, we never lost sight of our goal to put our clients’ interests at the heart of everything we do.”

Johan van Hall, Member of the Managing Board

Key figures

EUR 1.6 billion
total integration costs

EUR 1.0 billion
realised annualised
synergies

More than **1.6** million
retail clients migrated

423,000
sq.m saved office
space

246 branches in the
Dutch retail banking
network reduced

More than **30,000**
people relocated

Separation and integration: a review of 2009-2012

What we set out to do

The formation of ABN AMRO Group is a result of various legal and operational separation and integration activities. In 2008, the Dutch State acquired the Dutch banking activities (FBN) of the former Fortis Group, including its interest in the former ABN AMRO Holding. A month later the Minister of Finance announced the State's intention to combine the interests of FBN and the former ABN AMRO Holding to form a new bank, to operate under the name ABN AMRO. A transition team was then appointed under the leadership of Gerrit Zalm which mapped out plans for the separation of ABN AMRO Bank from RBS and FBN from BNP Paribas Fortis, and the integration of the two separated banks.

On 1 April 2010 ABN AMRO Bank and FBN became part of the new ABN AMRO Group, with both banks run under joint management by identical Managing and Supervisory Boards and senior management teams. Following the transfer of both entities to the new ABN AMRO, the Legal Merger between ABN AMRO Bank and its subsidiaries and FBN became effective on 1 July 2010. Since this date, the newly combined bank has operated under the brand name ABN AMRO.

At the outset of this endeavour, we set some ambitious targets:

- ▶ Our overall integration budget was EUR 1.6 billion;
- ▶ We targeted pre-tax synergies of EUR 1.1 billion per annum as from 2013, resulting in a cost/income ratio between 60% and 65%;
- ▶ We aimed to complete the separation and integration by year-end 2012.

In short, our goal was to integrate the two banks' IT systems and processes, office space and workforces and to migrate all client data from the FBN IT platforms to the ABN AMRO IT platforms by year-end 2012, while meeting our financial targets.

We started out by defining a number of key integration principles. First, we wanted to minimise the impact of the integration on clients and to inform our staff as early in the process as possible about whether they individually would

have a future at the new bank. And second, we planned to first integrate the two banks and get the combined organisation up and running as swiftly as possible before turning our attention to optimising systems and processes. We completed this ambitious programme in 2012, and the few remaining activities will be addressed as part of business as usual in 2013. Throughout the integration, we devoted attention to client care at all times.

Separation

Separating the two banks from their original organisations was a complex process, which we managed to successfully conclude in 2010. Having largely completed the operational separation in July 2009, the Legal Demerger, whereby the majority of the Dutch State-acquired businesses held by RBS were transferred to a new legal entity named ABN AMRO Bank, was completed in February 2010.

To satisfy a requirement imposed by the European Commission, designed to preserve a level playing field in the Netherlands, ABN AMRO Bank had to sell part of its commercial banking business and found a buyer in Deutsche Bank. The sale was completed on 1 April 2010. We then started preparing for the client migration to Deutsche Bank, which we finalised in August 2012. The separation of FBN from ASR Nederland was completed in October 2010, and the operational separation between FBN and BNP Paribas Fortis was finalised in December 2010.

Integration

Our brand

We retained the familiar ABN AMRO brand recognisable to consumers and businesses across the Netherlands and around the world. During the rebranding programme executed in 2010, we replaced the Fortis brand name with ABN AMRO, rebranding our business segments in the Netherlands as well as our businesses abroad. Under this programme, a total of 140 legal entities changed their names and 100 systems were adapted.

Our business in the Netherlands

From April 2009 to December 2010, we conducted the technical integration and migrated the data of a total of 1.6 million Retail Banking clients from the FBN systems to the ABN AMRO systems with a minimum of inconvenience to clients.

Computable magazine awarded the bank the prize for 'Best IT Project of the Year' in the Netherlands in 2011 for the Retail integration, reflecting the success of this large-scale programme.

We then integrated both the Private Banking and Commercial & Merchant Banking (C&MB) operations, producing more efficient organisations. A total of 100,000 C&MB and Private Banking clients were transferred from the FBN IT platforms to the ABN AMRO IT platforms in November 2011, ahead of schedule. The lessons we learned during the Retail integration helped us to conduct this second major operation more efficiently and smoothly.

Our Technology, Operations & Property Services (TOPS) department not only integrated its own organisation, but also helped the other businesses and support functions merge organisations, and was in charge of the integration of the bank's branches and offices. Having integrated its organisation, Risk Management now works according to a new business model which promotes collaboration with the businesses. The Finance integration, meanwhile, consisted of four programmes under which the systems and reporting procedures were combined.

Our international business

Following the separation of ABN AMRO Bank from RBS and FBN from BNP Paribas Fortis, in 2009 we set out to restore and strengthen our presence across the globe. To this end, we rebuilt our Commercial Banking units abroad, opening offices in the United Kingdom, Germany, France, Belgium, the United States, Singapore and Hong Kong, and in 2011 introduced a comprehensive range of products at the Commercial Banking International Singapore office. We also re-established client teams and trading capabilities in the three major time zones – in the UK, Hong Kong and the United States – and strengthened our international position in Energy, Commodities & Transportation, opening representative offices in Greece, Brazil, the US, Hong Kong and Shanghai.

Markets

Our Markets business has also changed significantly. The banks' two dealing rooms were integrated and fully operational by October 2010. Meanwhile, the Fixed Income business and the eCommerce platforms for clients were both integrated in August 2010, and we migrated the total

FX & Rates business to one platform for front- and back-office activities for Finance and Risk in March 2012. And finally, we started integrating the former FBN equity derivatives, securities finance and custody and clearing systems with the ABN AMRO mainframe environment in 2012, marking the final step in the Markets integration.

Our people

The changing workforce

Integrating two workforces of a total of approximately 30,000 employees is a big challenge, and a merger of this size inevitably has consequences for the workforce. As a result of the integration, we reduced the number of FTEs by approximately 4,500 over the period 2009-2012.

ABN AMRO employed 23,059 FTEs at year-end 2012 compared with approximately 30,000 FTEs at year-end 2008. Further information is provided in the Human resources section of this report.

A survey held in late 2011 among employees who had been given notice of redundancy showed that the majority were generally satisfied with how the process had been carried out. In line with the agreements laid down in the collective labour agreement, the bank kept the number of layoffs to a minimum by encouraging employees to seek coaching from the bank's Redeployment Centre. At the same time, senior managers were expected to adhere to strict mobility requirements and most of the job vacancies were open exclusively to internal employees, with redundant staff having priority.

A crucial part of the integration involved harmonising the bank's employment conditions for all employees. In late 2009, the bank reached agreement with the unions on a new collective labour agreement and redundancy scheme (Integrated Social Plan), both of which ran from 1 March 2010 to 1 January 2013.

Culture

To embed the new culture in the organisation, we promoted our core values and introduced six Business Principles designed to guide staff in their day-to-day dealings. These are discussed in greater detail in the Human resources section of this report. Throughout the integration, we monitored how employees were experiencing the changes by holding surveys at regular intervals and taking measures to address any issues emerging.

Merger of pension funds

The ABN AMRO Pensioenfond and Pensioenfond Fortis Bank Nederland agreed to merge in late 2012. Total costs involved came to EUR 162 million, mainly in connection with guaranteeing the existing rights and claims of beneficiaries. Note 30 to the Annual Financial Statements provides more details.

Our branches and offices

Following the Legal Merger of ABN AMRO Bank and FBN, a total of 153 FBN and 501 ABN AMRO retail branches in the Netherlands were integrated on time and within budget, resulting in the initial closure of 150 branches and 96 branches in subsequent years. The Retail Banking head offices were merged by the end of 2010, and the bank's head offices were brought together in one location in Amsterdam in the same year. At the same time, we combined the two banks' office spaces and relocated staff accordingly. At 31 December 2012, we had sold off 89 of the 113 buildings we set out to divest. Total savings in Facility Management costs achieved on the sale of buildings and implementation of a more efficient office space concept came to EUR 210 million at 31 December 2012. All but seven of 144 rental contracts have been terminated.

Costs and synergies

We have delivered on our ambition to carry out this enormous operation within the budget and timelines we targeted back in 2009. Total identified pre-tax integration

costs amounted to EUR 448 million in 2012, consisting of EUR 278 million in project costs and a slight increase of EUR 8 million related to the integration restructuring provision, which was recorded in 2010. In addition, EUR 162 million was recorded for the merger of the pension funds.

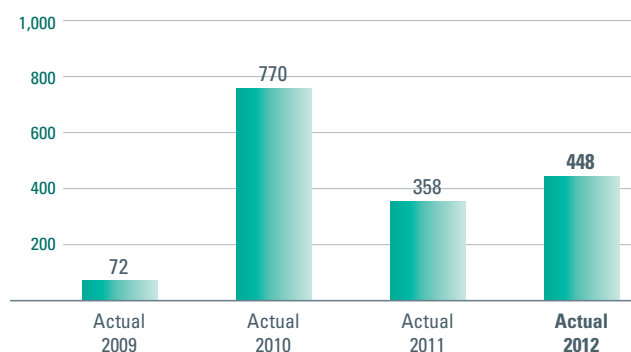
Total integration costs in the period from 2009 to 2012 amounted to EUR 1.6 billion. These costs were primarily related to the restructuring provision, IT, IT-related consultants and impairments on housing assets.

The integration has also yielded the synergies we aspired to achieve. Cumulative integration-related synergies in the period from 2009 to 2012 amounted to approximately EUR 1.0 billion at year-end 2012, mainly related to office space savings, IT savings and workforce reductions. Several smaller activities were divested as a result of which the synergies related to these activities could not be realised.

In addition, during the integration period EUR 0.2 billion of expected cost increases were avoided, leading to a lower-than-expected cost base. The avoided costs comprise, for example, lower collective labour agreement wage increases. The targeted integration synergies of EUR 1.1 billion were translated into a cost/income ratio between 60% and 65%. The 2012 cost/income ratio of 61% was at the lower end of this targeted range, reflecting the successful realisation of the synergies.

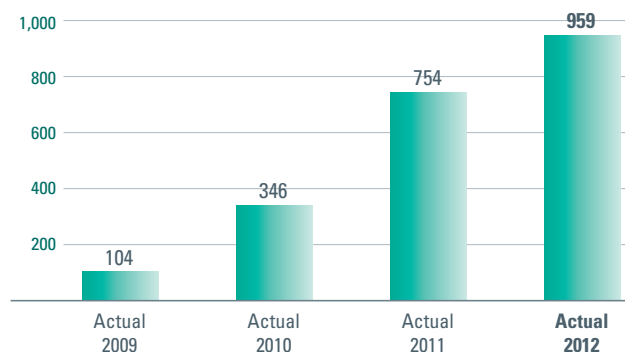
Integration costs

(in millions)



Synergies (cumulative)

(in millions)



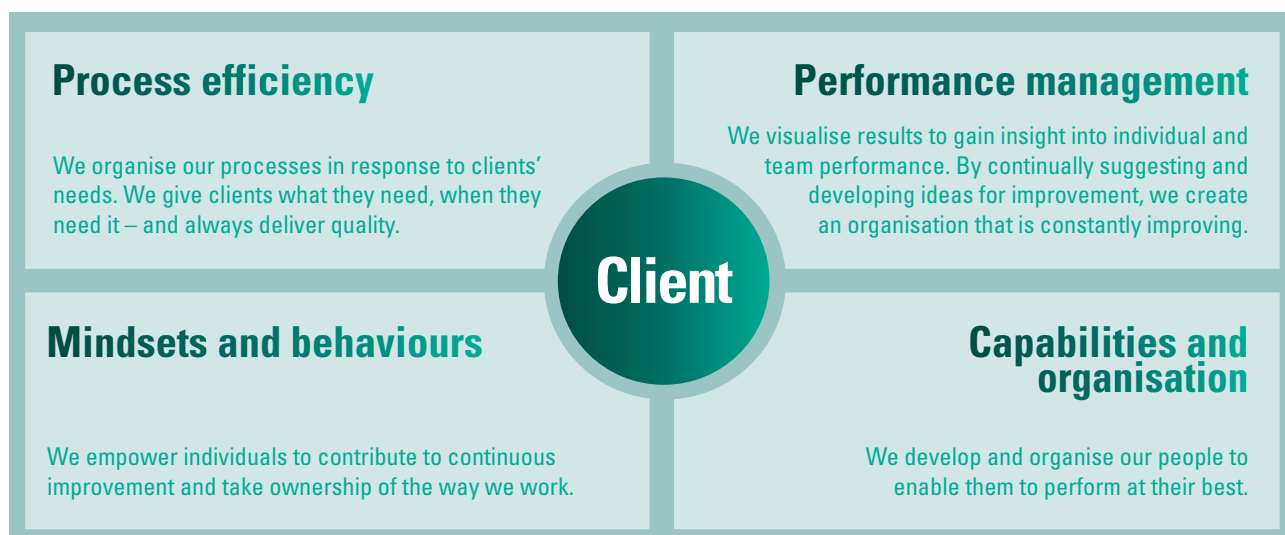
customer excellence 12

Back in 2010, ABN AMRO introduced Customer Excellence, a way of working designed to help achieve better service to clients, more efficient processes and more motivated staff. Customer Excellence is not a project or a programme, but a step-by-step journey of continuous improvement. In 2012 numerous successes were once again achieved – some major, some minor – and ABN AMRO aims to deploy Customer Excellence across the entire organisation. The roll-out is on schedule and all employees are expected to be working according to Customer Excellence principles by 2015.

How it works

Customer Excellence – a combination of customer focus and operational excellence – is a new way of working that is based on lean management principles. Customer Excellence involves an integrated approach in which improvements are analysed through five lenses, with the client at the heart of each initiative.

Customer Excellence is not designed solely for front-office and branch staff, but for employees in support departments as well. Training staff throughout the organisation will allow the bank to serve all its clients and stakeholders – both within and outside the bank – as efficiently and effectively as possible.



Putting Customer Excellence into practice entails an organisational transformation. Rather than introducing change top-down, improvement initiatives are designed and implemented bottom-up by staff at all levels of the organisation. Employee engagement illustrates the commitment and energy people bring to work and is a key indicator of their involvement and dedication to the organisation. Employees who are engaged are more productive, more content and more likely to be loyal to the organisation.

Why Customer Excellence?

ABN AMRO has embarked on this journey in response to the rapidly changing world and ever-changing client expectations. As part of its commitment to being a frontrunner in meeting clients' needs now and in the future, ABN AMRO is working ambitiously to enhance its service. Customer Excellence is not about huge operational changes, but about a multitude of small improvements, preferably visible to the client, that help raise client and employee satisfaction across the organisation. On the financial side, Customer Excellence is one of the elements which should help ABN AMRO achieve its target of reducing the cost/income ratio to 56-60% by 2017.

How ABN AMRO is implementing Customer Excellence

ABN AMRO introduces Customer Excellence in teams and departments in a period of 14 weeks, which is called a 'wave'. Customer Excellence starts by improving processes, performance management, mindsets and behaviours, and capabilities and organisation – the building blocks of Customer Excellence efforts. The bank has trained and certified 150 in-house Customer Excellence experts. During the wave, Customer Excellence experts challenge staff to answer the question, 'What can I change in my job to increase client satisfaction?' The experts coach

managers and gradually hand over the reins to them. Customer Excellence was introduced to approximately 30% of employees by year-end 2012, and the bank aims to have all staff work according to these principles by 2015.

Following the initial wave, Customer Excellence endures in the form of Continuous Improvement. The ultimate goal is to foster a culture in which employees grow and develop while giving clients first-rate service and contributing to the bank's strategic goals.

Embedding Customer Excellence in the organisation

Long-term excellence can only be achieved in a culture of ongoing development where processes and people are aligned and a problem-solving mentality is cultivated. To secure the new culture and encourage employees to regularly come up with ideas for improvement, a team of Continuous Improvement experts intensively supports the teams and departments that have gone through a Customer Excellence wave. They also measure the longevity and effectiveness of the new way of working in these teams and departments. Twenty-three Continuous Improvement experts currently work at the bank. The goal is to generate a constant flow of improvement initiatives while continuously implementing enhancements in the organisation.

Showcase

Many organisations work according to lean management methods, focusing on customer intimacy, increased efficiency and operational excellence. The Customer Excellence methodology at ABN AMRO has become something of a showcase. In fact, a total of 27 companies, including 18 banks, have visited ABN AMRO sites in 2012 to learn from the Customer Excellence experience. During these sessions visitors experienced how Customer Excellence works at ABN AMRO.

Customer Excellence put into practice

Many of the ideas generated under Customer Excellence can be implemented rapidly in the organisation. Within the Operations department alone, with some 1,700 employees having gone through a Customer Excellence wave, nearly 5,000 ideas were generated, over 3,000 of which have so far been implemented. Individual changes are often relatively small; however, given the sheer number of ideas generated, the impact of Customer Excellence is significant. Two successful initiatives resulting from Customer Excellence at ABN AMRO are described below.

PIN terminal applications

Our Rotterdam Operations unit has a team dedicated to processing PIN terminal applications for small and medium-sized businesses. An in-depth analysis of this process revealed an unacceptable error margin of 24%, due to various causes. During a joint problem-solving session with the call centre that processes these requests, we conducted a root cause analysis to determine the sources of these errors. We then re-designed the process, reducing waste by eliminating duplicate execution of the same task by Operations and the call centre and simplifying forms for our clients.

A year later, we found that requests were processed within three days instead of seven. This means that any small business that applies for a PIN terminal will receive the terminal four days faster than before. At the same time, we managed to reduce the number of employees required to carry out the process.

Financial coaches: the same team accomplishes more

Financial coaches from the Credits department help clients who are having financial problems, offering intensive face-to-face coaching at a branch office. From the Customer Arena we learned that clients with financial difficulties want to know where they stand as quickly as possible and start working towards a solution. As a result, coaches and clients now talk more frequently by telephone, and occasionally at a branch.

Every client's situation is unique, so we offer genuinely tailored solutions. Customer Excellence has shown us that capacity management and performance management can help us plan our work better and deliver higher quality service. We do this by scheduling several appointments at one branch and limiting travel time between appointments, for example, or taking the time to share best practices.

We also aim to strike a good balance between standardised and tailor-made products so that we can serve more clients in the same amount of time and with the same number of employees. As a result, employee satisfaction is clearly on the rise. In addition, we have freed up time for training, coaches and assistants are working together more effectively, we are celebrating successes more regularly and, last but not least, we are taking the time to think about and implement improvements. In short, it's a win-win situation.

With Customer Excellence gradually being deployed across the organisation, this means the bank can start improving the end-to-end client value chains from 2013 onwards. Customer Excellence will then result in more initiatives like the one on the next page, which is a good example of how ABN AMRO puts clients at the heart of everything it does.



Improving our services by involving our clients

At ABN AMRO, we actively involve clients in developing and improving our services. The Client Experience department asks clients their opinions on a daily basis.

We regularly ask clients for feedback to help us understand how to improve the client experience. We operate a Client Community of three hundred people, who give us input on how to improve and re-think our services.

In addition to a Client Community, we have a Client Panel of ten thousand people, which gave the bank feedback on more than fifty topics in 2012 ranging from new services to how we communicate on our website and in emails and brochures. We also use the knowledge of our own sales staff, who interact with clients every day. Our staff panel consists of four hundred employees from all parts of the organisation.

Room for improvement: availability by phone

Client satisfaction has been improving in direct channels such as the Advice & Service Centre and social media webcare. By the end of 2011, however, we were receiving increasingly more comments about the accessibility of advisors by telephone. Some of our clients felt that our services by phone were not meeting their expectations. Not so much in terms of the actual content or advice, but in terms of accessibility. So we brought together a multidisciplinary team to find a solution.

Going local

One change we made was to give clients the telephone numbers of local branches. Also, if an office is not available, callers are automatically transferred to the 24-hour Preferred Banking Service Centre.

Members of the Client Community called the bank in a test environment to test the improvements. Their feedback helped us further design solutions to meet their needs. These changes were implemented in the third quarter of 2012. Since then, client satisfaction with our accessibility by phone has increased by 6%.

2013: continuing the dialogue with clients

We look forward to having our clients help us further improve and re-design our products and processes in 2013. For example, we want to know how they wish to open a new bank account or file a complaint – and clients are clearly eager to give their feedback. Only by listening to and involving clients will we achieve our goal of making them feel at home at our bank.

10,000 clients sought solutions with us
on over 50 topics

Client satisfaction up **6%** in service by phone

a leading Dutch bank

ABN AMRO generates most of its revenues in the Netherlands, where it has a strong position in all segments of the markets in which it operates, complemented by select international activities. We offer a wide variety of services to a broad spectrum of clients ranging from retail to ultra high net worth private clients, and from small businesses to large international Dutch corporates. The common factor in how we serve our diverse client base is our strong client focus.

ABN AMRO is organised into four business segments and a support unit.

**Retail
Banking**

**Private
Banking**

**Commercial
Banking**

**Merchant
Banking**

Group Functions

The next section of this reports describes the activities conducted by these segments and presents the results for 2012.

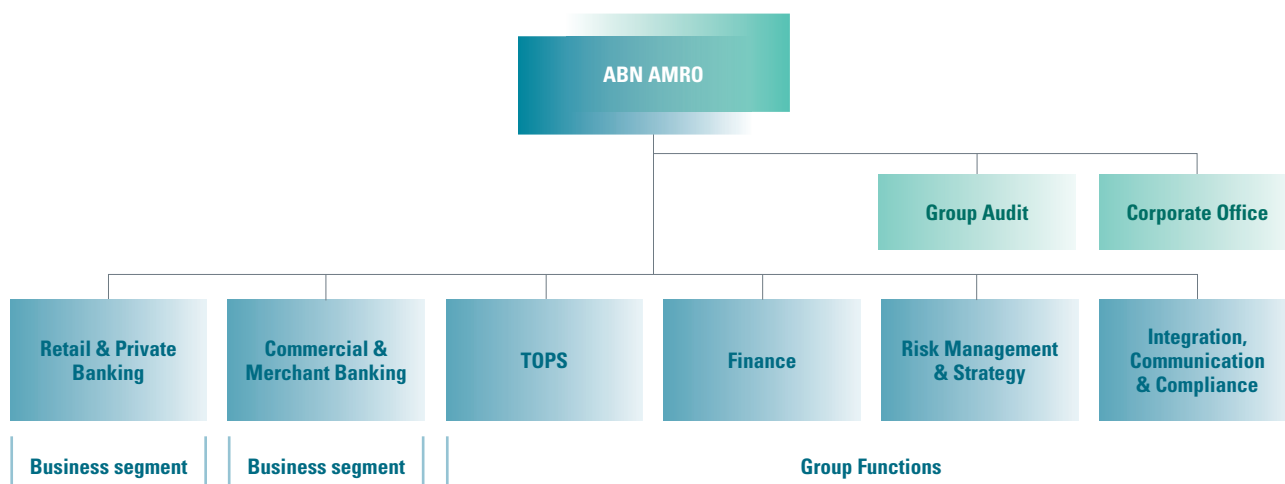


business, operating and financial review 13

This business, operating and financial review includes a discussion and analysis of the results of operations, financial condition and business review of ABN AMRO Group and its different segments for the years ended 2012 and 2011.

ABN AMRO is organised into Retail & Private Banking (R&PB), Commercial & Merchant Banking (C&MB) and Group Functions. Each member of the Managing Board is responsible for either a business segment or a support

unit within Group Functions. The Chairman of the Managing Board oversees the general management of ABN AMRO and is responsible for Group Audit and the Corporate Office, as shown in the diagram below.



For financial reporting purposes, the Managing Board has adopted the following segment reporting:

- ▶ Retail Banking;
- ▶ Private Banking;
- ▶ Commercial Banking;
- ▶ Merchant Banking;
- ▶ Group Functions.

ABN AMRO's performance is reported in accordance with International Financial Reporting Standards as adopted by the European Union. This section should be read in conjunction with the Annual Financial Statements 2012 (including the summary of significant accounting policies).

The majority of the costs of Group Functions are allocated to business segments. Items that are not allocated to the businesses include, among other things, the operating result from ALM/Treasury, general restructuring charges,

certain integration costs and costs for the Dutch Deposit Guarantee Scheme.

The reported figures were impacted by several items which are related to the demerger of ABN AMRO Bank from RBS, the separation of FBN from Fortis Group and the integration of ABN AMRO Bank and FBN. For a better understanding of the underlying trends, the 2012 and 2011 figures have been adjusted for these items.

The analysis presented in this section is based on the underlying results both for the Group and the business segments. A more detailed overview of the separation and integration-related costs as well as a reconciliation of the reported and underlying results is provided under 'Reconciliation from reported to underlying results' at the end of this section.

Underlying results

(in millions)	2012	2011	Change
Net interest income	5,028	4,998	1%
Net fee and commission income	1,556	1,811	-14%
Other non-interest income	754	985	-23%
Operating income	7,338	7,794	-6%
Personnel expenses	2,246	2,538	-12%
Other expenses	2,263	2,457	-8%
Operating expenses	4,509	4,995	-10%
Operating result	2,829	2,799	1%
Impairment charges on loans and other receivables	1,228	1,757	-30%
Operating profit before taxes	1,601	1,042	54%
Income tax expenses	316	82	
Profit for the year	1,285	960	34%

Other indicators

	2012	2011
Underlying cost/income ratio	61%	64%
Return on average Equity	10.0%	7.8%
Return on average RWA (in bps)	103	85
NII/average Total assets (in bps)	120	125
Cost of risk (in bps)	98	156

	31 December 2012	31 December 2011	Change
RWA/Total assets	31%	29%	
Assets under Management (in billions)	163.1	146.6	11%
Risk-weighted assets (in billions)	121.5	118.3	3%
FTEs	23,059	24,225	-5%

ABN AMRO Group's reported net profit for full-year 2012 amounted to EUR 948 million and included separation and integration-related costs of EUR 337 million net of tax. These integration related costs include costs related to the merger¹ of the two Dutch pension funds (EUR 162 million, EUR 122 million net of tax). The underlying net profit, which excludes these costs, was EUR 1,285 million.

The increase in underlying net profit compared with 2011 was mainly the result of lower impairment charges on loans and other receivables² and releases from the Credit Umbrella³ and other EC Remedy-related provisions, partially offset by a reassessment of tax positions related to prior years. In addition, the results in both 2012 and 2011 were impacted by several other large items and divestments. Excluding divestments and large items underlying net profit would have been 34% lower than 2011 due mainly to a sharp increase in loan impairments. Further details on the large items and divestments are included at the end of this section.

Operating income

Operating income decreased by 6% to EUR 7,338 million. Excluding divestments, it declined by 2%.

Net interest income (NII) increased by 1% as higher NII in Commercial & Merchant Banking (C&MB) was partly

offset by lower NII in Retail & Private Banking (R&PB). The rise in NII was driven mainly by improved margins on new mortgage production and other loans and higher NII in Merchant Banking (mainly Markets and ECT). Lower margins on savings and higher funding costs partly neutralised this rise. Divestments had a marginal negative impact on net interest income.

Net fee and commission income decreased by 14%. Excluding divestments, the decline in net fee and commission income would have been 8%. Transaction volumes (Retail and Private Banking clients in particular conducted fewer transactions) were lower due to market uncertainty. The decrease was further caused by a reclassification of costs for international payment services to fee expenses in 2012, and 2011 included several positive large items.

Other non-interest income was 23% lower compared with 2011. Excluding divestments, the decline in other non-interest income would have been 13%. The decrease was due mainly to a combination of a reclassification of leasing costs to other non-interest income in 2012, lower private equity results and the negative impact of hedge accounting ineffectiveness. Releases from the Credit Umbrella and other EC Remedy-related provisions in 2012 (EUR 215 million) partially offset this decline.

¹ The merger implies the transfer of all accrued rights of Pensioenfond Fortis Bank Nederland to ABN AMRO Pensioenfond.

² The 2011 results include EUR 660 million net of tax (gross EUR 880 million) impairment charges for Greek government-guaranteed corporate exposures, whereas the results of 2012 contain a release of EUR 94 million net of tax (gross EUR 125 million).

³ Financial guarantee covering part of the potential credit losses on a portfolio that existed at the time of closing the sale under the EC Remedy (EUR 210 million net of tax in 2012). This financial guarantee was cancelled at the end of 2012 as a result of a settlement agreement signed with Deutsche Bank AG in December 2012.

Eighty-two per cent of total operating income was generated in the Netherlands, 12% in the rest of Europe and 6% in the rest of the world.

Operating expenses

Operating expenses decreased by 10% or EUR 486 million. Excluding the impact of divestments, operating expenses declined by 6%. Excluding the EUR 181 million restructuring charge taken in 2011 and the Dutch bank tax (EUR 112 million) in 2012, operating expenses would have come down by 4%. This decrease was the result of additional cost synergies resulting from the integration, and reclassifications of leasing costs and costs for international payment services (EUR 118 million) to operating income. These were partially offset by wage inflation.

Operating result

There was a modest increase in operating result to EUR 2,829 million. Excluding divestments and large items, the operating result would have decreased by 2%. The cost/income ratio improved by 3 percentage points to 61%, well within the target range of 60-65% set for 2012.

Impairment charges on loans and other receivables

Impairment charges on loans and other receivables decreased by EUR 529 million to EUR 1,228 million in 2012. The 2011 results include EUR 880 million of impairment charges for Greek government-guaranteed corporate exposures, whereas the 2012 results contain a release of EUR 125 million following the sale of part of the exposures. Excluding these, a sharp increase (54%) would have been recorded as the economic downturn led to higher impairment charges, especially in (commercial) real estate, construction, and diamond financing (reported in Private Banking) as well as in the mortgage portfolio. Impairment charges on mortgages increased from 10bps to 16bps (over the total mortgage book). The increase in impairments can also be partially explained by significant recoveries and releases in Merchant Banking in 2011 which did not recur in 2012.

Total impairment charges over average RWA ('cost of risk') went down to 98bps in 2012 (from 156bps in 2011). Excluding the impairments on the Greek government-guaranteed corporate exposures, these figures would have been 108bps in 2012 and 78bps in 2011.

Income tax expenses

The underlying effective tax rate increased to 20% in 2012 from 8% in 2011. The effective tax rate went up primarily as a result of a reassessment of the tax positions related to prior years and a higher amount of tax-exempt income in 2011.

FTEs

The number of full-time equivalents excluding temporary staff (FTEs) fell by 5% to 23,059 compared with year-end 2011, largely resulting from progress made on the integration and the impact of divestments, partly offset by a rise in the number of FTEs as a result of a small acquisition in 2012.

Assets under Management

Assets under Management (AuM) of Private Banking grew by EUR 16.5 billion to EUR 163.1 billion in 2012. Approximately 80% of the increase relates to market performance, with the remainder attributable to an increase in net new assets.

Results by segments

Further detailed segment reporting is provided in the paragraphs for the business segments.

Retail Banking posted underlying net profit of EUR 774 million, down from EUR 888 million in 2011, mainly caused by margin pressure on savings products and only partially offset by improved margins on mortgage and consumer loans. Impairment charges on the mortgage book were higher.

Private Banking posted an underlying net profit of EUR 46 million, down from EUR 255 million in 2011. The decline was driven mainly by high impairment charges (EUR 187 million increase year-on-year, largely resulting from high impairments in International Diamond & Jewelry Group (ID&JG)) and a solid book gain on of the sale of the Swiss Private Banking activities in 2011.

Commercial Banking realised an underlying net profit of EUR 7 million, compared with an underlying net loss of EUR 64 million in 2011. The decrease in operating income as a consequence of divestments and a reclassification of lease costs was more than neutralised by lower operating expenses. The level of impairment charges was slightly lower, but remained elevated, especially for SMEs.

Merchant Banking posted an underlying net profit of EUR 244 million, down from EUR 421 million in 2011. The decrease was driven by a sharp increase in impairment charges as 2011 included several recoveries and releases.

Group Functions realised an underlying net profit of EUR 214 million compared with an underlying net loss of EUR 540 million in 2011.

The results of 2012 include an impairment release of EUR 94 million net of tax for Greek government-guaranteed corporate exposures, higher rebilling of costs to the businesses and several releases from the Credit Umbrella and other EC Remedy-related provisions. The loss in 2011 resulted from loan impairments on the Greek government-guaranteed corporate exposures and a restructuring provision.

Condensed consolidated statement of financial position

(in millions)	31 December 2012	31 December 2011
Cash and balances at central banks	9,796	7,641
Financial assets held for trading	22,804	29,523
Financial investments	21,407	18,721
Loans and receivables – banks	46,398	61,319
<i>Of which securities financing activities</i>	14,277	27,825
Loans and receivables – customers	276,283	272,008
<i>Of which securities financing activities</i>	14,495	16,449
Other	17,716	15,470
Total assets	394,404	404,682
Financial liabilities held for trading	18,782	22,779
Due to banks	21,263	30,962
<i>Of which securities financing activities</i>	4,360	12,629
Due to customers	216,021	213,616
<i>Of which securities financing activities</i>	15,142	25,394
Issued debt	94,043	96,310
Subordinated liabilities	9,566	8,697
Other	20,692	20,898
Total liabilities	380,367	393,262
Equity attributable to the owners of the parent company	14,018	11,400
Equity attributable to non-controlling interests	19	20
Total equity	14,037	11,420
Total liabilities and equity	394,404	404,682

Total assets

Total assets decreased by EUR 10.3 billion to EUR 394.4 billion at 31 December 2012. The decrease was due mainly to a decline in securities financing client volumes and lower equity trade positions. This was partially offset by growth in commercial loans and higher market value of (OTC) derivatives.

Cash and balances

Cash and balances at central banks rose by EUR 2.2 billion to EUR 9.8 billion, predominantly as a result of an increase in overnight deposits placed at DNB.

Financial assets held for trading

Financial assets held for trading decreased to EUR 22.8 billion, due mainly to lower equity trade positions following

uncertainty regarding the impact of Basel III, offset by higher market value of interest rate derivatives.

Loans and receivables – banks

Loans and receivables – banks decreased by EUR 14.9 billion as a result of lower securities financing client volumes (down by EUR 13.5 billion) and the termination of a financing transaction offset by an increase in term deposits at central banks.

Loans and receivables – customers

Loans and receivables – customers increased by EUR 4.3 billion to EUR 276.3 billion. The commercial loan portfolio grew by EUR 6.2 billion, predominantly due to growth in Merchant Banking (especially at Clearing) and, to a lesser extent, in Private Banking. The mortgage portfolio decreased slightly to EUR 153.9 billion as new production did not fully compensate redemptions.

(in millions)	31 December 2012	31 December 2011
Loans and receivables – customers (excl. securities financing activities)	261,788	255,559
R&PB	178,968	178,507
C&MB	77,450	72,075
Group Functions	5,370	4,977
Securities financing activities	14,495	16,449
Total loans and receivables – customers	276,283	272,008

Total liabilities

Total liabilities went down by EUR 12.9 billion to EUR 380.4 billion, due mainly to a large decrease in securities financing activities, partially offset by an increase in client deposits in Retail & Private Banking.

Financial liabilities held for trading

Financial liabilities held for trading decreased by EUR 4.0 billion to EUR 18.8 billion, due mainly to lower equity trade positions.

Due to customers

Due to customers increased by EUR 2.4 billion to EUR 216.0 billion. The increase in total client deposits (EUR 12.7 billion), predominantly in Retail (EUR 9.9 billion) as well as Private Banking (EUR 4.6 billion), was almost fully neutralised by the decrease in securities financing volumes (down EUR 10.3 billion).

Issued debt

Issued debt decreased by EUR 2.3 billion to EUR 94.0 billion. The decrease was due mainly to maturing long-term funding exceeding newly issued long-term funding in 2012.

Subordinated liabilities

Subordinated liabilities showed a net increase of EUR 0.9 billion to EUR 9.6 billion, mainly resulting from EUR 2.8 billion newly issued Tier 2 notes offset by the cancellation of the EUR 2.0 billion liability resulting from the former Mandatory Convertible Securities (MCS).

Total equity

Total equity grew by EUR 2.6 billion, driven primarily by an increase of EUR 1.6 billion following the settlement with Ageas (including cancellation of the abovementioned MCS liability) and EUR 0.9 billion of reported net profit.

(in millions)	31 December 2012	31 December 2011
Total Deposits	200,541	187,797
R&PB	140,815	126,279
C&MB	55,995	54,982
Group Functions	3,731	6,536
Other (including securities financing activities)	15,480	25,819
Total Due to customers	216,021	213,616

Retail & Private Banking



"Proactiveness, relevance and transparency are key."

Chris Vogelzang

"In another year of challenging market circumstances, Retail & Private Banking delivered satisfactory net results and saw steady growth of assets under management. At the core of these results lies a consistent focus on the needs and demands of our clients."

Our objective is to guide our clients in the ever-changing financial environment, assisting them in considering the implications for their personal situation and offering effective solutions. Clients expect proactive and relevant advice offered in a transparent and easily accessible manner. To achieve this, we have strengthened our service and advisory capabilities and have extended our online offering.

In Retail Banking, for example, we have been reaching out to mortgage clients facing a potential shortfall due to the pressure on the housing market in order to raise awareness of this issue and discuss alternatives. Clients can access information on our website or have a personal discussion with their advisor, either face-to-face or in an online meeting.

Private Banking has launched a special advisory service that helps clients who wish to invest part of their wealth in charity. Private Banking International, meanwhile, introduced a discretionary portfolio management mandate geared towards the specific needs of Asian clients.

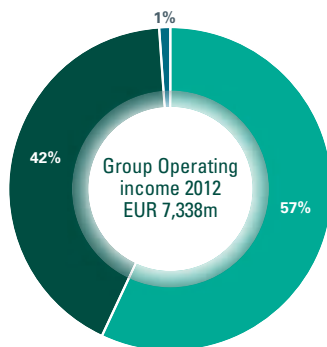
As part of our drive to increase transparency, and in anticipation of the ban on commissions for certain financial products in 2013, Retail Banking introduced a fee structure for advice on mortgages, pension and life insurance, including an 'execution only' option for self directed clients. Private Banking in the Netherlands introduced an all-in fee price structure for discretionary portfolio management services, including disclosure and passing on of retrocession fees directly to individual clients. Our Private Banking website was internationally commended for its accessibility and transparency, while our online banking service was ranked number 1 for the third consecutive year by the Dutch Consumers' Association.

Looking ahead, we will continue our drive to offer proactive service, added value and transparency, offered through relevant channels. We will do so by further enhancing client segmentation and developing dedicated services for specific client segments and for major life events.

Chris Vogelzang

Member of the Managing Board

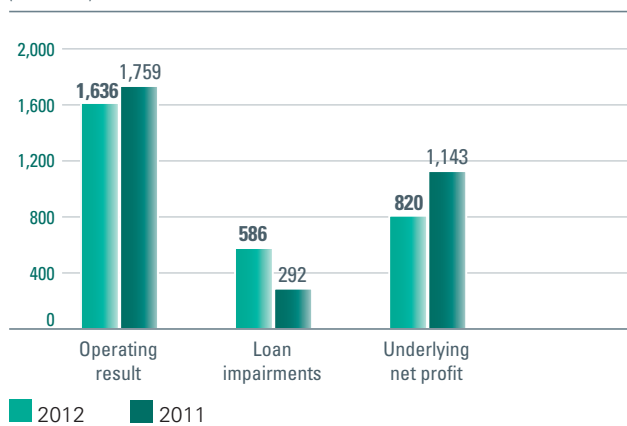
Retail & Private Banking contribution to operating income



■ R&PB
■ C&MB
■ Group Functions

Financial performance

(in millions)



■ 2012
■ 2011

Retail Banking



We want to make our clients feel truly appreciated. We believe we will only be successful if we build sincere and lasting relationships with our clients. All our efforts are aimed at putting our clients' interests first.

Key achievements in 2012

- ▶ Increase in client satisfaction: 56% of Retail Banking clients rate ABN AMRO's services 8 or higher;
- ▶ Solid market position among main competitors in a competitive Dutch savings market;
- ▶ MoneYou: rapid growth in Germany and successful introduction in Belgium;
- ▶ Intensified use of dedicated care teams and financial coaches to support clients with potential arrears;
- ▶ Roll-out of adapted business model due to ban on commissions on complex financial products such as mortgages, life insurance and pension plans as of 2013:
 - ▶ Introduction of financial advisors at 227 Financial Advisory Centres nationwide offering asset and mortgage advice;
 - ▶ Expansion of advisory services at Advice & Service Centres.
- ▶ Introduction of new branch concepts, such as multi-functional cash point and shop-in-shop.

Interesting facts

- ▶ Stable base of 5 million financial households with a wide variety of clients, including 500,000 Preferred Banking households and special segments such as doctors, professionals and international clients;
- ▶ Main bank for 21% of the Dutch population¹ and no. 2 position in savings and new mortgage production²;
- ▶ Rapid growth of use of direct channels: 3.4 million Internet Banking users and 25 million log-ins via mobile banking in 2012;
- ▶ Best online banking service in the Netherlands (rated 9.4 on a scale of 1-10 by the Dutch Consumers' Association) and Financial App of the Year for ABN AMRO's iPad mobile banking app;
- ▶ 408 branches, 227 of which are full-service Financial Advice Centres and around 180 branches with focus on standard sales and services;
- ▶ Excellent coverage: more than 90% of Retail Banking clients live within 5 km of a branch and 24/7 telephone, email and webcare service.

Business description

Retail Banking is a multi-channel bank that serves its clients through traditional channels such as ABN AMRO's branch network and via the internet, mobile applications and social media.

Retail Banking offers clients a wide range of transparent and understandable products and high-quality service based on three principles: a warm welcome, state-of-the-art service characterised by convenience, simplicity and speed, and personal, professional advice.

¹ Source: CBS (Statistics Netherlands) and *Kadaster* (Dutch Land Registry).

² Source: GfK (research company) online tracker.

Retail Banking is a steady and reliable contributor to the bank's performance. This business acts as a feeder channel to Private Banking and contributes significantly to ABN AMRO's brand awareness.

Business performance

Putting clients' interests first

Client focus is defined based on three key pillars: a warm welcome, modern service and personal and professional advice. Clients are welcome at the bank through any channel – branch, Advice & Service Centre, online or mobile phone. Retail Banking wants to know its clients and understand their needs. This approach is paying off: client satisfaction is on the rise, as reflected in the results of client satisfaction surveys.

Retail Banking helps its mortgage clients by taking the initiative to conduct a periodical review of their financial situation and acting as a financial coach. As part of its drive to minimise unnecessary defaults on mortgages, Retail Banking approached more than 50,000 clients in 2012, offering advice tailored to their individual situation. By consistently applying the bank's acceptance policy, there was only a very slight increase in the number of clients who were behind on their loan payments, despite the adverse economic environment.

As part of its efforts to promote transparency, Retail Banking continued to remove legal terminology from its communications with clients and rewrote product descriptions and most of its contracts in plain language. The bank's website was renewed as well. Navigation and legibility have been improved and Internet Banking has been personalised further. MoneYou has a distinct client engagement strategy whereby clients are invited to rate MoneYou on their website. This approach yielded thousands of reviews and ratings – most of which were positive – and helped the bank boost transparency.

Advice has been brought closer to clients by posting financial advisors offering asset and mortgage advice at each of the 227 Financial Advisory Centres nationwide. Every district now offers access to broadly skilled financial

specialists with expertise in asset and investment management, financial planning or non-programme lending. In addition, the advisory services provided at the call-based Advice & Service Centres were further expanded. These efforts are part of Retail Banking's ambition to focus on the quality and relevance of advice to clients.

A corporate culture is only successful if it is embedded throughout the company and is beneficial from the client's perspective. Clients are best placed to assess whether this is the case, and Retail Banking is happy to note that surveys show that client satisfaction is on the rise. Regulators, too, play an important role in promoting client-centricity. AFM, the Netherlands Authority for the Financial Markets, regularly investigates the performance of financial institutions on issues pertaining to client-centricity. Retail Banking's ambition is to continue to rank among the top performers in each category.

Operational efficiency

Retail Banking was the first business segment to complete the integration, back in 2010, allowing it to adopt the Customer Excellence way of working relatively early. More than 3,000 managers and staff have since been trained in continuous improvement techniques. More information on how Customer Excellence works is provided in the section dedicated to Customer Excellence.

Retail Banking made progress on resolving various client dissatisfiers in 2012, for example by handling calls faster, giving clients clearer information and approaching clients more proactively.

Retail Banking continued to improve its service delivery by continuously streamlining processes. It closed down 60 retail branches and reduced the number of FTEs by around 350 in 2012, with virtually no impact on the level of service to clients.

All credit card business was merged into the International Card Services (ICS) subsidiary. Approximately one million credit cards issued by ABN AMRO were transferred to ICS, producing significant cost reductions and improving service.

Advice portfolio manager for investments

ABN AMRO took duty of care and putting client interests' first as the starting points for the introduction of a sophisticated advice-supporting tool for investors. This expert system allows advisors to give clients professional investment advice highly efficiently. Recommendations are consistent with the client's risk profile and are tested against the ABN AMRO investment policy. Clients receive a professionally prepared investment proposal in understandable language, and they can easily carry out the proposed advice on their channel of choice.

Sustainability

Retail Banking is the most visible part of the bank in society, and its products and actions determine how the bank is perceived regarding sustainability and transparency. The largest positive impact is achieved through its core activities: providing products which contribute to the long-term well-being of clients. Retail Banking embraces transparency and public scrutiny because it wishes to excel in its attitude towards products, cost fairness, clarity of communication, client knowledge, duty of care and focus on clients' long-term interests.

Subsidiaries

A total of 2,000 employees work for ABN AMRO's retail subsidiaries.

- ▶ International Card Services (ICS) issues more than 25 different credit cards in partnership with third parties. A total of more than 3 million credit cards, including the ABN AMRO portfolio, have been issued to date in the Netherlands and Belgium;
- ▶ MoneYou is an online savings bank. MoneYou achieved rapid growth of savings and doubled its client base in Germany within one year. A new operation was successfully launched in Belgium;
- ▶ Alfam is a subsidiary specialised in consumer loans. In a shrinking market, Alfam's consumer credit loan book further increased in 2012 both in outstandings and in market share.¹ By consistently applying the bank's acceptance policy, Alfam saw only a very slight increase in the number of clients who were behind

on their loan payments, despite the adverse economic environment;

- ▶ ABN AMRO Hypotheken Groep, the dedicated mortgage provider of ABN AMRO, has consolidated its market position and is focusing on maintaining its existing client base by periodically reviewing its clients' financial situation;
- ▶ The joint venture with Delta Lloyd, ABN AMRO Verzekeringen, by means of which ABN AMRO is able to offer a complete package of insurance products to clients, continued to perform well and almost doubled market share in new damage insurance policies sold in 2012.²

Strategic ambitions

Retail Banking aims to improve profitability by further enhancing client segmentation – allowing it to align service level with client profitability – and through continued cost control. Retail Banking's primary goal is to increase the share of wallet of existing mass affluent clients. In addition, it will seek to grow its market share in selective client segments in which it already excels, such as doctors, professionals, impats and expats, and international clients.

Retail Banking has opted for a more aspirational positioning and intends to put additional focus on market segments with higher incomes and social profiles. This business launched a campaign in the autumn of 2012 under the catchphrase 'Answering tomorrow's questions today', in line with its intended positioning. Retail Banking aims to bolster its value proposition by aligning and designing its advisory offering according to the demands and needs of a smaller, more prosperous client group. Retail Banking strives to excel in offering solutions to issues that greatly impact the client experience, e.g. donations, inheritance and succession, business cessation and divorce, primarily from the perspective of more well-to-do clients.

At the same time, Retail Banking continues to work on a seamless multi-channel offering, encouraging clients to make use of self-service direct channels, ultimately lowering costs (guidance is a cost/income ratio 50-55%).

¹ Source: CBS (Statistics Netherlands).

² Source: CVS (the Dutch centre for insurance statistics).

Retail Banking's goal is to strengthen relationships with its clients and increase profitability by cross-selling products in a client-centred and cost-efficient manner.

Retail Banking aims to contribute to optimising the balance sheet by growing savings and deposits.

In a market increasingly characterised by specialist price fighters, Retail Banking retained its position among its main competitors and aims to maintain this position going forward by, among other things, using its web-based bank, MoneYou, in the more price-sensitive segments of the market.

Financial performance of Retail Banking

Underlying results

(in millions)	2012	2011	Change
Net interest income	2,604	2,671	-3%
Net fee and commission income	465	490	-5%
Other non-interest income	36	51	-29%
Operating income	3,105	3,212	-3%
Personnel expenses	461	499	-8%
Other expenses	1,227	1,266	-3%
Operating expenses	1,688	1,765	-4%
Operating result	1,417	1,447	-2%
Impairment charges on loans and other receivables	383	276	39%
Operating profit before taxes	1,034	1,171	-12%
Income tax expenses	260	283	-8%
Profit for the year	774	888	-13%

Other indicators

	2012	2011
Underlying cost/income ratio	54%	55%
Return on average RWA (in bps)	252	272
Cost of risk (in bps)	125	84

	31 December 2012	31 December 2011	Change
Loan-to-deposit ratio	190%	218%	
Loans and receivables – customers (in billions)	161.7	162.6	-1%
<i>Of which: mortgages</i>	150.4	151.5	-1%
Due to customers (in billions)	81.9	72.0	14%
Risk-weighted assets (in billions)	30.1	32.3	-7%
FTEs	6,335	6,680	-5%

Retail Banking's net profit in 2012 went down by EUR 114 million to EUR 774 million as a result of lower operating income and higher impairment charges.

Operating income

Operating income in 2012 declined by EUR 107 million or 3% to EUR 3,105 million.

Net interest income decreased by EUR 67 million to EUR 2,604 million, as savings revenues remained under pressure due to low market interest rate levels.

The decreased margins could not be compensated by higher margins on new mortgages and on the consumer lending portfolio.

Net fee and commission income declined by EUR 25 million to EUR 465 million, due to lower securities transaction volumes as a result of unfavourable market conditions.

Operating expenses

Operating expenses came down EUR 77 million to EUR 1,688 million.

Personnel expenses decreased by 8% due to a lower average number of FTEs as the branch network was further optimised (reduction of number of branches to 408 in 2012). Other expenses showed a marginal increase as the Dutch bank tax introduced in 2012 and higher losses for cybercrime were largely offset by a decrease in temporary staff expenses and intersegment costs.

Operating result

The operating result declined by 2%, and the cost/income ratio came down to 54% from 55% in 2011.

Impairment charges on loans and other receivables

Impairment charges on loans and other receivables increased by EUR 107 million to EUR 383 million. The rise in impairment charges was mainly related to the residential mortgage portfolio, reflecting a deterioration in the economic environment in the Netherlands, particularly the housing market, compared with a year ago.

Risk-weighted assets

Despite lower house prices, Retail Banking's RWA decreased as a result of active management. The combination of higher loan impairment charges and lower RWA pushed up the cost of risk by 41bps to 125bps.

Loans and receivables – customers

Loans and receivables – customers fell slightly compared with year-end 2011 to EUR 161.7 billion. This decrease was predominantly apparent in mortgage loans, as the residential mortgage book (more than 90% of Retail Banking's loan book) decreased to EUR 150.4 billion.

The mortgage market slowed down further in 2012. Although the number of mortgage transactions remained at low levels and was again lower than in 2011, new mortgage production picked up in Q2 due to an anticipated increase in the transfer tax. The number of mortgage transactions rallied towards the end of the fourth quarter as a result of the announced measures relating to interest deductibility as of 1 January 2013.

Due to customers

Due to customers rose by EUR 9.9 billion to EUR 81.9 billion at 31 December 2012. Fierce competition in the Dutch market for retail savings recorded in the first quarter of 2012 eased up towards the end of the year as the total market volume showed a remarkable increase in 2012. These developments combined with the successful roll-out of MoneYou in Germany and Belgium were the basis for growth in retail savings.

FTEs

The number of FTEs in Retail Banking decreased by 345 in 2012 to 6,335, due mainly to further optimisation of the branch network and the transfer of several YourBusiness Banking account managers to Commercial Banking. This was partly offset by insourcing of the ICS call centre.



Committed to our clients, in good times and bad

As the economic crisis continues to rage, the traditional bank-client relationship is changing. A growing number of people are running into financial difficulties due to higher unemployment, declining house prices and austerity measures, among other things. We feel a responsibility to serve our clients' interests, in good times and bad.

The number of people having difficulty making ends meet has grown steadily since the economic crisis set in, in 2008. Personal financial guidance, initiated at an early stage, has proven to be an effective way to prevent problems. Our dedicated Mortgage Care Team (MCT) helps clients steer clear of payment arrears and debt accumulation.

Rewarding

The team has been operational for over three years now and has been nominated for a Mortgages Product of the Year Award by the Advisory Board of the Mortgages Event as a commendable example of good customer care and relationship management. The MCT offers clients budget coaching, insight into their expenses and spending patterns, and savings measures to help them repay their debts.

Early contact and sound advice are often enough to keep clients from getting behind on their payments. We help clients continue to make their contractual payments without needing further assistance from the bank. Practical examples of how the bank helps clients handle double housing expenses are the extension of a mortgage bridging facility or a temporary rental.

The most common causes of financial problems in times of crisis:

- ▶ Higher expenses due to a double mortgage for a new home and unsold property;

- ▶ Lower disposable income due to lower pensions or austerity measures;
- ▶ Unemployment;
- ▶ The financial impact of divorce;
- ▶ Poor financial management.

Helping helps

The MCT has helped over 14,500 clients to date. Our approach not only benefits clients; it also helps us to prevent credit losses. In a portfolio of 800,000 clients, the percentage with payment problems is very low. The majority of clients with payment problems, around 97%, recover within six months and only 0.25% end up facing a foreclosure.

Looking ahead, we intend to live up to our commitment to putting clients' interests first and will continue to support our clients during and after the crisis.

97% of payment problems solved within six months

Only 0.25% of problems end up in foreclosure

Private Banking



We want to be a trusted advisor to our clients: professional, independent, committed and transparent. Our aim is to be a leading private bank, setting the industry standard for service delivery and valued by clients as their trusted advisor. Faithful to our centuries-old heritage, with services that are relevant and modern.

Key achievements in 2012

- ▶ Maintained client satisfaction at high levels in post-integration year;
- ▶ Successful integration of LGT into Bethmann Bank in Germany;
- ▶ Introduction of transparent all-in fee for discretionary portfolio management in the Netherlands;
- ▶ Further improvements to client servicing tooling, including online and mobile services;
- ▶ Winner of several awards: No. 1 Private Bank in the Netherlands (Euromoney), Best Private Bank Singapore, top Five Best Global Private Bank in Asia (AsiaMoney) and Best Private Banking Website 2012 (MyPrivateBanking.com).

Interesting facts

- ▶ Serving over 100,000 clients worldwide;
- ▶ Present in 11 countries and more than 50 domestic and international branches;
- ▶ Market leader in the Netherlands¹;
- ▶ Ranked 3rd in the eurozone and 7th in Europe¹;
- ▶ Bethmann Bank in Germany celebrated its 300-year anniversary in 2012.

Business description

Private Banking provides total solutions to clients' global wealth management needs, offering a broad and comprehensive array of products and services designed to address their individual situations.

Private Banking differentiates itself by putting clients' interests at the heart of everything it does. It strives to build long-term relationships and believes that being a trusted advisor involves understanding its clients' needs and interests and acting on that knowledge, supporting and challenging its clients in the broadest sense, through a personal service team.

Private Banking has been managing clients' wealth for generations and is proud of its long entrepreneurial heritage and strong roots. Private Banking operates

under the brand name ABN AMRO MeesPierson in the Netherlands and internationally under ABN AMRO Private Banking and well recognised local brands such as Banque Neufilize OBC in France and Bethmann Bank in Germany.

Private Banking offers private banking services to clients with free investable assets exceeding EUR 1 million (USD 1 million in Asia). The client service teams offer different service models according to two client wealth bands:

- ▶ High Net Worth Individuals (HNW) with Assets under Management (AuM) in excess of EUR 1 million (Private Banking);
- ▶ Ultra High Net Worth Individuals (UHNW) with AuM in excess of EUR 25 million (Private Wealth Management, PWM).

¹ Source: based on Scorpio Private Banking Benchmark report 2012.

Within these two main client groups, Private Banking offers a comprehensive set of tailored services to suit the particular needs of specific client segments, such as family money, entrepreneurs and their enterprises, professionals and executives, and institutions and charities.

Private Banking's range of services include wealth structuring, investments, lending and other specialised services such as estate planning and philanthropy advice. In the investment arena, its open architecture approach makes a state-of-the-art array of products and solutions available to clients, addressing their needs in multiple investment categories. Private Banking's network of strong local banks adds value to its clients with distinct value propositions supported by a Global Products & Solutions organisation.

ABN AMRO's International Diamond & Jewelry Group (ID&JG) has been recognised by the Gem and Jewellery Export Promotion Council in India as the global market leader in financing the diamond and jewellery industry. ID&JG offers financial services to internationally active businesses. Its position is underpinned by a footprint in eight key diamond centres, global trade services and financing solutions such as lending and trade finance-based products. As a founding member of the Responsible Jewellery Council, ID&JG aims to promote the highest standards in the diamond industry.

Business performance

Putting clients' interests first

Private Banking's client focus is supported by a clear segmentation that allows it to address the needs of specific client groups. Private Banking deepened its offering to the 'family money' and 'entrepreneurs and their enterprises' segments in 2012 by introducing wealth structuring solutions according to major life events such as wealth transfer to future generations or sale of the family business. In 2012, Private Banking introduced a team in Germany and Belgium to service non-profit organisations, Institutions & Charities, similar to the ones in the Netherlands and France. To address the specific needs of non-resident Indians, Pakistanis, Sri Lankans and Bangladeshis all over the world, Private Banking set up World South Asian Services teams in our offices in Dubai, Singapore and Jersey.

In its drive to increase transparency – an important element of client focus – Private Banking in the Netherlands introduced an all-in fee price structure for discretionary portfolio management services, including disclosure and passing on of retrocession fees directly to individual clients. Private Banking aims to provide maximum transparency and clarity in client communication, including product descriptions, performance levels and cost structures, and applies strict approval procedures to check the adequacy and sustainability of all existing and new products offered to clients. Private Banking's website was named Best Private Banking Website in 2012 by MyPrivateBanking. The site was lauded for its transparency on costs and fees in particular and on performance data for products and services.

Private Banking enhanced its banking services in 2012, offering multi-channel access in response to clients' expectations of convenience, customisation and transparency. Private Banking also developed new investment advisory concepts, devoting increased attention to risk management through proactive advice. The new products respond to clients' more sophisticated demands and allow for further diversification of client assets.

Employees

Private Banking's people are the key differentiating factor for our clients. Private Banking has the capabilities to attract top professionals and continually invests in its people's development and expertise. More than 377 employees graduated from the ABN AMRO INSEAD Private Banking Certification Programme by the end of 2012. Private Banking organised training programmes for all staff focused on building capabilities and increasing risk awareness. In its ambition to attract new talent and the best professionals, Private Banking successfully launched an international management traineeship programme in the Netherlands and abroad.

Operational efficiency

Private Banking launched Customer Excellence across its locations in 2012, improving proactivity and efficiency by streamlining and simplifying business processes. An agreement with Morningstar, signed in 2012, will allow Private Banking to provide clients with a broader and more extensive range of in-depth research on European equities compared with in-house research. In addition, many of Private Banking's worldwide locations continued optimising and rationalising IT systems, reducing costs and enabling improved cost control and reporting.

Sustainability

Private Banking offers a number of sustainable products and services, including Socially Responsible Investing (SRI), Philanthropy Advice and Impact Investing. The existing successful SRI initiative, TriodosMeesPierson, currently manages EUR 2 billion in discretionary SRI mandates, and Private Banking is developing more SRI products. Private Banking successfully launched the Philanthropy Advice service in 2012, and the introduction of a Social Impact Fund further underpins its commitment to sustainability. This fund supports and invests in social entrepreneurs. Initially financed solely by the bank, the intention is to make the fund available to clients in the future. Private Banking also supports development of the social entrepreneur market through various Dutch sponsorships, and strives to raise awareness and foster a close relationship between investment experts, investors and potential beneficiaries, for example during international Next Generation seminars for its clients' children.

In Germany, Bethmann Bank set up an independent Sustainability Advisory Board consisting of professionals from a range of industries who monitor socially responsible investment processes and ethical investments. In September 2012, Private Banking signed a global partnership with Heidelberg University's Centre for Social Investment to fund innovative research into high impact philanthropy in social, environmental and educational projects. In France, Banque Neufilize OBC aims to play an active role in the microfinance market and, as a first step, has started cooperating with Babyloan, the first website in local sustainable microfinance. Neufilize OBC is looking to expand its activities in this sector.

Strategic ambitions

Private Banking's ambition is to maintain its leading position in the Netherlands and strengthen its position as a strong Western European private bank with growth ambitions in Asia, concentrating on those markets where ABN AMRO has a recognised footprint.

To be a trusted advisor to clients: that is the core of Private Banking's strategy. Private Banking's efforts focus on further developing tailor-made advice by in-depth analysis of the personal needs of each client. The result is holistic financial advice covering the whole range of clients' financial needs. To support this, new offerings will continue to be developed.

Different client groups may require different solutions, as exemplified by the discretionary portfolio management mandate developed for Asian clients. That is why Private Banking intends to continue strengthening dedicated value propositions to its core client groups such as UHNW individuals, entrepreneurs and their enterprises, institutions and charities and Southeast Asian individuals.

Continued Customer Excellence and strong cost control coupled with focus on growth are the main drivers to improve profitability and cost efficiency (cost/income ratio guidance of 70-80%).

Sustainability also will be an important theme in future, reflected not only in the development of new dedicated services but in the entire daily business of Private Banking.

As transparency of service offering is key, Private Banking plans to launch new investment advisory concepts with a fully transparent pricing structure. These advisory concepts will be tailored to the specific needs of different clients ranging from high frequency investment advice to less frequent interaction, depending on the clients' requirements. These services will be supported by new communication tools such as online reporting and alerting.

The most important factor in being recognised as a trusted advisor is Private Banking's staff. Therefore, Private Banking will further invest in both knowledge and capabilities of staff in order to maintain and improve a high-performance culture in an open and agile work environment.

Financial performance of Private Banking

Underlying results

(in millions)	2012	2011	Change
Net interest income	537	558	-4%
Net fee and commission income	508	578	-12%
Other non-interest income	69	166	-58%
Operating income	1,114	1,302	-14%
Personnel expenses	436	484	-10%
Other expenses	459	506	-9%
Operating expenses	895	990	-10%
Operating result	219	312	-30%
Impairment charges on loans and other receivables	203	16	
Operating profit before taxes	16	296	-95%
Income tax expenses	-30	41	
Profit for the year	46	255	-82%

Other indicators

	2012	2011
Underlying cost/income ratio	80%	76%
Return on average RWA (in bps)	34	187
Cost of risk (in bps)	148	12

	31 December 2012	31 December 2011	Change
Loan-to-Deposit ratio	28%	28%	
Loans and receivables – customers (in billions)	17.3	16.0	9%
<i>Of which mortgages</i>	3.4	3.6	-4%
Due to customers (in billions)	58.9	54.3	9%
Risk-weighted assets (in billions)	10.7	13.8	-22%
FTEs	3,648	3,746	-3%

Private Banking's net profit declined by EUR 209 million to EUR 46 million mainly as a result of higher impairment charges and the sale of the Swiss Private Banking activities in the fourth quarter of 2011. The results of Private Banking include the results of ID&JG, which fell sharply year-on-year

due to higher impairment charges in 2012. Excluding the net result of ID&JG and the impact of the sale of the Swiss Private Banking activities, net profit would have decreased by EUR 38 million.

Operating income

Operating income came down 14% to EUR 1,114 million. Excluding the divestment, operating income was almost unchanged.

Net interest income decreased by 4% to EUR 537 million as a result of lower margins on saving products in the Netherlands, partly compensated by a switch out of investments into cash (mainly in Private Banking International). Net fee and commission income decreased by 12% due mainly to structurally lower fee income following the sale of the Swiss Private Banking activities and lower client activity. Other non-interest income decreased by EUR 97 million due to the divestment of the Swiss Private Banking activities.

Operating expenses

Operating expenses declined by 10% following the sale of the Swiss Private Banking activities. Excluding divestments, operating expenses decreased by 1%.

Operating result

The operating result fell by 30% to EUR 219 million, while the cost/income ratio deteriorated by 4 percentage points (improved by 1 percentage point excluding divestments) to 80%.

Impairment charges on loans and other receivables

Impairment charges on loans and other receivables rose by EUR 187 million to EUR 203 million for full-year 2012. The majority of the increase was related to a few large impairments in the diamond financing activities and, to a lesser extent, to commercial real estate-linked exposures and some legacy products.

Loans and receivables – customers

Loans and receivables – customers rose 9% to EUR 17.3 billion, due in particular to an increase in commercial loans internationally.

Due to customers

Due to customers increased by 8% as a result of deposit inflow and clients switching from securities to cash.

FTEs

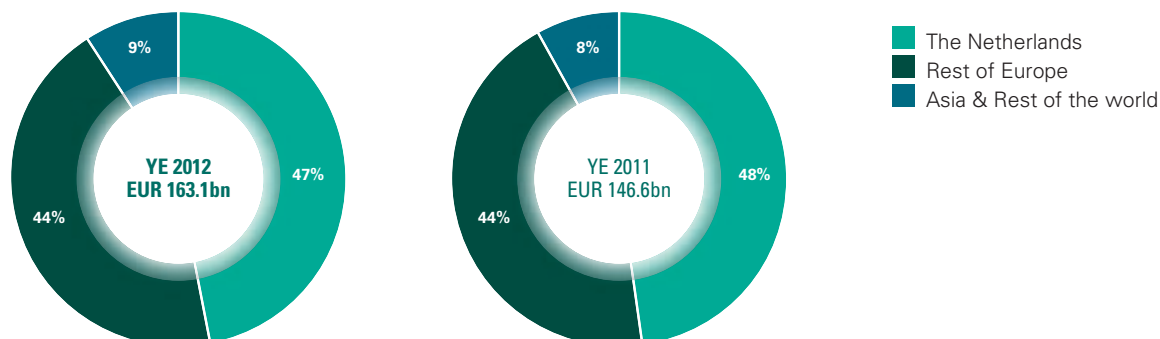
The number of FTEs decreased by 98 to 3,648 in 2012 as a result of the integration of LGT Germany and cost efficiency measures in the Netherlands.

Assets under Management

Assets under Management (AuM) increased by EUR 16.5 billion to EUR 163.1 billion as a result of improved market performance of the securities portfolios and net new assets of EUR 3.1 billion, mainly in Private Banking International.

(in billions)	31 December 2012	31 December 2011
Opening balance AuM as at 1 January	146.6	164.2
Net new assets (excl. sales/acquisitions)	3.1	0.9
Market performance	13.4	-9.3
Divestments/acquisitions		-5.0
Other (incl. sales/acquisitions)		-4.2
Closing balance AuM	163.1	146.6

Assets under Management by geography



Tailor-made investment services in Asia

ABN AMRO has a fast-growing private banking business in Asia and the Middle East. We want to meet the increasing need for wealth management services among the expanding population of Asian High Net Worth individuals from our offices in Hong Kong, Singapore and Dubai.

To do so, we are building on our heritage in this region and tapping into the expertise of our Private Banking network in Europe.

In the past, relatively few clients in Asia delegated investment decisions to their private bank through a discretionary portfolio management mandate; many seemed not to be aware of the advantages of this mandate. Our contact with clients and our local network showed us an emerging need among Asian clients: they are increasingly looking not only for top-quality investment expertise, but also for peace of mind by leaving the day-to-day management of their portfolio to a trusted professional. However, there are very few banks in Asia offering tailored discretionary portfolio management services investing exclusively in Asian equities and bonds.

Daily monitoring

In response to our clients' needs, we launched a dedicated service offering in November 2012: a portfolio which focuses on the Asian region and is monitored daily. Managed by our team

of Hong Kong-based professional portfolio managers with proven track records, three dynamic Asian discretionary mandates provide both Asian and European investors opportunities to take advantage of the economic growth potential in Asia.

High inflow

Our clients' responses have been very positive, and the inflow of assets into the mandates since its launch has exceeded our expectations. Our expertise in Europe has enabled us to cater to our clients' needs in the Asian market.

Creating opportunities in Asia by using the expertise of our European network

Tailor-made services highly appreciated

Commercial & Merchant Banking



"Our clients' success is our success."

Joop Wijn

"Against the backdrop of adverse economic conditions, regulatory changes and finalisation of the integration, Commercial & Merchant Banking (C&MB) posted a net profit and achieved growth in its specialist activities of Energy, Commodities & Transportation (ECT), Lease and Commercial Finance."

C&MB offers a broad range of standardised and tailor-made products and services and in-depth sector knowledge provided by dedicated professionals. C&MB is a mirror of the Dutch economy. We serve a range of companies – small businesses up to large corporates – in all sectors of the Dutch economy. Internationally, we want to be where our clients do most of their business. Our selective international network is consistent with our clients' financial needs abroad. In 2012, our specialist activities in ECT, Lease and Commercial Finance built on their leading positions internationally and improved their good performances.

In 2012, we developed a number of new products and mobile apps in response to clients' needs and offered a broad range of products and services to our clients across the globe. We maintained a high level of client satisfaction, and even improved satisfaction in certain areas. Employee engagement grew across all C&MB business lines.

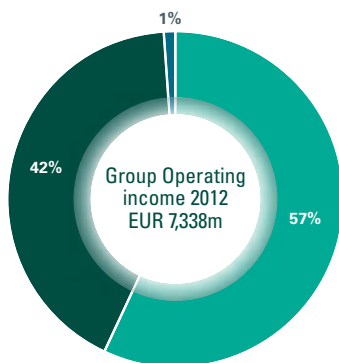
We finalised the integration by migrating the last batch of former FBN clients in ECT to ABN AMRO's IT systems and appointing supporting staff.

Looking ahead, we expect 2013 to be another challenging year. We will continue to pursue our strategy to be the principal bank for Dutch businesses and aim to follow our clients abroad. We will focus on strengthening our sector approach and will increasingly manage our portfolio based on a risk-reward model.

Joop Wijn

Member of the Managing Board

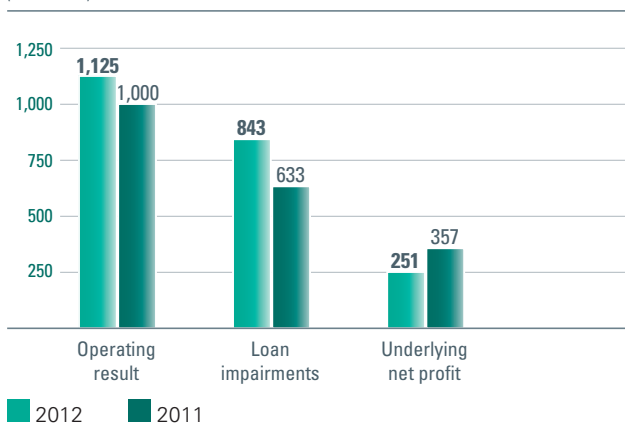
Commercial & Merchant Banking contribution to operating income



■ R&PB
■ C&MB
■ Group Functions

Financial performance

(in millions)



Commercial Banking



We strive to be the best commercial bank for SMEs and corporates based on our continuous client focus.

Key achievements in 2012

- ▶ ABN AMRO Lease successfully launched a new asset-based lending product for start-ups;
- ▶ First Dutch bank offering loans to fast-growing and innovative SMEs in cooperation with the European Investment Fund;
- ▶ SME clients have been able to open an account online since 2012;
- ▶ Introduction of several mobile banking applications: CFO app, Market Insights app, Access Online app;
- ▶ Corporate Clients has a strong Net Promoter Score compared with the rest of the Dutch financial sector (TNS NIPO).

Business description

Commercial Banking serves commercial clients with annual turnover up to EUR 500 million and clients in the public sector. Commercial Banking also supports Dutch clients in their businesses abroad in selected key markets in Western Europe, the United States, Hong Kong and Singapore. Commercial Banking has set up agreements with premium partner banks to offer services to clients in countries where ABN AMRO is not present. Commercial Banking consists of two business lines: Business Banking and Corporate Clients. The two subsidiaries, ABN AMRO Lease and ABN AMRO Commercial Finance, are also part of Commercial Banking and offer a full range of asset-based propositions to clients in Western Europe.

Interesting facts

- ▶ ABN AMRO serves around 365,000 Business Banking clients and more than 2,500 Corporate Clients;
- ▶ Large commercial banking player in the Netherlands;
- ▶ Strong position and growth in lease and commercial finance solutions in core markets in Western Europe.

Awards

- ▶ Business Moneyfacts award for best Factoring and Invoice Discounting Provider in UK;
- ▶ Best Credit Management & Factoring Organisation in the Netherlands, awarded by Management Team Finance.

Business Banking

Business Banking offers small and medium-sized businesses with turnover up to EUR 30 million a broad range of standard and customised products through the service models YourBusiness Banking and Relationship Management. Its key strategic focus is to respond to clients' needs as effectively as possible.

YourBusiness Banking allows small businesses to conduct their banking affairs through the channel of their choice: online, by telephone with an advisor, or face-to-face with a YourBusiness Banking specialist.

Medium-sized businesses are assigned a dedicated Relationship Manager who advises on financial matters

based on in-depth knowledge of the client's business and market. Relationship Managers are supported by specialists who offer advice on cash management, acquisition finance and treasury.

All Business Banking clients have access to products and expertise available in other C&MB business lines, such as trade, lease and commercial finance.

Corporate Clients

Corporate Clients serves clients with annual turnover between EUR 30 and 500 million as well as clients in the public sector. Clients are served from five regional units in the Netherlands to ensure proximity, each providing a full range of products and services and offering in-depth expertise in select key sectors in the Dutch economy.

Each client is assigned a dedicated client team, consisting of a Relationship Manager and a shared team of specialists in various banking capabilities such as cash management, trade and credits. Clients also have access to a dedicated support unit for their day-to-day banking affairs.

Corporate clients have access to Merchant Banking products and services, such as M&A and capital structure advisory, to help them achieve their strategic ambitions.

To address the international business needs of its clients, the Commercial Banking International network offers a broad range of products and services through local presence in selected areas and global coverage through partner bank agreements.

Asset-based solutions

ABN AMRO Lease (AAL) and ABN AMRO Commercial Finance (ACF) provide asset-based solutions to clients in all C&MB business lines. AALs and ACF's approach allows clients to leverage their assets (AAL), debtors and stocks (ACF) to provide additional liquidity, for example to sustain their growth ambitions. The subsidiaries are part of the Corporate Clients business line and are active in core markets in Western Europe (the Netherlands, Germany, France and the United Kingdom; Belgium: AAL only).

Business performance

Putting clients' interests first

Commercial Banking's goal is to intensify its long-term commitment to clients while strengthening its principal relationships. Cross-sell ratios across Commercial Banking improved in 2012, thanks in part to the introduction of a new Business Banking programme designed to optimise cross-selling based on common client characteristics and needs.

Commercial Banking introduced several new products in 2012, including ABN AMRO Lease's new product, lease contracts from EUR 5,000 up to EUR 50,000 for start-ups. This product launch extends the asset-based proposition to C&MB clients. More than 100 deals have already been closed.

ABN AMRO signed an agreement with the European Investment Fund to support lending to small and medium-sized enterprises. Commercial Banking can now offer up to EUR 120 million of new loans to fast-growing, innovative companies over the next two years, giving entrepreneurs easier access to finance.

SMEs have been able to open a business account with ABN AMRO online since 2012, removing application hurdles for start-ups. Commercial Banking launched several mobile apps in 2012, such as the CFO app, Market Insights and Access Online, responding to clients' needs for mobile banking solutions.

Professionals

As part of its commitment to give clients the best possible advice at all times, Commercial Banking invested in the ongoing professionalisation of Relationship Management. Relationship Managers were offered extensive courses on credit risk management and in-depth sector knowledge as well as several programmes highlighting anticipated regulatory changes. These efforts will enable us to help clients prepare for the impact of regulatory changes on their businesses, such as the Single Euro Payments Area, and to offer high-quality risk management services in today's challenging economic environment.

Integration finalised

Business Banking finalised its integration activities in 2012. With commercial and management positions having been filled in 2010 and 2011, the remaining support staff were appointed in 2012. While the integration has placed heavy demands on employees, the results of a recent employee engagement survey show ongoing commitment and motivation among all staff.

Under the EC Remedy, ABN AMRO sold parts of its commercial banking activities in the Netherlands in 2010. Corporate Clients completed the final stages of the integration in late 2011 and continued rebuilding its network in 2012. The volume of business activity and the number of Corporate Clients in 2012 exceeded the volume and number of clients compared to the pre-EC Remedy period thanks in part to the large number of acquisitions.

Enhanced growth through asset-based finance solutions

With the current economic turmoil and the upcoming introduction of Basel III guidelines credit has become more expensive. It is therefore important to explore other ways of financing. Asset-based finance is a good alternative. ABN AMRO Lease and ABN AMRO Commercial Finance enable entrepreneurs to unlock value from debtors, supplies and equipment. Asset-based finance also offers a number of advantages for the bank, such as improving its economic profit and reducing risk, leading to lower risk-weighted assets (RWA) and a lower capital requirement for the bank.

ABN AMRO Lease reinforced its number 2 position in the Dutch lease market in 2012. This business line sustained positive results by working closely with C&MB client segments and developing capabilities and expertise. ABN AMRO Commercial Finance, a leader in the Dutch market, posted strong growth in all of its markets – the Netherlands, the UK, Germany and France – in 2012.

ABN AMRO expects to see volumes and turnover generated by asset-based solutions grow sharply in the Netherlands and its main markets in Northwest Europe in 2013.

Strategic ambitions

Commercial Banking's focus in 2013 will be on creating a more agile and cost-efficient organisation and a competitive cost/income ratio (guidance between 55-60%).

Commercial Banking will continue to invest in developing mobile and online services to improve self service banking possibilities.

Commercial Banking aims to increase its in-depth sector knowledge in order to create strong, lasting client relationships, allowing Commercial Banking to forge and strengthen strategic partnerships with clients. Commercial Banking will also focus on developing partnerships and co-creation platforms with leading companies in defined segments and sectors, in order to develop new products and services together with these companies.

Commercial Banking continuously explores new growth opportunities in the SME and corporate segments in order to bolster its leadership position in the Dutch market. Commercial Banking aims to be a leading bank in the asset-based market in the Netherlands and in defined markets in Northwest Europe, with proven asset expertise and high-quality employees. Commercial Banking wants to use its strategic focus on asset-based solutions to lower the bank's risk profile, contributing to profitability and optimising RWA consumption.

Commercial Banking aims to improve its sustainable footprint, in part by focusing on social entrepreneurship. Banking is a people business where employees are a key asset, so Commercial Banking wants to be a top class employer and will continue to invest in its people's knowledge, skills and development.

Financial performance of Commercial Banking

Underlying results

(in millions)	2012	2011	Change
Net interest income	1,264	1,231	3%
Net fee and commission income	302	366	-17%
Other non-interest income	19	80	-76%
Operating income	1,585	1,677	-5%
Personnel expenses	301	342	-12%
Other expenses	680	805	-16%
Operating expenses	981	1,147	-14%
Operating result	604	530	14%
Impairment charges on loans and other receivables	587	606	-3%
Operating profit before taxes	17	- 76	
Income tax expenses	10	- 12	
Profit for the year	7	- 64	

Other indicators

	2012	2011
Underlying cost/income ratio	62%	68%
Return on average RWA (in bps)	3	- 23
Cost of risk (in bps)	214	221

	31 December 2012	31 December 2011	Change
Loan-to-Deposit ratio	122%	122%	
Loans and receivables - customers (in billions)	42.4	41.9	1%
Due to customers (in billions)	34.4	34.0	1%
Risk-weighted assets (in billions)	28.8	28.3	2%
FTEs	3,249	3,547	-8%

Net profit for Commercial Banking continued to be impacted by high impairment charges on loans and other receivables. Net profit for 2012 amounted to EUR 7 million (compared with a loss of EUR 64 million in 2011).

In alignment with market practice, as from 2012 lease costs are recorded under operating income (other non-interest income) and no longer under (other) operating expenses.

Operating income

Operating income amounted to EUR 1,585 million, down by EUR 92 million, due mainly to the divestment of the international division of FCF in 2011 and the sale of the commercial insurance operations in 2012, and the abovementioned reclassification of lease costs.

Net interest income increased by 3% to EUR 1,264 million. Excluding the impact of the divestments, net interest income would have increased by 6%, mainly as a result of volume growth in client lending. Net fee and commission income declined by EUR 64 million, due mainly to the abovementioned divestments. The decrease in other non-interest income related predominantly to the abovementioned reclassification of lease costs from other expenses.

Operating expenses

Operating expenses declined by 14% as a result of the abovementioned reclassification, divestments and lower intersegment costs.

Personnel expenses decreased by EUR 41 million to EUR 301 million, primarily as a result of divestments. Excluding divestments, personnel expenses showed limited growth. Other expenses fell by 16% to EUR 680 million, largely due to the abovementioned reclassification. Excluding these effects, other expenses decreased by 7%, primarily reflecting lower intersegment costs.

Operating result

The operating result rose 14% and the cost/income ratio improved to 62% from 68% in 2011.

Impairment charges on loans and other receivables

Impairment charges on loans and other receivables amounted to EUR 587 million in 2012, down EUR 19 million compared with 2011. Impairment charges are still at elevated levels, with cost of risk at 214bps. The construction, retail and (commercial) real estate-related sectors are among those affected.

Loans and receivables – customers

Loans and receivables – customers increased by EUR 0.4 billion compared with year-end 2011 to EUR 42.4 billion, due mainly to volume growth, offset by re-allocation of certain positions to Markets and Retail Banking.

Due to customers

Due to customers increased by 1% to EUR 34.4 billion as a result of business growth in both Business Banking and Corporate Clients, offset by the re-allocation of positions to Markets and Retail Banking.

FTEs

The number of FTEs decreased by 298 to 3,249, due mainly to the sale of the commercial insurance activities and the transfer of SME insurance activities to ABN AMRO Verzekeringen.



Supporting growth and innovation

Growth and innovation are important drivers of today's economy. At the same time, innovative and growing companies can be very complex and require specific advice and services based on in-depth knowledge of the business life cycle.

These companies need the support of experts who understand their business model, ambitions and dynamics and offer them the best finance structure, insurance and cash management solutions. In response to these needs, we have introduced the Growth & Innovation desk (G&I).

Growth & Innovation Desk

Our eight G&I experts give clients and prospects specialist advice, help them apply for government subsidies and introduce entrepreneurs to their networks. Our G&I desk operates three innovation centres in the Netherlands and acquired 200 clients in 2012. The G&I specialists work with our Business Banking relationship managers to fully understand and serve clients in their day-to-day business and future ambitions as they reach maturity.

Joint initiative

Traditional lending products are not always suitable for innovative companies due to a lack of securities and equity. To meet these companies' lending needs, Business Banking introduced a new lending product called the Growth & Innovation Loan.

In December 2012, we signed a guarantee agreement with the European Investment Fund (EIF) to support lending to small and medium-sized enterprises under the Risk Sharing Instrument programme, a joint initiative of the European Investment Bank Group and the European Commission. Under the guarantee agreement, EIF will guarantee 50% of loans provided to Dutch innovative and/or fast-growing companies. Our Growth & Innovation desk has been chosen to be the intermediary for these loans.

Easier access

ABN AMRO is the first bank in the Netherlands now able to offer up to EUR 120 million of these loans to fast-growing and innovative companies over the next two years. In bringing this facility to the market, we expect to help entrepreneurs gain easier access to finance at better conditions.

Agreement with European Investment Fund

EUR **120 million** available
for growth and innovation

Merchant Banking



We aim to build lifelong relationships with our clients.

Key achievements in 2012

- ▶ ABN AMRO is tied for 1st position in overall relationship quality (Greenwich survey 2012);
- ▶ ABN AMRO ranks best in quality in cash management and grew its market share by 20% in the Dutch large corporates market (Greenwich survey 2012);
- ▶ Upgrade of Brazil office and opening of Shanghai office;
- ▶ New product development: inflation-linked products, OTC Turbos, Memory Coupon Note, commodity products and expanded equity research;
- ▶ Integration programme finalised after successful execution of four IT migrations;
- ▶ Rationalisation of front-office platforms and user licenses which led to a reduction of costs within Markets;
- ▶ Growth of Turbo market share in the Netherlands from 17% in 2011 to 29% in 2012 (Euronext).

Interesting facts

- ▶ ABN AMRO Clearing had zero client defaults in 2012.

Rankings

- ▶ Tied for 1st position as bookrunner in syndicated loans (Greenwich survey 2012);
- ▶ No. 1 M&A advisor Netherlands 2012 (MergerMarket);
- ▶ Equity Capital Markets, no. 1 Lead Manager Deal Value (Dealogic).

Awards

- ▶ Best Bank for Structured Trade & Commodity Finance (Trade & Forfaiting Review Awards 2012);
- ▶ Best Corporate Finance House in the Netherlands 2012 (Management Team);
- ▶ Best manufacturer, Best manufacturer Interest Rates and Best manufacturer Currencies (StructuredRetailProducts.com/Euromoney Awards 2012).

Business description

Merchant Banking serves Netherlands-based corporates, financial institutions and real estate investors and developers as well as international companies active in the Energy, Commodities & Transportation (ECT) sectors. Merchant Banking consists of two business lines: Large Corporates & Merchant Banking (LC&MB) and Markets.

Large Corporates & Merchant Banking

Large Corporates & Merchant Banking (LC&MB) offers a full range of financial services to Netherlands-based corporates, financial institutions and real estate investors

and developers as well as international companies active in ECT. LC&MB's services are available to C&MB clients and include:

- ▶ Debt solutions: syndicated bank loans, acquisition & leveraged finance, export & project finance, debt capital market products and capital structuring & advisory;
- ▶ Cash management and working capital services;
- ▶ M&A advice and equity capital market solutions;
- ▶ Private equity financing: majority and substantial minority shareholder stakes.

Large Corporates & Sector Origination

The Large Corporates & Sector Origination team offers corporates based in the Netherlands with turnover exceeding EUR 500 million strategic relationship management through sector coverage teams supported by product teams and credit specialists.

Financial Institutions

The Financial Institutions team offers strategic relationship management and a full specialised product range to domestic and international banks, pension funds, asset managers and insurance companies. The team maintains a sizeable network of relations with foreign banks to deliver correspondent banking and trade finance facilities.

Real Estate Finance

The Real Estate Finance team serves professional real estate clients based in the Netherlands (both investors and developers), providing a full range of financial solutions including corporate lending, asset-backed investment and development finance, capital markets solutions as well as several advisory services.

Energy, Commodities & Transportation (ECT)

ECT clients are international mid-sized to large corporates active in energy (oil and gas industry and offshore services), commodities (trading companies active in energy, agricultural and metals commodities) and transportation (shipping and intermodal). ECT has an established presence in 11 locations in the three main time zones – Asia, Europe and the Americas – and holds a worldwide top position in these sectors.

Markets

Markets is divided into three business lines: Trading, Sales and ABN AMRO Clearing. Markets serves a broad client base, ranging from corporates and financial institutions to retail and private banking clients. This business line offers specialised Foreign Exchange, Interest Rates, Commodities, Equities, Equity Derivatives and Securities Financing products. Markets also offers clients online services via ABN AMRO I-Markets. In the Netherlands, Markets has sales and trading activities in Amsterdam and Commercial Banking sales desks in four other locations throughout the country. Outside the Netherlands, its main

sales and trading activities are based in Frankfurt, Hong Kong, London and New York. Markets has two niches with a global presence: Securities Financing and ABN AMRO Clearing.

Securities Financing

ABN AMRO is a strong player in the Dutch securities borrowing and lending market – the only Dutch bank offering a complete product range. Securities lending is the market activity whereby securities are temporarily transferred from a lender to a borrower on a collateralised basis, with the commitment to re-deliver the securities in the future.

The Securities Financing team offers tailor-made solutions to financial institutions such as pension funds, asset managers, insurance companies, banks, custodians and clearing institutions.

ABN AMRO Clearing

ABN AMRO Clearing, a subsidiary of ABN AMRO, is recognised as a global leader in derivatives and equity clearing and is one of the few players currently offering global market access and clearing services on more than 85 of the world's leading exchanges. ABN AMRO Clearing operates from 12 locations across the globe and offers an integrated package of direct market access, clearing and custody services covering futures, options, equity, commodities, energy and fixed income. ABN AMRO Clearing closely interacts with other businesses of the bank, such as ECT for the hedging and clearing of ECT clients' physical assets (agriculture, metals and energy).

The ABN AMRO Clearing operating model is self-supporting, where possible. This is a business in which speed and responsiveness are critical and regulators and clients expect clearing activities to be separated from general banking activities. ABN AMRO Clearing has strong operational and risk controls in place, with a unique global multi-asset risk management model with real-time risk management systems. ABN AMRO Clearing operations are carried out via ABN AMRO Clearing Bank N.V., which has a banking licence and is regulated and supervised by DNB.

Business performance

Putting clients' interests first

Merchant Banking continuously strives to strengthen its relationships with clients. Thanks to efforts on this front in 2012, Merchant Banking plays a meaningful role as trusted advisor to clients as they address their strategic challenges, which has resulted in a significant number of deals. In the 2012 Greenwich Large Corporate Banking survey, 95% of the companies rated Merchant Banking's commitment to developing long-term sustainable relationships as excellent or above average.

ABN AMRO acquired part of the merchant banking activities of RBS in the Netherlands, involving around 70 people, in 2012 and has since integrated these activities. This acquisition will help Merchant Banking serve clients better as it now offers an even broader array of merchant banking services, such as M&A, sector advisory, equity brokerage and capital structuring.

In order to improve service to its clients, Merchant Banking has also expanded its international operations. ABN AMRO reached an agreement to acquire a small privately-owned Brazilian bank in 2012, strengthening the product and service offering to ECT clients, and opened the Shanghai office in April 2012. Markets followed in the footsteps of ECT business growth by setting up dedicated sales to provide FX & Rates solutions to clients.

Merchant Banking helped an increasing number of clients access the corporate bond market and private placement market in 2012 and aims to extend its services to clients seeking alternative sources of funding in 2013.

Merchant Banking also launched a number of new products, such as the ABN AMRO Inflation Bond, which protects investors against rising inflation. It now offers coverage for private investor/structured products for the international private banking activities in Asia and repo products to institutional investors in Germany, Austria and Switzerland.

In December 2012 the decision was made to close down the Equity Derivatives Delta 1 arbitrage activities. Merchant Banking will focus on offering client driven Equity Derivatives products only.

Integration finalised

The majority of bank-wide integration programmes were completed in 2011, and in 2012 Markets finalised its client-related integration by conducting the three final IT migrations. Now that the integration has been finalised, Markets can further rationalise the IT infrastructure, which will push down IT costs.

ECT client data was successfully migrated to the ABN AMRO target systems, marking the completion of the LC&MB integration.

Strategic ambitions

Looking ahead, Merchant Banking intends to intensify and strengthen its relationships with clients by offering in-depth sector expertise, dedicated client service teams and tailored advice. The strategic relationship with clients and product and sector knowledge will enable Merchant Banking to help clients seeking alternative funding solutions.

Merchant Banking aims to contribute to the bank's international ambition by following its clients abroad. In order to serve ECT clients better, ABN AMRO seeks to expand its existing offices in Asia and North and South America and open an office in Russia in 2013. In addition to geographical expansion, ABN AMRO plans to seize other growth opportunities to maintain its leading position in the Netherlands and other select markets. Markets will continue to apply its tailored client group approach in pursuit of growth opportunities, with dedicated sales teams serving SMEs, corporate clients, large corporates, financial institutions and ECT clients.

ABN AMRO will continue to focus on flawless execution and continued cost control by providing e-commerce solutions, standardising products, pursuing straight-through processing, rationalising the IT landscape and increasing client flow in order to maximise use of the infrastructure and consequently reduce marginal costs (guidance cost/income ratio 55-60%). In this light, ABN AMRO intends to continue to take prudent, restrained investment decisions. To maintain its moderate risk profile, Merchant Banking strives to achieve a strictly risk-managed, client-led business. The bank has clearly defined its risk appetite and return targets for growth areas.

Merchant Banking aims to play a significant role in improving the bank's sustainability footprint. ABN AMRO is firmly committed to improving its own impact on the environment and society and to supporting clients in their sustainability

efforts. Merchant Banking wants to lead the way in helping ABN AMRO become a better bank contributing to a better world.

Financial performance of Merchant Banking

Underlying results

(in millions)	2012	2011	Change
Net interest income	652	546	19%
Net fee and commission income	376	364	3%
Other non-interest income	433	420	3%
Operating income	1,461	1,330	10%
Personnel expenses	306	285	7%
Other expenses	634	575	10%
Operating expenses	940	860	9%
Operating result	521	470	11%
Impairment charges on loans and other receivables	256	27	
Operating profit before taxes	265	443	-40%
Income tax expenses	21	22	-5%
Profit for the year	244	421	-42%

Other indicators

	2012	2011
Underlying cost/income ratio	64%	65%
Return on average RWA (in bps)	55	131
Cost of risk (in bps)	58	8

	31 December 2012	31 December 2011	Change
Loan-to-Deposit ratio	155%	137%	
Loans and receivables – customers (in billions)	49.6	46.6	6%
Due to customers (in billions)	37.0	46.6	-21%
Risk-weighted assets (in billions)	45.5	36.1	26%
FTEs	2,142	1,998	7%

Net profit for 2012 amounted to EUR 244 million, down from EUR 421 million in 2011, as a result of higher impairment charges, partly offset by a higher operating result.

Operating income

Operating income improved by 10% or EUR 131 million compared with 2011.

Net interest income increased by 19% to EUR 652 million, due mainly to higher interest income in Markets activities. The remainder of the growth came from ECT. Net fee and commission income increased by 3% to EUR 376 million, mainly reflecting growth in the ECT business offset by lower volumes at Clearing. Other non-interest income was EUR 433 million, 3% higher compared with the previous year. Markets sales and trading showed better results, offset by lower private equity results and a one-off gain last year.

Operating expenses

Operating expenses grew by EUR 80 million to EUR 940 million, due primarily to the impact of the Dutch bank tax.

Personnel expenses rose 7% to EUR 306 million, mainly as a result of growth in foreign operations as well as the acquisition of professionals from RBS N.V. Other expenses went up 10% to EUR 634 million, mainly reflecting the impact of the Dutch bank tax, offset by slightly lower intersegment costs.

Operating result

The operating result rose 11% to EUR 521 million and the cost/income ratio improved to 64% from 65% in 2011.

Impairment charges on loans and other receivables

Impairment charges on loans and other receivables over 2012 amounted to EUR 256 million. 2011 showed a charge of EUR 27 million as significant releases were recorded. Several impairments were recorded in the public and real estate sectors in 2012. Cost of risk increased to 58bps (from 8bps in 2011).

Loans and receivables – customers

Loans and receivables – customers amounted to EUR 49.6 billion, an increase of EUR 3.0 billion. Client volumes in securities financing activities decreased, while growth was recorded in LC&MB's commercial loan portfolio and at Clearing.

Due to customers

Due to customers decreased by EUR 9.6 billion to EUR 37.0 billion, due mainly to lower client volumes in the securities financing activities.

FTEs

The number of FTEs went up by 144 to 2,142, due to growth of the foreign operations and the acquisition of RBS professionals to strengthen certain product capabilities.



Serving clients and their supply chains

We are committed to solving business challenges together with our clients and aim to contribute to a more sustainable world in areas such as international commodities financing.

Consumer demand for products like chocolate and coffee is shifting towards products with a sustainability label, such as Fair Trade. Large, global producers in the food industry have set goals to ensure that a sizeable part of the commodities they use are certified sustainable. Cocoa and coffee farmers have increasingly left the farming business, leaving trading companies with the challenge of delivering large volumes of sustainable cocoa and coffee to suppliers, while production capacity does not allow for these volumes. We are working alongside commodity traders to tackle this challenge.

Turning the tide

A commodity farmer needs approximately four years to bring his production methods in line with sustainability requirements, which relate to the environmental and health impact, child labour, labour rights, education and fair trade principles. Investment costs are too high for individual farmers to make this change. In 2012, ECT approved a plan enabling it to explore, together with commodity traders, how to make the production processes of their suppliers more sustainable. Together with our clients we have started to offer small loans to selected commodity farmers. These small loans enable the farmers to produce their crops, while changing their production methods

and receiving coaching and education from traders on how to comply with sustainability requirements. At the end of the process, the farmer can deliver certified sustainable products and receive premium prices.

Everybody benefits

Needless to say, all parties benefit from this initiative. Farmers change their production methods, which is not only good for the environment and their staff, but also offers the prospect of a better income in the future. Traders solve their biggest business challenge for the coming years, and food companies can deliver the certified products that consumers demand. And, of course, a healthy supply chain for our clients is also good for ABN AMRO.

Supporting our clients by solving problems
in the supply chain

Contributing to a more sustainable world

Group Functions

While clients mainly have contact with our front-office staff, much of the work we do takes place behind the scenes. Our support departments, unified in Group Functions, work together across the organisation to enable the businesses to serve clients efficiently and effectively.

Group Functions supports the bank's businesses by delivering services in the areas of Finance, Risk Management & Strategy (RM&S), Integration, Communication & Compliance (ICC) and Technology, Operations & Property Services (TOPS) through a global shared services organisation. Activities performed by TOPS, Finance, RM&S and ICC are described in this section.

Group Audit and the Corporate Office are also part of Group Functions. Group Audit reports to the Chairman of the Managing Board, and the head of Group Audit has direct access to the Chairman of the Audit Committee. Group Audit also acts as the third line of defence (see the Risk management section). The Company Secretary, appointed by the Managing and Supervisory Boards, heads the Corporate Office and holds an independent position under the direct supervision of the Chairman of both the Managing and Supervisory Boards.

Operating expenses recorded in Group Functions are allocated to the business divisions according to service consumption, with the exception of some specific items (e.g. integration expenses).

Technology, Operations & Property Services (TOPS)

Technology, Operations & Property Services (TOPS) supports the businesses by providing services in the areas of IT (software and hardware), project management, operations and property management and office space. TOPS also coordinated the bank's integration activities, of which the remaining client migrations were finalised in 2012.

Finance

Finance is the primary supplier of management and reporting information to our businesses and to external stakeholders. Finance plays an independent role in delivering management information and challenging business decisions. It provides a strong financial control environment and ensures compliance with accounting standards and requirements set by the regulatory authorities.

Finance includes ALM/Treasury (ALM/T), which also has a reporting line to RM&S. ALM/T is responsible for managing the level of capital, interest rate risk (banking book) and liquidity available to the bank and runs the Treasury function. More information on liquidity, funding and capital is provided in the sections on Liquidity & funding and Capital management.

Risk Management & Strategy (RM&S)

A healthy bank relies on sound risk management and a risk culture in which every member of staff takes accountability for their actions. ABN AMRO therefore works according to the three lines of defence risk management model. This model is generally accepted as the best practice standard for risk management in the financial industry and makes risk management the responsibility of every employee of the bank. It enhances risk awareness and promotes the bank's risk culture.

Risk Management, Group Economics and Strategy (including Corporate Development and Investor Relations) have been combined into one organisation, Risk Management & Strategy (RM&S). RM&S is closely aligned with ALM/T to ensure that ABN AMRO's risk appetite is in line with the bank's corporate strategy and capital position, taking into consideration the economic outlook. More information on the risk management process is provided in the section on Risk management.

Integration, Communication & Compliance (ICC)

The primary responsibility of Integration, Communication & Compliance (ICC) is to help the bank's businesses put its clients centre stage. ICC consists of Change & Integration, Communications & Sustainability, Compliance,

Human Resources and Legal. ABN AMRO faces the challenge of transforming the bank in line with the new business strategy, corporate values and people strategy. ABN AMRO's focus this past year and for the years ahead is on creating a new corporate culture – in part by promoting the core values of Trusted, Professional and Ambitious – and on fostering client-oriented behaviour.

ABN AMRO's Compliance function provides independent oversight on behalf of the Managing Board with respect to policies, procedures and core processes to ensure ABN AMRO conforms with general and industry-specific laws and regulations both in letter and in spirit. The Risk management section of this report provides further details. The Compliance function also provides legal support to the organisation while maintaining oversight of the Group's legal risks and preserving ABN AMRO's reputation.

The Sustainability department, as part of Communications & Sustainability, formulates the bank's sustainability strategy and ensures that sustainability is embedded in the bank's business practices. ABN AMRO Foundation runs social projects and coordinates integration activities in a wider social context, primarily by organising volunteer work for staff.

Financial performance of Group Functions

Underlying results

(in millions)	2012	2011	Change
Net interest income	-29	- 8	
Net fee and commission income	-95	13	
Other non-interest income	197	268	-26%
Operating income	73	273	-73%
Personnel expenses	742	928	-20%
Other expenses	-737	-695	6%
Operating expenses	5	233	-98%
Operating result	68	40	70%
Impairment charges on loans and other receivables	-201	832	
Operating profit before taxes	269	-792	
Income tax expenses	55	-252	
Profit for the year	214	-540	

Other indicators

	31 December 2012	31 December 2011	Change
Loans and receivables – customers (in billions)	5.4	5.0	8%
Due to customers (in billions)	3.7	6.7	-44%
Risk-weighted assets (in billions)	6.4	7.8	-18%
FTEs	7,685	8,254	-7%

The net result rose to EUR 214 million, up from a loss of EUR 540 million.

Operating income

Operating income declined by EUR 200 million, of which EUR 30 million resulted from the divestment of activities.

Net interest income decreased by EUR 21 million to EUR 29 million negative. The decline was due mainly to higher funding costs resulting from the lengthening of the funding maturity profile and higher capital costs related to the newly issued subordinated debt instruments.

Net fee and commission income dropped by EUR 108 million to EUR 95 million negative. This decline mainly reflects the effect of divestments, the occurrence of several positive large items in 2011 and a reclassification of international payment fees from other expenses in 2012.

Other non-interest income went down by EUR 71 million, as the positive impact of releases from the Credit Umbrella and other EC Remedy-related provisions (EUR 215 million) was more than offset by fair value changes to structured funding instruments, the result of movements in interest rates, lower market valuations of the trading book and the impact of hedge accounting ineffectiveness.

Operating expenses

Operating expenses decreased by EUR 228 million to EUR 5 million. Excluding divested activities, operating expenses went down by EUR 148 million.

The decrease in personnel expenses was driven primarily by a EUR 165 million decline in the restructuring provisions from 2011 to 2012 and by the impact of divestments.

Excluding divestments, other expenses declined by EUR 34 million, due mainly to lower maintenance and depreciation expenses following the positive effect of the disposal of property, the abovementioned reclassification of international payment fees, lower housing costs and higher intersegment revenues, which resulted in lower expenses in Group Functions.

Impairment charges on loans and other receivables

Loan impairments moved from EUR 832 million in 2011 to a EUR 201 million impairment release for 2012.

This was mainly the result of EUR 880 million impairment charges for Greek government-guaranteed corporate exposures in 2011 plus an impairment release following the sale of a tranche of those positions (EUR 125 million) in 2012.

FTEs

The number of FTEs fell by 569 to 7,685. The decrease in FTEs relates primarily to the integration and natural attrition.

Reconciliation from reported to underlying results

Income statement

	Reported		Separation & integration-related costs		Underlying	
(in millions)	2012	2011	2012	2011	2012	2011
Net interest income	5,028	4,998			5,028	4,998
Net fee and commission income	1,556	1,811			1,556	1,811
Other non-interest income	754	985			754	985
Operating income	7,338	7,794			7,338	7,794
Operating expenses	4,959	5,357	450	362	4,509	4,995
Operating result	2,379	2,437	-450	-362	2,829	2,799
Impairment charges on financial instruments	1,228	1,757			1,228	1,757
Operating profit before taxes	1,151	680	-450	-362	1,601	1,042
Income tax	203	-9	-113	-91	316	82
Profit for the year	948	689	-337	-271	1,285	960
<i>Attributable to:</i>						
Non-controlling interests		24				24
Owners of the company	948	665	-337	-271	1,285	936

Separation and integration-related costs

	2012		2011	
(in millions)	Gross	Net	Gross	Net
R&PB	17	12	28	22
C&MB	3	2	23	17
Group Functions (incl. restructuring provisions)	428	321	308	231
Integration costs	448	335	359	270
Separation costs	2	2	3	1
Total	450	337	362	271

Large items and divestments

Impact of large items

2012: Several large positive items were recorded, totalling EUR 386 million net of tax. These items relate to releases from the Credit Umbrella and other EC Remedy-related provisions totalling EUR 210 million positive net of tax (EUR 215 million pre-tax), a release of Greek impairments of EUR 94 million net of tax (EUR 125 million pre-tax) and Madoff-related releases (EUR 75 million net of tax). The remainder was attributable to a release of a provision related to the sale of the Swiss Private Banking activities and small additions to the restructuring provision taken in 2011.

These large positive items were offset by a EUR 112 million negative net-of-tax impact of the Dutch bank tax. Contrary to the large items mentioned earlier, this item is of a more structural nature.

2011: Net profit for 2011 included large items totalling EUR 646 million negative net of tax. These items include a restructuring provision (EUR 181 million pre-tax, EUR 135 million net of tax), Greek impairments (EUR 880 million pre-tax; EUR 660 million net of tax) and several positive one-offs (totalling approximately EUR 150 million net of tax in the first half of 2011).

Impact of divestments

A number of divestments were completed in 2012. The results of these entities and the transaction results are included in the financial results up to completion of sale and transfer:

- ▶ The sale of the commercial insurance broker activities for corporate clients to Aon. The insurance operations

for small and medium-sized businesses were transferred to ABN AMRO Verzekeringen. ABN AMRO Verzekeringen is a joint venture between ABN AMRO Bank N.V. and Delta Lloyd Group, the latter holding 51% of the shares and ABN AMRO Bank N.V. having a 49% stake. The result of this transaction is negligible, as is its impact on different P&L line items;

- ▶ The sale of Solveon Incasso BV to Lindorff Group AB. The results of this entity and the transaction results are included in the financial results up to the completion date of the sale and transfer. The result of this transaction is negligible, as is its impact on different P&L line items.

A number of divestments were completed in 2011.

The results of these entities and the transaction results are included in the financial results up to the completion date of the sale and transfer.

- ▶ The sale of Prime Fund Solutions (PFS) was completed on 2 May 2011. The sale did not materially impact earnings or regulatory capital. The results of PFS were recorded in Group Functions;
- ▶ The sale of the international division of Fortis Commercial Finance to BNP Paribas Fortis was completed on 3 October 2011. The sale led to a small book loss and did not have a material impact on earnings or on regulatory capital. The results of the international division of Fortis Commercial Finance were recorded in Commercial Banking;
- ▶ The sale of the Swiss Private Banking activities to Union Bancaire Privée (UBP SA) was finalised on 31 October 2011. The sale of these activities led to a solid book gain.

human resources 14

"In today's rapidly changing world, people choose their employers for many reasons, only one aspect of which is purely financial. They want to know what kind of organisation they are working for, whether or not they fit in with the culture, what position the company has in society and what career and development opportunities the organisation has to offer. With this in mind, we focused our human resources activities in 2012 on two main areas. First, how can we keep our people employable in the long term? And second, how can we remain an attractive employer? In line with these issues, our focus in 2013 will be to continue to develop our employees and our organisation, as we want to be a top class employer."

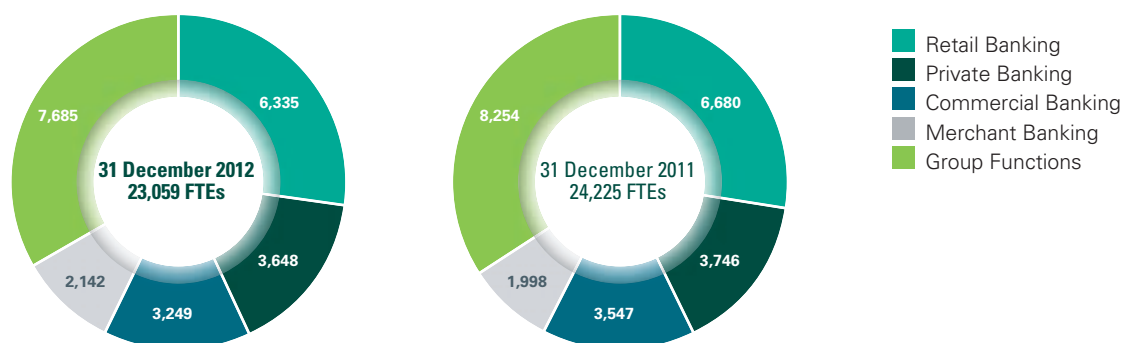
Caroline Princen, Member of the Managing Board

Introduction

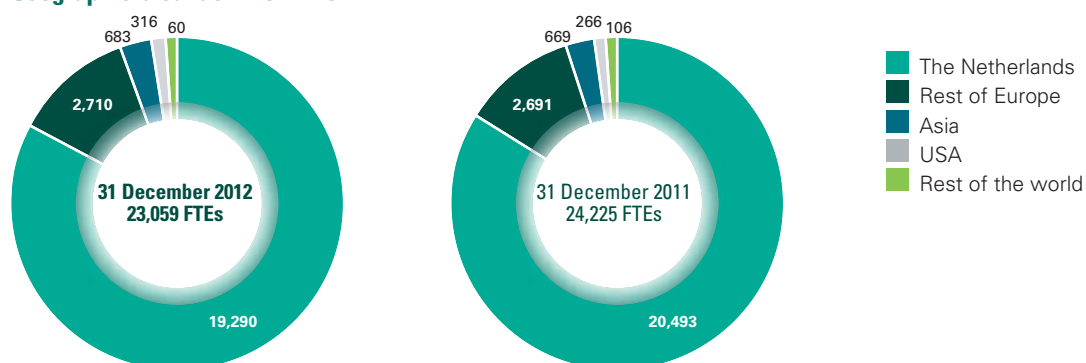
ABN AMRO's home market is the Netherlands: 84% of ABN AMRO employees (19,290 FTEs) work here; the remaining 3,769 FTEs are spread across 23 countries, most of whom are employed in France. The majority of

the bank's 23,059 FTEs work at Group Functions (33.33%) and Retail Banking (27.47%). The following illustrations provide a breakdown of our workforce by segment and geography.

Total FTEs by segment



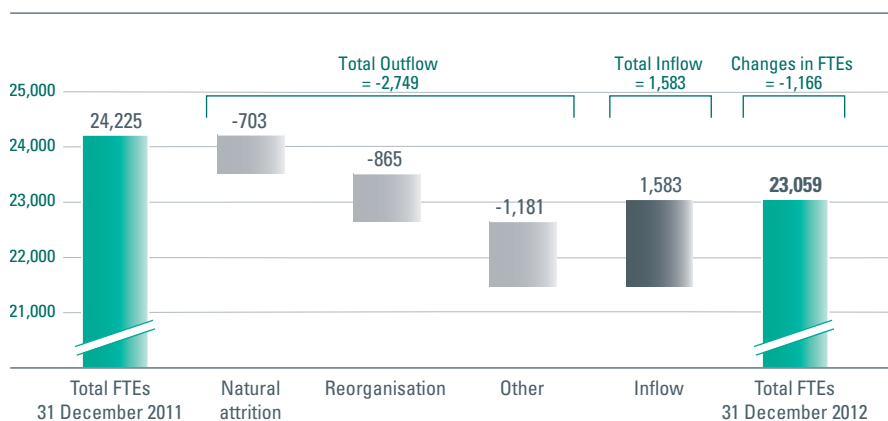
Geographic breakdown of FTEs



At 31 December 2012, ABN AMRO employed 23,059 FTEs (excluding agency staff), down by 1,166 FTEs compared with year-end 2011 (24,225 FTEs). As the figure below illustrates, the reduction was mainly the result of the completion of the integration of ABN AMRO and FBN and a focus on further cost reduction. A total of 2,749 FTEs left the bank and 1,583 FTEs joined the bank in 2012. The main reason for employees leaving the bank was

redundancy. Natural attrition remained low, declining in 2012 to 3.0%, down from 4.5% in 2011. In the figure below, 'Other' includes changes in working hours, employees who left the bank who do not fit into the other outflow categories, for example due to dismissal or outsourcing, contract amendments and expat contract changeovers.

Changes in FTEs



Achievements in 2012

This chapter describes our most important achievements in 2012. We devoted a great deal of effort to finalising the integration between ABN AMRO and FBN and concluded a new collective labour agreement in the Netherlands.

Other ongoing developments are described in the section about culture.

Integration and reorganisation

ABN AMRO has gone through a turbulent period in recent years. The organisation has changed as a result of integration, reorganisation and divestment and this is also reflected in the number of people we employ. As a result of integration and reorganisation, our workforce was reduced by approximately 4,500 FTEs in the period between 2009 and 2012. Divestments and acquisitions resulted in an extra staff reduction of approximately 2,400 FTEs.

As part of our efforts to promote sustainable employability, we are committed to helping redundant staff find another job. Redundant staff in the Netherlands, for example, are offered the services of the Redeployment Centre, where coaches support them in finding a job either within or outside the bank. Almost all job vacancies in the Netherlands are open first to ABN AMRO employees only, with redundant staff having priority.

A total of 859 employees were given notice of redundancy in 2012. Approximately 25% (25% in 2011) of these employees were placed in internal jobs and 35% (30% in 2011) were placed in temporary jobs within the bank. A total of 350 employees (400 in 2011) sought coaching from the bank's Redeployment Centre, 45% (55% in 2011) of whom found permanent internal or external jobs.

As part of the integration, ABN AMRO Pensioenfond and Pensioenfond Fortis Bank Nederland agreed to merge in late 2012. The boards of these pension funds reached agreement with ABN AMRO on the merger of the funds into a company pension fund with almost 100,000 members and pension assets of EUR 17.3 billion. The merger enables ABN AMRO Pensioenfond to execute pension and asset management more efficiently and to reduce membership costs. Our goal is to ensure that members of both pension funds do not suffer any negative financial consequences as a result of the merger.

Collective labour agreement

In addition to the integration, the bank concluded a new collective labour agreement in 2012. The new agreement focuses on sustainable employability for all employees and includes provisions regarding the following items:

- ▶ 'Generation leave': employees can take a six-month leave of absence;
- ▶ 'Demotion': procedures were formulated for employees who, at their own request, want to be placed in a lower job grade (for example to reduce their responsibilities);
- ▶ Every employee will have access to tools that help increase their employability. These tools include education and employability scans and can be tailored to employees' individual needs.

Culture

The corporate values – Trusted, Professional and Ambitious – are a compass for the behaviour of managers and staff alike. These values, combined with client focus, are at the heart of the bank's positioning. Successful implementation and recognition of these values should help us to build a strong culture and corporate identity, allowing us to raise company pride and engagement among staff. The core values are explained on the next page:

Trusted

- ▶ We establish and maintain lasting and trustworthy relationships;
- ▶ We are a solid, safe, prudent and transparent bank with a moderate risk profile;
- ▶ We partner with our clients in order to understand and serve their current and anticipated needs and aspirations;
- ▶ We exceed the expectations of our stakeholders;
- ▶ We offer consistency in our service throughout the business cycle.

Professional

- ▶ We continuously invest in our knowledge and capabilities, enabling us to provide the best advice to our clients;
- ▶ We adhere to the highest ethical standards;
- ▶ We create products and solutions that are simple, transparent and suitable to our clients' needs;
- ▶ Our people are willing and able to develop themselves to be the best professionals.

Ambitious

- ▶ We continuously improve ourselves and sustainably enhance opportunities for our stakeholders;
- ▶ We work together with clients to achieve sustainable success;
- ▶ We constantly seek new opportunities for stable and profitable growth;
- ▶ We always strive for outstanding results.

ABN AMRO employees work in a variety of situations with a variety of clients. With this in mind we introduced a set of Business Principles in 2012 designed to guide staff in their day-to-day work. The Business Principles are based

on the core values, the strategy and the competencies required of the bank's employees.

The ABN AMRO Business Principles are:



I aim to provide my clients with **the best solutions**



I am committed to **sustainable** business practices



I take **responsibility**



I am a **passionate** professional



I only take **risks** I understand



I build relationships through **collaboration**

We are making progress in achieving the desired corporate culture, as is reflected in the results of the Culture Scan and the report of the AFM (Authority for the Financial Markets in the Netherlands) on client-centricity among staff.

The bank keeps tabs on employee engagement and satisfaction by means of the annual Culture Scan, the third of which was held in 2012. The results of this survey show that employees are increasingly proud of ABN AMRO and feel more involved with the organisation. Our workforce is increasingly positive about the organisational culture on other fronts too. There was an upward trend compared with 2011 in employee perception of collaboration (+2%), client-centricity (+1%) and clarity of targets (+3%). Employee satisfaction and pride are on the rise, too (+7% and +6% respectively). We will continue to focus on client-centricity, clarity of goals, collaboration and sustainability in our Employee Engagement Survey, which will replace the Culture Scan in 2013.

The positive trend is also reflected in the bank's absenteeism figures. In the Netherlands, absenteeism decreased slightly: 3.86% on average for 2012 compared with 4.19% in 2011 (4.6% at year-end 2011). This figure is comparable with other banking institutions in the Netherlands.

The AFM has recognised us for our continued focus on the clients' best interest, noting that our staff clearly display client-centric behaviour. To ensure that client-centricity remains at the heart of employee behaviour, ABN AMRO intends to continue to embed this value in all relevant HR policies and products.

To promote the desired culture, we want to attract new employees and develop and motivate our staff. The following paragraphs describe our efforts to become an employer of choice for talented new employees and how we ensure sustainable employability and employee satisfaction and motivation.

Employer of choice

According to the annual Dutch Intermediair Image Survey, the bank's image in the labour market is improving. ABN AMRO was ranked the number 9 employer in the Netherlands in 2012, rising from its number 11 ranking in 2009-2011 and number 14 in 2008. Our ambition for the coming years is to make further progress in becoming an employer of choice. We pursued the following initiatives in 2012.

Traineeship

The bank trains and develops trainees to become professionals in their field and supports them in their personal development by way of a mentor, a coach and a trainee manager. The programme makes use of various innovative tools designed to position ABN AMRO as an attractive employer. A total of 113 trainees were employed in 2012, all of whom participated in a programme consisting of assignments lasting from three to six months. Most trainees are assigned to a project for which they are immediately responsible, while participating in professional and personal development courses. More information about the traineeship can be found on abnamro.com.

Diversity

ABN AMRO strives to be an organisation where people with different talents feel welcome and where talent is recognised and used regardless of gender, cultural background, age, sexual orientation or physical disability. We believe that a diverse workforce will help us achieve the best results for our clients.

Established in 2010, ABN AMRO's Diversity Board consists of nine members from the different business lines and is chaired by a member of the Managing Board. The Diversity Board monitors and evaluates the progress of implementation of the bank's diversity policy. The bank focused its efforts in 2012 on appointing employees from diverse backgrounds to management positions. ABN AMRO has also created a diversity dashboard with diversity metrics to provide insight into where the bank stands and to be able to monitor the progress.

We came closer to meeting our 'Talent to the Top' targets in 2012: the number of women in senior management positions rose by 1.2% to 16.6% (2014 target: 20%) and the percentage in upper middle-management positions rose by 1.6% to 21.6% (2014 target: 25%). One member of the ABN AMRO Managing Board and two members of the Supervisory Board are women. On 1 January 2013 the Dutch One-tier Board Act came into effect. This act states that the Management Board and Supervisory Board should have a balanced gender distribution, which means that at least 30% should be male and at least 30% should be female. This also applies to ABN AMRO's major consolidated subsidiaries. ABN AMRO did not yet comply with this regulation in 2012, as this regulation is relatively new and no members have been appointed to the Managing Board or Supervisory Board since April 2010. ABN AMRO is investigating future compliance with these requirements.

Of the total workforce in the Netherlands, 47% are female. We can only report data based on headcount in the Netherlands due to regulatory restrictions on public diversity reporting in certain countries where ABN AMRO is active.

We want our traineeships to reflect the diverse range of talent available at colleges and universities. To this end, we set concrete targets, tap into new channels and make diversity part of our communication to the job market. The inflow of female (44%) and bicultural trainees (16%) are making our bank more diverse. Alongside these bank-wide initiatives, each business line has developed its own diversity activities to promote career opportunities.

In addition, we have launched a 'selective observation programme' for recruiters yielding greater insight into how recruiters and managers subconsciously view people, how this affects selection and recruitment, and tools for addressing this issue. This programme is scheduled to be rolled out bank-wide in 2013.

We organised a 'Do or Die-versity' conference in 2012 featuring best practices and workshops on the contribution of gender and cultural diversity. More than 400 people from within and outside the bank attended the conference.

Reward philosophy

ABN AMRO takes an integrated approach to performance management and reward by linking it to talent management and learning and development. The bank's performance management system prescribes one appraisal philosophy based on a uniform model and process for all employees. It provides for appropriate differentiation of performance in line with the relevant business performance. Clarity about the bank's Performance Management System allows potential staff to make a well-founded decision when choosing an employer.

The performance measurement framework is based on financial and non-financial targets, both divided across quantitative and qualitative targets, and always including client satisfaction. ABN AMRO's reward philosophy is based on the bank's profile: a stable bank with a moderate risk profile that faces the future with ambition

ABN AMRO's integrated reward policy is based on the following principles:

- ▶ Remuneration is linked to the bank's long-term strategy and applies solely to realistic, sustainable results;
- ▶ Performance management is based on clear, balanced targets and explicitly addresses behaviour;
- ▶ Differentiation of performance is broadly in line with the relevant business performance;
- ▶ Job descriptions and job grading are clearly defined;
- ▶ Remuneration benchmarks are used;
- ▶ Additional measures apply to the performance management process for the Management Group and other Identified Staff. Details of these measures can be found in the Supervisory Board Remuneration Report.

The bank continued to implement guidelines for performance management in 2012. These guidelines aim to mitigate the risks of improper incentives, such as excessive risk-taking or conduct that is not in the interests of clients. Methods for analysing and monitoring these risks were further developed.

Sustainable employability

Employees will probably have to work longer in the future before being able to retire, and in today's rapidly-changing world the nature of work is changing too. To ensure that staff make the most of these developments and remain employable, ABN AMRO and its workforce need to invest in sustainable employability. We concentrated our efforts in 2012 on training and developing staff and addressed this issue in the negotiations on the Dutch collective labour agreement for 2013.

Along with the rest of Dutch society, the workforce is ageing: 45% of ABN AMRO employees are over 45 years of age. The bank strives to involve and continually develop older employees in order to use their skills more effectively, while focusing on sustainable employability and knowledge transfer for this segment of the workforce.

We pursue strategic workforce planning in order to achieve the right mix of employees, now and in the future. The gap between the actual and future workforce provides input for specific HR measures which, for example, focus on diversity, retention or talent management.

Leadership development

We specifically devote attention to developing our managers, as their leadership style has a huge influence on the company culture. We pursue succession planning in which we identify and support potential managers in their development. In 2012, we rolled out a bank-wide leadership programme designed to help leaders carry out the ABN AMRO strategy and develop an effective leadership style. The programme was offered to the Management Group, direct reports and all management staff, with members of the Managing Board and Management Group acting as facilitators. In 2012, a total of 2,300 managers in the Netherlands were invited to join the programme. In 2013, managers outside the Netherlands will have the opportunity to follow this leadership programme.

We also provide in-house leadership programmes focusing specifically on personal development and team leadership. The bank's managers take the ABN AMRO Personal E-Survey, which gives insight into their strengths and weaknesses in relation to their role as leaders within the bank. The survey addresses the required leadership competencies at ABN AMRO, and feedback and coaching sessions with peers are part of the programme.

New World of Work

The New World of Work is a series of measures designed to empower employees to work flexibly and remotely. ABN AMRO has implemented the New World of Work for a variety of reasons. Besides providing employees with flexible solutions to create an optimum work/life balance, we think this will help the bank to become an employer of choice, reduce its ecological footprint, raise employee satisfaction and promote diversity. Some 15,000 employees in the Netherlands now work according to these principles. In implementing the New World of Work, the bank avoided a 'one size fits all' strategy in favour of a bottom-up approach – and the benefits are starting to emerge.

To promote even greater flexibility among staff, we adapted our IT infrastructure and introduced remote access on mobile phones and tablets, WiFi in all bank buildings, and WebEx (virtual meetings). Employees are generally positive about the changes: 76% of the 15,000 employees working according to the New World of Work principles support this new way of working, 73% feel it is useful for them personally, and 51.5% feel it is necessary for ABN AMRO. Staff enjoy the benefits of greater freedom: 71% decide for themselves when to begin their working day, and 84% feel they can carry out their work with a large degree of independence.

Strategic ambitions

We believe that our people are our critical success factor, and that is why we are committed to being a top class employer. To this end, we focus on three key goals: creating a meaningful corporate identity, achieving a culture of excellence and being the best place to work.

- A meaningful corporate identity defines our role in society and how we approach our clients and staff. Our corporate story revolves around three key elements: our business model is based on sustainable growth, banking is socially relevant and employees live and create the brand;

- To achieve a culture of excellence, we help employees develop their talents in line with our organisational goals. A devotion to excellence goes beyond performance or results; it reflects the willingness to live the bank's vision, to work as a team and to strive for improvement at all times;
- As part of our commitment to being the best place to work, we give staff opportunities to develop professionally, to work flexibly and to design their own benefits packages. We are at the forefront of technological developments for the workforce and make maximum use of knowledge-sharing platforms and social media networks.



New recruitment site revolves around the candidate

ABN AMRO launched its new recruitment site in 2012. The new, user-friendly site allows us to engage in an ongoing dialogue with talented people outside the bank and gives young job-seekers, professionals and the self-employed surprising answers to the question, Why would I want to work for ABN AMRO?

The right people

To enable the bank to constantly change and adapt to social developments and trends, we need the right people in the right positions, now and in the future. We not only want to keep our staff employable now, but also to explore their options for the future. We give employees the opportunity to learn both on the job and through training.

When filling vacancies, we primarily look for suitable candidates among our internal workforce, but in specific cases we also hire people and professionals from outside the bank. We are investing in our 'brand' as an employer by responding to the personal needs of potential employees while highlighting our core values: Trusted, Professional and Ambitious. Our aim is to offer people meaningful, challenging and varied work and to promote the bank's commitment to personal development. We communicate with specific segments of the external job market in a tangible manner on the platforms they use.

Candidates centre stage

The new site puts the candidate centre stage. We provide customised information for each target group and use state-of-the-art technology, giving visitors relevant information quickly

and efficiently. We have made it easier for job-seekers to find vacancies and have simplified the job application procedure: applicants find everything they need on one page.

Using social media to engage in dialogue

The new site brings the world of ABN AMRO closer to potential candidates and showcases inspiring examples of employees. Thirty of the bank's employees act as 'ambassadors' on social media: people interested in working for ABN AMRO can talk to them on Facebook and Twitter to learn more about their personal experiences working for the bank. These ambassadors are the 'face' of ABN AMRO – figuratively and literally, as they feature in introduction videos and photos. Find out more at werkenbijabnamro.nl.

Employees act as ambassadors
on social media

All information needed on one page

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“We took a big step forward in further embedding sustainability in our organisation in 2012 and we will continue to pursue our plans in the years ahead. We want to be a bank that makes a difference for our clients and that builds up lasting relationships. At the same time, we want to make a genuine contribution to the world around us, especially in those areas where we can make a difference as a financial services provider.”

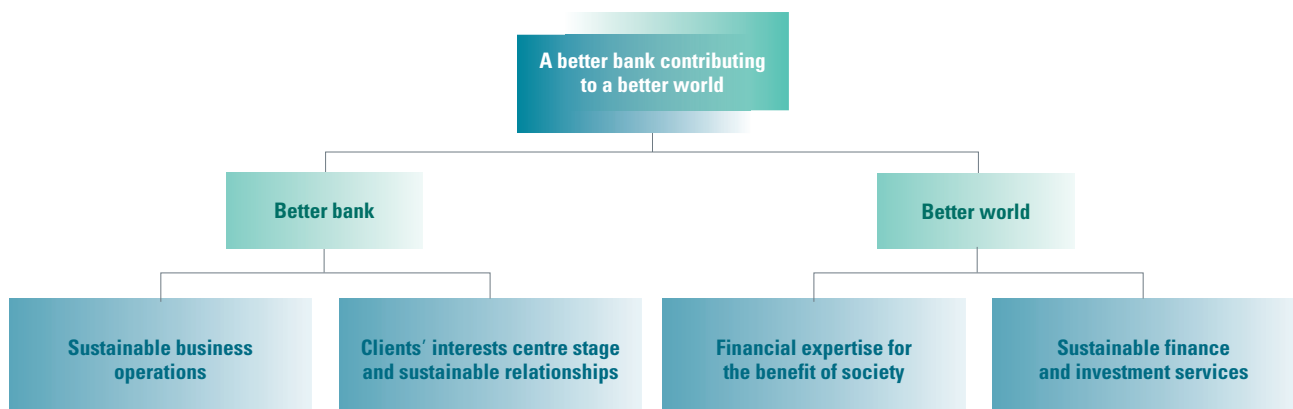
Caroline Princen, Member of the Managing Board

Strategy

ABN AMRO has learned some valuable lessons from the financial crisis, and we are committed to keeping our clients' trust. At the same time, we want to make a meaningful contribution to strengthening the financial system in the Netherlands. We want to be well positioned to address risks and seize opportunities, and we want to inspire our people, enhance stakeholder value and make a difference to society.

Against this background, we have mapped out a revised sustainability strategy designed to help us achieve our corporate strategy. Our strategy aims to create a better bank contributing to a better world and is based on four pillars:

- ▶ We are committed to sustainable business operations;
- ▶ We put our clients' interests centre stage and build sustainable relationships;
- ▶ We use our financial expertise for the benefit of society;
- ▶ We finance and invest for our clients in a sustainable manner.



Better bank

Sustainable business operations

Our sustainability reporting systems were lost following the recent restructurings. While we were winding down the integration, we started investing a great deal of effort in strengthening our sustainability governance structures and our monitoring and reporting systems so that we will be increasingly able to measure and report on our progress on sustainability in quantitative terms.

Although banking as such has a limited environmental impact, we are keen to minimise our footprint. The bank reduced energy consumption by 22% in 2012 compared with 2009, achieving the target set in 2009. Thanks to greening and savings initiatives taken over the past few years, the ABN AMRO head office in Amsterdam was awarded BREEAM certification in 2012. BREEAM is the world's foremost environmental assessment method for buildings. Going forward, we will continue to build on our ambition to further reduce our environmental footprint.

Transparency and sustainability are closely intertwined. With this in mind, we published the full sustainability risk policy, including criteria for responsible service provision in each sector, on the ABN AMRO website in 2012. The policy describes the environmental, social and ethical (ESE) standards for sensitive industries such as agriculture, mining and energy.

Clients' interests centre stage and sustainable relationships

There are several ways in which we strive to put our clients' interests centre stage at all times. First, we offer them transparency in all their dealings with the bank. We test all existing and new products against ethical standards and offer transparency in the breakdown of costs charged to clients. We have rewritten letters to

clients, product conditions and offers in clearly understandable language and are continuously improving our websites. An annual global ranking of websites named the ABN AMRO Private Banking website number one in 2012, commending in particular its comprehensive information on costs and fees and the performance data for products and services.

Another way we look after our clients' interests is by putting duty of care at the heart of our business. With the Dutch housing market under pressure and house prices on the decline, more clients are contending with a potential mortgage shortfall. We proactively contact clients to help them counter the impact of an expected shortfall, and we offer the services of certified budget coaches. In addition, we regularly adapt our service offering to address the needs of specific client groups, such as the elderly and children.

This past year we launched Seeds.nl, a crowdfunding platform that makes it possible for socially responsible businesses to attract small investors. By September 2012, three of the five businesses involved in this initiative were fully financed.

We strive to give our clients first-rate service, therefore it is important to address any client concerns effectively. ABN AMRO handled more than 142,000 questions, inquiries, and complaints in 2012, down from 172,000 in 2011. In addition, our improved complaints procedure helps us to pick up signals from our clients more effectively. We respond 24/7 to client feedback on social media (e.g. Twitter, Facebook and internet forums), allowing us to address issues directly and therefore avoid complaints. The Netherlands Authority for the Financial Markets (AFM) has acknowledged our efforts in this area, rating us 4.2 for complaints management in 2012 on a scale of 1 to 5, up from 3.8 in 2011.

Better world

Financial expertise for the benefit of society

We believe that putting our financial expertise to work for society will help us in our efforts to be a good corporate citizen. We recently introduced philanthropy advice for our private banking clients in the Netherlands, responding to the need among these clients to donate their money more strategically and proactively. We also strengthened our commitment to impact investing this past year. For example, we recently launched a social impact investment fund through which we invest in socially responsible companies, initially in the Netherlands only. A number of impact investing initiatives have been developed outside the Netherlands, too. Neufilize OBC, for instance, has a stake in Babyloan, the first socially responsible website for micro-credit in France, and acts as an advisor to this enterprise as well.

We continually engage our business clients in discussion on sustainability risks and help them capitalise on opportunities in their industries and value chains. Business clients also have access to various sustainable products, such as our Energy Saving Credit with which the bank finances investments in energy-efficient measures in

buildings or processes. Under this scheme, the loan and interest are repaid entirely from the savings made on the company's energy bill.

Sustainable finance and investment services

Sustainable finance

We have an ESE policy in place for our client acceptance and credit proposal processes which takes into account environmental, social and ethical (ESE) considerations. Guidelines are developed specifically for each sector and are continuously updated to keep pace with changes taking place in the sector. We do not necessarily exclude clients who are lagging behind; rather, we encourage and support them to improve. We revisited our ESE policies in 2011 for our core businesses of finance and investment services and reinforced our efforts in 2012 to implement the policy consistently in our day-to-day operations.

We introduced our Exclusion List in March 2012. This list describes activities that ABN AMRO does not wish to support and is published on our website. According to the bank's ESE policy, the sustainability risk for every business credit application must be assessed based on the following procedure:

Risk determination >>	Assessment >>	Approval >>	Monitoring & Reporting
Identify sustainability risk of transactions	Determine risk level: Low – medium – high	Meets requirements = standard procedure	Meets requirements = standard procedure
	Perform adequate due diligence	Does not meet requirements = extra monitoring/ conditions or withdrawal	Does not meet requirements = progress report (and supervision report)

We implement our ESE policy in accordance with the 'three lines of defence' model, which spreads responsibility for sustainability risk management across three 'lines' within our company. The first line is the front office, the second line is the central Sustainability department and the third line consists of Group Audit. For more information about risk governance, see the Risk governance paragraph in the Risk management section.

In the first line, each business unit performs a strategic risk analysis once a year, including sustainability aspects. ECT is the bank's leader in implementing the sustainability guidelines and policy. In 2012, ECT improved its assessment of and response to the sustainability risks of its clients by:

- ▶ interviewing clients and closely reviewing their sustainability practices;
- ▶ defining sustainability standards for the commodities market related to energy and metals;
- ▶ developing instruments for measuring the sustainability performance of clients based on a sector benchmark.

In the second line, the Sustainability department's risk experts researched a total of 191 finance requests with potentially high sustainability risks, mainly involving transactions in the agriculture, defence, energy and mining industries. A total of ten transactions and clients were denied financing and 37 were approved under additional conditions.

Sustainable investment services

Clients are increasingly seeking socially responsible investment opportunities, and ABN AMRO's sustainably

managed investments are growing accordingly. We plan to further expand our service offering to address the needs of our clients.

We enhanced our Socially Responsible Investing (SRI) efforts in 2012 by establishing a dedicated Investment Engagement Committee, which includes representatives from all of the bank's relevant businesses and is chaired by the member of the Managing Board responsible for Sustainability.

For each major asset class, we have selected an SRI fund alternative to be included in our recommended list. In addition, the criteria for NOBC Monétaire – one of the money market funds of our French private bank – have been adapted to comply with sustainability requirements. This fund manages EUR 2 billion of assets.

Strategic ambitions

Our plans for the future are clear: we intend to set concrete sustainability goals for our business lines in 2013 and the years to come and aim to communicate our goals to provide updates on our progress. We intend to further enhance our sustainability risk management and aim to intensify our efforts to offer sustainable solutions to our clients' needs. We are continually seeking partnerships to co-create new, sustainable solutions.

ABN AMRO reports on its progress in developing and implementing its sustainability strategy annually in the ABN AMRO Sustainability Report. The ABN AMRO Sustainability Report for 2012 is published on abnamro.com.



Financial coaching is part of the job

Now more than ever, people need financial support and education. So we put our employees' financial expertise and experience to work in supporting those who need assistance. Our programmes help young entrepreneurs and start-ups and provide support to young people and the elderly.

We have a partnership with Qredits, a supplier of microcredits, under which staff volunteer as financial coaches for a year to help micro-entrepreneurs and independent businesspeople achieve their ambitions. Our employees also work with the national Victim Support organisation to help victims of crime get their finances in order. A total of 64 employees volunteered as financial coaches in 2012.

Age is only a number

'You're never too old to learn': that is our motto when it comes to helping elderly people find their way around the world of modern banking. We offer workshops on how to use Internet Banking and tour the country in a bus – a mobile information centre – where clients are welcome to ask any questions they have about today's banking issues.

Do-it-yourself

Equally, we believe that you're never too young to learn and are committed to helping children learn how to handle money responsibly. Bank staff visit primary schools throughout the country, teaching kids the financial skills they need as part of our successful financial education programme.

We firmly believe in the effectiveness of hands-on learning. So we sponsor the Kids-in-Bizz project, which teaches 10- and 11-year-olds how to start up a business, guided by experienced professionals in the field. Under this project, we opened a website for kids between the ages of eight and eleven with games, videos and quizzes that teach them about money in an interactive, playful manner.

A total of 55 employees participated in the Kids-in-Bizz project and 653 employees taught financial education at primary schools in 2012.

Financial coaching for a good cause

Over **770** employees volunteered as financial coaches in 2012

Managing Board report

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Pillar 3 incorporated in the Annual Report

As of this year, the ABN AMRO Pillar 3 report is incorporated in the Annual Report. This setup provides a more comprehensive disclosure of information related to risk management and capital adequacy in a single report. The objective of Pillar 3 disclosures is to inform existing and potential investors in ABN AMRO on how the organisation manages risk and capital adequacy.

The incorporation combines the IFRS 7 disclosures (according to the internal management view) and the Pillar 3 disclosures, which forms the basis for risk and capital steering within ABN AMRO. The Risk & Capital management section also constitutes the Pillar 3 report. The Pillar 3 report is prepared in accordance with the Capital Requirements Directive (CRD). The CRD is legally enforced by Dutch law by the Financial Supervision Act (*Wet op het financieel toezicht* – Wft).

The Pillar 3 information for 2012 is reported in the Risk management section, with the exception of information on capital adequacy and securitisation activity. Capital adequacy information is disclosed in section Capital management. Information on securitisation activity and current securitisation positions can be found in section Securitisation.

Some parts in the Risk & Capital management section of this report contain audited information and are part of the Annual Financial Statements. These are Risk management, Capital management, Liquidity & funding and Securitisation. This concerns disclosures on financial instrument risk

(IFRS 7) and presentation of financial statements (IAS1). Audited information in these sections is labelled as 'audited' in the respective headings.

Basel framework

The Basel framework uses a "three-pillar" concept. Pillar 1 details the minimum capital requirements, Pillar 2 deals with internal capital adequacy measurement and supervisory review, Pillar 3 deals with disclosure on risk and capital to encourage market discipline. The Risk management section has a further description of the Basel framework implementation in ABN AMRO.

Risk exposure measurement and scope differences

Risk measures differ depending on the purpose for which exposure is calculated: IFRS (EU), determination of regulatory capital or economic capital. IFRS (EU) is mainly used to measure the financial results and position of the bank. Regulatory and economic capital are more suitable for certain risk measurement purposes because of the following: IFRS (EU) classifies the financial position by class of product, whereas the objective of Basel reporting is to take a risk-sensitive view of the bank's portfolio and to ensure that enough buffers are maintained for expected and unexpected losses. In addition, the financial position according to IFRS (EU) provides a liquidity view instead of a credit view. Collateral and other credit enhancements to which the bank has recourse should the counterparty default are not fully taken into account.

The table below describes the differences in consolidation requirements and for the purpose of financial reporting under IFRS (EU).

Entity	Financial reporting IFRS (EU)	Capital treatment Basel II	Main related entities
Insurance companies	Fully consolidated	The required capital is calculated according to the requirements of the insurance supervisor	ABN AMRO Life Capital Belgium N.V., ABN AMRO Life S.A., ABN AMRO Captive N.V. en Neuflyze Vie S.A. (60%)
Subsidiaries engaged in non-banking, and non-insurance subsidiaries	This category includes entities engaged in non-financial activities which are consolidated in accordance with IFRS requirements	Exposures to non-financial subsidiaries are risk-weighted as third-party transactions	Geveke B.V., MegaGroup Holding B.V., Attema Groep B.V.
Securitisation vehicles	This category includes securitisation special purpose vehicles, which are consolidated in accordance with IFRS requirements	Securitisation vehicles (when effective under Basel II) are not consolidated for regulatory capital purposes, but are treated under the securitisation framework	See Securitisation section in the Risk & Capital management section
Associates, participations and joint ventures engaged in non-financial activities	Accounted for on an equity basis	Exposures to non-financial associates and participations are risk-weighted as third-party transactions	Car Carriers Management B.V., Alma Maritime Ltd., Safe Ship Inv. Comp. S.C.A., SICAR and PJW3000 LLC (see note 18 of the Annual Financial Statements for more information)
Associates, participations and joint ventures engaged in financial activities	Accounted for on an equity basis	If capital interests in these companies exceed 10% of their capital, the investments are deducted from regulatory capital, otherwise they are risk-weighted for their exposures	See Capital management section in the Risk & Capital management section

The consolidation scope of ABN AMRO is determined in accordance with IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates, IAS 31 Interests in Joint Ventures, and in accordance with SIC-12 Consolidation – Special Purpose Entities. All companies for which ABN AMRO directly or indirectly has the power to govern the financial and operating policies so as to obtain benefits from their activities are part of the consolidation scope of ABN AMRO and are fully consolidated.

Further details on reconciliation between IFRS (EU) and Basel II EAD exposure are provided in the Risk management section.

Regulatory reporting scope

ABN AMRO reports to its home supervisor

De Nederlandsche Bank the following reporting scopes:

- ▶ ABN AMRO Bank N.V. consolidated including its parent company ABN AMRO Group N.V.;

- ▶ ABN AMRO Bank N.V. solo with its Dutch subsidiaries consolidated (solo consolidation);
- ▶ ABN AMRO Clearing Bank N.V. sub-consolidated.

ABN AMRO has obtained waivers for solo reporting for ABN AMRO Bank N.V. The domestic subsidiaries are included on a consolidated basis (solo consolidation). An exemption is applicable for solo reporting for ABN AMRO's credit subsidiaries in the Netherlands. Sub-consolidated reporting is not applicable for the credit subsidiaries in the Netherlands, with the exception of ABN AMRO Clearing Bank N.V.

The Dutch credit subsidiaries are ABN AMRO Bank N.V., ABN AMRO Clearing Bank N.V., ABN AMRO Groenbank B.V., ABN AMRO Hypotheken Groep B.V., International Card Services B.V. and Direktbank N.V.

risk management 17

“The economic environment in the Netherlands and abroad remained challenging in 2012, resulting in high impairment charges across our loan book. With respect to our mortgage portfolio, we continue to work with our clients to take measures in the common interests of the client and the bank to reduce the risk of residual debt. We maintained a heightened focus on our higher risk portfolios and are continuously performing thorough analyses ('deep dives'). On some occasions, this prompted us to take strict measures to maintain our moderate risk profile. We tightened our intake and policies for our commercial real estate portfolio, and further reduced our exposures to lower rated countries in Europe. Additionally, we enhanced our three lines of defence approach, strengthened our international risk governance and further optimised the efficiency and effectiveness of the risk management organisation. All these measures have helped us to sustain our moderate risk profile.”

Wietze Reehoorn, Member of the Managing Board

Risk management strategy

Maintaining a moderate risk profile remains one of the most important pillars of ABN AMRO's long-term strategy. Our risk management strategy is consistent with our core values of Trusted and Professional and our Ambition to continuously improve. The moderate risk profile means that in the first place we maintain a strong and healthy balance sheet. Secondly, we are aiming for strong capital and liquidity ratios going forward under Basel III. Thirdly, an essential requirement for the moderate risk profile is sound governance; hence we are further strengthening our three lines of defence model and decision-making framework. Each of these objectives is explained in greater detail below.

► Further optimisation of the balance sheet

ABN AMRO is an all-round Dutch bank with a clear international focus on selective markets and client segments. Our commercial loan portfolio is adequately diversified, which we ensure by remaining within the appropriate concentration limits. We are increasing the focus on less capital-intensive activities such as leasing and factoring and on attracting client deposits in order to become less dependent on wholesale and interbank funding. The share of mortgage loans in the ABN AMRO portfolio is large, even when compared to its peer banks. We will continue to provide mortgages, however within the limit of the absolute size of the existing

portfolio. Investment banking activities will remain limited, and trading activities will be client driven. We intend to further diversify our portfolio through pursuing international growth in those areas, where we have a recognised track record and proven capabilities;

► **Sound capital and liquidity management**

We are determined to be a well-capitalised bank that focuses on resilient growth. Risk-adjusted return on capital will be our main driver for capital allocation in order to achieve optimum use of capital in the long term. We are on track to positioning ourselves above regulatory requirements in terms of capital ratios and in compliance with the leverage ratio, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR);

► **Clear governance under three lines of defence approach**

We have embedded the three lines of defence model in the organisation in recent years. Going forward, we will invest in continuous education on the three lines of defence principles to raise risk awareness among employees at all levels of the organisation. Our bank-wide risk appetite is continuously linked to the corporate strategy. We will continue to cascade the risk appetite in the organisation down to the first line, as the businesses are primarily responsible for the risks they take.

In the coming years, we will continue to focus on disciplined execution of the risk management strategy. Important considerations are sustainability, transparency and Customer Excellence.

We remain strongly committed to sustainability and transparency. Our focus is on building long-term client relationships rather than one-time transactions for short-term gains. We will put our financial expertise to work to help clients manage their risk. We will increase transparency in our products, cost structure and our involvement in specific industries. Clear policies, business rules and supporting resources will be put in place across all businesses to ensure we observe sustainability principles. Further roll-out of Customer Excellence will enable the risk management organisation to do its work better and smarter and supports ABN AMRO's ambition to continuously improve.

Key developments (Audited)

Developments in the macro-economic and regulatory environments as well as changes in internal procedures and systems give rise to the importance of certain risks for ABN AMRO in a given period. The key risks for 2012 include the unfavourable development of the economic climate, the heightened threat of cybercrime, commercial and residential real estate developments in the Netherlands, the situation in the eurozone with respect to sovereign debt, and pension risk. Management closely monitored and discussed the development of these risks, and defined and implemented them. These actions include, but are not limited to, tightening of policies, increased surveillance of risk, scenario development, and increased efforts on strategic balance sheet management.

In managing the economic downturn, the bank has intensified and tightened the monitoring and management of credit risk across all portfolios. Initiatives to tighten the overall risk management framework were taken, not only in the business and the central risk management function, but also in Financial Restructuring & Recovery (FR&R) department, where inflow of defaulted files increased in 2012. The actions taken include a reduction of credit risk appetite and risk limits for certain sectors and client segments, more intense monitoring of real estate credit risk and small and medium-sized enterprises in Commercial Banking, further tightening of watch list inclusion criteria and watch list management, closer monitoring of evolving collateral values, more timely monitoring of retail mortgage exposures and tighter foreclosure procedures.

For ABN AMRO, 2012 was dominated by tension in the eurozone, further deterioration of the Dutch housing market and a weak commercial climate fed by lower consumer confidence in the Netherlands. In addition, changes to both IFRS (EU) and the Capital Requirements Directive (CRD) are underway that will significantly impact the bank's financial position. Early 2012, tension in the eurozone peaked so high that the possibility of a Greek exit or eurozone breakup was openly discussed. The main rating agencies downgraded their published ratings of European sovereigns and financials in the first half of 2012. Most downgrades pertained to European banks, due to the increased risk in the sovereign debt crisis. At the end of July, the ECB had announced a series of

measures which stabilised the situation. As a result, in October 2012, ABN AMRO was able to sell EUR 250 million of its Greek government-guaranteed corporate exposure, resulting in a release in impairment allowance of EUR 125 million.

The Dutch housing market further deteriorated in the course of 2012, with a further drop in the number of transactions and a continued decline in property prices. In combination with rising unemployment, this has led to an increase in impairments for Retail Banking, including consumer lending, to EUR 383 million (2011: EUR 276 million), mainly due to impairments for residential mortgage loans.

Significantly higher impairment charges for the International Diamond & Jewelry Group, which is part of Private Banking, and problem loans for a number of Private Banking clients with commercial real estate exposure caused impairments in Private Banking to increase to EUR 203 million, up from EUR 16 million over 2011.

The climate for the Commercial Banking segment remained weak during 2012. Lower consumer confidence, falling investments and economic contraction caused an increase in impairments in the small and medium-sized enterprise market mainly in the industry sectors retail, construction and commercial real estate. This was offset by lower impairments for larger clients in this segment, resulting in slightly lower impairments for Commercial Banking as a whole of EUR 587 million (2011: EUR 606 million). In Merchant Banking, impairments also increased from EUR 27 million over 2011 to EUR 256 million over 2012 due to a number of larger impairment charges on a limited number of mainly commercial real estate exposures.

The total impairment charges over 2012 decreased to EUR 1,228 million, down from EUR 1,757 million over 2011. Impairments in 2011 included EUR 880 million for Greek government-guaranteed corporate exposures, whereas 2012 saw a release of EUR 125 million on these files. Excluding the Greek impaired exposures, however, total impairments over 2012 increased to EUR 1,353 million (2011: EUR 877 million) as a result of the deteriorating economic environment and weak commercial and

residential real estate markets. The increase in impairment charges was also caused by lower recovery prospects for defaulted exposures resulting from a decline in the values of collateral pledged as security, such as premises and equipment.

Following the changes from IAS19 (as revised in 2011) an amount of EUR 1.2 billion (after tax) is charged to equity as at 1 January 2013. The amended IAS 19 results in increased volatility in equity, significantly increasing pension risk in 2013.

In response to the global crisis, the Basel committee on banking supervision developed Basel III. To bring the regulatory standards on banking capital adequacy and liquidity of the Basel Committee on Banking Supervision into European law the European Commission has drafted CRD IV. As CRD IV is still being prepared, the Pillar 3 disclosures for 2012 will not cover the (expected) CRD IV requirements. Basel III/CRD IV developments and impact on ABN AMRO are further described in the Capital management and Liquidity & funding sections. At the same time, ABN AMRO continued to pursue its ambition to continuously optimise its risk management organisation and processes. Enhancements include the following:

- In 2012, ABN AMRO strengthened its three lines of defence model and embedded it further in the organisation. To achieve this, liaison roles were established in the risk management organisation to ensure a continuous dialogue between all businesses in the first line of defence and the control functions in the second line of defence, strengthening control, communication and oversight. This has increased attention for risk monitoring, credit portfolio management and review. Risk awareness in the first line was raised by extensive risk training and roll-out of monitoring dashboards, providing the first line of defence with integrated risk reporting to support the risk-based dialogue;
- Banks have been under increased regulatory pressure since 2008. Supervisors have heightened scrutiny of risk management processes and operation. In response, ABN AMRO has reviewed and strengthened its international risk governance. The bank has enhanced its risk management in the international network to mirror the three lines of defence principle, with the local Chief Risk Officer (CRO) ensuring sufficient

independence, maintaining oversight and challenging first-line risk managers in multi-business countries;

- ▶ The risk management department developed analytics and tools to calculate new risk-adjusted performance measures (regulatory profit and risk-adjusted return on economic capital) to ensure more accurate steering of credit intake.

Risk profile

A moderate risk profile is one of the most important pillars of ABN AMRO's current strategy. By maintaining a moderate risk profile, the bank aims to strike a clear balance between risk and return. The following characteristics of ABN AMRO reflect its moderate risk profile:

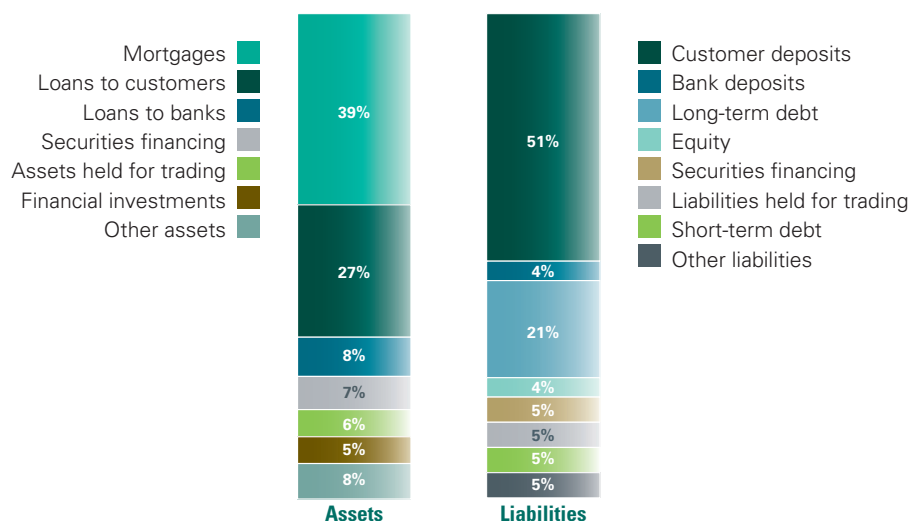
- ▶ ABN AMRO is a Netherlands-based bank, with the majority of its activities performed in the domestic market. The bank is internationally active via Private Banking, International Diamonds & Jewelry Group, Commercial Finance (Factoring), Lease, Clearing and Energy, Commodity & Transportation (ECT). ABN AMRO has in-depth knowledge and a proven track record of these specialised activities. ABN AMRO serves foreign clients with operations in these specialised areas and Dutch clients with activities abroad;

- ▶ Trading activities are primarily client-facilitating in nature and have a limited scale in the bank's overall risk profile.

The bank's lending activities are largely asset-based. ABN AMRO is mainly active in its domestic market and in markets in which it has a long-standing track record. The bank's strategy and its moderate risk profile are reflected in the balance sheet:

- ▶ Two-thirds of the bank's assets consist of lending to (mainly Dutch) clients and banks;
- ▶ Dutch residential mortgages constitute approximately half of all client lending;
- ▶ There is no exposure to CDOs or CLOs;
- ▶ In terms of funding, the bank's loan portfolio is matched by client deposits, long-term debt and subordinated liabilities and equity with limited reliance on short-term debt;
- ▶ The bank's securities financing activities are fully collateralised;
- ▶ The magnitude of assets and liabilities held for trading is limited;
- ▶ The bank's financial investments consist mainly of high-quality liquid instruments used for liquidity management.

Balance sheet composition at 31 December 2012



Risk Management continuously monitors the bank's activities in light of the risk appetite. The status and outlook are discussed on a monthly basis in the Managing Board by means of the Enterprise Risk Management Report. The Managing Board frequently addresses the risk profile and reviews both the individual risk types and the integrated, enterprise-wide risk profile.

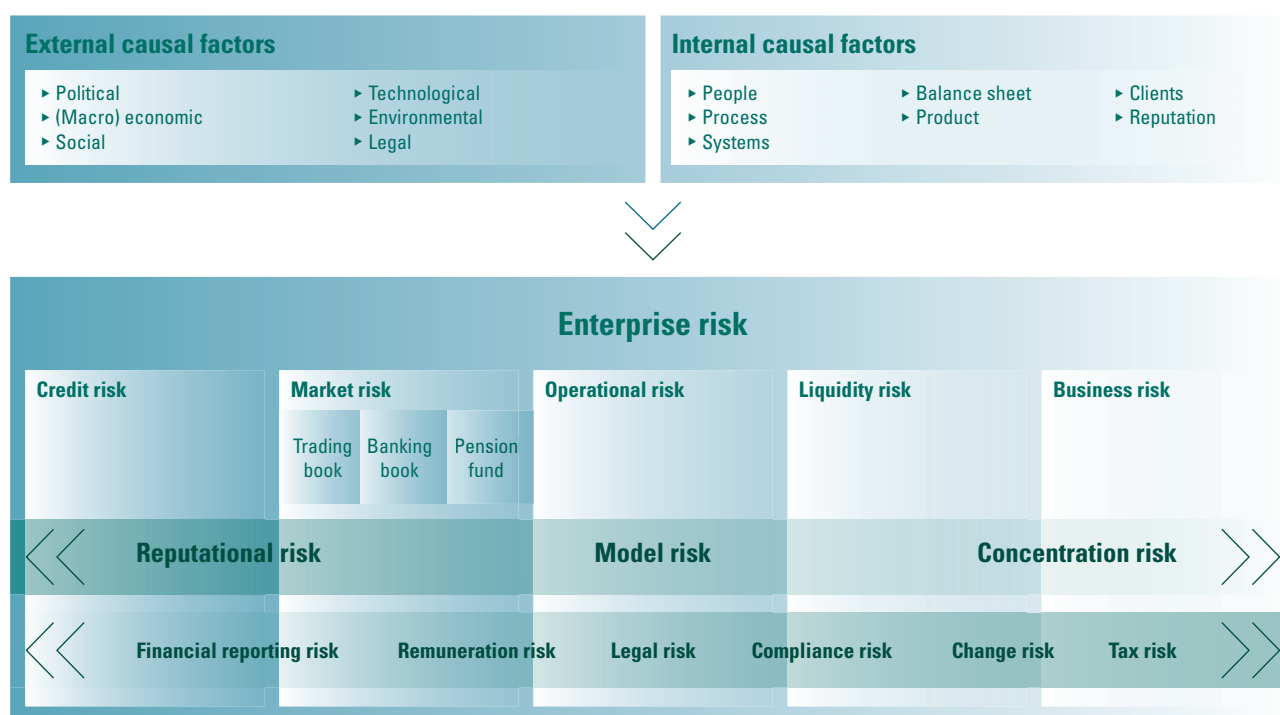
ABN AMRO uses a number of instruments to support management and control of the moderate risk profile. The following sections describe these instruments: the risk taxonomy that identifies the key risk types, and the risk appetite that sets the boundaries for all these risk types.

Risk taxonomy (Audited)

ABN AMRO's risk taxonomy is a classification of risks into risk types. It is reviewed and updated on a yearly basis to ensure that all material risks are identified, defined and taken into account in the risk governance framework. The purpose of the risk taxonomy is to support effective and efficient risk management throughout ABN AMRO. Moreover, the risk taxonomy provides a checklist of types of risks for use in risk assessments, assists in assuring that all material risks are managed and that roles and responsibilities are identified. Finally, it allows for aggregation of risk assessments throughout the bank for structured analyses.

ABN AMRO's risk taxonomy is summarised in the following chart:

Risk taxonomy (Audited)



The main risk types are credit, market, operational, liquidity and business risk. These risks are explained later in this section. Intersecting risk types, such as reputational risk and model risk, are risk types that emphasise specific aspects, applicable to several risk types in the risk taxonomy. The reputational risk that the bank is exposed to, includes sustainability risk. This is described in detail in the Sustainability section of this report.

All risks types are influenced by both external and internal causal factors. A causal factor is defined as a circumstance that may lead to or may contribute to the (probability or impact) occurrence of an event. The bank distinguishes between internal causal and external causal factors to emphasise whether or not a change in these circumstances is due to actions carried out by the bank itself.

Risk appetite (Audited)

The risk appetite determines the level and nature of risk that the bank is willing to take in order to pursue its strategy, taking all stakeholders into consideration. All risks covered in the risk taxonomy are included in the risk appetite.

Measures in the risk appetite include, but are not limited to: minimum levels for capital ratios, risk-adjusted return measures, concentration limits for single counterparties, countries and industry sectors, Value-at-Risk, maximum Loan-to-Deposit ratios, and qualitative statements for intersecting risks. The risk appetite is an integral part of the bank's corporate strategy and is in line with a moderate risk profile. This includes business risk appetite statements, with business-specific appetites in addition to the bank risk appetite statement. The risk appetite specifies how ABN AMRO deploys its overall risk-taking capacity for each risk type and sets limits, at bank or business line level.

The risk appetite is monitored monthly by benchmarking the actual and forecasted risk profiles against the risk appetite. The Enterprise Risk Management Report is discussed by the Managing Board on a monthly basis and by the Supervisory Board on a quarterly basis in the Risk & Capital Committee. When a risk factor is near to or in excess of its threshold, corrective actions are defined and approved at the appropriate decision-making level in accordance with the risk governance.

The risk appetite is reviewed annually by the Managing Board and Supervisory Board and approved by the General Meeting of Shareholders. The risk appetite is reviewed in light of the continuously changing market environment, based on external developments, the economic outlook, internal insight, best practices and new regulations. The risk appetite statements that were formalised in 2011 clearly defined the risk boundaries from mid-2011 until the end of 2012. ABN AMRO extensively reviewed the risk appetite statements in 2012, resulting in an updated risk appetite as from 1 January 2013, which served as input for the 2013 budgeting and forecasting process.

Risk governance (Audited)

Risk Management & Strategy operates under the direct responsibility of the Chief Risk Officer, who is a member of the Managing Board. The Managing Board has overall responsibility for the risks that ABN AMRO takes.

Three lines of defence

The bank manages and controls risks according to the three lines of defence model. This ensures that risk management is a core discipline for the entire bank and all employees and provides a clear distinction between activities performed by the first, second and third lines of defence.

The illustration below explains and shows how this approach works.

Three lines of defence (Audited)

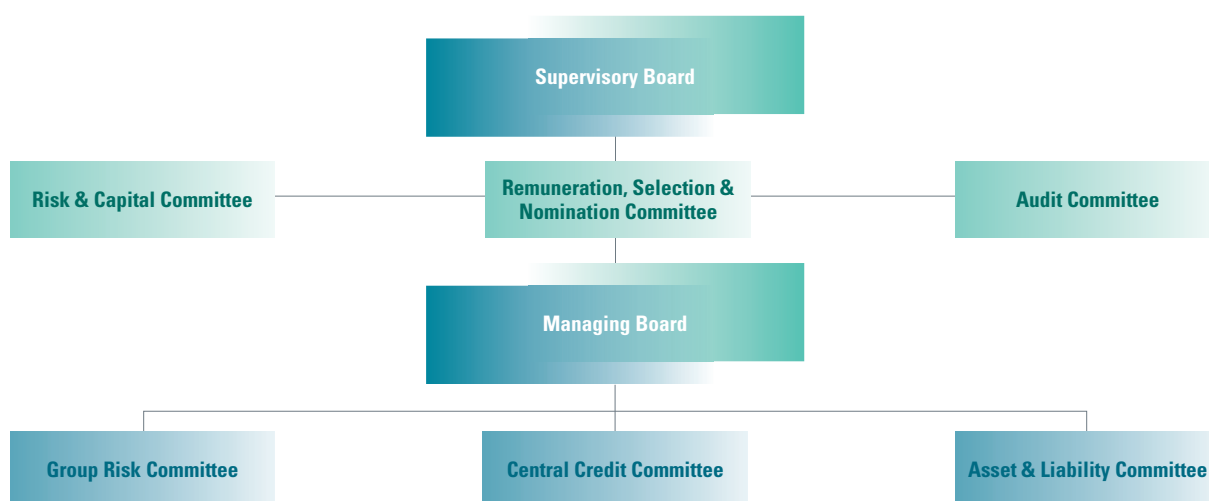
1st Line of Defence Business	2nd Line of Defence Risk Control Functions	3rd Line of Defence Audit
 Risk ownership	Risk control	Risk assurance 
<p>Management within each business is primarily responsible for the risk that it takes, the results, execution, compliance and effectiveness of risk control.</p>	<p>Risk control functions are responsible for setting frameworks, rules and advice, and monitoring and reporting on execution, management, and risk control. The second line ensures that the first line takes risk ownership and has approval authority on credit proposals above a certain threshold.</p>	<p>Group Audit evaluates the effectiveness of the governance, risk management and control processes and recommends solutions for optimising them. Group Audit coordinates matters with the external auditor and the DNB.</p>

Risk decision framework

The Managing Board is ultimately responsible for a balanced assessment between the commercial interests of the bank and the risks to be taken within the boundaries of the risk appetite. The Managing Board establishes clear lines of responsibility and authority within the bank to ensure a sound risk governance. In the risk decision framework, the Managing Board is supported by three executive risk committees: Group Risk Committee, Central Credit Committee and Asset & Liability Committee, each of which is (jointly) chaired by a member of the Managing Board. The Managing Board itself takes decisions that are of material significance to the risk profile, capital allocation and liquidity of ABN AMRO.

The Supervisory Board is responsible for approving ABN AMRO's risk appetite statements on an annual basis following a proposal by the Managing Board. The ABN AMRO Supervisory Board oversees the risk governance and execution of ABN AMRO's strategy as performed under the responsibility of the Managing Board. To this end, the Supervisory Board regularly discusses ABN AMRO's risk profile and assesses whether the bank's commercial interests, capital allocation and liquidity requirements in general terms comply with the bank's risk appetite and whether the risk appetite complies with applicable laws and regulations. The Risk & Capital Committee has been established to prepare the Supervisory Board's decision-making on risk and capital management and control and to advise the Supervisory Board on these matters. The Supervisory Board report provides more details on the Risk & Capital Committee.

Risk decision framework (Audited)



Group Risk Committee

The Group Risk Committee (GRC) is mandated to monitor, assess and manage the bank's risk profile in relation to the risk appetite. The GRC may delegate specific approval authorities to subsidiary risk committees, but remains responsible on behalf of the Managing Board. The terms and conditions of the delegation of authority with respect to risk policies, methodologies and new products are specified in the risk policies (e.g. the Product Approval Policy).

Central Credit Committee

The Central Credit Committee (CCC) is mandated to decide on credit proposals that have a significant impact on ABN AMRO's credit portfolio, above a certain threshold. In exceptional cases, the CCC decisions require final approval by the Managing Board.

Asset & Liability Committee

The Asset & Liability Committee (ALCO) is mandated to decide on the interest profile, liquidity profile and solvency position of ABN AMRO within the risk appetite as set by the Managing Board.

Product approval process

The product approval process provides a general framework of rules and principles regarding the approval procedure for development and implementation of new products or activities. The main objectives of the product approval process are:

- ▶ to ensure that the bank properly assesses and is in control of the risks associated with its products and activities;
- ▶ to ensure that ABN AMRO pays due regard to the interests of its clients and treats them fairly, such that only useful, cost-efficient and understandable products or activities are approved and consequently sold or undertaken.

ABN AMRO's product approval process adheres to the guidelines laid down in the Dutch Banking Code, and is in line with the bank's strategy, moderate risk profile and risk appetite.

Risk measurement

The bank uses internal models to quantify the various risk types. In most cases, quantification involves assessing the probability of an event, the exposure to this event, and the impact on the exposure as a consequence of the event. This allows for measuring the level of risk and thus supports day-to-day decision-making as well as periodic monitoring and reporting on developments in the bank's portfolios and activities.

The following sections give a brief introduction of the different models used to measure credit, market and operational risk, and how these models are validated and approved. The use of these measures for calculating regulatory capital requirements and economic capital is described in subsequent sections, regulatory capital (Basel II) and economic capital.

Risk models and model validation (Audited)

ABN AMRO develops and uses risk models for most risk types in the risk taxonomy, with the models for credit, market, and operational risk being the most widely used. The models are reviewed at least annually. The models and parameters are the basis for ABN AMRO's internal measurement of risk (economic capital) and are at the same time key inputs for the calculation of the minimum regulatory capital requirements according to the Basel II framework.

All models are reviewed and validated at least annually. Validation guidelines are specified to ensure objectivity, consistency, transparency and continuity. Models are validated according to these principles and reviewed against internal requirements as well as regulatory requirements. Model results are back-tested against historical loss data. In addition, ABN AMRO uses external benchmark studies both for credit risk to support PD, LGD and EAD calibration, and for operational risk to benchmark operational losses. Models require formal approval by a subsidiary committee of the GRC before implementation and use is allowed.

Credit risk models

The bank uses internal models to estimate Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) parameters. These models are embedded in the credit approval and internal reporting processes and are used to measure the credit risk in exposures to individual clients and counterparties. The same parameters are also used to calculate risk-adjusted return on capital, economic capital and the minimum regulatory capital requirements under the Basel II Advanced Internal Ratings-Based approach. Further details on credit risk parameters are provided in the credit risk section.

Market risk models

ABN AMRO uses Value-at-Risk (VaR) models to measure market risk of exposures in both the trading book and the banking book. Value-at-Risk models estimate the maximum amount that can be lost within a certain period (the holding period), and with a certain likelihood (confidence level of 99%). Value-at-Risk is used for monitoring and reporting of positions relative to the limits in place. In addition to VaR, other indicators are used as well, e.g. stress tests. The market risk section provides an explanation of Value-at-Risk.

Operational risk models

To measure and manage its exposure to operational risk, ABN AMRO uses risk & control self assessments.

In addition, operational risk loss events are systematically collected and analysed on a bank-wide basis and specific key risk indicators in various business lines help identify changes to the operational risk profile. More information on operational risk is provided in the Operational risk section.

Regulatory capital (Basel II) (Audited)

The Basel II framework defines capital requirements for banks as the absolute minimum amount of capital required to cover the three major risk types that a bank faces: credit risk, market risk, and operational risk. The requirements are stated as a percentage (set by the regulators) of risk-weighted assets (RWA).

Credit risk: Standardised and Internal Ratings-Based Approach

The Advanced Internal Ratings-Based (AIRB) method is used for large SME, retail and most of the specialised lending portfolios, except for a small real estate portfolio (EUR 727 million), for which the slotting criteria approach is used. The slotting criteria approach requires banks to 'slot' the exposure into one of five predefined supervisory categories of risk, each of which is associated with a specific risk-weight. For classification purposes, these exposures are included under IRB.

Foundation Internal Ratings-Based (FIRB) approach is used for sovereign portfolio. Under the FIRB approach the bank is allowed to use its own models to estimate the PD for clients and is required to use regulators prescribed LGD and other parameters needed for calculating the minimum regulatory capital requirements.

The main portfolios which are still using the Standardised Approach (SA) are financial institutions, commercial real estate and large corporates. These portfolios are expected to migrate to AIRB in 2013. Some immaterial portfolios are subject to permanent exemption (with the relevant portfolio following the Standardised Approach on a permanent basis). External ratings are used for SA RWA calculation mainly for the financial institutions portfolio. ABN AMRO uses Moody's, Standard & Poor's, and Fitch Ratings for all exposure types, and DBRS ratings for some securitised transactions.

Market risk: Standardised and Internal Models Approach

At present, ABN AMRO uses the Standardised Approach for market risk, except for the equity portfolio and some smaller portfolios, which are reported under the Internal Models Approach (IMA). The bank intends to implement the IMA for calculating market risk capital in the future.

Operational risk: The Standardised Approach

ABN AMRO uses The Standardised Approach (TSA) for operational risk as an intermediate step and is preparing the roll-out of the Advanced Measurement Approach (AMA) framework. The AMA approach is already in use for the calculation of economic capital. Under TSA, average gross income figures of the three preceding years (2009 to 2011 for the 2012 calculation) must be mapped to a set of eight Basel II business lines. Depending on the business line involved, a percentage (predefined by the regulators) is applied for calculating capital for that business line. The TSA capital is increased by an internal add-on to cover, among other things, separation and integration activities.

Exposure classes

An exposure class is a classification based on the counterparty type, product type or asset class. ABN AMRO uses the following Basel II exposure classes:

- ▶ Central governments and central banks – exposures to central governments and central banks mainly include sovereign securities, deposits with central banks and exposures guaranteed by a sovereign;
- ▶ Institutions – exposures to Institutions mainly include the exposures arising from transactions with credit institutions, investment banks and pension liability funds;
- ▶ Corporates – exposures to corporates mainly include lending and other exposures to corporates, including small and medium size enterprises (SMEs). The exposures are managed individually;
- ▶ Retail – exposures to individual persons as well as those to SMEs with an exposure not exceeding EUR 1 million. The exception is retail mortgages where there is no exposure threshold. The exposures eligible for this category each represent one of a significant number of similarly managed exposures. Main subclasses of the retail asset class are retail mortgages, qualifying revolving exposures (for instance part of the consumer exposures and credit card exposures), and other retail exposures;

- Equities not held for trading – investments in equity, including participations in both private and exchange-traded equity;
- Securitisation positions – exposures to securitisations that mainly consist of retained notes issued by Special Purpose Vehicles (SPVs) set up by ABN AMRO to securitise own-originated assets. Also includes guarantees, liquidity facilities and swap positions with these SPVs;

- Other assets – assets, such as buildings, equipment and others not representing credit obligations of other parties to ABN AMRO.

The table below provides an overview of the exposures and risk-weighted assets, including Basel II credit risk exposure classes and approaches.

Exposure by Basel II exposure classes and approaches (Audited)

(in millions, Exposure at Default)	31 December 2012					31 December 2011		
	Exposure at Default IRB	Exposure at Default SA	Total Exposure at Default	RWA	Exposure at Default IRB	Exposure at Default SA	Total Exposure at Default	RWA
Credit risk								
Central governments and Central banks	45,966		45,966	683	38,583	1,984	40,567	1,465
Institutions ¹		16,162	16,162	5,482	202	23,369	23,571	7,946
Corporates	78,911	24,769	103,680	61,094	74,376	20,203	94,579	57,013
Retail	134,998	4,416	139,414	24,510	133,973	7,201	141,174	26,312
- of which Retail mortgages	115,802	2,752	118,554	14,611	116,507	3,879	120,386	14,113
- of which Qualifying revolving exposures	6,819		6,819	2,856	3,134		3,134	711
- of which Other retail	12,377	1,664	14,041	7,043	14,332	3,322	17,654	11,488
Securitisation positions ²	35,493		35,493	3,284	36,582		36,582	4,836
Equities not held for trading	845		845	1,789	576	19	595	1,373
Other ³	1,593	5,374	6,967	3,563		5,813	5,813	2,664
Market risk				5,640				3,667
Operational risk				15,461				13,010
Total	297,806	50,721	348,527	121,506	284,292	58,589	342,881	118,286

¹ Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

² Further details on securitisation positions are explained in the Securitisation chapter in this report.

³ Other includes non-credit obligation assets.

Economic capital

In addition to regulatory capital, ABN AMRO also calculates economic capital (EC) and uses it as the key metric for internal risk measurement and management. Economic capital is the amount of capital ABN AMRO needs to hold to achieve a sufficient level of protection against large unexpected losses that could result from extreme market conditions.

Economic capital is used for risk aggregation to determine the required capital, for capital allocation, ex-post performance measurement (RARORAC) and risk appetite setting, e.g. industry concentration risk limits. Economic capital figures are also used at the transactional level in loan pricing tools. These tools serve as a decision-making mechanism for assessing the attractiveness of a new transaction, in terms of risk-adjusted return on capital. Economic capital is based on internal assessments

and requirements. For the calculation of economic capital, ABN AMRO has internal models. With these models economic capital is calculated on a 99.95% confidence level and a one-year time horizon.

The economic capital model for credit risk uses Monte Carlo simulation to determine a full portfolio loss distribution taking into account specific portfolio characteristics and diversification effects. Loan facilities are valued on an economic value (mark-to-market) basis, so that loss estimates can occur not only due to defaults of the obligors, but also due to possible credit migrations and associated changes in the market values of loans.

Economic capital for operational risk is a scenario-based approach combining risk control self-assessment and scenario analysis. Market risk trading book economic capital is based on a daily VaR and a historical simulation of stress events, for example Black Monday. Market risk economic capital in the banking book uses a VaR model based on adverse interest rate movements. Business risk economic capital uses maximum downward deviation of net operating profit from the expected net operating profit and for pension risk a scenario-based approach is used, where economic capital is defined as the distribution of value changes of contracts with pension funds.

Economic capital versus regulatory capital by risk type

	31 December 2012	
	Economic capital	Regulatory capital ¹
Credit risk	11,975	8,033
Operational risk	978	1,237
Market risk (trading book)	113	451
Business risk	719	
Other risk types ²	3,564	
Total	17,349	9,721

¹ Minimum regulatory capital (8% of risk-weighted assets), representing the absolute minimum amount of capital required by a bank to cover three major risk types a bank faces. However available total capital ratios are substantially higher, as explained in the Capital management section.

² Other risk types include market risk banking book (including interest rate risk) and pension risk.

Economic capital and regulatory capital by business line

	31 December 2012	
	Economic capital	Regulatory capital ¹
Retail Banking	4,265	2,410
Private Banking	1,488	853
Commercial Banking	3,549	2,307
Merchant Banking	4,362	3,641
Group Functions	3,685	510
Total	17,349	9,721

¹ Minimum regulatory capital (8% of risk-weighted assets), representing the absolute minimum amount of capital required by a bank to cover three major risk types a bank faces. However available total capital ratios are substantially higher, as explained in the Capital management section.

As the previous tables demonstrate, there is a difference between the two capital measures for each risk type. ABN AMRO periodically reconciles the difference between regulatory capital and economic capital in detail. The main reasons for differences in economic and regulatory capital estimates are:

- ▶ Where the methodology to estimate regulatory capital is prescribed and only concerns the risk types credit risk, operational risk, and market risk trading book, economic capital is calculated for other material risk types as well. These risk types include market risk banking book (including interest rate risk), business risk and pension risk;
- ▶ The confidence interval for economic capital for credit risk, market risk trading book, and operational risk is stricter than for regulatory capital;
- ▶ Regulatory capital for credit risk is largely based on AIRB, for market risk trading book mainly SA and for operational risk completely based on TSA;
- ▶ Regulatory add-ons for credit, market, and operational risk apply to the minimum required regulatory capital;
- ▶ For credit risk, the maturities used for regulatory capital calculation are floored at 1 year, with the exemption of specific products, and capped at 5 years, while those for economic capital are not;
- ▶ For credit risk, the intra-risk correlations used in economic capital are internally estimated and differ from the regulatory correlations;
- ▶ For market risk in the trading book, the regulatory capital uses a stressed VaR in addition to the normal VaR, for economic capital the stressed events are incorporated in the VaR calculation;
- ▶ For economic capital internally estimated inter-risk type correlations are used.

Stress testing (Audited)

Stress testing is an important management instrument used by ABN AMRO. The main objective of stress testing is to ensure that ABN AMRO operates within its moderate risk appetite, to increase risk awareness throughout the bank and to safeguard business continuity by means of proactive management and the review of potential future scenarios.

The bank applies stress testing on a regular basis to assess the effect of potential plausible but unlikely events and developments on the bank. These events may be systemic (e.g. multi-year macroeconomic stress) or ABN AMRO-specific. Bank-wide stress testing, as applied by ABN AMRO, takes into account all material risks the entire bank is exposed to. The following types of stress tests are executed:

- ▶ Sensitivity analysis to identify the sensitivity between specific risk drivers and ABN AMRO's financials;
- ▶ Scenario analysis to gain insight into potential scenarios that are considered relevant;
- ▶ Reverse stress testing to gain insight into events that would break ABN AMRO's minimum capital and liquidity ratios, results of which are used in contingency planning.

ABN AMRO's Group Risk Committee is extensively involved in bank-wide stress testing. The Group Risk Committee discusses and decides on scenario development, impact determination and management actions.

As part of the overall risk management framework, ABN AMRO performs internal stress tests to assess the capital and liquidity adequacy based on internally developed stress testing scenarios and identified risk factors. In the stress scenario, it has been assumed that the economy is hit by several shocks simultaneously. The scenario variables include, amongst others, GDP, unemployment rate, property prices, interest rates, inflation and equity prices.

Based on the Q4 2012 stress testing results, ABN AMRO expects to sustain its bank-wide scenario without taking additional action. The results have been incorporated into capital planning. Besides bank-wide stress testing, ABN AMRO performs stress testing by focusing on specific portfolios or business lines. For example, sensitivity and scenario analyses have been executed for the residential mortgages portfolio by taking into account potential regulatory changes and adverse macroeconomic circumstances. For these scenarios, the impact on loan impairments, net interest income (NII), RWA and economic capital have been determined. Furthermore, ABN AMRO participates in ad-hoc stress test exercises as requested by regulatory bodies, such as DNB and EBA.

Credit risk

Credit risk is the risk of a financial loss that occurs if a client or counterparty fails to meet the terms of a contract or otherwise fails to perform as agreed.

Credit risk management within the bank is governed by the central credit risk policy and further detailed in specific credit risk policies. Policies define the framework for managing and monitoring the bank's credit risk in line with the bank's risk strategy and credit risk appetite. It provides specific guidelines, rules and procedures for credit risk management.

Credit risk management (Audited)

ABN AMRO has chosen to manage its credit risk either through customised lending to counterparties, whereby the risk assessment is based on an individual basis, or through standardised products and processes, whereby risk criteria are assigned on a pooled basis. Credit risk is the risk that a borrower or counterparty will fail to perform as agreed. This risk arises primarily from borrowers, reinsurers and bond issuers, but also includes trading counterparties and sovereign counterparties that are unable or unwilling to meet their obligations. For its retail lending portfolios, including private individuals as well as small and medium-sized enterprises, the bank uses the programme lending approach to manage risks and exposures at product portfolio level rather than on an individual basis. For other portfolios, ABN AMRO applies credit risk management on an individual basis and ratings are assigned to counterparties and exposures. Details of counterparty rating are provided in the credit risk measurement section.

Credit approval

Limits are established for counterparties covering banking and traded products and settlement amounts. The current outstanding amount, contingent commitments and potential future exposure of traded products are applied by these limits. Credit engagements may not be entered into without the appropriate approvals and adherence to limits.

Credit proposals must provide information on matters such as the purpose, details and structure of the proposed credit facility, cashflow analysis, information about the obligor and other counterparties, the industry, management and owners, and a financial and non-financial analysis, including sustainability risk (see section Sustainability for further information). A clear and complete picture of the risks involved must be presented as well as a justification to support the proposed exposure.

Credit portfolio management and monitoring

The business identifies, assesses and manages and monitors potential weaknesses in the credit risk portfolios in line with the credit risk framework. Monitoring takes place on a permanent and ongoing basis to limit credit risk exposures to a level in line with the business line's risk appetite. In addition, the second line of defence evaluates the credit portfolio continuously and provides portfolio reporting and analysis, with specific attention for risk developments and concentrations.

An important step in the credit process is monitoring of credit facilities. Consistent and regular monitoring allows the bank to identify at an early stage any developments in the counterparty's position that might trigger an increase in its risk profile. The monitoring process consists mainly of credit reviews, monitoring of positions outstanding, early notice of excesses, monitoring of collateral and monitoring of clients. Monitoring begins when the credit has been provided and is designed to safeguard the bank's positions in relation to all risk aspects associated with the credit type and counterparty. This process continues throughout the life cycle of the credit and the relationship with the counterparty. Counterparties can be put on watch status due to political, social, economic, legal, industry and counterparty specific developments. This allows for early detection of deterioration of the credit portfolio and for appropriate follow-up measures.

Credits with a high-risk profile, such as infected, defaulted or impaired credits, are transferred to the Financial Restructuring & Recovery department (FR&R). FR&R devises a plan for rehabilitation of a high-risk credit or to increase the likelihood of final repayment.

Credit risk measurement (Audited)

Internal credit models are used to estimate PD, LGD and EAD parameters. The bank uses different modelling methodologies, ranging from pure statistical models in Retail Banking and part of Commercial Banking (e.g. logistic regression) to expert based models in other business segments, taking into account quantitative and qualitative risk drivers. The section on expected loss framework details the different credit risk parameters and their use in the calculation of expected loss, regulatory capital and economic capital.

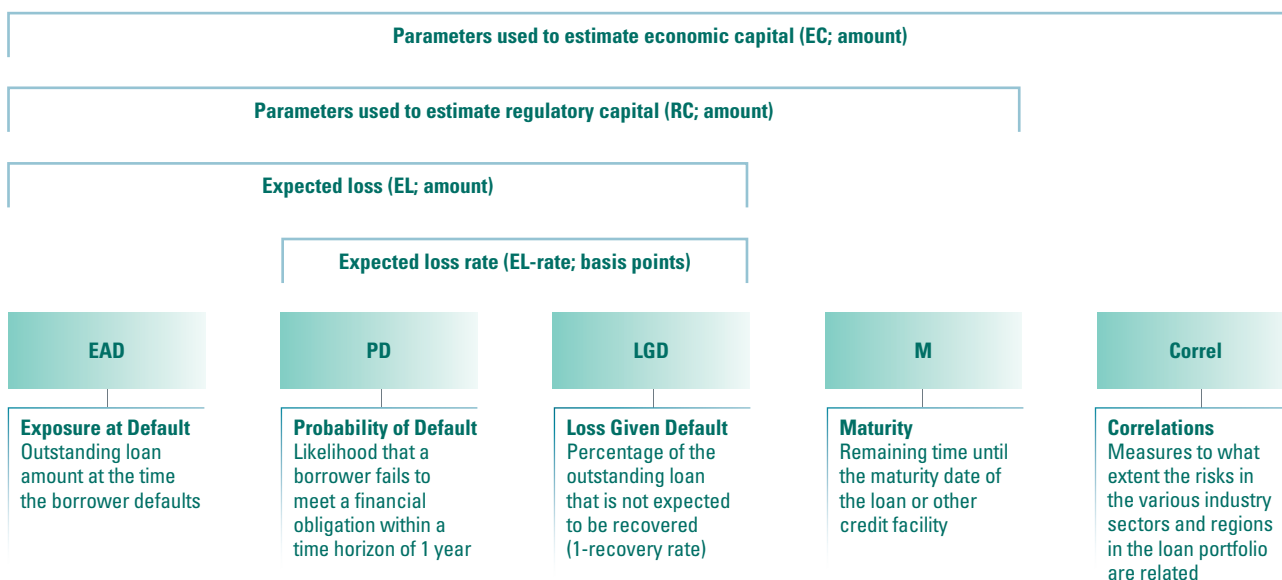
Decisions which determine the level of credit risk accepted by the bank are not only based on quantitative information or model outputs, but also take into account practical and conceptual limitations of metrics and models using a qualitative approach including expert, human judgement and critical analysis. The credit approval authorities may have reasons to apply qualitative adjustments ('overrides') to a rating.

Ongoing model reviews and changes to models to qualify for the IRB Approach for a number of credit risk models are being reviewed. In anticipation of model adjustments, the RWA estimates for credit risk include add-ons. Moreover, the bank's PD, LGD and EAD parameters contain through-the-cycle components, while the actual loss represents the loss information for one particular year. The variation of recovery periods makes one-to-one comparison between the expected loss (resulting from the multiplication of PD, LGD and EAD) and actual loss in a given year not meaningful.

Expected loss framework

ABN AMRO uses an expected loss framework to measure credit risk. The figure below is a simplified representation of this framework. Each of the risk parameters used in this framework is explained.

Risk parameters composing expected loss (Audited)



Using the input variables, PD, LGD and EAD are computed. The EAD is established on a monthly basis using actual limits and outstanding amounts data. The PD and LGD

estimates are based on collected data needed as input for the appropriate model selected, and calculated at least annually or when material new information comes to light.

Exposure at Default

Exposure at Default (EAD) models estimate the expected exposure at the time of a counterparty default. In the event that all or part of a facility is undrawn (the outstanding amount is below the limit), a percentage of this undrawn amount is added to the exposure to reflect the possibility that the facility is utilised further in the case of a default situation. The exposure at the time of default might therefore be higher than the current exposure.

Probability of Default

The internal definition of default is compliant with the definition of default outlined in the Basel II capital

framework. In short, the bank considers a default to have occurred when either of the following two events has taken place:

- The counterparty is overdue more than 90 days; or
- The bank considers that the counterparty is unlikely to pay its credit obligations.

Within Retail Banking and part of Commercial Banking, counterparties with the same characteristics are pooled and subsequently mapped to the uniform counterparty rating (UCR). In the other business segments, the credit risk is determined based on rating models, tailored to the specific characteristics of the counterparty.

ABN AMRO internal rating scale mapped to external ratings (Audited)

Grade Category	UCR (internal rating)	Probability of Default 2012	Standard & Poor's/ Fitch equivalent	Moody's equivalent
Investment grade	1	0%-0.03%	AAA/AA-	AAA/Aa3
	2+ until 2-	0.03%-0.13%	A+/A-	A1/A3
	3+ until 3-	0.13%-0.46%	BBB+/BBB-	Baa1/Baa3
Sub-investment grade	4+ until 4-	0.46%-2.22%	BB+/BB-	Ba1/Ba3
	5+ until 5-	2.22%-16.97%	B+/B-	B1/B3
	6+	16.97%-100%	CCC+/C	Caa1/C
Default without provision	6	100%	D	D
Default with provision	7	100%	D	D
Default with provision	8	100%	D	D

The grade categories investment grade and sub-investment grade correspond to the equivalent classifications of these categories by rating agencies. The grade category default without provision, or UCR 6, pertains to exposures that are in default, but for which the bank has not, or not yet, established a provision, e.g. an impairment charge. The grade categories default with provision (UCR 7 and UCR 8) pertain to impaired exposures, e.g. defaulted exposures where the bank has taken an impairment charge (provision). Companies assigned a UCR 8 rating are bankrupt.

Loss Given Default

Loss Given Default (LGD) models estimate the economic loss that may result from a credit facility in case the counterparty defaults. It is expressed as the ratio of the loss on an exposure to the amount outstanding at default.

The specific facility characteristics (e.g. seniority) and assigned collateral (secured LGD) to the bank are used in the LGD calculations.

Maturity

The effective maturity (M) is the remaining time from the estimation or reporting date to the contractual maturity of the financial instrument. Longer maturities result in higher capital figures.

Correlations

Correlations are measures of dependence between two variables. In the economic capital model, correlations between different combinations of region and industry sectors are used to quantify the relationship of risk between, for instance, two industry sectors.

The correlations measured are based on internal data as well as externally obtained equity returns. Higher correlations result in higher capital figures.

Specific counterparty credit risk methodologies

Specific calculation methodologies are applied for calculation of the counterparty credit exposure for derivative instruments as well as for repurchase, securities borrowing & lending transactions and margin lending transactions.

The exposure calculation of derivative instruments is based on the mark-to-market (MtM, i.e. current exposure) plus an add-on for potential future exposure. The add-on is calculated to cover 99% of the possible MtM movement over the deal tenor and is determined by several parameters, such as type of derivative product (underlying), deal tenor, currency and the absence or presence of netting (ISDA, RFD) and collateral agreements, such as a Credit Support Annex (CSA). Under the bank's policy, add-on tables are updated periodically. After an update, the resulting new tables can be used for a maximum period of 12 months.

As the presence of a CSA has an impact on the exposure calculation, there is a dedicated collateral management function that independently monitors all collateral positions, ensuring that margin calls for collateral (both to be posted and to be received) are followed up promptly. ABN AMRO has no CSA agreements in place which would lead to an additional collateral call in the event of a downgrade of ABN AMRO except for secured funding transactions where a downgrade could lead to an additional collateral posting. There is a limited number of contracts which have a break clause in the case of certain rating events.

An Internal Model Method is used for repurchase and securities borrowing & lending transactions as well as margin lending transactions, both for regulatory capital calculations and for internal purposes. For repurchase and securities borrowing & lending transactions, the potential future exposure is based on VaR calculations instead of add-on tables, where the total credit exposure is calculated as MtM plus VaR times a multiplier that is dependent on the real or perceived time needed to close positions in the case of default.

The approach to margin lending transactions is similar, but instead of a full-fledged VaR calculation, a grid of correlated (stress) movements is applied to the transactions and the most disadvantageous outcome taken as the potential future exposure.

The exposure calculations as explained are also used for the assessment of economic capital. Validation of counterparty credit risk models follows the same procedures that apply to all credit risk models.

Wrong-way risk

This type of risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. There are two types of wrong-way risk:

- Specific wrong-way risk: specific wrong-way risk arises through poorly structured transactions, e.g. those with loans collateralised by the counterparty's own shares or shares of a related company. As for specific wrong-way risk, in general ABN AMRO does not engage in transactions where the counterparty and the underlying issuer of the collateral are one and the same. Furthermore, ABN AMRO is prudent in considering transactions where this correlation is less obvious, e.g. transactions where a counterparty and the underlying issuer are in a similar industry, or in the same country or geographical region;
- General wrong-way risk: general wrong-way risk arises where the credit quality of the counterparty may, for non-specific reasons, considered to be correlated with a macroeconomic factor which also affects the value of derivative transactions, e.g. fluctuations in interest rates may cause changes in the value of derivatives transactions with a counterparty but could also impact the creditworthiness of that counterparty. ABN AMRO anticipates this credit risk by having a comprehensive credit risk framework in place including rigorous approval procedures and, if and when required, demanding adequate and sufficient guarantees and collateral.

Credit risk exposure

The following table presents the IFRS (EU) view on maximum exposure to credit risk. The financial instruments subject to credit risk are presented in accordance with IFRS (EU) at carrying amounts, without consideration of collateral or other credit enhancements. As such, the table does not represent ABN AMRO's risk management view.

Maximum exposure to credit risk IFRS (EU) (Audited)

(in millions)	Note	31 December 2012	31 December 2011
Cash and balances at central banks	13	9,796	7,641
Financial assets held for trading	14	22,804	29,523
Less: equity securities		2,539	10,808
		20,265	18,715
Financial investments	15	21,407	18,721
Less: equity instruments		192	234
Less: private equities and venture capital		134	133
		21,081	18,354
Loans and receivables – banks	16	46,398	61,319
Loans and receivables – customers	17	276,283	272,008
Accrued income and prepaid expenses	22	3,940	4,369
Other assets	24	9,834	6,845
Less: Unit-linked investments		2,170	2,060
Less: Defined benefit assets		1,031	734
Less: Other		1,309	1,280
		5,324	2,771
On-balance sheet maximum exposure to credit risk		383,087	385,177
Off-balance sheet			
Committed credit facilities	38	17,635	14,484
Guarantees and other commitments	38	16,777	18,056
Revocable credit facilities ¹		72,343	65,910
Off-balance sheet credit facilities and guarantees		106,755	98,450
Maximum exposure to credit risk		489,842	483,627

¹ Although not committed, ABN AMRO is of the opinion that revocable credit facilities give rise to credit risk. These are not included as committed credit facilities in note 38 to the 2012 Annual Financial Statements.

An explanation of the on-balance sheet movements is provided in the Business, Operating & Financial Review section.

ABN AMRO is of the opinion that EAD provides an appropriate view on risk. The representation of maximum exposure to credit risk is in accordance with Basel II regulatory reporting, expressed in EAD. The following table shows the reconciliation between outstanding and EAD.

Reconciliation of maximum exposure to EAD

(in millions)	Note	31 December 2012	31 December 2011
On-balance sheet maximum exposure to credit risk		383,087	385,177
Scope differences			
Add: Equity instruments	15	192	234
Add: Private equities and venture capital	15	134	133
Add: Equity accounted investments	18	1,011	920
Add: Property and equipment	19	1,519	1,609
Add: Other intangible assets	20	89	144
Add: Assets held for sale	21	55	68
Add: Tax assets and tax liabilities	23	1,134	1,383
Add: selected Other assets ¹	24	2,351	2,020
		6,485	6,511
Less: selected Financial assets held for trading ²	14	4,539	4,473
Less: Fair value adjustment from hedge accounting	17	6,041	4,825
Less: Insurance companies in scope of solvency risk		304	272
Less: Participations in financial institutions > 10%		646	598
		-11,530	-10,168
Total scope differences		-5,045	-3,657
Valuation differences			
Netting of total customer positions, including collateral received and pledged, on securities financing transactions		-20,887	-31,411
Potential future exposure add-on offset by netting and collateral for trading and non-trading derivative assets		-10,578	-6,279
Collateral for derivative liabilities		-10,952	-9,920
Netting of total customer positions and other items, mainly corporates and institutions		-3,863	-6,178
Net impact of prudential derecognition of securitisation special purpose vehicles		-10,202	-12,745
Deduction for settlement risk on unsettled transactions up to four days		-3,316	-1,785
Loan impairment allowances on loans and receivables on IRB approach		4,267	3,820
IBNI loan impairment allowances		495	372
Total valuation differences		-55,036	-64,126
Add: Off-balance sheet exposure fraction expected to be drawn prior to default (Credit Conversion Factors)		25,521	25,487
Total Exposure at Default		348,527	342,881
<i>Of which:</i>			
Central governments and central banks		45,966	40,567
Corporates		103,680	94,579
Institutions ³		16,162	23,571
Retail		139,414	141,174
Subtotal		305,222	299,891
Equities not held for trading		845	595
Securitisation positions		35,493	36,582
Other ⁴		6,967	5,813
Subtotal		43,305	42,990
Total Exposure at Default		348,527	342,881

¹ Selected other assets include defined benefit assets.

² Selected financial assets held for trading include treasury bills, government bonds, corporate debt securities, trading book loans and commodities.

³ Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

⁴ Other includes non-credit obligation assets.

The main scope differences between IFRS (EU) credit risk exposure and EAD are as follows:

- ▶ Equities not held for trading are in scope for Basel II credit risk. Therefore equity instruments and private equity and venture capital are added back. Further information on equities not held for trading is explained in this chapter;
- ▶ Other non-credit obligation assets are an Basel II exposure class. Therefore, property and equipment, other intangible assets and assets held for sale are added back to EAD;
- ▶ From the trading book, only derivative assets are in scope for credit risk. Therefore, treasury bills, government bonds, corporate debt securities, trading book loans, commodities are excluded from EAD;
- ▶ As described in section Introduction to Risk & Capital management, insurance companies do not have EAD, because capital is calculated according to solvency requirements and participations and investments that exceed 10% are deducted directly from regulatory capital, see Capital management section;

- ▶ Other items that are excluded from EAD are the fair value adjustments from hedge accounting, defined benefit assets and unit-linked investments.

The main valuation differences between IFRS (EU) carrying amounts and EAD are mainly the following:

- ▶ On derivative assets and professional securities borrowing, a potential future exposure add-on is added. This is offset by collateral received and netting of exposures with the same counterparty. For further details on the derivative assets reconciliation, see the Exposure at Default for derivative assets table below;
- ▶ Collateral posted for derivative liabilities does not have EAD, because the net exposure resides with the counterparty. The collateral posted is recorded in Loans and receivables – banks;
- ▶ As described in the Securitisation section (when effective under Basel II) are not consolidated for regulatory capital purposes, but treated under the securitisation framework;
- ▶ Under the IRB approach, loan allowances are not deducted from EAD. Therefore, they are added back.

Exposure at Default for derivative assets

(in millions, Exposure at Default)	31 December 2012	31 December 2011
Gross positive fair value	20,868	18,072
Add: Potential future exposure add-on	4,424	4,936
Subtotal Exposure at Default	25,292	23,008
Less: Netting benefits	13,438	10,411
Less: Collateral held	1,564	1,254
Exposure at Default	10,290	11,343

Overall credit exposure EAD and risk-weighted assets by exposure class

(in millions, Exposure at Default)

31 December 2012

	Exposure at Default IRB	Exposure at Default SA	Total Exposure at Default	RWA	Average Expo- sure at Default
Credit risk					
Central governments and central banks	45,966		45,966	683	37,059
Institutions ¹		16,162	16,162	5,482	18,897
Corporates	78,911	24,769	103,680	61,094	104,363
Retail	134,998	4,416	139,414	24,510	140,688
- of which Retail mortgages	115,802	2,752	118,554	14,611	119,950
- of which Qualifying revolving exposures	6,819		6,819	2,856	5,003
- of which Other retail	12,377	1,664	14,041	7,043	15,735
Securitisation positions ²	35,493		35,493	3,284	34,633
Equities not held for trading	845		845	1,789	718
Other ³	1,593	5,374	6,967	3,563	7,086
Total	297,806	50,721	348,527	100,405	343,444

31 December 2011

	Exposure at Default IRB	Exposure at Default SA	Total Exposure at Default	RWA	Average Expo- sure at Default
Credit risk					
Central governments and central banks	38,583	1,984	40,567	1,465	29,328
Institutions ¹	202	23,369	23,571	7,946	28,076
Corporates	74,376	20,203	94,579	57,013	94,124
Retail	133,973	7,201	141,174	26,312	138,984
- of which Retail mortgages	116,507	3,879	120,386	14,113	116,701
- of which Qualifying revolving exposures	3,134		3,134	711	3,242
- of which Other retail	14,332	3,322	17,654	11,488	19,041
Securitisation positions ²	36,582		36,582	4,836	41,766
Equities not held for trading	576	19	595	1,373	418
Other ³		5,813	5,813	2,664	5,402
Total	284,292	58,589	342,881	101,609	338,098

¹ Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

² Further details on securitisation positions are explained in the Securitisation section in this report.

³ Other includes non-credit obligation assets.

Total Exposure at Default increased by EUR 5.6 billion, where maximum exposure to credit risk according IFRS (EU) increased by EUR 6.2 billion. The increase in EAD is smaller than the increase in maximum credit risk exposure as a result of applying netting, collateral and other eligible risk mitigants in the EAD estimation.

The EAD for central governments and central banks increased by EUR 5.4 billion to EUR 46.0 billion, mainly due to higher deposits at central banks. The RWA impact on these deposits is quite small. The slight decline of EUR 0.8 billion in RWA to EUR 0.7 billion is mainly due to a decrease in given guarantees. EAD for institutions decreased by EUR 7.4 billion to EUR 16.2 billion, mainly due to a EUR 5.5 billion lower business volume (RWA impact EUR 2.0 billion) and EUR 2.2 billion due to application of other models

following the completion of the integration (RWA impact EUR 1.1 billion). EAD for corporates increased by EUR 9.1 billion to EUR 103.7 billion. The rise in EAD for corporates was mainly due to an increase in business movements equalling EUR 10.9 billion (RWA impact EUR 3.7 billion). EAD for retail decreased by EUR 1.8 billion to EUR 139.4 billion, mainly due to model changes (RWA impact EUR 1.2 billion).

ABN AMRO has unwound two securitisation programmes. This did not affect the statement of financial position, because the assets continued to be recognised. EAD on securitisations decreased by EUR 1.1 billion (RWA impact EUR 1.5 billion), of which termination of the Credit Umbrella EAD amounted to EUR 1.6 billion (RWA impact EUR 2.4 billion).

Maturity distribution of overall EAD by exposure class

(in millions, Exposure at Default)				31 December 2012
	Less than one year	Between one year and five years	More than five years	Total
Central governments and central banks	29,496	7,284	9,186	45,966
Institutions ¹	9,649	2,260	4,253	16,162
Corporates	54,455	27,942	21,283	103,680
Retail	14,069	3,626	121,719	139,414
Total Exposure at Default²	107,669	41,112	156,441	305,222
Percentage of total	35%	14%	51%	100%

(in millions, Exposure at Default)				31 December 2011
	Less than one year	Between one year and five years	More than five years	Total
Central governments and central banks	22,857	7,108	10,602	40,567
Institutions ¹	13,662	1,833	8,076	23,571
Corporates	50,188	19,462	24,929	94,579
Retail	18,262	2,870	120,042	141,174
Total Exposure at Default²	104,969	31,273	163,649	299,891
Percentage of total	35%	10%	55%	100%

¹ Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

² The total does not include Exposure at Default calculated for securitisations, equities not held for trading and other assets.

Credit quality by Basel II exposure class (Audited)

(in millions, Exposure at Default)							31 December 2012
	Investment grade	Sub-investment grade	Default without provision	Default with provision	Total rated (IRB advanced)	Total unrated (Standardised Approach)	Total rated and unrated
Central Governments and Central Banks	45,963	3			45,966		45,966
Institutions ¹						16,162	16,162
Corporates	20,129	52,510	1,593	4,679	78,911	24,769	103,680
Retail	105,049	27,554		2,395	134,998	4,416	139,414
Total Exposure at Default²	171,141	80,067	1,593	7,074	259,875	45,347	305,222

							31 December 2011
Central Governments and Central Banks	37,682	901			38,583	1,984	40,567
Institutions ¹	131	71			202	23,369	23,571
Corporates	19,783	47,694	2,812	4,087	74,376	20,203	94,579
Retail	98,546	33,242		2,185	133,973	7,201	141,174
Total Exposure at Default²	156,142	81,908	2,812	6,272	247,134	52,757	299,891

¹ Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

² The total does not include Exposure at Default calculated for securitisation, equities not held for trading and other non-credit obligation assets.

In the previous table, the 2011 figures have been restated to improve comparability with the 2012 information presented.

The next section provides further breakdowns by IRB and SA.

Internal Ratings Based (IRB) approach: exposure by internal ABN AMRO ratings

IRB approach: credit quality of EAD and risk-weighted assets by exposure class

(in millions, Exposure at Default)					31 December 2012		
		Total			LGD 0%-20%	LGD 20%-50%	LGD > 50%
Exposure class	Grade category	EAD	RWA	Average RWA	EAD (%)	EAD (%)	EAD (%)
Central governments and central banks	Investment grade	45,963	679	1%	37%	63%	
	Sub-investment grade	3	4	133%			
	Default without provision						
	Default with provision						
	Total	45,966	683	1%	37%	63%	
Institutions ¹	Investment grade						
	Sub-investment grade						
	Default without provision						
	Default with provision						
	Total						
Corporates	Investment grade	20,129	3,240	16%	35%	64%	1%
	Sub-investment grade	52,510	29,385	56%	66%	33%	1%
	Default without provision	1,593	3,439	216%	47%	53%	
	Default with provision	4,679	1,254	27%	13%	70%	17%
	Total	78,911	37,318	47%	54%	44%	2%
Retail	Investment grade	105,049	7,949	8%	73%	24%	3%
	Sub-investment grade	27,554	12,538	46%	55%	25%	20%
	Default without provision						
	Default with provision	2,395	2,688	112%	44%	22%	34%
	Total	134,998	23,175	17%	69%	24%	7%
Total ²	Investment grade	171,141	11,868	7%	59%	39%	2%
	Sub-investment grade	80,067	41,927	52%	62%	30%	8%
	Default without provision	1,593	3,439	216%	47%	53%	
	Default with provision	7,074	3,942	56%	24%	53%	23%
	Total	259,875	61,176	24%	59%	37%	4%

¹ Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

² The total does not include Exposure at Default calculated for securitisations, equities not held for trading and other assets.

(in millions, Exposure at Default)

31 December 2011

Exposure class	Grade category	EAD	RWA	Average RWA	LGD		
					0%-20%	20%-50%	> 50%
				Total	EAD (%)	EAD (%)	EAD (%)
Central governments and central banks	Investment grade	37,682	222	1%	66%	34%	
	Sub-investment grade	901	1,132	126%		82%	18%
	Default without provision						
	Default with provision						
	Total	38,583	1,354	4%	65%	35%	
Institutions ¹	Investment grade	131	8	6%	71%	29%	
	Sub-investment grade	71	156	220%	19%	81%	
	Default without provision						
	Default with provision						
	Total	202	164	81%	53%	47%	
Corporates	Investment grade	19,783	4,603	23%	30%	70%	
	Sub-investment grade	47,694	29,083	61%	63%	37%	
	Default without provision	2,812	4,038	144%	47%	53%	
	Default with provision	4,087	2,784	68%	36%	40%	24%
	Total	74,376	40,508	54%	52%	47%	1%
Retail	Investment grade	98,546	5,989	6%	80%	16%	4%
	Sub-investment grade	33,242	13,752	41%	64%	15%	21%
	Default without provision						
	Default with provision	2,185	2,586	118%	61%	24%	15%
	Total	133,973	22,327	17%	76%	16%	8%
Total ²	Investment grade	156,142	10,822	7%	70%	27%	3%
	Sub-investment grade	81,908	44,123	54%	62%	29%	9%
	Default without provision	2,812	4,038	144%	47%	53%	
	Default with provision	6,272	5,370	86%	45%	34%	21%
	Total	247,134	64,353	26%	67%	28%	5%

¹ Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

² The total does not include Exposure at Default calculated for securitisations, equities not held for trading and other assets.

In the table above, the comparative information has been restated to improve comparability with the 2012 information presented. Exposures at Default of institutions are now all calculated according to the SA approach.

The total default with provision increased by EUR 0.8 billion to EUR 7.1 billion at 31 December 2012.

Default without provision decreased by EUR 1.2 billion at 31 December 2012, mainly due to re-rating of clients to sub-investment grade (EUR 0.3 billion) following the completion of the integration (EUR 0.3 billion) and movements from default without provision to default with provision.

During system migrations, retail exposures that were on the boundary between investment grade and sub-investment grade were allocated to investment grade after migration following the alignment of rating models for mortgage loans and harmonisation of rating scales. Two securitisation programmes were unwound. This part of the securitised mortgage exposures with investment grade ratings are

now recorded under retail. The investment grade bucket includes UCR in the range of 1 to 3. Deterioration has occurred within this bucket.

Please note that all exposures at Standardised Approach are not internally rated. See the SA approach: EAD and risk-weighted assets table for further information.

Standardised approach (SA)

SA approach: EAD and risk-weighted assets by exposure class

(in millions, Exposure at Default)										31 December 2012	
	Risk-weight									Total EAD	Total RWA
	0%	10%	20%	35%	50%	75%	100%	150%	200%		
Central governments and central banks											
Institutions ¹		2,383	6,196	68	7,066	115	300	34		16,162	5,482
Corporates	5	18	128	438	664	2,235	21,062	217	2	24,769	23,747
Retail	21	1,838	35	862	254	1,256	139	11		4,416	2,119
- of which Retail mortgages	21	1,838	17	777			99			2,752	606
- of which Qualifying revolving exposures											
- of which Other retail			18	85	254	1,256	40	11		1,664	1,513
Total Exposure at Default²	26	4,239	6,359	1,368	7,984	3,606	21,501	262	2	45,347	31,348

										31 December 2011	
	Risk-weight									Total EAD	Total RWA
	0%	10%	20%	35%	50%	75%	100%	150%	200%		
Central governments and central banks	1,872						112			1,984	111
Institutions ¹	2,031	1,574	8,906		10,154		579	125		23,369	7,782
Corporates	1,326	478	919	1,850	122		15,395	113		20,203	16,505
Retail			2,174	1,066	13	3,128	813	7		7,201	3,984
- of which Retail mortgages			2,174	1,066	13		626			3,879	1,441
- of which Qualifying revolving exposures											
- of which Other retail						3,128	187	7		3,322	2,543
Total Exposure at Default²	5,229	2,052	11,999	2,916	10,289	3,128	16,899	245		52,757	28,382

¹ Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

² The total does not include Exposure at Default calculated for securitisations, equities not held for trading and other assets.

Concentration of credit exposure (Audited)

Concentrations are monitored against limits set in the bank risk appetite. Credit risk concentration materialises in relation to one or a number of positively correlated counterparties, creating the potential effect of a significant loss due to a failure to pay. Positively correlated counterparties in this case are those counterparties that have a tendency to default under similar circumstances. Limiting excessive concentrations is fundamental to the credit risk strategy. The bank aims to keep portfolios sufficiently granular, liquid and diversified. To avoid excessive credit risk concentrations, Risk Management aims to diversify the credit risk and may set maximum levels for subgroups in the categories:

- ▶ single clients and groups of related clients (one obligor concentration);
- ▶ countries (geographic concentration);
- ▶ industry sectors (industry concentration).

One obligor concentration

The bank applies the concept of 'one obligor exposure' (OOE). Limit-setting is in place based on the one obligor exposure principle. One obligor exposure is the total exposure on a group, including all drawn and undrawn facilities granted by ABN AMRO, plus all indirect exposure to the relationship, including guarantees and/or any other recourse claims. A 'group' is an interrelated group of companies and/or persons with a high degree of dependency. This interrelationship may be due to direct or indirect majority interests by the same shareholder or group of shareholders, and/or due to other relevant economic dependencies.

Geographic concentration

A number of the bank's business lines are either located outside the Netherlands or have clients who operate internationally. Country risk is defined as the risk of credit losses due to country-specific events or circumstances. The control of country risk focuses on cross-border risk. This is the risk of country events impacting upon the creditworthiness of ABN AMRO's clients and hence their ability to meet their credit commitments to the bank. This also includes the risk that funds, goods or services cannot be transferred out of a risk country as a result of actions by the authorities of a country or by other events impeding the transfer. These risks are managed through the setting of country credit limits, based upon individual country analysis by economic and country risk experts. Country limits are reviewed at least once a year, with more frequent reviews for higher risk countries where evolving risks are seen. Each country has an internal credit rating approved twice a year. This country rating is an important factor in managing country concentration risks. Approval of country risk policy and country limits is managed through the bank's senior risk committees, with some delegated authority given to risk specialists in line with the wider risk charter.

The consolidated exposures in the table are allocated to the geographical regions where clients are domiciled. The bank monitors and manages country risk based on the 'country of risk'. This country of ultimate risk may be different from the country of domicile, e.g. when financing a project in another country than where the borrower is domiciled.

Geographic concentration by Exposure at Default (Audited)

(in millions, Exposure at Default)						31 December 2012
	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
Central governments and central banks	37,542	8,159	151	113	1	45,966
Institutions ¹	3,912	8,333	1,506	1,945	466	16,162
Corporates	65,467	21,308	4,630	4,790	7,485	103,680
Retail	139,347	63	1	1	2	139,414
- of which Retail mortgages	118,491	63				118,554
- of which Qualifying revolving exposures	6,819					6,819
- of which Other retail	14,037		1	1	2	14,041
Total Exposure at Default²	246,268	37,863	6,288	6,849	7,954	305,222
Percentage of total	80.7%	12.4%	2.1%	2.2%	2.6%	100.0%

						31 December 2011
	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
Central governments and central banks	31,982	8,106	51	161	267	40,567
Institutions ¹	8,399	9,042	2,543	3,276	311	23,571
Corporates	59,773	19,151	3,434	5,547	6,674	94,579
Retail	140,945	178		1	50	141,174
- of which Retail mortgages	120,208	178				120,386
- of which Qualifying revolving exposures	3,134					3,134
- of which Other retail	17,603			1	50	17,654
Total Exposure at Default²	241,099	36,477	6,028	8,985	7,302	299,891
Percentage of total	80.4%	12.2%	2.0%	3.0%	2.4%	100.0%

¹ Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

² The total does not include Exposure at Default calculated for securitisations, equities not held for trading and other assets.

The bank's credit exposure is concentrated in the Netherlands (80.7%). The credit exposure outside the Netherlands (19.3%) reflects the nature of the bank's business profile, with businesses located in neighbouring countries in Europe, as well specialised activities, in particular Energy, Commodities & Transportation (ECT), Clearing, Securities Financing, and Private Banking International. Exposure in the Rest of Europe is concentrated in France (24.0%), the UK (16.7%), Belgium (10.7%) and Germany (11.2%). Exposures in Italy and Spain are not material. Exposures in Asia and Rest of the world are mostly concentrated in the ECT business, while those in the United States are mainly in Clearing, ECT and in the securities financing business.

European exposures

The following table shows an overview of the carrying amounts of the largest consolidated exposures to European governments and government-related entities as at 31 December 2012. These exposures include debt issued by central governments and local governments and debt which is guaranteed by a central government. The figures for the Netherlands exclude government-guaranteed mortgages (NHG), but include corporate loans guaranteed by the Dutch State.

The exposures reported are part of Loans and receivables – customers, Assets held for trading, and Financial investments. The exposures are presented on a gross basis before impairments, without taking into account the benefits of risk mitigation measures such as hedges, collateral, and short positions across issuers.

European government and government-guaranteed exposures (Audited)

(in billions)			31 December 2012			31 December 2011		
	Government	Government-guaranteed	Gross carrying amount	Government	Government-guaranteed	Gross carrying amount		
The Netherlands	12.6		12.6	11.7	1.4	13.1		
France	2.5		2.5	2.4		2.4		
Germany	1.8		1.8	2.8	0.5	3.3		
Austria	1.4		1.4	1.3		1.3		
Greece		1.0	1.0		1.3	1.3		
Belgium	0.8		0.8	0.5	0.1	0.6		
EU	1.0		1.0	0.7		0.7		
Finland	0.7		0.7	0.3		0.3		
Italy	0.4		0.4	0.3		0.3		
Poland	0.3		0.3	0.2		0.2		
United Kingdom	0.2		0.2	0.5		0.5		
Spain	0.1		0.1	0.1		0.1		
Portugal								
Ireland								
Total European exposure	21.8	1.0	22.8	20.8	3.3	24.1		

Previous years have shown a reduction of the bank's European credit exposure. While the tension in the eurozone remained high during 2012, the bank has remained cautious in its approach to the level of credit risk exposures taken within this region.

ABN AMRO's government and government-guaranteed exposures outside the Netherlands remained limited in 2012. Outside the Netherlands, government and government-guaranteed exposures are concentrated mainly in France, Germany, Austria, Greece and Belgium. The decrease in the German exposure is mainly due to active management of the liquidity buffer. The increase in the Belgian exposure is mainly due to the primary dealership role and client demand.

Greek exposure (in Loans and receivables – customers) declined by EUR 0.3 billion to EUR 1.0 billion due to the sale of government-guaranteed corporate exposure in the second half of 2012, for which the bank realised a net profit of EUR 125 million. Government exposure to Italy (financial investments for sale) increased by

EUR 0.1 billion to EUR 0.4 billion in 2012. This increase was mainly due to fair value adjustments. Government and government-guaranteed exposures to Spain are limited (EUR 0.1 billion in investments held at fair value). ABN AMRO no longer had government or government-guaranteed exposures to Ireland and Portugal.

Industry concentration

ABN AMRO applies industry concentration limits following the Industry Classification Benchmark (ICB) categorisation. In the exposure table, non-material industry clusters are aggregated under 'other'. Industry concentration limits are established in the bank risk appetite. In the review of the risk appetite during 2012, thresholds for concentrations to each industry were re-assessed based on relative risk, importance of the industry to the Dutch economy and expert opinion.

The significant concentration of credit risk exposures observed in the private individuals (non-Industry Classification Benchmark) consists mainly of residential mortgage loans and, to a lesser extent, consumer loans.

Due to system migrations in 2012, the industry classifications for some industries have changed. Consequently, the comparative information has been restated to improve comparability to the 2012 information presented. Exposures to real estate as at 31 December 2011 were restated from EUR 9.5 billion to EUR 11.5 billion. The migrated clients now assigned to the industry sector real estate were previously assigned to the industry sectors other, financial services, and private individuals. Exposures to banks were restated from EUR 50.4 billion to EUR 33.6 billion. As a result, exposures in the category 'other' were restated from EUR 23.0 billion to EUR 37.9 billion. The majority of the

'other' category consists of unclassified exposures, amounting to EUR 30.8 billion as at 31 December 2012 (31 December 2011: EUR 30.1 billion).

ABN AMRO's exposure to commercial real estate remains relatively limited compared with major competitors (section commercial real estate provides more details). Besides real estate the change in industry sector classifications is also visible in financial services, food & beverages, retail, and construction and materials. The EAD on banks slightly decreased to EUR 33.2 billion in 2012, mainly due to lower exposures. Oil and gas increased to EUR 8.4 billion as a result of a reclassification from other in the ECT business.

Industry concentration of overall credit risk by Exposure at Default (Audited)

(in millions, Exposure at Default)	31 December 2012		31 December 2011	
	Exposure at Default	Percentage of total	Exposure at Default	Percentage of total
Industry sector				
Banks	33,162	10.9%	33,571	11.2%
Financial services ¹	10,240	3.4%	8,532	2.9%
Industrial goods and services	18,447	6.0%	19,563	6.5%
Real estate	12,041	4.0%	11,478	3.8%
Food and beverage	8,997	2.9%	5,872	2.0%
Retail	7,525	2.5%	5,505	1.8%
Oil and gas	8,350	2.7%	6,442	2.2%
Basic resources	4,410	1.4%	4,503	1.5%
Healthcare	3,866	1.3%	3,428	1.1%
Construction and materials	3,714	1.2%	2,516	0.8%
Other ²	39,731	13.0%	37,886	12.6%
Subtotal Industry Classification Benchmark	150,483	49.3%	139,296	46.4%
Private individuals (non-Industry Classification Benchmark)	136,150	44.6%	141,080	47.1%
Public administration (non-Industry Classification Benchmark)	18,589	6.1%	19,515	6.5%
Subtotal non-Industry Classification Benchmark	154,739	50.7%	160,595	53.6%
Total Exposure at Default³	305,222	100.0%	299,891	100.0%

¹ Financial services include asset managers, credit card companies and providers of personal financial services and securities and brokers.

² Other includes, in addition to unclassified, travel and leisure, utilities, personal and household goods, media, technology, automobiles and parts, chemicals, telecommunication and insurance.

³ The total does not include Exposure at Default calculated for securitisations, equities not held for trading and other assets.

The significant concentration of credit risk exposures observed in Private individuals (non-Industry Classification Benchmark) consists mainly of residential mortgage loans and, to a lesser extent, consumer loans. The industry sector industrial goods and services is composed of a broad variety of sub-sectors, including industrial transportation, support services, and industrial engineering.

Specific products and types of financing

The ABN AMRO portfolio includes types of financing that merit a more detailed explanation because of their importance in terms of volume or strategy. These portfolios are residential mortgages, securities financing, commercial real estate and energy, commodities & transportation. In addition, a number of portfolio's require further disclosure from a Pillar 3 perspective. These include leveraged finance, equities not held for trading and derivatives.

The total EAD of the credit exposure classes central governments and central banks, corporates, institutions and Retail is EUR 305.2 billion of which loans & commitments EUR 290.5 billion (2011: EUR 277.5 billion), EUR 4.4 billion for securities financing (2011: EUR 11.1 billion) and EUR 10.3 billion derivatives (2011: EUR 11.3 billion).

Residential mortgages

House prices continued to decline in 2012 due to the economic climate, lack of consumer confidence and uncertainty about legal measures affecting the housing market. Average house prices went down by 6.3% in 2012 (source: Dutch Bureau of Statistics (CBS) and Kadaster (Land Registry)), but were more stable in the second half of the year. This is a strong decrease on 2011 (prices down by 2.25% in 2011), and prices are expected to deteriorate further in 2013. Due to decline in house prices, Loan-to-Market Value (LtMV) deteriorated. The average LtMV increased by 5% at the end of 2012 to 82%, compared to year-end 2011 (77%).

The deterioration of the Dutch housing market, in combination with rising unemployment, is directly impacting the risk profile of the mortgage portfolio. Impairment charges on the mortgage portfolio amounted to EUR 252 million (2011: EUR 157 million). Impairment charges for the mortgage portfolio, included in consumer loans, increased in 2012 to 16 basis points of the mortgage portfolio from 10 basis points in 2011. The main factors contributing to this increase were higher credit losses,

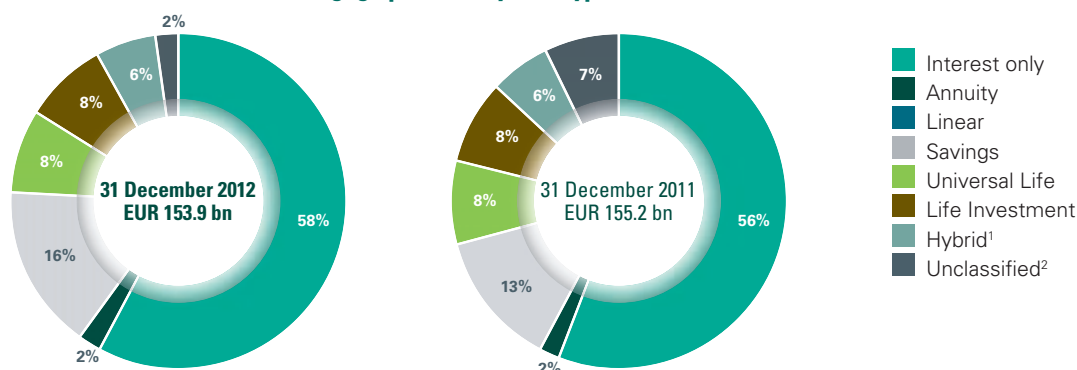
an increase in the default portfolio and an adjustment of the coverage rate.

The transaction volume in 2012 was low and comparable to the 2011 level. Volumes were relatively high in June because of changes in NHG and in December because of new legislation for tax deductibility as from January 2013. Due to the large supply of homes and low levels of transactions in the housing market, homes remained on the market for a longer period. The total mortgage portfolio slightly decreased to EUR 153.9 billion with the new mortgage production amounting to EUR 8.2 billion (of which 56% NHG) and the amortisation of EUR 9.5 billion. About 23% of the total mortgage book is NHG-guaranteed.

Although the risk in the retail mortgage portfolio is steadily increasing, the risk profile of the portfolio is still low to moderate. Despite clients have shown a significant willingness to repay their mortgage debt, it is challenging to make payment arrangements with clients with limited financial possibilities. Management closely monitors the portfolio and takes pre-emptive action, focusing on existing clients to prevent losses for both clients and the bank.

The government continued to stimulate the housing market by extending the period for tax deduction for clients with double housing expenses who have not been able to sell their old home (three years). Additionally, the transfer tax has been kept permanently at 2%. The maximum loan amount for government-guaranteed loans (NHG) was reduced from EUR 350,000 to EUR 320,000 as from 1 July and is expected to be capped at lower levels going forward, to arrive at the pre-crisis level of EUR 265,000 in 2014. In addition, the government will further restrict home financing by reducing the maximum LtMV of a mortgage loan from 106% (including 2% transfer tax) to 100% in 2018. New legislation on tax deductibility of new mortgages loans took effect on 1 January 2013. To be eligible for tax deductibility, new mortgages need to be redeemed fully (100%) during the term of the loan based on an annuity or linear scheme. Existing mortgage loans are not impacted by this new legislation. For all mortgage loans, new and existing, tax deductibility will be gradually reduced in the next 28 years from a maximum of 52% to a maximum of 38%. The current mortgage legislation is still under political debate. Additional changes are expected in 2013.

Breakdown of residential mortgage portfolio by loan type



¹ The hybrid portfolio consists of a combination of savings and investment mortgages.

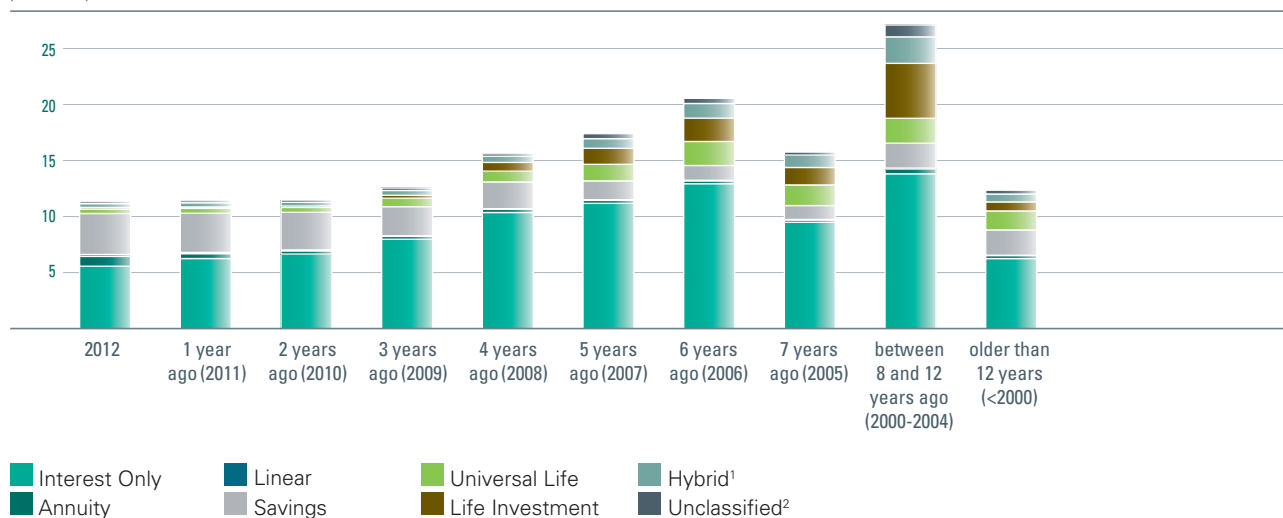
² The classified portfolio represents 98% of the total mortgage portfolio at year-end 2012. The increase of 2% in both interest only and savings mortgages is due to improved allocation of the 2011 unclassified category. The unclassified part of the portfolio still comprises several smaller portfolios that are administered by external service providers. As new production will only be recorded internally, the unclassified part is expected to decrease over time.

Total mortgages of individual clients are usually composed of different types of mortgages, e.g the interest-only mortgage is usually combined with one or more other types of mortgage. In recent years, there has been

a noticeable shift from interest-only mortgages to mortgages where repayment is accumulated in a separate pledged saving account, in anticipation of the upcoming amendments to legislation.

Breakdown of the mortgage portfolio by year of loan production

(in billions)



¹ The hybrid portfolio consists of a combination of savings and investment mortgages.

² The classified portfolio represents 98% of the total mortgage portfolio at year-end 2012. The increase of 2% in both interest only and savings mortgages is due to improved allocation of the 2011 unclassified category. The unclassified part of the portfolio still comprises several smaller portfolios that are administered by external service providers. As new production will only be recorded internally, the unclassified part is expected to decrease over time.

In the graph above the volume of 2012 includes the new production as well as the increase of existing mortgages or restructured loans without extra pledged collateral.

Residential mortgages to indexed market value

(in millions)	31 December 2012		31 December 2011	
	Gross carrying amount	Percentage of total	Gross carrying amount	Percentage of total
Loan-to-Market Value category¹				
NHG	34,828	23%	32,100	21%
<50%	23,589	15%	26,238	17%
50%-60%	9,627	6%	10,999	7%
60%-70%	11,373	7%	12,414	8%
70%-80%	11,347	7%	12,462	8%
80%-90%	13,164	9%	15,632	10%
90%-100%	14,612	9%	14,351	9%
100%-110%	13,649	9%	14,731	10%
110%-120%	13,026	9%	6,874	4%
120%-130%	4,404	3%	270	
>130%	1,453	1%	258	
Unclassified ²	2,803	2%	8,839	6%
Total	153,875	100%	155,168	100%

¹ ABN AMRO calculates the Loan-to-Market Value using the indexation of the Dutch Land Registry Office (Kadaster) on a monthly basis. Savings which have been pledged by the client to repay the loan are deducted from the loan amount.

² The classified portfolio represents 98% of the total mortgage portfolio at year-end 2012. The increase of the LtMV categories 110%-120%, 120%-130% and >130% is due to improved allocation of the 2011 unclassified category and indexation of the market value. The unclassified part of the portfolio still comprises several smaller portfolios that are administered by external service providers. As new production will only be recorded on the internal target platform, the unclassified part is expected to decrease over time.

In response to the current market and legal developments, ABN AMRO has strengthened its management of the residential mortgages portfolio. The bank actively reviews the portfolio for current and potential developments that may affect the credit quality, such as the approach at the end of an interest rate re-pricing period. Heightened attention is devoted to the redemption process for defaulted mortgage loans:

- ▶ Carefree living ('zorgeloos wonen'): ABN AMRO has a proactive and multi-channel approach to clients with a high loan-to-value or high payment risk. These initiatives are expected to reduce the risk of the overall mortgage portfolio, while keeping clients' interests in mind;
- ▶ Positive redemption trend for interest-only: for the majority of the residential mortgage clients, the total loan amount consists of multiple types of mortgage parts, e.g. 50% saving mortgage and 50% interest only;
 - ▶ In about 40% of the overall portfolio, each mortgage includes an interest-only part that is less than 50% of the total mortgage loan amount;

- ▶ Another 30% of the mortgage portfolio includes mortgage loans with an interest only part of more than 80%. For this part of the portfolio, there are higher risks for residual debt after a forced or non-forced sale of the house. Another mortgage loan product that includes redemption is deemed necessary for these clients.

Since 2008 there has been a trend towards lower risk, redeemable mortgage loans such as bank savings and annuity. In addition, the revised NHG rules and the code of conduct (late 2011) both prescribe a minimum redemption of 50% of the total loan amount. The minimum redemption percentage for new mortgages has been increased to 100% with mandatory annuity redemption since January 2013. The bank therefore expects the amount of redemption with safer redemption types in the portfolio to further increase. As a result the long-term Loan-to-Market Value of the bank's portfolio is expected to decrease and fewer customers will face residual debt after a forced or non-forced sale of the house.

Securities Financing

Securities financing is the market activity whereby securities are temporarily transferred from a lender to a borrower, with the commitment to re-deliver the securities, usually in the short term. As an intermediary between clients and the market, ABN AMRO acts both as lender and borrower. In a typical transaction, the bank will borrow securities from the portfolios of the beneficial owners, like pension funds, asset managers, insurance companies and clearing institutions, and will then lend these securities to other asset managers, other banks and hedge funds. Securities financing also provides the infrastructure that enables ABN AMRO to attract liquidity in the market based on collateral, also in times of stressed markets, and serves liquidity needs for other client businesses.

To protect the lender against counterparty risk, the borrower of the securities will normally provide collateral in the form of other securities or cash deposits at a value greater than the value of the lent securities. Borrowers pay a fee to the lender when securities are taken as collateral. Where borrowers provide cash as collateral, they will receive interest at a rate below normal market rates, allowing the lender to reinvest the cash to make a return. In managing the risk of the securities financing activities, the bank makes a distinction based on the type of collateral:

- ▶ if the transaction is collateralised with securities, the lender is exposed to the counterparty risk of a potential default of the borrower. The lender is then entitled to close out the position by selling the securities in the market, where the usual risks of liquidity, valuation and volatility apply;
- ▶ if a transaction is secured by cash provided by the securities borrower, the lender is exposed to reinvestment risk of the cash deposit.

The bank monitors counterparty credit exposure from securities lending activities and value of pledged collateral on a daily basis and requires additional collateral to be deposited in case of insufficient coverage. In 2012 the total securities financing outstanding volume, both on- and off-balance sheet, amounted to EUR 76.5 billion in assets (2011: EUR 119.2 billion) and EUR 61.3 billion in liabilities (2011: EUR 109.9 billion). In 2012 the off-balance securities financing outstanding volume amounted to EUR 47.7 billion in assets (2011: 74.9 EUR billion) and EUR 41.8 billion

in liabilities (2011: EUR 71.9 billion). For an overview of the on-balance securities financing outstanding volumes, please refer to note 35 to the Annual Financial Statements. The securities financing book is traded mainly within the 1 year tenor, whereby the transactions are predominantly concentrated within the 3 months bucket. The securities financing book is fully collateralised mainly by liquid assets such as bonds and liquid equities.

Commercial real estate

The Dutch retail property market remained under pressure during 2012. The office segment in particular was faced with a structurally higher vacancy risk. Postponement of development projects also impacted land bank values. The investment market for residential property in the Netherlands also saw a decline in asset values. At the same time, residential rental units are still in high demand among clients.

ABN AMRO's portfolio has relatively low Loan-to-Values. Loans are based almost exclusively on Dutch property. The loan portfolio consists mainly of investment loans diversified across different asset types. Exposures to office investments as well as land banks are limited. Commercial real estate (CRE) loans may include additional collateral, e.g. parent company guarantees.

At 31 December 2012, the EAD of ABN AMRO's real estate financing as shown in the industry concentration table amounted to EUR 12.0 billion. These portfolios have different risk characteristics.

Commercial and Merchant Banking exposure consists of the following:

- ▶ Corporate-based real estate: these CRE exposures consist of corporate lending to (listed) institutional real estate investment companies, mainly active in residential and retail assets. The client risk is assessed on overall corporate performance. The risk profile is generally investment grade;
- ▶ Asset-based real estate consisting of asset-based lending to real estate investment and/or development companies, with fully secured senior loans and, generally, non-recourse. The risk profile materially depends on the credit quality of the client/underlying asset(s). The corporate-based real estate and the asset-based real estate portfolios are managed by a dedicated department in Merchant Banking;

- CRE exposures to SME companies (part of Commercial Banking), with fully secured senior loans. The risk profile materially depends on the credit quality of the parent or debtor.

The asset-based real estate and the SME portfolios are the largest of the C&MB portfolios and are similar in size.

In addition ABN AMRO has exposures to social housing corporations; senior loans guaranteed by Waarborgfonds Sociale Woningbouw (WSW, a State agency). WSW provides guarantees to lenders granting loans to housing associations for social housing projects and other properties with a social or public function.

There is also Private Banking exposure to clients with CRE, which is mainly for investment purposes both in Dutch property and, to a smaller extent, to property outside of the Netherlands in countries, where ABN AMRO is present. The Private Banking risk profile builds on a combination of the quality of the asset, the credit structure and the underlying credit quality of the wealthy private individual.

ABN AMRO's real estate financing policy restricts commercial real estate finance within Commercial Banking and Private Banking to loans up to a maximum notional amount of EUR 10 million and EUR 50 million respectively. All CRE loans exceeding this amount are to be structured, managed and monitored by a dedicated team. This team typically transacts with professional real estate investment or development companies. Furthermore, ABN AMRO's policies do not approve investing in equity stakes in real estate companies or accept direct exposure to development risk.

The risk appetite defined in the policies in terms of acceptable Loan-to-Values (at the time of origination) differs between business lines. For Commercial and Private Banking, intake typically shows a Loan-to-Market Value of 60-65%, whereas for Merchant Banking a range of up to 70-75% is acceptable.

Collateral is to be reappraised at least every three years. Valuations for the small and medium-sized enterprises

(SMEs) in the Commercial Banking portfolio are almost exclusively provided by external surveyors, either municipal valuations (WOZ) or separately commissioned. The policy prescribes that all appraisals in the Private Banking and Commercial Banking portfolios must be based on external valuations. For the real estate exposures in Merchant Banking, reappraisal depends exclusively on independent bank-commissioned valuations.

ABN AMRO's intake criteria for real estate exposure are very selective and the bank concentrates on financing prime well-rented real estate at good locations and does business with professional counterparties. Conservative commercial real estate loan approval policies are in place and there is an increased focus on the existing portfolio. ABN AMRO's lending conditions are:

- development financing on the basis of meeting pre-let and/or pre-sold conditions;
- the bank's appetite for investment financing of offices is very limited;
- for retail and industrial properties, an increase in exposure is only considered on well-let properties with strong tenants at top locations. Given the stable cash flows and limited vacancy risk, (limited) exposure growth on residential property investments is allowed.

In the industry concentration table, CRE exposure as at 31 December 2011 was restated from EUR 9.5 billion to EUR 11.5 billion. This restatement is due to reclassifications of industry sectors as a result of system migrations to complete the integration and considered to be more accurate. The migrated clients now assigned to the industry sector Real estate were previously assigned to the industry sectors other, financial services, and private individuals. As a result, the net business growth of the CRE portfolio amounted to EUR 0.5 billion in EAD in 2012, mainly realised in Commercial Banking and Merchant Banking.

In 2012, in view of the negative outlook for the Dutch real estate sector, ABN AMRO conducted in-depth screenings of its customer portfolio for commercial real estate exposures under a conservative definition:

‘Land or property owned by investors or project developers with the purpose to develop, to trade or to rent the land or property. The credit quality of the counterparty depends on real estate generating cash flows and income-producing real estate.’

The screening assessed both the quality of the assets and the credit quality of the borrowers and included an analysis of the Loan-to-Market Value as well as interest and principal repayment capacity. Management has taken action to tighten commercial real estate loan approval policies and has increased the focus on management of the current portfolio. Existing high-risk profile exposures are actively managed in order to improve the risk profile of the portfolio. All new loan applications above a limit of EUR 0.5 million require a mandatory recommendation by a specialised real estate finance advisory team.

At 31 December 2012, the impaired exposure on CRE amounted to EUR 696 million. Specific loan impairment charges amounted to EUR 308 million in 2012 and were predominantly taken in the area of office investment and land bank loans. As a result of the screening, and as a measure of conservatism to take into account further declines in property market values, an add-on for economic capital was taken in Q4 2012. The coverage ratio for real estate as per 31 December 2012 was 66%.

Energy, Commodities & Transportation

ABN AMRO has a long-standing experience of financing in the energy, commodities & transportation sector and provides financial solutions and support to clients across the entire value chain of the ECT industries. ABN AMRO's ECT business benefits from in-depth sector knowledge and an active approach to risk and portfolio management that is embedded in all steps of the credit process.

This approach has led to a portfolio characterised by low historic losses. ABN AMRO maintains a controlled growth strategy for ECT that is focused on monitoring and managing the credit risk profile of the portfolio in line with respective market sentiment and trends.

The ECT total loan portfolio is mainly USD denominated and amounts to an equivalent EUR 12.5 billion in on-balance

sheet exposure (2011: EUR 13.4 billion). The reasons for the decline are the transfer of the so-called escrow payments business (EUR 0.8 billion) from ECT to Cash Management, and the weakening of the US dollar. After correcting for these effects, on-balance sheet business volume grew by 1%. More growth was realised in the off-balance sheet facilities and guarantees mainly consisting of short term letters of credit secured by commodities and uncommitted credit facilities amounting to EUR 24.0 billion (2011: EUR 16.1 billion).

In terms of on-balance sheet composition over the different ECT sectors, the loan portfolio remained stable. Roughly 50% of the ECT loan portfolio was in the commodities sector, while the remainder comprised loans to clients in the transportation (one-third) and energy (one-sixth) sectors.

The transportation portfolio is diversified in terms of segments with tankers, dry/wet bulk and container carriers. The main focus is on deep sea shipping industry (in particular modern, economical ships) and the container box industry. The majority of the portfolio has been originated as from 2008, in a relatively low asset value environment. Despite challenging markets in certain parts of the shipping industry, in particular the tanker and dry cargo markets, impairment charges remained subdued. To anticipate on potential impact of further deteriorations in market values of financed assets an IBNI charge of EUR 9.6 million was taken.

The energy portfolio consists of a diversified client base in the oil and gas and off-shore services industries, and is typically characterised by long-term contracts with large oil companies. Impairment allowances in the energy portfolio remained negligible in 2012.

Specific loan impairment charges over 2012 for ECT amounted to EUR 33 million. The loss rate over 2012, expressed as impairment charges over on-balance sheet outstanding amount, equals 27 basis points. This is low given the current economic environment. Due to a relatively large impairment recorded in commodities, it is somewhat higher than the longer term observed loss rates for ECT of approximately 20 basis points.

Equities not held for trading

Exposure at Default for equities not held for trading

(in millions, Exposure at Default)		31 December 2012		31 December 2011	
		EAD	RWA	EAD	RWA
IRB – Private equity (190%)		734	1,409	457	872
IRB – Exchanged traded (290%)		42	123		
IRB – Other equity (370%)		69	257	119	472
Total IRB		845	1,789	576	1,344
SA – Equities (150%)				19	29
Total SA				19	29
Total		845	1,789	595	1,373

Leveraged finance

Leveraged finance is the financing of the acquisition of companies by private equity by applying a higher than average leverage on the target company's cash flow or assets in non-investment grade structures. Leveraged finance transactions are calculated using the IRB and SA approach. The drawn part of the commitments (funded exposure) amounted to EUR 2.0 billion (2011: EUR 1.8 billion) of leveraged finance exposure at default of EUR 2.3 billion (2011: EUR 2.1 billion). Unfunded commitments or the undrawn part amounted to EUR 0.3 billion (2011: EUR 0.6 billion).

Leveraged finance is concentrated mainly in the Netherlands (2012: EUR 2.2 billion, 2011: EUR 2.1 billion), with the remainder of EUR 168 million in the rest of Europe (2011: EUR 270 million). The main industry concentration is in retail (2012: EUR 664 million, 2011: EUR 508 million), technology (2012: EUR 238 million, 2011: EUR 113 million), industrial goods and services (2012: EUR 260 million, 2011: EUR 469 million) and food and beverages (2012: EUR 206 million, 2011: EUR 307 million).

Credit risk mitigation (Audited)

Risk mitigation is the technique of reducing credit risk associated with a credit facility or exposure. ABN AMRO applies the following risk mitigation techniques:

- ▶ Netting of debtor and creditor balances where justified by formal agreement with the client, including a legal right of set-off which is in line with regulatory and internal policy;

- ▶ Credit portfolios can to a certain extent be asset-backed, utilising legal pledges/security vested on real assets ranging from residential real estate in its mortgage business, ship mortgages in its ship financing department to pledges on stocks and debtors in its general lending departments;
- ▶ Guarantees and similar instruments (e.g. credit insurance) from related and third parties are used in the management of credit portfolios, typically to mitigate credit concentrations in relation to an individual obligor, a borrower group or a collection of related borrowers;
- ▶ Net exposure on most over-the-counter (OTC) derivatives and some other types of transactions is further mitigated by the exchange of financial collateral;
- ▶ Credit derivatives and securitisation of assets are used to mitigate the credit risk in the portfolio.

The bank mitigates credit risk primarily by obtaining security or collateral (together referred to as collateral). Collateral is any commitment made or privilege given by a counterparty or third party to which the bank can seek recourse in the event of the counterparty's default in order to reduce credit losses.

Collateral is monitored regularly to ensure that it remains legally effective and enforceable and of sufficient value. Depending on the type of collateral, periodical reassessment of the value is required, the frequency of which is based on value volatility, significant market changes or a significant decrease of creditworthiness of the counterparty. Monitoring and review of the collateral

value is also part of the credit review process. 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 ABN AMRO's rights.

Besides collateral, ABN AMRO uses third-party guarantees to mitigate risks. Guarantees are taken from banks, government entities, export credit agencies and corporate entities. The credit quality of guarantors is initially assessed and continuously monitored to ensure

their value in risk mitigation is correctly assessed. Standby letters of credit are also given value in LGD models.

Conditional guarantees are accepted and are included as appropriate in PD and LGD estimates (e.g. performance bonds, completion guarantees). Personal guarantees are accepted in the normal credit process, but, unless enhanced by collateral, only taken into account pro-memory.

Collateralisation is regarded as a complement to, and not a replacement for, credit analysis of the counterparty. Monitoring and review of the collateral value takes place in addition to regular reassessment of the creditworthiness of the obligor as required.

Collateral classification

Collateral and guarantees received as security (Audited)

(in millions)		31 December 2012						
	Carrying amount	Collateral received						
		Financial instruments	Property, plant & equipment	Master netting agreement	Other collateral and guarantees	Total Collateral received	Surplus collateral	Net exposure
Loans and receivables – banks	46,398	13,974		9,410	60	23,444	4	22,958
Loans and receivables – customers								
Residential mortgage ¹	158,412	356	175,341		8,312	184,009	35,000	9,403
Other consumer loans	16,122	1,822	6,716		67	8,605	20	7,537
Total consumer loans	174,534	2,178	182,057		8,379	192,614	35,020	16,940
Commercial loans ¹	81,801	13,761	30,227	732	9,331	54,051	3,122	30,872
Other commercial loans ²	18,619	17,250	2,537			19,787	1,811	643
Total commercial loans	100,420	31,011	32,764	732	9,331	73,838	4,933	31,515
Government and official institutions	1,329	23		810	209	1,042		287
Total Loans and receivables – customers	276,283	33,212	214,821	1,542	17,919	267,494	39,953	48,742
Accrued income and prepaid expenses	3,940							3,940
Total accrued income and prepaid expenses	3,940							3,940
Other assets	5,324	2		1,961	36	1,999		3,325
Total on-balance sheet	331,945	47,188	214,821	12,913	18,015	292,937	39,957	78,965
Total off-balance sheet	106,755	2,436	1,747		1,950	6,133	120	100,742
Total credit exposure	438,700	49,624	216,568	12,913	19,965	299,070	40,077	179,707

¹ Carrying amount includes fair value adjustment from hedge accounting.

² Other commercial loans consist of reverse repurchase agreements, securities borrowing transactions, financial lease receivables and factoring.

(in millions)		31 December 2011						
	Carrying amount	Collateral received						
		Financial instruments	Property, plant & equipment ³	Master netting agreement ³	Other collateral and guarantees	Total Collateral received	Surplus collateral	Net exposure
Loans and receivables – banks	61,319	21,255		9,920	2,798	33,973	2,153	29,499
Loans and receivables – customers								
Residential mortgage ¹	158,750	657	190,072		3,545	194,274	42,825	7,301
Other consumer loans	15,931	1,631	6,239		50	7,920		8,011
Total consumer loans	174,681	2,288	196,311		3,595	202,194	42,825	15,312
Commercial loans ¹	78,620	6,241	27,036	539	5,764	39,580	1,145	40,185
Other commercial loans ²	17,275	18,614			35	18,649	5,847	4,473
Total commercial loans	95,895	24,855	27,036	539	5,799	58,229	6,992	44,658
Government and official institutions	1,432	7	1	770	205	983		449
Total Loans and receivables – customers	272,008	27,150	223,348	1,309	9,599	261,406	49,817	60,419
Accrued income and prepaid expenses	4,369							4,369
Total accrued income and prepaid expenses	4,369							4,369
Other assets	2,771	2		1,589	32	1,623		1,148
Total on-balance sheet	340,467	48,407	223,348	12,818	12,429	297,002	51,970	95,435
Total off-balance sheet	98,450	3,100	2,455		249	5,804	553	93,199
Total credit exposure	438,917	51,507	225,803	12,818	12,678	302,806	52,523	188,634

¹ Carrying amount includes fair value adjustment from hedge accounting.

² Other commercial loans consist of reverse repurchase agreements, securities borrowing transactions, financial lease receivables and factoring.

³ In the table above the comparative information has been restated to improve comparability with the 2012 information presented.

Management of loans at risk and impaired loans

Loans at risk are primarily exposures for which signals have been detected indicating that the counterparty may become impaired in the future. Loans at risk 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. According to the bank's UCR, loans at risk with ratings 7 and 8 are impaired. Other loans at risk are still non-impaired but may be impaired in the near future.

Past due credit exposures

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 lower than its current outstanding. Financial assets that have reached the '90 days past due' trigger are automatically classified as being in default.

Past due but not impaired by geography

(in millions)	31 December 2012	31 December 2011
The Netherlands	3,786	3,851
Rest of Europe	79	292
USA	9	58
Asia	9	5
Rest of the world	20	285
Total past due exposure	3,903	4,491

In the table above past due exposure decreased by EUR 0.6 billion. In several countries in the rest of Europe, such as the United Kingdom, Spain, and Luxembourg the past due portfolio of commercial loans decreased by EUR 0.2 billion to EUR 79 million. In the rest of the world the past due portfolio of commercial loans decreased by

EUR 0.3 billion to EUR 20 million, mainly due to an improved commercial loans portfolio in the Pacific.

The next table provides information on the ageing of past due financial assets that are past due but not classified as impaired financial assets.

Ageing of past due (Audited)

(in millions)

31 December 2012

	Gross carrying amount	Carrying amount of assets (not classified as impaired)	Of which past due				Total past due but not impaired	Past due ratio
			< = 30 days past due	> 30 days & <= 60 days past due	> 60 days & <= 90 days past due	>90 days past due		
Loans and receivables – banks	46,426	46,402						
Loans and receivables – customers								
Residential mortgage ¹	158,781	157,277	1,652	1,433	477		3,562	2.2%
Other consumer loans	16,568	15,893	28	14	8	34	84	0.5%
Total consumer loans²	175,349	173,170	1,680	1,447	485	34	3,646	2.1%
Commercial loans ¹	86,395	80,109	145	16	4	23	188	0.2%
Other commercial loans ³	18,722	18,602	10	1	1	2	14	0.1%
Total commercial loans	105,117	98,711	155	17	5	25	202	0.2%
Government and official institutions	1,329	1,329						
Total Loans and receivables – customers	281,795	273,210	1,835	1,464	490	59	3,848	1.4%
Accrued income and prepaid expenses	3,940	3,940						
Total accrued income and prepaid expenses	3,940	3,940						
Other assets	5,328	5,315	55				55	1.0%
Total	337,489	328,867	1,890	1,464	490	59	3,903	1.2%

¹ Carrying amount includes fair value adjustment from hedge accounting.

² Consumer loans in the programme lending portfolio that are more than 90 days past due are immediately impaired.

³ Other commercial loans consist of reverse repurchase agreements, securities borrowing transactions, financial lease receivables and factoring.

(in millions)		31 December 2011						
	Gross carrying amount	Carrying amount of assets (not classified as impaired)	Of which past due				Past due ratio	
			<= 30 days past due	> 30 days & <= 60 days past due	> 60 days & <= 90 days past due	>90 days past due	Total past due but not impaired	
Loans and receivables – banks	61,345	61,321	2				2	
Loans and receivables – customers								
Residential mortgage ¹	159,031	157,639	1,885	671	730		3,286	2.1%
Other consumer loans	16,275	15,761	33	17	8	1	59	0.4%
Total consumer loans²	175,306	173,400	1,918	688	738	1	3,345	1.9%
Commercial loans ¹	83,487	76,877	831	76	47	136	1,090	1.3%
Other commercial loans ³	17,303	17,277	6	1	1		8	
Total commercial loans	100,790	94,154	837	77	48	136	1,098	1.1%
Government and official institutions	1,432	1,432	1				1	0.1%
Total Loans and receivables – customers	277,528	268,986	2,756	765	786	137	4,444	1.6%
Accrued income and prepaid expenses	4,369	4,369						
Total accrued income and prepaid expenses	4,369	4,369						
Other assets	2,772	2,771	43	2			45	1.6%
Total	346,014	337,447	2,801	767	786	137	4,491	1.3%

¹ Carrying amount includes fair value adjustment from hedge accounting.

² Consumer loans in the programme lending portfolio that are more than 90 days past due are immediately impaired.

³ Other commercial loans consist of reverse repurchase agreements, securities borrowing transactions, financial lease receivables and factoring.

The past due portfolio decreased by EUR 0.6 billion to EUR 3.9 billion in 2012. Due to the deteriorating economic environment and higher unemployment, more mortgage clients could no longer meet their payment obligations on time and entered the overdue status. The mortgage past due portfolio increased by EUR 0.3 billion to EUR 3.6 billion. The commercial loans portfolio decreased by EUR 0.9 billion, because a large part of the past due commercial loans portfolio became impaired. About EUR 0.5 billion of the commercial loan portfolio is no longer past due as these loans have either been restructured or repaid.

Asset forbearance and renegotiated loans

Where possible, ABN AMRO seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the items have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur and will take measures such as increase interest, charging of waiver and restructuring fees to ensure recovery of contractual cash flows if

considered necessary and relevant. The loans continue to be subject to an individual or collective impairment assessment, calculated at a risk/reward-related pricing.

Impaired credit exposures

Impairment is established if there is objective evidence that the bank will not be able to collect all amounts due in accordance with contractual terms (principal and contractual interest). 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. A financial asset is classified as impaired if one or more loss events are identified that 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 its credit obligations in full, without recourse by the bank to actions such as realising collateral;
- ▶ the counterparty has a material credit obligation that is past due for more than 90 days (overdrafts will be considered overdue once the client has exceeded an advised limit).

Triggers for impairment 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. Impaired credit exposures are in default and are assigned UCR 7 or 8.

Loan impairment charges and allowances

There are three types of impairment charges:

- ▶ Specific impairment charges for individual significant exposures: the status of credit facilities is reviewed regularly. If the quality of a loan or the customer's financial position deteriorates to the extent that doubts arise over the customer's ability to meet its contractual obligations, management of the relationship is transferred to the Financial Restructuring & Recovery department (FR&R), where a formal intake assessment is performed. This could include an impairment. ABN AMRO assesses the amount, if any, of the specific loan loss impairments to be made, taking into account the borrower's financial position and the value of collateral. Specific loan loss impairments are partly or fully released when the debt is repaid or expected future cash flows improve due to positive changes in economic or financial circumstances;

- ▶ Collective impairment charges for individual not significant exposures: assets with similar credit risk characteristics are collectively assessed for impairment based on historical loss experience. These historical losses adjusted for current economic conditions. The resulting impairment levels are periodically back tested. Examples are personal loans, residential mortgages, credit cards, home improvement loans and small and medium-sized enterprises (SME) overdraft facilities. In general, when interest or principal on a loan is 90 days past due, such loans are classified as being in default (non-performing) and are considered impaired;
- ▶ Incurred but not identified (IBNI): IBNI impairment charges are taken for credit exposures where the loss event trigger has occurred already but specific or collective impairment has not yet taken place due to the period that passes between the moment that a loss event occurs and the moment when the bank identifies this event and establishes specific or collective impairment for the effected credit exposure. The scope of the calculation of the IBNI impairments covers all financial assets which are not yet recognised as impaired. All related off-balance items such as credit commitments are also included.

The IBNI calculation combines the Basel II concept of expected loss on a one-year time horizon adjusted for IFRS elements such as applying a loss identification period (LIP) and a cycle adjustment factor (CAF).

Compared to 2011, the total impairment charges have decreased by EUR 525 million. In 2011, impairment allowances were strongly impacted by an impairment charge of EUR 880 million for the Greek government-guaranteed corporate exposure. Excluding this impairment, the increase is mainly attributed to higher impairments in Commercial & Merchant Banking – predominantly in the industry sectors real estate, construction and basic resources (in particular diamond financing). Loan impairments in Private Banking increased sharply, this is partly real estate related and partly due to impairments in the basic resources industry. In addition, impairments in 2012 were affected by incidental major changes including a major charge in the public sector. On the other hand some major releases were noted. A single major release was noted in Greek government-guaranteed corporate exposure, for which an impairment was charged in 2011.

Impaired credit risk exposures by geographic area

(in millions)		31 December 2012	
	Impaired exposures	Allowances for impairments	Impairment charges for the year
The Netherlands	5,777	-2,733	1,067
Rest of Europe	1,708	-1,284	37
USA	429	-427	21
Asia	92	-34	11
Rest of the world	616	-572	-27
Total On-balance sheet	8,622	-5,050	1,109
Off-balance sheet	7		
Total¹	8,629	-5,050	1,109

¹ Amounts exclude IBNI.

Impaired credit risk exposures by industry sector

(in millions)		31 December 2012	
	Impaired exposures	Allowances for impairments	Impairment charges for the year
Industry sector			
Banks	24	-24	
Financial services ¹	1,237	-1,101	-5
Industrial goods and services	2,275	-1,422	12
Real estate	696	-458	308
Oil and gas	106	-106	5
Food and beverage	401	-203	41
Retail	415	-231	67
Basic resources	259	-215	129
Healthcare	43	-19	10
Construction and materials	360	-247	73
Travel and leisure	293	-136	44
Insurance	14	-11	3
Utilities	10	-10	
Other ²	344	-197	42
Subtotal Industry Classification Benchmark	6,477	-4,380	729
Private individuals (non-Industry Classification Benchmark)	2,095	-617	356
Public administration (non-Industry Classification Benchmark)	57	-53	24
Subtotal non-Industry Classification Benchmark	2,152	-670	380
Total³	8,629	-5,050	1,109

¹ Financial services include asset managers, credit card companies and providers of personal financial services and securities and brokers.

² Other includes, in addition to unclassified, personal and household goods, media, technology, automobiles and parts, chemicals and telecommunication.

³ Amounts exclude IBNI.

Loan impairment charges (Audited)

(in millions)	2012	2011
On-balance sheet	1,230	1,755
Off-balance sheet	-2	2
Total impairment charges on loans and other receivables	1,228	1,757

Loan impairment charges and allowances (Audited)

(in millions)	Banks	Commercial loans ²	Consumer loans ¹	Total
Balance as at 1 January 2012	26	4,895	625	5,546
Impairment charges for the period	7	1,055	663	1,725
Reversal of impairment allowances no longer required	-5	-406	-23	-434
Recoveries of amounts previously written-off		-16	-45	-61
Total impairment charges on loans and other receivables	2	633	595	1,230
Amount recorded in interest income from unwinding of discounting		-35	-11	-46
Currency translation differences		-2		-2
Amounts written-off (net)		-775	-514	-1,289
Reserve for unearned interest accrued on impaired loans		50	45	95
Other adjustments		-69	75	6
Balance at 31 December 2012	28	4,697	815	5,540

(in millions)	Banks	Commercial loans ³	Consumer loans ¹	Total
Balance as at 1 January 2011	49	3,673	613	4,335
Impairment charges for the period	4	1,713	393	2,110
Reversal of impairment allowances no longer required	-11	-234	-56	-301
Recoveries of amounts previously written-off		-7	-47	-54
Total impairment charges on loans and other receivables	-7	1,472	290	1,755
Amount recorded in interest income from unwinding of discounting		-5	-6	-11
Currency translation differences	-3	13		10
Amounts written-off (net)	-5	-404	-295	-704
Effect of (de)consolidating entities				
Reserve for unearned interest accrued on impaired loans		83	16	99
Other adjustments	-8	63	7	62
Balance at 31 December 2011	26	4,895	625	5,546

1 In consumer loans total loan impairments for residential mortgages amounted to EUR 252 million (2011: EUR 157 million).

2 In commercial loans a release for the Greek government-guaranteed corporate exposure of EUR 125 million was included.

3 In commercial loans an important change for the Greek government-guaranteed corporate exposure of EUR 880 million was included.

Individual and collective loan impairment allowances (Audited)

(in millions)					2012
	Banks	Commercial		Consumer	Total
			Mortgages	Personal loans	Other consumer
Individual impairment	24	4,055	56		191
Collective impairment	4	642	314		254
Balance at 31 December	28	4,697	370		445
Carrying amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	24	6,406	1,504		675
					8,609

(in millions)					2011
	Banks	Commercial		Consumer	Total
			Mortgages	Personal loans	Other consumer
Individual impairment	24	4,375	44		88
Collective impairment	2	520	236		257
Balance at 31 December	26	4,895	280		345
Carrying amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	24	6,636	1,392		514
					8,566

Coverage and impaired ratio (Audited)

(in millions)		31 December 2012					31 December 2011				
	Gross carrying amount	Impaired exposures	Allowances for Impairments for identified credit risk	Coverage ratio	Impaired ratio		Gross carrying amount	Impaired exposures	Allowances for Impairments for identified credit risk	Coverage ratio	Impaired ratio
Loans and receivables – banks	46,426	24	-24	100%	0.1%		61,345	24	-24	100.0%	
Loans and receivables – customers											
Residential mortgage ¹	158,781	1,504	-292	19.4%	0.9%		159,031	1,392	-239	17.2%	0.9%
Other consumer loans	16,568	675	-392	58.1%	4.1%		16,275	514	-288	56.0%	3.2%
Total consumer loans	175,349	2,179	-684	31.4%	1.2%		175,306	1,906	-527	27.6%	1.1%
Commercial loans ^{1,2}	86,395	6,286	-4,253	67.7%	7.3%		83,487	6,610	-4,606	69.7%	7.9%
Other commercial loans ³	18,722	120	-85	70.8%	0.6%		17,303	26	-26	100.0%	0.2%
Total commercial loans	105,117	6,406	-4,338	67.7%	6.1%		100,790	6,636	-4,632	69.8%	6.6%
Government and official institutions	1,329						1,432				
Total Loans and receivables – customers	281,795	8,585	-5,022	58.5%	3.0 %		277,528	8,542	-5,159	60.4%	3.1%
Accrued income and prepaid expenses	3,940						4,369				
Total accrued income and prepaid expenses	3,940						4,369				
Other assets	5,328	13	-4	30.8%	0.2%		2,772	1	-1	100.0%	
Total on-balance sheet	337,489	8,622	-5,050	58.6%	2.6%		346,014	8,567	-5,184	60.5%	2.5%
Total off-balance sheet	106,756	7	0	0.0%	0.0%		98,466	18	-7	38.9%	
Total impaired credit risk exposure⁴	444,245	8,629	-5,050	58.5%	1.9%		444,480	8,585	-5,191	60.5%	1.9%

¹ Carrying amounts include fair value adjustment from hedge accounting.

² Includes impairments on Madoff and the Greek government-guaranteed corporate exposures.

³ Other commercial loans consist of reverse repurchase agreements, securities borrowing transactions, financial lease receivables and factoring.

⁴ Amounts exclude IBNI.

For loans treated under the IRB approach credit risk exposures, the allowance for impairments for identified credit risk amounted to EUR 4,224 million (2011: EUR 3,899 million); for the SA portfolio EUR 805 million (2011: EUR 1,258 million) and for securitisations EUR 21 million (2011: EUR 34 million).

The coverage ratio of residential mortgages increased 2.2% to 19.4% due to the weak economic environment in the Netherlands. The consumer loans coverage ratio increased by 2.1% to 58.1%. This was mainly due to a reclassification of commercial loans to the consumer loan portfolio. The commercial loans portfolio coverage ratio decreased by 2.1% to 67.7%. The reclassification of commercial loans to the consumer loan portfolio and the growth in the impaired portfolio for which impairment charges were taken contributed to the decrease in the commercial loans coverage ratio. As a result of the movements in commercial loans, the overall coverage ratio decreased by 2.0% to 58.5%.

Impaired ratio for commercial loans decreased due to a reclassification of commercial loans to consumer loans, write-offs and an increase in the loan portfolio.

IBNI impairment allowances on loans rose from EUR 495 million in 2012 (2011: EUR 372 million), mainly due to higher IBNI impairment allowances on the commercial loan portfolio (of which commercial real estate EUR 44 million) and the residential mortgage portfolio.

Market risk

ABN AMRO is exposed to market risk in its trading book, banking book and through its pension risk.

Market risk in the trading book

Market risk in the trading book is the risk of loss resulting from unfavourable market price movements which can arise from trading or holding positions in financial instruments in the trading book. ABN AMRO is mainly exposed to market risk through client-facilitating activities carried out by the Markets business. Within the overall risk mandate of the bank, dedicated risk committees approve trading mandates and set limits for each trading business

and for the combined trading activities and monitor the limits. Market risk originates from various sources, including:

- ▶ changes in interest rates affecting, for example, the value of securities, interest rate derivatives and foreign exchange derivatives;
- ▶ changes in prices affecting, for example, the value of positions in equities, commodities, commodities derivatives and currencies;
- ▶ changes in various volatility types affecting, for example, the value of options on bonds, stocks, interest rate derivatives and foreign exchange derivatives.

Market risk (trading book) management (Audited)

As part of its business strategy, ABN AMRO facilitates client orders, acts as a market maker in key markets and provides liquidity to clients. The business strategy involves exposure to trading risk, as it is not always feasible or economically desirable to execute perfect hedges for each and every client order. To provide assurance that the bank's trading activities are consistent with its client-centred business strategy and moderate risk profile, a detailed risk management framework has been developed in order to control market risk in the trading book. Decisions with regard to limits are all taken by duly authorised committees or individuals, with the full support of senior risk managers.

The limits framework

Market risk limits are strategic restrictions reflecting the bank's risk appetite and the nature of trading activities. The risk organisation has developed a limit setting framework which has two primary goals: first, to protect the bank's capital and earnings; and second, to allow traders to take risks in support of client business. Limits prevent the accumulation of market risk beyond the bank's appetite and reflect the mandates of trading units.

Market risk limits are consistent with the risk appetite statement for Markets. Market risk limits for trading activities are laid down in the following top-down process:

- ▶ Group Risk Committee (GRC) sets high-level limits including those based on VaR, sensitivities, positions and stress tests and delegates certain limit approval authority to the Trading and Clearing Risk Committee (TCRC);
- ▶ TCRC sets additional and more granular limits.

Primary limits are defined for every trading activity, such as the trading mandate, an approved product list and VaR, stress and scenario limits. Where primary limits are not sufficient to monitor and control risks, additional limits are set, e.g. to avoid excessive concentration risks. Examples include FX exposure limits and tenor limits on interest rate risk. Limits are managed actively to address specific business and market developments. Counterparty credit exposure limits are set as part of the overall credit risk limits and measured for each specific counterparty.

Valuation of trading risk positions

Positions held in the trading book are prudently valued daily on a mark-to-market or a mark-to-model basis, where the price is not directly observable in the market. Periodic valuation adjustments are made whenever appropriate.

All pricing models are independently validated by Risk Management, which also assesses whether there are valuation adjustments necessary because of parameter uncertainty and/or other model-related aspects. After being validated, the models are approved by duly authorised committees. Furthermore, all traded products include an element of counterparty credit risk. To ensure that the credit risk is fully reflected in the reported valuation for derivatives, ex-post credit valuation adjustments are made.

When approving new products and in the regular review of existing products, the Trading & Clearing Risk Committee assesses whether prudential valuations are necessary. It is ABN AMRO's policy to trade in products that are sufficiently liquid. The bank has a set of limits in place to mitigate market liquidity risk. The bank takes bid-offer reserves for the trading positions.

Market risk (trading book) measurement (Audited)

ABN AMRO's trading risk principles and framework are summarised below. As part of the integration, ABN AMRO is in the process of developing a fully compliant Internal Models Approach (IMA) framework. For most activities, the bank already has a VaR model in place for a number of years which is used for internal measurement and management purposes. This is for internal purposes only

and not yet IMA-compliant, as the bank does not yet have an incremental risk charge and stressed VaR model fully in place. Furthermore, model developments are still being made to address changed and stricter regulatory requirements. For the equity facilitation, carbon and linear equity derivatives portfolio, the bank is already reporting under IMA using a 400-day historical simulation, a 1-day holding period and a 99% confidence level.

For internal purposes, ABN AMRO measures and manages market risk daily, on a portfolio basis. The key indicators used are VaR, a wide array of stress tests, sensitivity measures ('Greeks') and notional limits.

The above metrics are measured and limited at global level as well as at individual business levels. In addition, there are concentration limits at business level. The internal VaR model for the trading activities is a 300-day historical simulation VaR and assumes a 1-day holding period and a 99% confidence level. For the linear equity derivatives portfolio, the equity facilitation, and the carbon portfolio, the bank manages and reports the VaR and stressed VaR according to the IMA.

Stress and scenario testing

Stress and scenario testing is designed to focus specifically on tail events, e.g. events outside the VaR confidence interval. ABN AMRO runs daily stress tests for large moves in single risk factors. For specific portfolios, the latter will also be combined with shifts in the related volatility factors.

In addition, the impacts of extreme market events covering multiple risk factors are run simultaneously. These extreme scenarios can either be historical, hypothetical or a combination of both. The historical ones replicate past scenarios and account for situations that were recorded further in the past, e.g. the 2008 liquidity and credit crisis. The hypothetical scenarios allow the bank to simulate new shocks of unseen magnitude. An example of a hypothetical scenario is a severe extension of the sovereign debt crisis. The different scenarios are assessed on a regular basis and, when appropriate, updated and extended.

Back testing

Value-at-Risk forecasts are compared with the calculated mark-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 1-year rolling window – the number of losses exceeding the VaR prediction given a confidence level of 99%. Such losses should occur only once every 100 business days. In 2012 the number of outliers was within the statistical model acceptance for the IMA-reported portfolios.

Model review

For risk monitoring and financial reporting, models are used to monitor, for example, the mark-to-market valuation of a traded product, the contingent credit exposure of the bank to a counterparty and the VaR of a portfolio. Given their limitations, risk models and valuation models always need to be monitored for effectiveness and relevance.

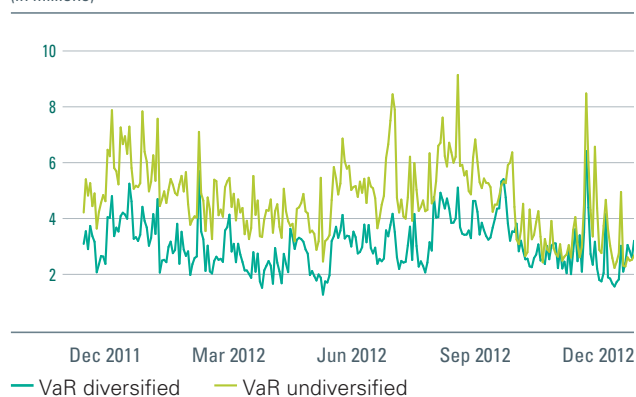
New models are validated by an independent validation team and approved by duly authorised committees. Furthermore, existing risk models are reviewed and approved on an annual basis at least. As part of the review, models are assessed as to whether they behave appropriately under the current market conditions. If required, models are adjusted. Besides the formal validation and review of models, the daily explanation of risk reporting figures, periodic portfolio reviews and regular back testing are important tools to assure the adequacy of the models.

Market risk exposure

The graph below depicts the total VaR ('VaR diversified') as well as the aggregation of the standalone risk factors ('VaR undiversified').

VaR diversified and undiversified 2012

(in millions)

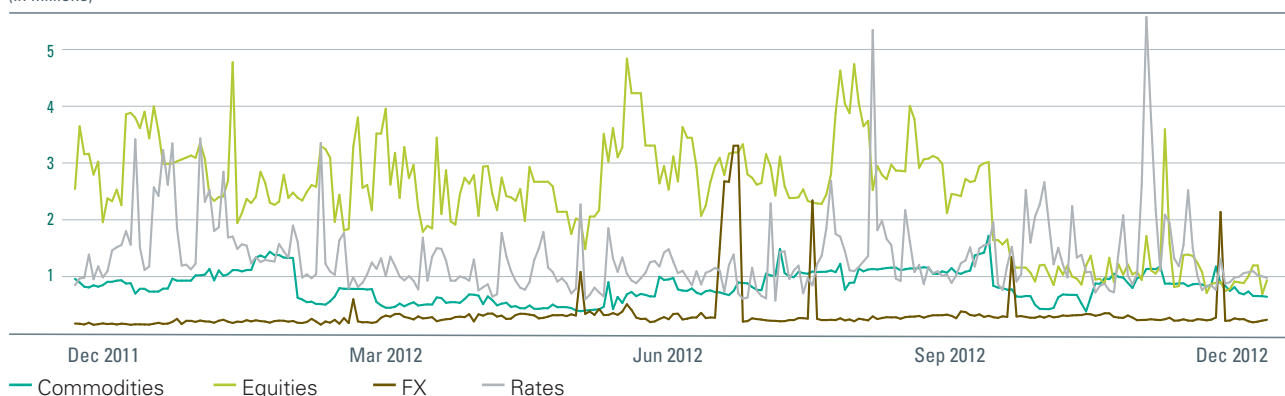


ABN AMRO applies a diversified portfolio VaR approach. This approach takes into account that returns across asset classes may to a certain extent offset one another and as a result reduce risk. As long as those returns are not perfectly correlated to one another, VaR figures using a diversified portfolio approach will be lower compared to the figures when using undiversified VaR. Undiversified VaR means that the VaR figures computed for the different asset classes are summed up without taking into account any offset across asset classes and therefore denies the potential for risk reduction.

The graph below shows the development in the VaR figures for the different asset classes.

VaR per risk factor 2012

(in millions)



The average VaR in 2012 was lower than in 2011 as a result of a risk-averse trading strategy adopted by Markets in response to the volatile and less liquid markets impacted by the European sovereign crisis. Furthermore the VaR for the linear equity derivatives portfolio was reduced significantly during the second half of 2012, leading to an overall VaR of 2.2 at the end of 2012. The reduction in overall VaR was less than the reduction in the equity VaR because of reduced diversification benefits.

The spikes in the VaR for Rates were caused by inflated relative shifts used in the VaR model, as the interest rates were close to zero. This was solved in December 2012 by capping/flooring the relative shifts of interest rates used in the VaR model.

Internal aggregated diversified VaR for all trading positions (Audited)

(in millions)	2012	2011
VaR at last trading day of period	2.2	3.0
Highest VaR	6.3	7.2
Lowest VaR	1.3	1.2
Average VaR	3.0	3.4

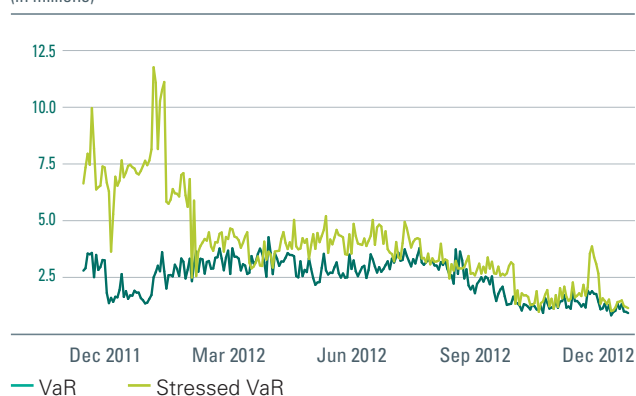
ABN AMRO uses a combination of standardised and internal model approaches to calculate regulatory capital. The bank intends to implement the Internal Models Approach (IMA) for calculating market risk capital for the full trading portfolio in the future. As part of the integration process, the market risk capital models for the different product types are being reviewed, aligned and migrated to the target infrastructure. When the implementation is completed, the bank will submit the application for IMA to the regulator, DNB. For 2012, IMA was applied to the linear equity derivative portfolios. The regulatory capital for interest rate, foreign exchange, commodities and structured equity derivative portfolios are based on the standardised approach.

For the linear equity derivatives portfolios, the regulatory capital based on IMA implies that regulatory VaR and

stressed VaR are used. The regulatory VaR is a historical simulation VaR scaled to a 10-day horizon under a 99% confidence interval. The stressed VaR is a 250-day simulation VaR covering the most severe period of the 2008 crisis. The portfolio comprises liquid equities, equity total return swaps and equity futures. A small part comprises carbon transactions. There are limits on gross positions (in terms of portfolio size) and limits on open positions. The limits on open risk positions are very small and related to the market liquidity of underlyings

IMA VaR and Stressed VaR Equities 2012

(in millions)



The VaR in the second half of the year for equities was lower in 2012 compared to 2011 because the business reduced the respective exposures as part of an adjustment of their trading strategy to market conditions. The stressed VaR was implemented in Q4 2011. Close management of the stressed VaR resulted in a significant decrease after the first quarter of 2012. As a result of the reduction of the stressed VaR and the decrease in exposures, the regulatory capital for the IMA portfolio decreased significantly compared to 2011.

Stress testing for this portfolio follows the general stress test policy for trading activities and consists of historical and hypothetical scenarios as well as one- and two-dimensional shifts of risk factors. Risk factors which are specifically monitored for this portfolio are dividend risk and total return swap spread risk. These two factors are not included in VaR.

IMA VaR Equities

(in millions)	2012		2011	
	Normal	Stressed	Normal	Stressed
VaR at last trading day of period	0.6	0.8	3.5	n/a
Highest VaR	4.0	11.6	3.8	n/a
Lowest VaR	0.5	0.7	0.5	n/a
Average VaR	2.2	3.7	2.0	n/a

Regulatory Capital

The standardised approach was applied in 2012 to the interest rate, foreign exchange, commodities and structured equity derivative portfolios. The risk in these portfolios did not change significantly compared to 2011. The foreign exchange capital for 2011 was caused by an incidental position at year-end. Throughout 2011 and 2012, the foreign exchange positions were below the hurdle rate and therefore do not requiring capital.

The reported capital requirement increased mainly due to the implementation of a capital add-on of EUR 250 million in 2012. This add-on was implemented in anticipation of additional capital requirements when the bank becomes IMA compliant for these portfolios. This add-on is a very conservative estimate of potential additional capital requirements under IMA.

Market risk exposure and risk-weighted assets

(in millions)	31 December 2012			
	Capital requirement		Total capital requirement	Total RWA
	SA	IMA		
Position risk in traded debt instruments	141		141	1,765
Position risk in equities	5	40	45	563
Foreign exchange risk				
Commodity risk	15		15	187
Add-on	250		250	3,125
Total	411	40	451	5,640

(in millions)	31 December 2011			
	Capital requirement		Total capital requirement	Total RWA
	SA	IMA		
Position risk in traded debt instruments	125		125	1,565
Position risk in equities	4	113	117	1,461
Foreign exchange risk	49		49	613
Commodity risk	2		2	28
Add-on				
Total	180	113	293	3,667

Market risk RWA increased, primarily pending the transition from the standardised to the advanced approaches. The majority of the portfolio currently

reported under the standardised approach is scheduled to move to the advanced approach by 2013, pending approval by the regulator.

Market risk in the banking book (Audited)

Market risk in the banking book, mainly interest rate risk, is the risk of a yield curve development that is unfavourable for the bank. Other market risks are limited in the banking book either through hedging (foreign rate exchange risk) or in general (other market risk types).

The bank completed the remainder of the integration projects in 2012, resulting in further integrated interest rate risk measurement and reporting. In addition, the bank broadened the scope of interest rate risk measurement by incorporating additional foreign currency exposures.

Market value metrics are measured for all currency banking book positions and reported on a consolidated level. Earnings metrics are measured and reported for euro positions only.

Market risk (banking book) management

Interest rate risk is defined as the risk of an unfavourable yield curve development. In the banking book, interest rate risk translates into the potentially negative impact of interest rate changes on net interest income or market value of equity. The overall objective of interest rate risk management is to manage current and future earnings sensitivity due to interest rate risk exposure. The four main sources of interest rate risk are:

- ▶ Re-pricing risk, which arises from timing differences in the maturity (fixed-rate) and re-pricing (floating-rate) of assets and liabilities;
- ▶ Yield curve risk, which arises when unanticipated shifts of the yield curve have adverse effects on the income and underlying economic value;
- ▶ Basis risk, which arises from imperfect correlation in the adjustment of rates earned and paid on different instruments with otherwise similar re-pricing characteristics (for example, swap rates and government bond yields); based on an assessment, basis risk is not considered material under normal market circumstances;
- ▶ Optionality risk, which arises from the options embedded (hidden or explicit) in assets and liabilities.

In addition, client behaviour is an important element in interest rate risk, especially behaviour with respect to savings and prepayment of mortgages. For savings, the bank assumes a stable core volume with a complementary volume which depends on interest rate development.

For mortgages, the bank assumes a stable prepayment based on demographic factors.

Interest rate risk is managed according to the Asset & Liability Management (ALM) framework as approved by the ALCO. This framework is designed primarily to transfer interest rate risk out of commercial business lines to central management, allowing for a clear demarcation between commercial business results and results on unhedged interest rate positions. The execution of decisions and day-to-day management of positions is delegated to ALM/Treasury.

Market risk (banking book) measurement & exposure

ABN AMRO measures, monitors and controls its interest rate risk on a monthly basis, including the effectiveness of hedging, using the following indicators: Net Interest Income-at-Risk (NII-at-Risk), duration of equity, absolute sensitivity and Value-at-Risk (VaR). ABN AMRO's position is managed to ensure these metrics are within defined limits under the pre-defined scenarios.

NII-at-Risk

Net interest income (NII) is the difference between revenues generated by interest-earning assets and the cost of servicing (interest-burdened) liabilities. The NII consists of the commercial margin and the interest rate risk mismatch. The bank's interest result depends mainly on the margin, which has a low correlation with the level of interest rates. Part of the bank's interest result is related to the mismatched position. For this mismatched position, the steepness of the curve is more important than the level of the curve. The risk of changes in net interest income (NII) is measured on a scenario-based analysis. The NII-at-Risk metric indicates the change in net interest income during the coming 12 months, comparing the NII calculated using a constant yield curve with the NII calculated using a yield curve that is gradually shifted to a total of 200 basis points. The NII is negatively impacted when rates rise, especially when the short end of the yield curve increases. The short-end positions are part of the money markets book and are monitored and managed on a daily basis.

Duration of equity

Duration of equity indicates the sensitivity of the market value of equity to a 1% parallel change in the yield curve. The risk appetite statement defined the outer limit of the duration of equity to be between 0 and 7, where ALCO determines a monthly bandwidth.

Absolute sensitivity

The absolute sensitivity adds the different positions on the yield curve, regardless of whether they are positive or negative. It measures the absolute interest rate position.

Value-at-Risk

Value-at-Risk (VaR) is used as a statistical measure for assessing interest risk exposure. It estimates potential losses and is defined as the predicted maximum loss that might be caused by changes in risk factors under normal circumstances, over a specified period of time, and at a specified level of statistical confidence. A VaR for changes in the interest rate for the banking book is calculated at a 99% confidence level and a two-month holding period.

Interest rate risk metrics

	31 December 2012	31 December 2011
NII-at-risk (in %)	4.4	3.8
Duration of equity (in years)	1.6	3.0
Absolute sensitivity (in EUR m)	22.0	26.9
VaR banking book (in EUR m)	564	756

The interest rates decreased significantly along the curve in 2012. The inversion at the long end of the yield curve diminished during 2012. In line with these developments and the outlook for interest rate developments, the duration position decreased during 2012. Part of the position to profit from the reversal of the inverse shape of the yield curve has been realised. The VaR of the banking book and absolute sensitivity decreased in line with the duration development. The NII-at-Risk slightly increased compared to last year. The increase in NII-at-risk indicates a slightly higher net interest income sensitivity to an upward trend in the yield curve.

Market risk (foreign exchange risk) (Audited)

FX risk is the risk of unfavourable exchange rate developments on net income and capital ratios.

ABN AMRO does not take FX risk in the banking book, except for positions resulting from capital hedging and residual positions occurring for operational reasons.

FX capital hedging is executed to protect regulatory capital requirements against adverse FX movements.

Market risk (Pension fund) (Audited)

Pension liability risk is the risk that the bank must provide additional funds to its employee pension fund as a result of guarantees and commitments to this fund. ABN AMRO sponsors a number of pension schemes for its employees, under which it has an obligation to pay contributions to the pension fund for the aggregate pension rights of participants in these pension schemes. Most participants have accrued rights under defined benefit plans within these schemes. ABN AMRO's pension risk is the risk of a shortfall in the coverage of these pension obligations by the pension fund assets in relation to the participants' rights under these defined benefit plans. Additional contributions to the pension fund to cover its pension obligations to current and former employees may be required under the agreement with the pension fund from time to time. ABN AMRO's defined benefit pension obligations are calculated at the discounted present value of these accrued pension rights.

Parameters that have an impact on the obligations are interest rate levels, credit spreads on AA corporate bonds, investment risks and increases in life expectancy, which are outside of ABN AMRO's control. More information on Pension Funds is provided in note 30 to the Annual Financial Statements, a summary is described below.

In 2012 the net pension asset increased by 0.3 billion to EUR 1 billion as at 31 December 2012 (2011: EUR 0.7 billion). However, unrecognised actuarial losses amounted to EUR 1.9 billion at the end of 2012, compared to EUR 2.5 billion gains at the end of 2011. This represents a change in unrecognised gains and losses for the year of minus EUR 4.2 billion turning actuarial gains into actuarial

losses. This extreme reduction is mainly attributable to the sharp decrease of the discount rate used to discount pension obligations from 5.6% to 3.5% in 2012. This resulted in an actuarial loss on pension liabilities of EUR 5.7 billion which was only partly offset by an increase of the fair value of plan assets of EUR 1.5 billion. Actuarial results are only recognised in equity or net result insofar as they do not exceed the so-called corridor. The amount exceeding the corridor is amortised to net result (2012: EUR 84 million). Impact of IAS 19 (as revised in 2011):

- ▶ IAS 19 (as revised in 2011) introduces two important changes that will have significant impact on equity (Other Comprehensive Income) and net result of the bank. These changes are the removal of the corridor resulting in immediate recognition of all changes in the funded position through OCI; and
- ▶ the expected rate of return on plan assets will have to be equal to the rate for discounting pension liabilities.

Following these changes, an amount of EUR 1.2 billion (after tax) was charged to equity as at 1 January 2013, consisting of a release of the pension asset (gross EUR 1 billion) and the recognition of a pension liability (gross EUR 0.5 billion).

ABN AMRO is currently investigating how it can reduce its pension risk.

Operational risk

Like every company, ABN AMRO is exposed to operational risk arising from the uncertainty inherent in all business undertakings and decisions. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Some examples of operational risk are wrongful execution of an order, fraud, litigation for non-compliance with law, natural disasters and terrorism.

Operational risk also includes cybercrime. Cybercrime is the generic name for criminal acts committed using modern telecommunication networks, such as the internet or mobile devices. In 2012, operational losses due to cybercrime increased particularly in Retail Banking. Management has taken action to improve security precautions.

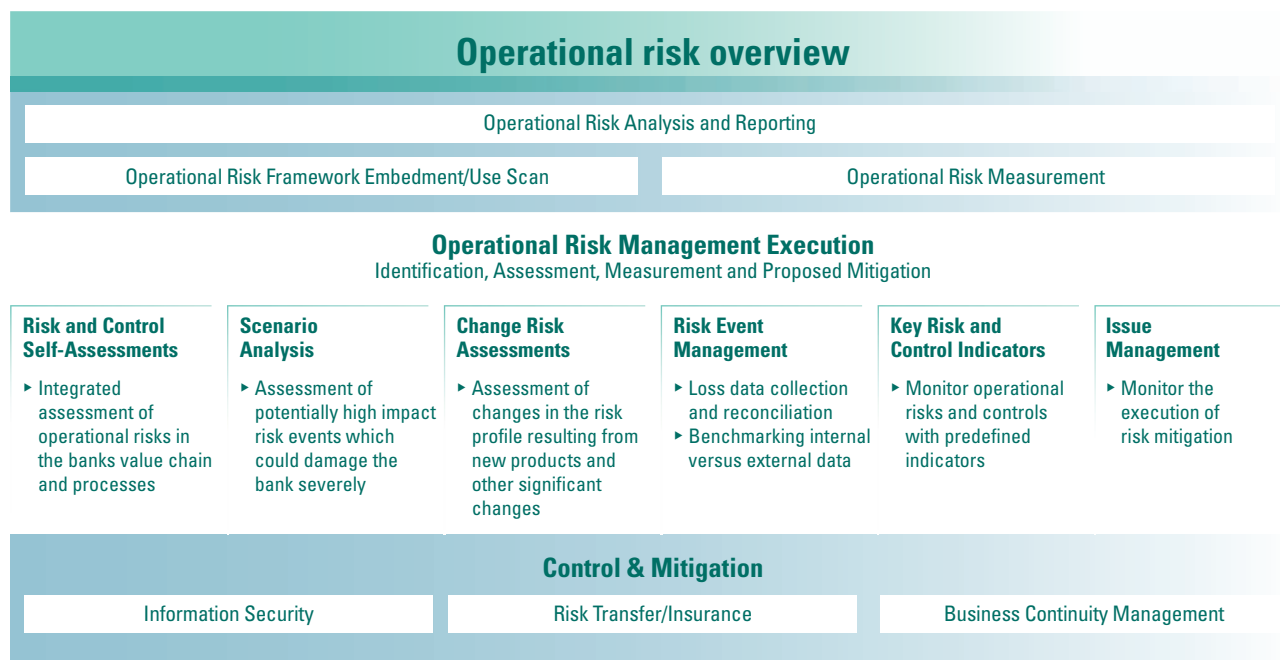
Operational risk management

ABN AMRO employees are expected and encouraged to be alert and aware of the wide range of operational risks. A sufficient level of control has to be maintained in the bank's processes and organisation. When incidents occur, the bank strives to minimise damages to an acceptable level.

To ensure proper roll-out of the framework for operational risk management, Risk Management monitors the execution of all operational risk programmes. Moreover, operational risk exposures are analysed and reported to (senior) management to support decision-making. Risk monitors the follow-up to the actions plans (if deemed necessary).

Once a year, senior management teams review their strategy and business objectives from a risk perspective, review their state of control, and take appropriate measures where the level of control can be improved. Risk responses can be to avoid the risks, to transfer the risk to the insurance market or to strengthen control by taking additional measures. At the end of each year, the senior management teams sign – based on the assessments done – a Management Control Statement. ABN AMRO's Management Control Statement is included at the end of this section.

Framework for operational risk management and control



Operational risk instruments

ABN AMRO has a variety of instruments in place to prevent operational losses and to manage operational risks consistently across the organisation. These instruments support the business managers in taking informed decisions within the appetite boundaries set for operational risk by the Group Risk Committee.

- ▶ In risk and control self-assessments, business managers and risk experts team up to uncover operational risks not yet known and define control measures where required. At least once a year, the bank's processes are assessed in depth in an integrated risk and control assessment (including soft controls) with the involvement of departments such as Operational Risk, Compliance, Legal and Finance. The use of risk and control self-assessments is a key element in ensuring the embedding and use of operational risk management and control at all levels in the organisation;
- ▶ Scenario analysis is used to assess potential scenarios of rare and extreme operational risk events that may threaten the bank's business activities;
- ▶ Change Risk Assessments are used to assess the operational risk resulting from changes, such as the introduction of new products or changing processes or systems;

- ▶ Operational risk loss events are systematically collected and analysed on a bank-wide basis;
- ▶ Key risk indicators in various business lines help identify changes to the operational risk profile;
- ▶ Material issues are systematically tracked and monitored.

Control and mitigation

To respond appropriately to areas of operational risk that require specific expertise, ABN AMRO has established specific approaches for operational risk mitigation.

Information security

Information is one of the bank's most valuable assets. ABN AMRO's clients are dependent on the proper functioning of the bank's information systems. Those systems run in complex information infrastructures, connecting the bank's networks with public networks. As a result, banking processes and their supporting information systems can become vulnerable, threatening the security of client data and services. Examples of such threats are computer-assisted fraud, unauthorised disclosure of confidential information, virus infection, computer hacking and denial of service.

In recognition of the importance of protecting at all times the bank's information and its associated assets, such as systems and infrastructure, ABN AMRO has established a structured information security approach to ensure the confidentiality, integrity and availability of information.

This approach defines the organisational framework, management and staff responsibilities and information security directives that apply throughout ABN AMRO. The approach also applies to the vendors to whom handling of information has been outsourced and to third parties with whom the bank exchanges information. The information security controls are fully in line with existing international best practices such as ISO/IEC 27001.

Management of each business line or support function is responsible for managing security risks at operational level in their line of business. Dedicated information security officers coordinate all information security activities within their country or entity and report to the central Information Security Office (ISO). ISO is responsible for coordinating overall information security within the bank and monitors information security practices within ABN AMRO.

Business continuity management

Business continuity management ensures organisational resilience at all levels in the ABN AMRO organisation as well as the ability to respond effectively to threats, thus safeguarding stakeholders' interests and the organisation's reputation, brand and value-creating activities. Business continuity focuses on:

- ▶ analysing the business impact of calamities and crises;
- ▶ determining effective responses and strategies in which people involved in a crisis are taken care of first and then all measures are taken to enable continuity of business operations;
- ▶ business recovery planning and disaster recovery planning;
- ▶ executing recovery exercises for (critical) business processes, including HR, facility aspects and (critical) IT systems and infrastructures.

Risk transfer (insurance)

ABN AMRO has decided to transfer specific operational risks to the insurance market. Group-wide insurance programmes are in place for these risks. In line with industry practices, ABN AMRO purchases the following group-wide insurance policies from third-party insurers: fraud and civil liability, directors' and officers' liability, property damage and general liability. In addition, several local insurance policies were taken out for local or specific risks in 2012.

Operational risk measurement & exposure

The bank's own funds for operational risks in 2012 were calculated based on The Standardised Approach (TSA). Under TSA, gross income figures are mapped to a set of prescribed Basel II business lines such as Retail, Payments, and Trading & Sales. Depending on the business line involved, a percentage (predefined by the directives) is applied for calculating capital for that business line. The total TSA capital is calculated based upon the results per line of business.

ABN AMRO has agreed with the Dutch central bank to use the TSA approach as a temporary way of calculating capital. ABN AMRO currently implements the Advanced Measurement Approach to calculate own funds for operational risk for regulatory capital. This approach is already in use for the calculation of economic capital. ABN AMRO's capital according to TSA is increased by an add-on amount related to AMA implementation.

According to the standardised approach, the capital requirements for 2012 amounted to EUR 1,237 million (2011: EUR 1,041 million). Translated into risk-weighted assets (RWA), the amount is EUR 15,463 million (2011: EUR 13,010 million). Operational risk RWA increased, primarily pending the transition from the standardised to the advanced approaches. The majority of the portfolio currently reported under the standardised approach is scheduled to move to the advanced approach by 2013, pending approval by the regulator. The increase of the capital requirement for operational risk is caused by the add-on amount and by an increase in net income over the reference period.

Liquidity risk

Information on the bank's liquidity risk is provided in the Liquidity & funding section.

Business risk

Business Risk is the risk that current or prospective operating income is lower than expected, and/or operating expenses and/or income tax expenses are higher than expected, because of adverse changes in volumes, margins and/or costs due to the external business environment or internal circumstances or developments.

ABN AMRO reviews and calculates the following risks as part of business risk:

- ▶ external business risk drivers such as competition in the market, the behaviour of (potential) clients, trade unions, or financiers, uncertainty with regard to new regulations, political pressure (e.g., transparency on product cost structures), technological opportunities (e.g., social media);
- ▶ internal decisions impacting revenues such as choice of markets and products, market share and pricing;
- ▶ the risk that margins are lower than expected because funding costs are higher than expected, for example due to a deterioration of ABN AMRO's creditworthiness;
- ▶ higher-than-expected costs as a result of an unexpected change in regulations requiring employees to follow additional training;
- ▶ internal decisions impacting cost structure, e.g., outsourcing, performance-related pay and investments;
- ▶ reputation risk, i.e., the negative opinion of any stakeholder, regardless of whether this is based on fact or perception;
- ▶ strategic risk, i.e., adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to changes in the business environment.

Sensitivity to business risk drivers is mitigated by management practices that effectively and timely address developments in business risk drivers. A basic view of business risk mitigation is to address the risk that earnings will fall below the fixed cost base, due to changes in margins and volumes. The higher the variable part of the total costs,

the better the ability to continue making profit in the event of falling revenues. In addition to these management practices, business risk is mitigated by a capital buffer.

Management Control Statement

Under best practice provisions II.1.4 and II.1.5 of the Dutch Corporate Governance Code, the ABN AMRO Managing Board is requested to describe the main risks related to the strategy of ABN AMRO, to describe internal risk management and internal control for the main risks during the year, to describe any major failings (if any) and to substantiate the operation of internal risk management and internal control (related to financial reporting risks) during the year under review, and to state its adequacy and effectiveness.

ABN AMRO's internal risk management and internal control is a process, effected by the Managing Board, management, and other personnel, which is designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (i) effectiveness and efficiency of operations; (ii) reliability of (financial) information; (iii) compliance with laws, regulations and internal policies with respect to the conduct of business; (iv) safeguarding of assets, identification and management of liabilities, and (v) high-level goals of ABN AMRO.

Different parts of section 17, Risk management elaborate on ABN AMRO's identified risks, such as credit risk, market risk, operational risk, liquidity risk and business risk.

Based on the process regarding internal control over financial reporting, the Managing Board of ABN AMRO Group N.V. makes the following statement regarding the group's financial reporting risks:

- ▶ ABN AMRO's internal controls provide reasonable assurance that ABN AMRO's consolidated financial statements do not contain any material inaccuracies;
- ▶ ABN AMRO's internal controls functioned properly in 2012;
- ▶ There are no indications to suggest that ABN AMRO's internal controls will not continue to function properly in 2013.

The internal risk management and control systems provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of ABN AMRO's published financial statements. However, they cannot provide absolute assurance that a misstatement of ABN AMRO's financial statements would be prevented or detected.

Based on assessments of ABN AMRO's internal risk management and internal control regarding all types of risks, the Managing Board of ABN AMRO Group N.V. makes the following statement with regard to risks that may jeopardise ABN AMRO's business objectives for the short term:

- ▶ Within ABN AMRO, internal risk management and internal controls are in place to provide reasonable assurance that ABN AMRO will not be hindered in achieving its business objectives or in the orderly and legitimate conduct of its business by circumstances which may reasonably be foreseen;
- ▶ Based on internal risk management and internal controls in place and barring unforeseen adverse external conditions, the Managing Board has the opinion that there are no material elements within ABN AMRO that could significantly endanger the realisation of its business objectives;
- ▶ Regarding internal risk management and internal control, the Managing Board will focus especially on the following themes:
 - ▶ Negative development of economic climate: despite European efforts to solve the financial crisis and the prospect for 2013 that global growth may improve gradually, uncertainty in the economic environment remains high as a result of the euro crisis, concerns about the high level of US government debt and a slowdown in Asia. The effects are reflected in higher pressure on both volumes and margins and increased loan provisions. Economic circumstances, mainly the discount rate and investment results, may lead to significant volatility on actuarial gains and losses of ABN AMRO's defined benefit pension scheme. Given the implementation of new IFRS pension

rules as of 2013 – IAS 19 (as revised in 2011) – this may lead to significant volatility on the bank's IFRS equity and capital position. These developments require increased efforts in strategic balance sheet management (in order to support the bank's strategy given the restriction of capital/RWA) and strict surveillance of risk;

- ▶ Regulatory pressure: national and international regulatory requirements being imposed on the banking sector are becoming ever-stricter. This external regulatory pressure is only expected to increase further in the near future. The impact of these changes in laws and regulations on the bank includes:
 - ▶ additional reputational risk due to an increased risk of compliance breaches and increased risk of sanctions by supervisors;
 - ▶ the potential geographical and sequential differences with regard to the implementation of regulatory changes (e.g. Basel III/CRD IV, ILAAP, Dodd-Frank, EMIR, MiFID II and transaction tax) which can disrupt the global level playing field, and/or the earnings model of certain businesses.

As a consequence, the workload for (key) staff within Group Functions increased, in response to these requirements and to the more assertive and persistent monitoring of supervisors on compliance. Internal follow-up on these regulations will also result in substantial costs to implement regulatory changes (especially concerning systems and procedures), which limit the remaining capacity for other business developments;

- ▶ Cybercrime: continuous efforts of organised crime to commit fraud through electronic channels or to gain access to internal systems are a threat to all banks, including ABN AMRO. The bank regularly monitors the results and status of cybercrime and the cyber security programme. Though the actions in place are sufficient to limit the risk, continuous attention is required in order to keep up with the heightened level of threat.

The evaluation of the adequacy of internal risk management and internal control has been discussed with the Supervisory Board and its Audit Committee. Due to its inherent limitations (human error, poor judgement in decision-making, deliberate circumvention of control processes by employees and others, management

overrides of controls, and the occurrence of any other unforeseeable circumstances), ABN AMRO's internal risk management and control systems do not provide certainty on the realisation of business objectives, and cannot at all times prevent misstatements, inaccuracies, fraud and non-compliance with rules and regulations.

capital management 18

ABN AMRO had a good capital position at year-end 2012. Although CRD IV has been postponed, the capital adequacy position continues to be actively monitored and managed. ABN AMRO issued three subordinated notes in 2012 in order to strengthen its capital buffer in anticipation of the introduction of CRD IV. Based on current insights, ABN AMRO is relatively well positioned to meet the upcoming Basel III requirements. Furthermore, ABN AMRO Bank and Ageas agreed to settle the legal proceedings regarding, among other things, ABN AMRO Capital Finance Ltd (formerly Fortis Capital Company Ltd) and the MCS.¹

Capital management framework

Capital management strategy

The primary objectives of the capital management strategy are to ensure that capital adequacy requirements are met at all times and sufficient capital is available to support the bank's strategy. Capital is a necessary resource for doing business and it defines the bank's commercial possibilities. We therefore manage capital according to a holistic view. The balance between available capital and required capital is managed centrally, optimising the usage of available capital.

Our capital management strategy supports the bank's overall strategy. The basis of the capital management strategy is the bank's risk appetite along with business plans. Other important factors are expectations and requirements of external stakeholders (such as regulators, investors, shareholders, equity analysts, rating agencies

and clients), the bank's position in the market, market developments, contingent capital needs and the feasibility of capital management actions.

The capital management strategy is to manage capital centrally, while sufficiently capitalising the group companies to comply with all (local) regulatory solvency requirements and to meet any local business needs.

ABN AMRO's banking activities are primarily carried out by legal entities that are located in the Netherlands. All substantial banking activities in the Netherlands are performed by legal entities that have been guaranteed by ABN AMRO Group N.V. with the so-called 403 declaration. They are also part of the Group's tax unit for corporate tax. This means that, apart from the prevailing legal and regulatory legislation, there are no specific material impediments to the prompt transfer of regulatory capital of the bank.

¹ More information can be found in note 28 to the Annual Financial Statements.

This governance ensures that subsidiaries that are required to report on solo or sub-consolidated level are sufficiently capitalised on a continual basis.

Capital measurement and allocation

Capital adequacy is measured and monitored on an ongoing basis against target capital ratios, derived from the bank's overall strategy and risk appetite. Capital projections and stress test scenarios, both macroeconomic and company-specific, are used to ensure that actual and future capital levels remain above the targets. Contingency plans are in place to address capital issues, if any.

The Contingency Capital Plan provides a framework to detect capital adequacy stress by setting out various early warning indicators. The Contingency Capital Plan also sets out a range of available actions that could be undertaken based on the level of severity and urgency of the issues.

Capital is allocated to businesses in line with the bank's long-term strategic objectives. Capital allocation is based both on risk-based as well as non-risk-based return parameters, taking into account both economic and regulatory capital requirements, to ensure that return targets are met and to achieve a moderate risk profile aligned with the bank's risk appetite.

Capital adequacy

Capital structure (Audited)

ABN AMRO's capital structure consists mainly of highly loss absorbing capital to cover unexpected losses. The subordination in specific capital elements provides further protection for the interests of senior creditors.

Regulatory capital (Audited)

(in millions)	31 December 2012	31 December 2011
Total Equity – IFRS (EU)	14,037	11,420
Goodwill and other intangible assets	-121	-124
IRB provisions shortfall	-114	-77
Securitisation not included in risk-weighted assets		-76
Participations in financial institutions > 10%	-323	-299
Valuation differences in available-for-sale Equities	-109	-49
Valuation differences in available-for-sale Loans and assets	14	289
Cash flow hedge reserve	1,873	1,691
Other regulatory adjustments	-557	-170
Core Tier 1 capital	14,700	12,605
Non-innovative hybrid capital instruments		1,750
Innovative hybrid capital instruments	997	994
Tier 1 capital	15,697	15,349
Subordinated liabilities Upper Tier 2	183	178
Valuation differences in available-for-sale Equities	109	49
Subordinated liabilities Lower Tier 2	6,848	4,709
Participations in financial institutions > 10%	-323	-299
IRB provisions shortfall	-114	-77
Securitisation not included in risk-weighted assets		-52
Total regulatory capital	22,400	19,857

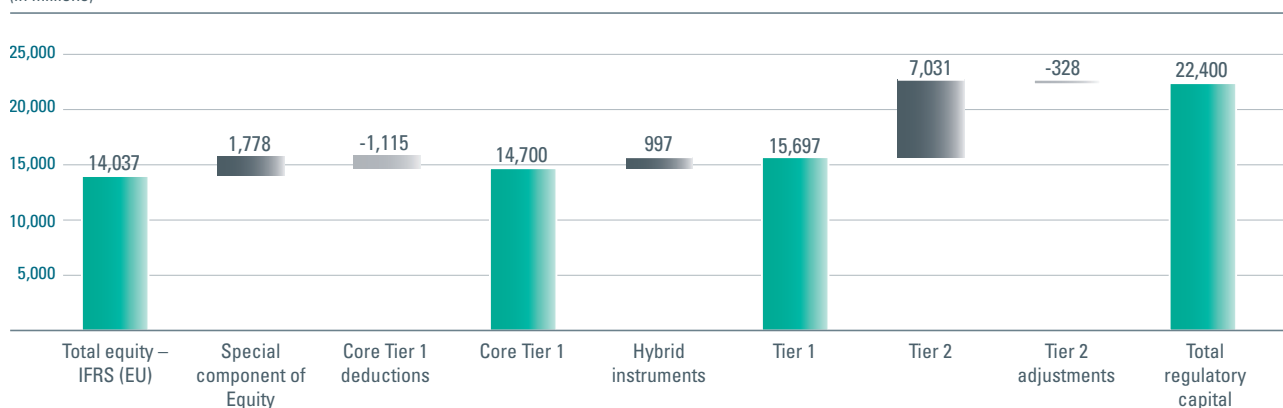
Risk-weighted assets (Audited)

(in millions)	31 December 2012	31 December 2011
Credit risk	100,405	101,609
<i>Advanced</i>	67,835	70,779
<i>Standardised</i>	32,570	30,830
Operational risk	15,461	13,010
<i>Advanced</i>		
<i>Standardised</i>	15,461	13,010
Market risk	5,640	3,667
<i>Advanced</i>	500	1,413
<i>Standardised</i>	5,140	2,254
Total risk-weighted assets	121,506	118,286

The reconciliation of IFRS equity (EU) and regulatory capital is shown in the following graph:

Capital structure

(in millions)



Tier 1 capital is composed of core Tier 1 capital and hybrid capital instruments. core Tier 1 capital is composed of total equity - IFRS (EU), prudential filters and core Tier 1 deductions.

Total equity consists of shareholders' equity and minority interests. The components of shareholders' equity are share capital, share premium reserve, other reserves, currency translation reserve, special component of equity and net profit attributable to shareholders. Minority interests reflect the equity of minority shareholders in a subsidiary.

Prudential filters are applied for the special component of equity (valuation differences in available-for-sale equities, valuation differences in available-for-sale interest earning securities and cash flow hedge reserve). core Tier 1 capital

is corrected for these items. The unrealised losses on available-for-sale equities are added back to Tier 2 capital.

Capital deductions which apply 50% to core Tier 1 capital and 50% to Tier 2 capital include participations in financial institutions where ABN AMRO holds more than 10% of the capital (the next table shows the entities that are deducted), securitisation positions not included in RWA (except for capitalised future income from securitised assets serving as a credit enhancement for securitisation positions, which is deducted 100% from core Tier 1 capital), and IRB provision shortfall. Intangible assets, expected dividends and other regulatory adjustments are deducted 100% from core Tier 1 capital.

Tier 2 capital consists mainly of long-term subordinated liabilities that meet certain specified criteria.

Entities deducted from capital

Entity name
ABACUS Wertpapier Handelsgesellschaft mbH
Alcover AG
APG – ABN AMRO Pensioeninstelling N.V.
Cofiloisirs S.A.
Currence Holding B.V.
Delta Lloyd ABN AMRO Verzekeringen Holding B.V.
Equens S.E.
European Merchant Services B.V.
Geldservices Nederland B.V.
Nederlandse Financieringsmij voor ontwikkelingslanden N.V.
Neuflyze Vie S.A.
Secfinex Ltd

Main changes in capital position

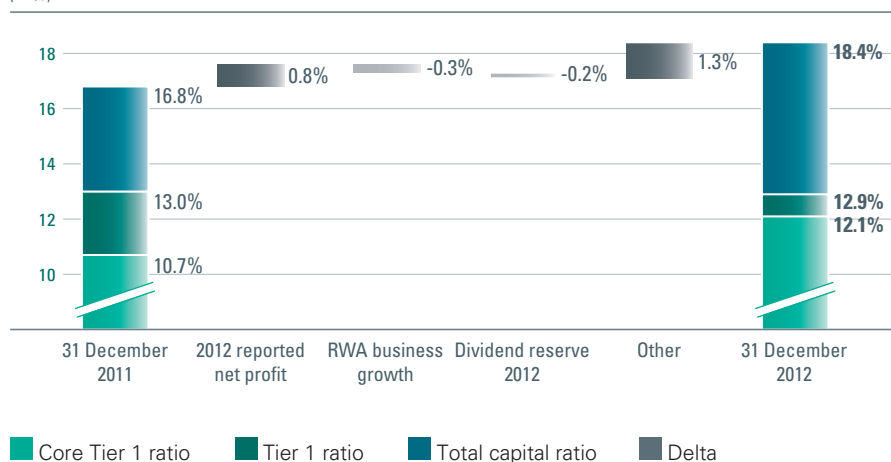
Capital

At year-end 2012, the core Tier 1 and Tier 1 ratios were 12.1% (1.4 % higher compared to year-end 2011) and 12.9% (0.1% lower compared to year-end 2011) respectively and the total capital adequacy ratio was 18.4% (1.6% higher than year-end 2011). These capital ratios are well above the regulatory minimum requirements.

A graphical representation of the main items impacting the capital ratios in 2012 is given below:

Developments impacting capital ratios in 2012

(in %)



Core Tier 1 capital

Core Tier 1 capital increased in 2012, mainly due to the inclusion of the MCS and the net reported profit excluding dividend payments partly offset by the preference shares no longer qualifying as capital.

At the end of June 2012, ABN AMRO Group, ABN AMRO Bank and Ageas agreed to settle the legal proceedings regarding, among other things, ABN AMRO Capital Finance Ltd (formerly Fortis Capital Company Ltd) and the MCS. More information on the settlement can be found in note 28 to the Annual Financial Statements. Previously, the EUR 2.0 billion liability resulting from the MCS was retained in the balance sheet, of which

EUR 1.75 billion qualified as Tier 1 capital. After the settlement, core Tier 1 capital increased by EUR 1.6 billion, i.e. the sum of the EUR 2.0 billion liability and the settlement amount paid by ABN AMRO to Ageas of EUR 400 million. As a result, Tier 1 and total capital decreased by EUR 150 million.

The net reported profit attributable to shareholders in 2012 amounted to EUR 948 million, of which EUR 686 million was accounted for as retained profit and was included in core Tier 1 capital in accordance with regulations and the dividend policy. A total dividend of EUR 262 million (including preferred dividend) is proposed for 2012. Proposed dividends are excluded from the capital calculation.

Upon a further review it was concluded that the EUR 210 million preference shares no longer qualify as regulatory capital. We expect to call these preference shares before the end of March 2013.

Tier 2 capital

In order to strengthen its capital buffer and compensate the loss of eligibility of capital instruments (EUR 1.4 billion) due to the introduction of CRD IV, ABN AMRO issued three subordinated notes:

- ▶ EUR 1.0 billion was issued to European institutional investors;
- ▶ USD 1.5 billion was issued to Asian retail and private banking clients;
- ▶ SGD 1.0 billion was issued to institutional, retail and private banking clients in (predominantly) Singapore.

These instruments are expected to be at least eligible for grandfathering under the draft CRD IV rules.

Further information on share capital, dividend and capital instruments

Share capital

As at 31 December 2012, the authorised share capital amounted to EUR 4.0 billion distributed over 3,750 million class A ordinary shares, 240 million class A non-cumulative preference shares, 100 million class B ordinary shares and 900 million class B preference shares. The class A ordinary shares and class A non-cumulative preference shares have a nominal value of EUR 1.00 each and the class B ordinary shares and class B preference shares have a nominal value of EUR 0.01 each.

As at 31 December 2012, issued and paid-up capital amounted to EUR 1,015 million distributed over 940 million class A ordinary shares and 75 million class A non-cumulative preference shares. Further information is provided in note 33 to the Annual Financial Statements.

Dividend

Following the state aid investigation, the European Commission (EC) prohibits ABN AMRO from (i) paying discretionary coupons on hybrid Tier 1 and Tier 2 instruments unless there is a legal obligation to do so and (ii) exercising early calls on these instruments, similar to other financial institutions involved in state aid proceedings. This ban is in force until 10 March 2013. The EC allows ABN AMRO to make a dividend payment on its ordinary shares provided the dividend payment exceeds EUR 100 million per annum.

Upon publication of the full-year 2010 results in March 2011, ABN AMRO announced its dividend policy, targeting a payout ratio of 40% of the reported annual profit. Even though ABN AMRO is currently well positioned for Basel III, the bank would like to build up additional capital buffers in order to execute its strategic ambitions and to provide for the impact of new regulations. For reasons of prudence and in close consultation with the shareholder, ABN AMRO has proposed a temporary reduction of the payout ratio. The dividend proposed for 2012 is EUR 250 million. In addition to the proposed dividend for the ordinary shareholder, a EUR 12 million preferred dividend will be paid out. Over the coming years, the targeted payout ratio will gradually increase again to 40% payout over the full-year 2015 profit. ABN AMRO intends to make an interim dividend payment if the interim results so allow.

Payment of an (interim) dividend activates coupon/dividend trigger mechanisms in the class A non-cumulative preference shares, the Perpetual Bermudan Callable Securities and the Upper Tier 2 GBP instrument. As a result of the dividend paid out in 2012 the coupon payments on the Upper Tier 2 GBP instrument were triggered for 17 February 2013 as well as the next coupon for the Perpetual Bermudan Callable Securities on 10 March 2013.

Preference shares

In July 2010, in connection with the Legal Merger, the Group issued 75 million class A non-cumulative preference shares to a special purpose vehicle (SPV) named ABN AMRO Preferred Investments B.V. (previously Fortis FBN(H) Preferred Investments B.V.) in exchange for 150,000 class A non-cumulative preference shares FBN. These preference shares were issued for a total amount of EUR 210 million. The preferred dividend on the class A non-cumulative preference shares was 5.85% until 31 December 2012.

Tier 1 instruments

EUR 1 billion of Perpetual Bermudan Callable Capital Securities (XS0246487457) were issued in 2006. This innovative Tier 1 instrument has a fixed 4.31% coupon up to March 2016, after which the coupon resets to three-month Euribor plus 166 basis points. This instrument is reported in the balance sheet under subordinated liabilities. The last annual coupon was paid on 10 March 2012.

Payments may be deferred, but any deferred coupon payment will immediately become due if:

- ▶ the issuer makes payments on or purchases or redeems securities ranking pari-passu with the capital securities;
- ▶ ABN AMRO Group N.V. makes payments on any of its ordinary shares.

Under a regulatory event, the coupon payment will be deferred mandatorily. Following a regulatory event, the terms of the security will be modified such that the security becomes non-cumulative.

The capital securities are listed and traded on NYSE Euronext in Amsterdam by NYSE Euronext. Further information is provided in the prospectus dated 8 March 2006.

Tier 2 instruments

An overview of all capital instruments (including Tier 1 instruments) is shown in the following table:

Capital instruments

(in millions)					
				31 December 2012	31 December 2011
	ISIN/QSIP	Maturity date	First possible call date ¹	Nominal amount	Nominal amount
Tier 1					
MCS					1,750
EUR 1,000 Million 4.31% per annum	XS0246487457	Perpetual	March 2016	1,000	1,000
Total Tier 1 capital instruments				1,000	2,750
Upper Tier 2					
GBP 150 million (originally GBP 750 million) 5.00% per annum	XS0244754254	Perpetual	February 2016	183	179
Lower Tier 2					
EUR 377 million (originally EUR 499 million)	XS0221514879	June 2015	March 2013	377	377
EUR 440 million (originally EUR 1,000 million)	XS0267063435	September 2016	March 2013	440	441
USD 457 million (originally USD 1,000 million)	XS0282833184	January 2017	April 2013	346	352
EUR 1,650 million (originally EUR 2,000 million) ²	–	October 2017	October 2012	1,650	1,650
EUR 238 million (originally EUR 500 million)	XS0256778464	May 2018	May 2013	238	238
EUR 1,228 million 6.375% per annum	XS0619548216	April 2021		1,228	1,228
USD 595 million 6.250% per annum	XS0619547838	April 2022		451	458
USD 113 million 7.75% per annum	00080QAD7/ N0028HAP0	May 2023		86	87
EUR 1,000 million 7.125% per annum	XS0802995166	July 2022		1,000	
USD 1,500 million 6.25% per annum	XS0827817650	September 2022	September 2017	1,137	
SGD 1,000 million 4.7% per annum	XS0848055991	October 2022	October 2017	621	
EUR various smaller instruments		2015-2020		313	319
USD various smaller instruments		2015		63	64
Total Tier 2 capital instruments				8,133	5,393
Of which eligible for regulatory capital (Basel II Tier 1)				997	2,744
Of which eligible for regulatory capital (Basel II Tier 2)				7,031	4,887
Of which eligible for regulatory capital (Basel III Tier 1)				797	2,195
Of which eligible for regulatory capital (Basel III Tier 2)				5,002	2,042

¹ By its decision dated 5 April 2011, the European Commission imposed on ABN AMRO as a condition a restriction with respect to the calling of certain capital instruments and/or the payment of discretionary coupons in relation to those capital instruments. The ban is for a limited period up to and including 10 March 2013. The call dates represent the first possible call date per instrument, taking into account the EC call restriction.

² The EUR 1,650 million instrument is owned by the Dutch State and was acquired from Fortis Bank SA/NV in Belgium in October 2008; please refer to note 41 to the Consolidated Financial Statements.

Minimum capital requirement (Audited)

The Pillar 1 capital requirement is the absolute minimum amount of capital required of a bank to cover the three major risk types that a bank faces: credit risk, operational risk and market risk as determined in the Basel II, Pillar 1 framework.

The following table provides an overview of the risk-weighted assets and minimum capital requirements per risk type, category of exposure and regulatory approach.

Capital requirement (Audited)

	31 December 2012		31 December 2011	
	Capital requirement	Risk-weighted assets	Capital requirement	Risk-weighted assets
Credit risk Internal Ratings Based				
Central governments and central banks	55	683	108	1,354
Institutions ¹			13	164
Corporates	2,985	37,318	3,241	40,508
Retail	1,854	23,175	1,786	22,328
- of which Retail mortgages	1,162	14,530	1,014	12,672
- of which Qualifying revolving exposures	228	2,856	57	711
- of which Other retail	464	5,789	715	8,945
Equities not held for trading	143	1,789	108	1,344
Securitisation positions ²	263	3,284	387	4,836
Other ³	127	1,586	20	245
Total credit risk Internal Ratings Based	5,427	67,835	5,663	70,779
Credit risk Standardised Approach				
Central governments and central banks			9	111
Institutions ¹	439	5,482	623	7,782
Corporates	1,902	23,776	1,320	16,505
Retail claims	107	1,335	319	3,984
- of which Retail mortgages	6	81	115	1,441
- of which Qualifying revolving exposures				
- of which Other retail	101	1,254	204	2,543
Equities not held for trading			2	29
Other ³	158	1,977	194	2,419
Total credit risk Standardised Approach	2,606	32,570	2,467	30,830
Other risks				
Market risk	451	5,640	293	3,667
- of which Standardised Approach	411	5,140	180	2,254
- of which Internal Model Approach	40	500	113	1,413
Operational risk	1,237	15,461	1,041	13,010
- of which Standardised Approach	1,237	15,461	1,041	13,010
Total other risks	1,688	21,101	1,334	16,677
Total	9,721	121,506	9,464	118,286

¹ Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

² Securitisation positions are mainly retained.

³ Other includes, among other things, property & equipment and other assets.

Main regulatory developments

IAS 19 (as revised in 2011)

The increased volatility in equity as a result of the amended IAS 19 Employee Benefits will impact Basel II regulatory capital, since a net defined benefit asset (i.e. assets exceed liabilities) as well as a liability (assets below liabilities) are recognised directly in core Tier 1 capital.

Under Basel III full phase-in rules, the amended IAS 19 Employee Benefits does not have an impact on Common Equity Tier 1 capital as long as the funded status remains positive (net defined benefit asset). A net defined benefit liability is recognised directly in Basel III Common Equity Tier 1 capital. Under Basel III phase-in rules, if a net pension asset exists, the positive effect of a pension asset is expected to reduce gradually to zero over a five-year period beginning 2014.

The amendments to IAS 19 became effective on 1 January 2013. If these amendments had been applied in 2012, the impact on the balance sheet as of 31 December 2012 would have been negative,

lowering the Basel II core Tier 1 capital by EUR 1.2 billion and the core Tier 1 capital ratio by 0.9%.

More information on the sensitivity of equity to the introduction of the amended IAS 19 Employee Benefits can be found in note 30 to the Annual Financial Statements.

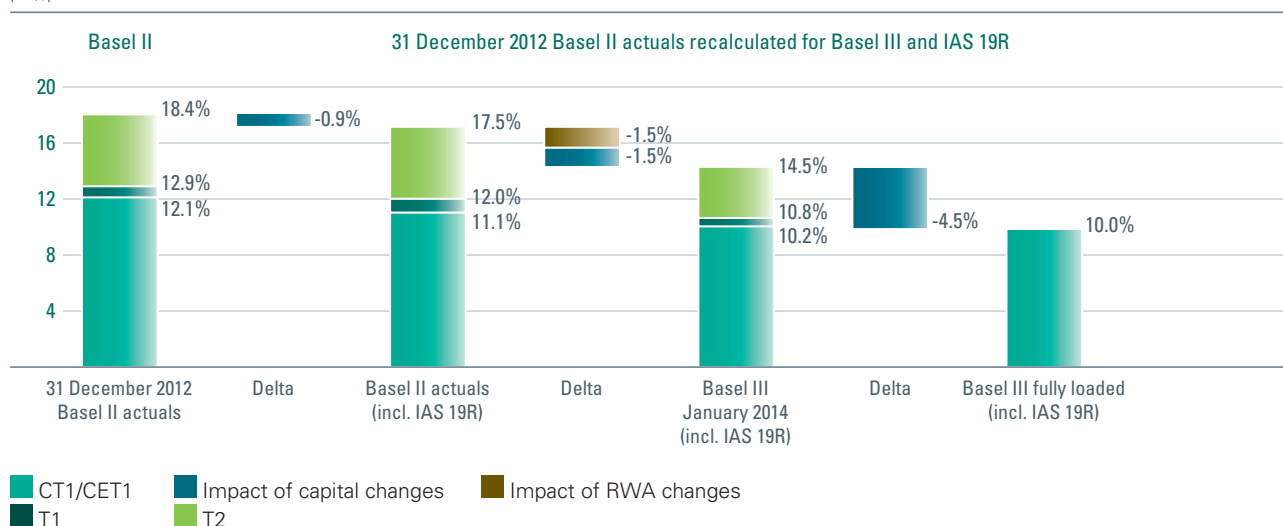
Basel III/CRD IV

The introduction of Basel III in European regulation (CRD IV) is expected to translate the current Basel II capital ratios into lower Basel III capital ratios. Under the new rules, capital requirements are expected to increase and additional capital deductions and prudential filters are to be introduced. The CRD IV draft stipulates that the new rules will be implemented using a phased-in approach.

We already manage our regulatory capital position towards expected CRD IV requirements. Despite the postponement of the introduction of CRD IV, we continuously monitor and manage our capital adequacy position in anticipation of CRD IV implementation. CRD IV is expected to be introduced on 1 January 2014.

Basel III and IAS 19R estimated impact on capital ratios

(in %)



The graph above shows the 31 December 2012 actual capital ratios under Basel II adjusted for the amendments to IAS 19 as well as the impact of Basel III, both including and excluding the transitional arrangements as expected to be applicable in January 2014.

CRD IV phase-in 2014

Under the new rules as set out in the CRD IV draft of 21 May 2012 and the current interpretation thereof, the 31 December 2012 regulatory capital ratios would be impacted as follows:

- ▶ RWA are expected to increase, resulting in a 1.5 percentage point lower total capital ratio due to, among other things, an increase in the capital requirement for the treatment of mark-to-market financial counterparty credit risk losses (credit valuation adjustment (CVA) capital charge), the capital requirement for exposure to central counterparties and the capital requirement for the deferred tax assets related to temporary differences;
- ▶ Total capital is expected to decrease, resulting in a 1.5 percentage point decline in the total capital ratio. This decrease is caused by an expected loss of eligibility of EUR 0.2 billion of Tier 1 instruments and EUR 2.0 billion of Tier 2 instruments as from

1 January 2014. This decrease is partly offset by a capital increase due to a different treatment of capital deductions and prudential filters.

CRD IV fully loaded

Under the CRD IV rules for capital deductions, excluding transitional arrangements:

- ▶ RWA are virtually the same as under the phase-in rules;
- ▶ Common Equity Tier 1 capital shows an additional decline of 0.2% due to the deduction of deferred tax assets and a different treatment of capital deductions and prudential filters. Total capital shows a decrease by an additional EUR 6.1 billion, resulting in a 4.5 percentage point additional decline in the total capital ratio. We currently assume (conservatively) that our capital instruments will not be eligible under Basel III fully loaded rules. The Tier 2 capital instruments issued in 2012 might qualify under CRD IV, but this will depend on the final CRD IV rules.

Impact of IAS 19R and Basel III on capital ratios

31 December 2012	Basel II	Basel II (incl. IAS 19R)	Basel III January 2014 (incl. IAS 19R)	Basel III fully loaded (incl. IAS 19R)
Risk-weighted assets	121,506	121,506	134,220	134,142
Core Tier 1/Common Equity Tier 1 capital	14,700	13,546	13,734	13,408
Tier 1/Common Equity Tier 1 ratio	12.1%	11.1%	10.2%	10.0%
Tier 1 capital	15,697	14,543	14,532	13,408
Tier 1 ratio	12.9%	12.0%	10.8%	10.0%
Total capital	22,400	21,246	19,501	13,409
Total capital ratio	18.4%	17.5%	14.5%	10.0%

Leverage ratio

Furthermore, Basel III proposes a minimum leverage ratio of 3% by 2018. Based on new regulatory guidance on the draft rules, ABN AMRO's leverage ratio was 3.2% at 31 December 2012 (up from 3.1% on 31 December 2011). This guidance is more conservative, mainly in the

treatment of netting of securities financing transactions, than the method used in the Annual Report 2011, when a leverage ratio of 3.3% at 31 December 2011 was reported. The leverage ratio is calculated using current Basel II Tier 1 capital as a basis.

liquidity & funding 19

Over the last two years, we have significantly enhanced the bank's liquidity profile. In 2012 we further improved the Loan-to-Deposit ratio thanks to a substantial inflow of customer deposits and also successfully extended our funding maturity profile. In anticipation of the implementation of Basel III, the LCR ratio improved to 89% and the bank's NSFR ratio increased to 108%. The liquidity buffer was increased in anticipation of new LCR guidelines and the regulators' focus on strengthening buffers in general. Funding transactions executed in 2012 demonstrated ABN AMRO's solid market access and improved the bank's geographical funding footprint.

Strategy

In line with the bank's moderate risk appetite, we have formulated a set of liquidity risk metrics and limits to manage the bank's liquidity position and ensure compliance with regulatory requirements at all times. Through the maintenance of a long-term term maturity profile, limiting the dependence of wholesale funding and the presence of a solid liquidity buffer, we maintain our prudent liquidity management framework. In the management of liquidity risk, a clear distinction is made between going concern and liquidity contingency risk management.

The bank's funding strategy is determined in line with the formulated liquidity risk management profile. Key elements of the bank's funding strategy are to further optimise and diversify the bank's funding sources, in order to maintain the targeted long-term funding position and liquidity profile. In doing so, we aim to strike a balance between the need to have sufficient funding and the costs involved, thereby

ensuring that the balance sheet has a diverse, stable and cost-efficient funding base.

The funding strategy is executed taking into account the following guidelines:

- ▶ Be active in issuance in funding markets in Europe, the US and the Asian region;
- ▶ Establish strong relationships with and strengthen the international investor base through active marketing and issuance;
- ▶ Find an optimal balance between private placements and (public) benchmark deals;
- ▶ Build and actively manage the credit curve;
- ▶ Continuously investigate and issue attractive investment opportunities for investors;
- ▶ Decrease funding costs within the targets set for volume, maturity and diversification.

Liquidity

Liquidity risk (Audited)

Liquidity risk is the risk that actual (and potential) payments or collateral posting obligations cannot be met on a timely basis. There are two types of liquidity risk. Funding liquidity risk is the risk of not being able to meet both expected and unexpected current and future cash outflows and collateral needs without affecting either daily operations or the firm's financial condition. Market liquidity risk is the risk that the bank cannot sell an asset in a timely manner without significantly affecting the market price due to insufficient market depth (insufficient supply and demand) or market disruption. As such, it is related to market risk. Market liquidity risk also includes the sensitivity in liquidity value of an investment portfolio due to changes in the applicable haircuts and market value.

Liquidity risk management approach (Audited)

Liquidity risk management entails retaining 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.

Liquidity risk management is integrated in our day-to-day business activities, through the inclusion of liquidity costs in the funds transfer pricing framework, among other things. We take a two-step approach to liquidity risk management: a going concern liquidity management approach and a contingency liquidity risk approach.

Going concern liquidity management

Going concern liquidity management at ABN AMRO entails management of the day-to-day liquidity position within specified parameters to ensure all liabilities can be met on a timely basis. The most important metrics we use are:

- ▶ **Stress test:** The objective of stress-testing is to evaluate the effectiveness of the liquidity risk management framework, i.e. the liquidity buffer size, the risk appetite and limits. The behaviour of present and future cash in- and outflows (including inflows from asset sales and/or the use of assets as collateral) under unlikely but plausible crisis scenarios (both market-wide and company-specific) are analysed in order to assess the potential for any net shortfalls which would make ABN AMRO unable to meet its payment obligations;
- ▶ **Regulatory liquidity requirement:** The regulatory liquidity requirement measures the one-month liquidity position in a scenario of severe stress. This stress scenario is defined by DNB.¹ It requires the one-month liquidity position to always exceed the minimum required regulatory level. The outcome is above the minimum regulatory requirement;
- ▶ **Survival period:** The methodology to calculate the survival period has been improved, resulting in a better representation of the sensitivities of our balance sheet;
- ▶ **LtD ratio:** The Loan-to-Deposit ratio (LtD ratio) measures the relationship between the loan book (Loans and receivables - customers) and deposits from clients (Due to customers). The ratio includes all client-driven loans and deposits, but excludes loans to and deposits from governments and the impact of securities lending and repo transactions as these transactions are mostly related to financial institutions rather than non-institutional clients. As such, the LtD gives an indication of our dependence on wholesale funding for the financing of our non-institutional client loans. The Dutch retail market is characterised by mortgage loans outweighing client savings balances, thereby driving up the LtD. The LtD ratio was 125.0% on 31 December 2012, down from 130.3% on 31 December 2011 due to increased savings relative to loan increases. The following table shows the development of the LtD ratio in 2012.

¹ A standard methodology is defined by DNB, assigning run-off rates to all in- and outflows of a bank's balance sheet. Inflows should cover for outflows during a one-month period. Any shortfalls are to be covered by a liquidity buffer.

Loan-to-Deposit ratio (Audited)

(in millions)	31 December 2012	31 December 2011
Loans and receivables – customers	276,283	272,008
Less: Reverse repurchase agreements	7,346	8,857
Less: Securities borrowing	7,149	7,592
Less: Fair value adjustment from hedge accounting	6,041	4,825
	-20,536	-21,274
Add: Gross up savings in mortgage linked saving products	6,574	4,950
Adjusted loans and receivables – customers	262,321	255,684
Due to customers	216,021	213,616
Less: Repurchase agreements	12,148	20,885
Less: Securities lending transactions	2,994	4,509
Less: Deposits from Dutch State Treasury Agency (DSTA)	2,100	2,100
	-17,242	-27,494
Add: Gross up savings in mortgage linked saving products	6,574	4,950
Add: Debt certificates issued through Groenbank NV	353	436
Add: Fiduciary deposits	4,233	4,700
	11,160	10,086
Adjusted due to customers	209,939	196,208
Loan-to-Deposit ratio (LtD)	125.0%	130.3%

Contingency liquidity risk management

Contingency liquidity risk management aims to ensure that in the event of either a firm-specific or general market event, the bank is able to generate sufficient liquidity to withstand a short- or long-term liquidity crisis.

- **Liquidity Contingency Plan:** Contingency liquidity risk management makes use of the Liquidity Contingency Plan (LCP), which is aligned with our Recovery Plan as required by DNB and comes into effect in the event the bank's liquidity position is threatened by internal or external circumstances which could lead to a liquidity crisis. The LCP is designed to enable us to continue to manage our liquidity sources without unnecessarily jeopardising the businesses, while limiting excessive funding costs in severe market circumstances.

The LCP defines several stages based on the seriousness of liquidity threats and defines mitigating actions. The LCP stage is determined based on the internal liquidity risk profile in relation to our risk appetite and external market developments.

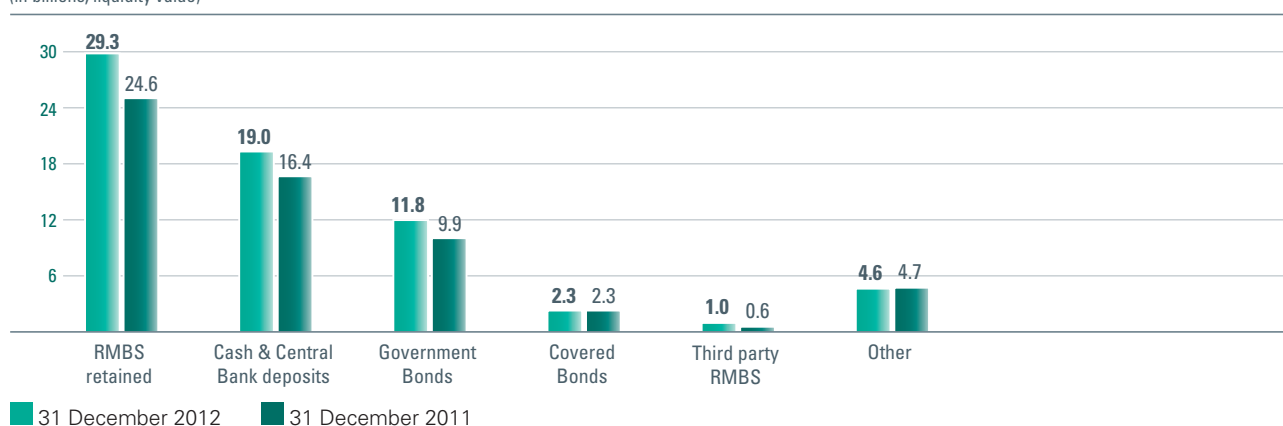
- **Collateral posting in case of rating downgrade:** In the event that ABN AMRO's credit rating is downgraded, certain additional amounts of collateral may need to be provided. To a limited extent, collateral needs to be provided for exposures in the trading book. More material amounts of collateral need to be provided in relation to secured funding and securitisation transactions. ABN AMRO monitors these potential additional collateral postings in its liquidity management framework.

► **Liquidity buffer:** We maintain a liquidity buffer with sufficient collateral as a safety cushion in the event of severe liquidity stress. The liquidity buffer portfolio mainly consists of retained RMBS, government bonds and cash, all unencumbered. The liquidity buffer amounted to EUR 68.0 billion on 31 December 2012, up from EUR 58.5 billion on 31 December 2011. The composition of the liquidity buffer is shown in the following graph. Further information on the composition

of the government bond portfolio is provided in note 15 to the Annual Financial Statements. The portion of readily available cash and central bank deposits was considerably higher at year-end 2012 compared with year-end 2011. In addition, the securitisations that were redeemed in 2012 have been restructured and retained as part of the liquidity buffer. The increase of the liquidity buffer is in anticipation of new LCR guidelines and the focus of regulators on strengthening the buffers in general.

Composition of liquidity buffer (Audited)

(in billions, liquidity value)



Basel III/CRD IV

The Basel III framework introduces two new liquidity ratios: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The objective of the LCR is to promote the short-term resilience of banks by ensuring sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days. The objective of the NSFR is to promote resilience over a longer time horizon by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. Regulatory minimum requirements for both the LCR and NSFR are expected to be 100% under Basel III.

The LCR for ABN AMRO further improved to 89% at 31 December 2012¹ due to an increase of high quality

liquid assets which was partially offset by an increase in net cash outflows. At 31 December 2012, the NSFR was 108% (31 December 2011: 100%) as a result of the successful implementation of the funding strategy in the past few years, under which the volume of long-term funding increased in comparison with the volume of short-term funding.

In January 2013, the Basel Committee published an update on the LCR guidelines, indicating a delayed and staged implementation of the LCR ratio.² Taking this changed timeline into account, ABN AMRO now targets compliance with the LCR of 100% as of 2014. Instead of the initial target of 2013, ABN AMRO will still strive for earlier compliance. Based on the new guidelines, the LCR at 31 December 2012 will be above 90%.

¹ Calculated based on current information, assumptions and regulatory guidance not taking into account the updated LCR guidelines. A recalculation of the LCR per 31 December 2011 was performed, which resulted in an LCR of 57% at 31 December 2011, instead of 69% which was reported previously.

² The new proposal states it would be 60% for 2015 and increase by 10 percentage points per year to reach 100% in 2019.

Maturity analysis of assets and liabilities (Audited)

The following table shows an analysis of the financial assets and liabilities according to when they are to be recovered

or settled. This is not consistent with how we view and manage liquidity, as it does not take expected client behaviour and other factors into account.

Maturity of assets and liabilities at 31 December 2012 (Audited)

(in millions)				31 December 2012
	Less than twelve months	More than twelve months	Maturity not applicable	Total
Assets				
Cash and balances at central banks	9,796			9,796
Financial assets held for trading	22,804			22,804
Financial investments	364	20,704	339	21,407
Loans and receivables – banks	46,319	79		46,398
Loans and receivables – customers	46,720	229,563		276,283
Other assets	3,564	8,324	5,828	17,716
Total assets	129,567	258,670	6,167	394,404
Liabilities				
Financial liabilities held for trading	18,782			18,782
Due to banks	20,838	425		21,263
Due to customers	207,831	8,190		216,021
Issued debt	29,915	64,128		94,043
Subordinated liabilities		9,566		9,566
Other liabilities	3,871	14,698	2,123	20,692
Total liabilities	281,237	97,007	2,123	380,367
Total equity			14,037	14,037
Total liabilities and equity	281,237	97,007	16,160	394,404

Maturity of assets and liabilities at 31 December 2011 (Audited)

(in millions)				31 December 2011
	Less than twelve months	More than twelve months	Maturity not applicable	Total
Assets				
Cash and balances at central banks	7,641			7,641
Financial assets held for trading	29,523			29,523
Financial investments	1,668	16,697	356	18,721
Loans and receivables – banks	60,940	379		61,319
Loans and receivables – customers	34,012	237,996		272,008
Other assets	2,505	6,669	6,296	15,470
Total assets	136,289	261,741	6,652	404,682
Liabilities				
Financial liabilities held for trading	22,779			22,779
Due to banks	30,050	912		30,962
Due to customers	208,254	5,362		213,616
Issued debt	31,295	65,015		96,310
Subordinated liabilities	5	6,692	2,000	8,697
Other liabilities	5,186	13,370	2,342	20,898
Total liabilities	297,569	91,351	4,342	393,262
Total equity			11,420	11,420
Total liabilities and equity	297,569	91,351	15,762	404,682

The next table provides a maturity analysis of the earliest contractual undiscounted cash flows for financial assets and liabilities. Financial assets and liabilities held for trading are recorded under On demand at fair value.

We believe this best represents the short-term nature and the cash flows of these activities. The contractual maturity of the instruments may be extended over significantly longer periods.

Maturity based on contractual undiscounted cash flows at 31 December 2012 (Audited)

(in millions)

31 December 2012

[illegible]

Maturity based on contractual undiscounted cash flows at 31 December 2011 (Audited)

(in millions)

31 December 2011

[illegible]

Funding (Audited)

ABN AMRO raises the majority of its funding through savings and deposits from Retail & Private Banking and Commercial & Merchant Banking clients. The increase (recorded mainly in savings deposits) was largely attributable to the successful roll-out of MoneYou, part of Retail Banking, in Germany and Belgium and increased savings in the Netherlands as competition on savings eased somewhat over the year. ABN AMRO's Loan-to-Deposit ratio is above 100% due to the characteristics of the Dutch retail market. As a consequence, the remainder of the funding is raised mainly through long-term wholesale funding.

The wholesale market was increasingly accessible and credit spreads decreased during the course of 2012, although markets remained volatile. International credit investors increasingly differentiated investments based on geography. During the period of uncertainty about the eurozone, the Netherlands appeared to be perceived as a safe haven.

Despite the challenging financial markets, ABN AMRO had continuous access to wholesale funding during 2012. Market access to long-term funding as well as subordinated debt was further improved. In 2012, ABN AMRO issued in several currencies in Europe, the US and Asia. During the last three years, the bank managed to realise the strategy of diversifying funding sources and extending the wholesale funding maturity profile. For the coming years, ABN AMRO will focus on optimising the wholesale maturity profile and further diversifying funding sources.

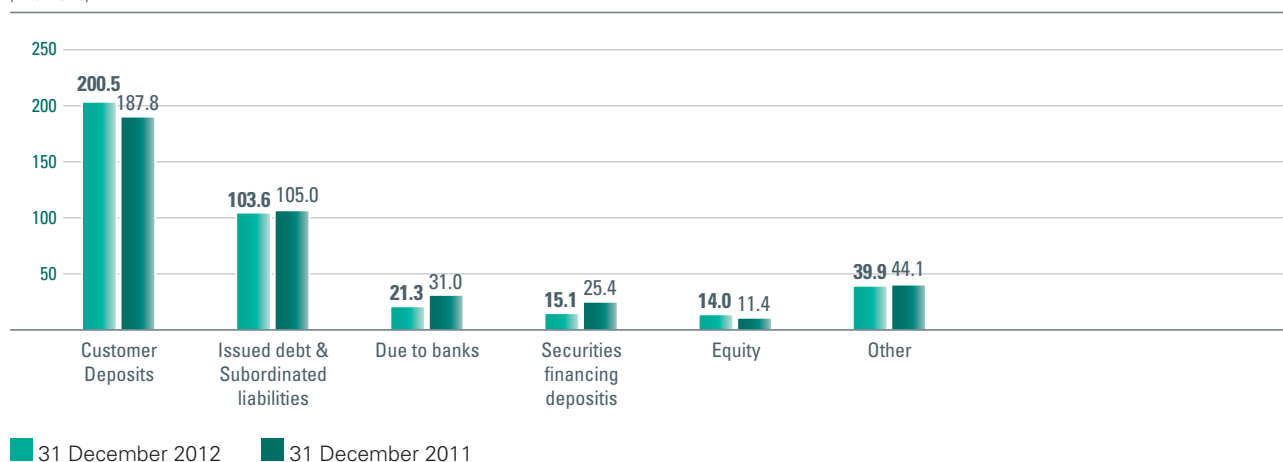
ABN AMRO did not participate in any of the Longer Term Refinancing Operations (LTRO) of the ECB.

Liability breakdown

The bank benefits from core deposit funding and diversified wholesale funding sources, as shown in the following graphs. Customer deposits that ABN AMRO gathers through its R&PB and C&MB networks are the main source of funding for the bank, comprising 51% of the balance sheet total at 31 December 2012 compared to 45% as of 31 December 2011.

Liability and equity breakdown at year-end 2012 and 2011 (Audited)

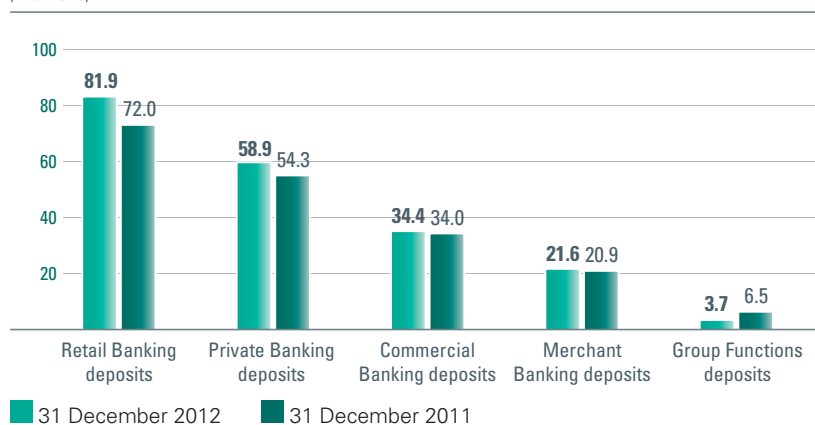
(in billions)



The graph below shows the breakdown of customer deposits by segment.

Breakdown of customer deposits at year-end 2012 and 2011 (Audited)

(in billions)



Available funding instruments

Several programmes are in place to attract long-, medium- and short-term funding. A key goal of the funding strategy is to diversify funding sources. To that end, the set of funding tools includes a broad set of funding programmes in different currencies, markets, maturities and investor

bases. A description of capital and funding instruments issued by ABN AMRO is provided on the website, abnamro.com. We continuously assess this toolkit in order to determine the optimum use of funding sources. The main wholesale funding types can be specified as follows:

Overview of funding types (Audited)

(in millions)	31 December 2012	31 December 2011
Saving certificates	686	1,004
Commercial Paper/Certificates of Deposit		
Euro Commercial Paper	5,238	7,940
London Certificates of Deposit	7,522	6,044
French Certificats de Dépôt	4,510	4,576
US Commercial Paper	3,788	3,361
Senior Guaranteed		
Dutch State guaranteed Medium-term notes	2,692	4,834
Senior Unsecured		
Unguaranteed Medium-term notes	25,808	19,090
Senior Secured		
Senior secured bonds (excl. asset-backed securities)	27,654	25,368
Securitisations¹		
Residential mortgage-backed securities (Dutch)	15,964	22,545
Other Asset-backed securities	181	1,548
Total issued debt	94,043	96,310
Total subordinated liabilities	9,566	8,697
Total funding types	103,609	105,007

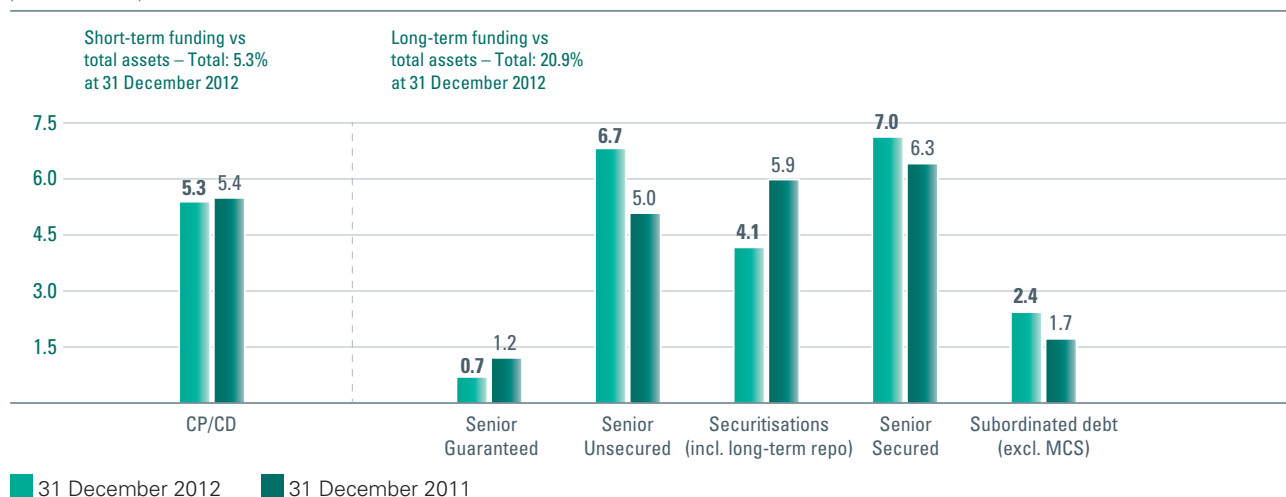
¹ Excluding long-term repos.

Total outstanding wholesale funding amounted to EUR 103.6 billion at year-end 2012, of which 20.3% is short-term funding (CP/CD).

The graph below shows the development of wholesale funding types relative to the balance sheet total at 31 December 2012 and 31 December 2011.

Funding vs balance sheet total (Audited)

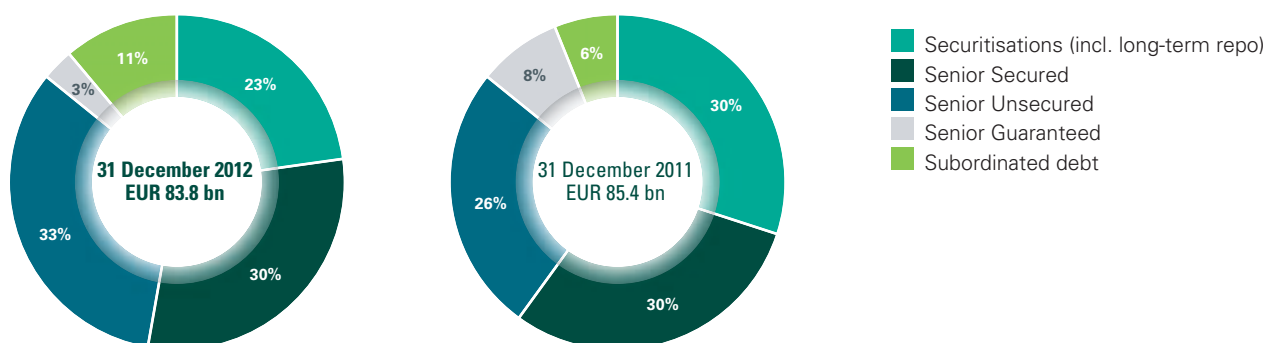
(% of total assets)



The following information is based on notional values. The main differences compared to the information above are differences between nominal value and issue price and fair value hedge accounting adjustments.

The graph below gives an overview of the outstanding long-term funding at 31 December 2012 and 31 December 2011.

Long-term funding components (Audited)



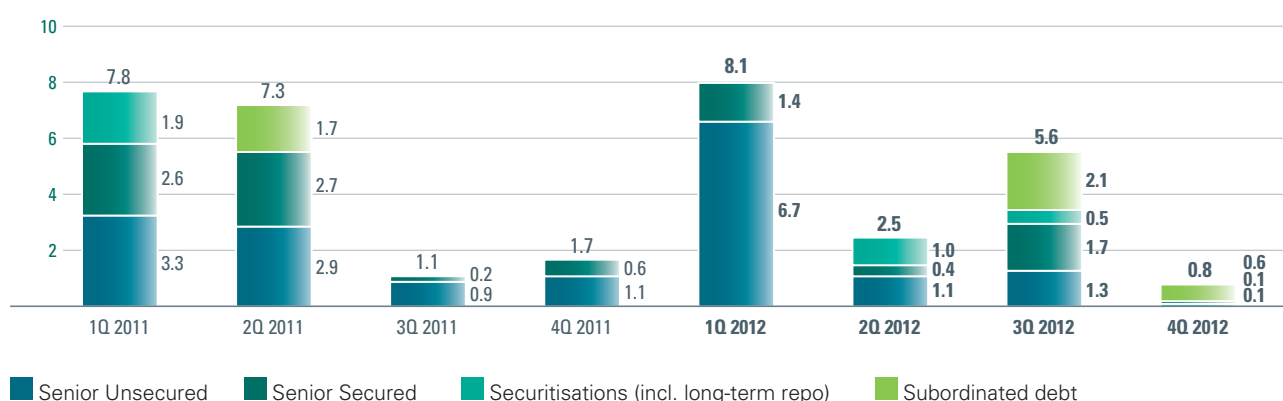
Funding issuance in 2012 (Audited)

In accordance with the funding plan, ABN AMRO refinanced all long-term funding maturing in 2012 during the first half of the year. The remaining funding raised in 2012 relates primarily to pre-funding for 2013. ABN AMRO raised EUR 14.2 billion of long-term funding (excluding subordinated debt) among a widespread investor base in 2012.

Of the wholesale funding raised in 2012, 54% was attracted through benchmark transactions compared to 65% in 2011. The remainder of funding was attracted through private placements. Furthermore, EUR 2.8 billion of subordinated loans qualifying as Lower Tier 2 capital were issued during the second half of 2012.

Long-term funding raised in 2012 and 2011 (Audited)

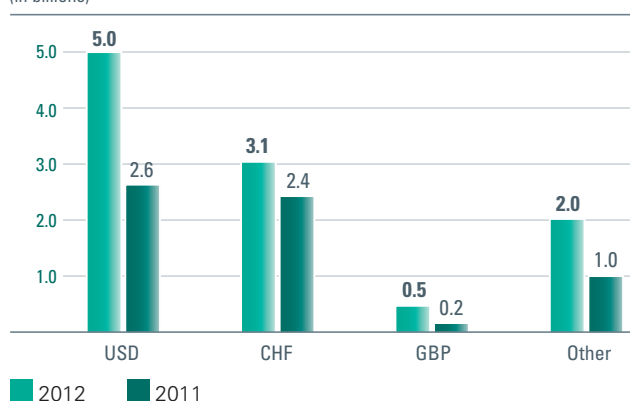
(in billions)



Long-term funding in non-euro currencies equals 12.6% of total outstanding long-term funding compared to 7.5% at year-end 2011. In 2012, the bank raised long-term funding in, among other currencies, US dollar, British pound and Norwegian krone and ABN AMRO was the first Dutch financial institution to issue unsecured debt in Chinese yuan. Diversification of the outstanding non-euro currency long-term funding is shown in the graph below.

Non-euro currency diversification of total outstanding long-term funding (Audited)

(in billions)

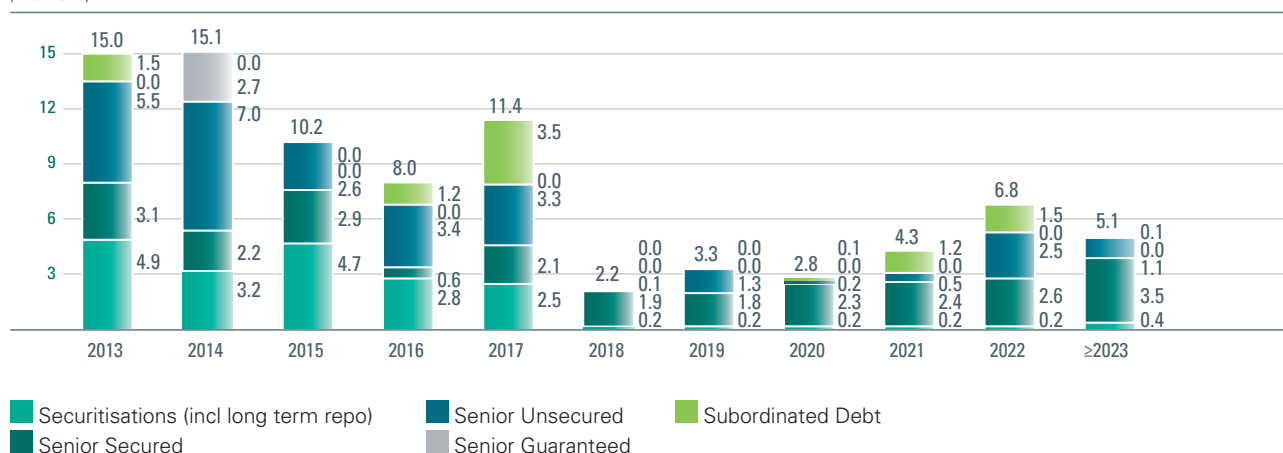


The maturity profile improved due to an increase in the average maturity of long-term funding. The average original maturity of newly issued funding in 2012 was approximately 6.6 years, which increases the average outstanding maturity of the long-term funding to 4.3 years.

The bank's maturity calendar assumes redemption on the earliest possible call date or otherwise the legal maturity date as early redemption of subordinated instruments is subject to the approval of regulators. However, this does not mean that the instruments will be called at the earliest possible call date. In addition, ABN AMRO cannot call subordinated instruments up to and including 10 March 2013 without the approval of the EC.

Maturity calendar at 31 December 2012 (Audited)

(in billions)



securitisation 20

ABN AMRO uses securitisation transactions to diversify its funding sources, manage its liquidity profile and transfer credit risk. ABN AMRO is mainly involved in securitisation of its own originated transactions. Financial assets included in these transactions are residential mortgages and loans to small and medium-sized enterprises (SME). All securitised assets are originated in the Netherlands.

Key developments

ABN AMRO currently uses securitisation primarily for funding and liquidity purposes. The total RWA relief amounts only to EUR 0.3 billion. In general, securitised assets continue to be recognised on the consolidated balance sheet.

The bank distinguishes the following types of structures:

► True sale (traditional) securitisation

A foundation (*stichting*) incorporates a Special Purpose Entity (SPE) resulting in a bankruptcy remote structure. ABN AMRO transfers a portfolio of receivables to the SPE. As a consideration, ABN AMRO receives a purchase price from the SPE. The SPE funds the purchase by issuing notes.

► Synthetic securitisation

A foundation (*stichting*) incorporates an SPE resulting in a bankruptcy remote structure. ABN AMRO receives credit protection from this SPE relating to a portfolio of reference assets. In return, ABN AMRO pays a credit protection premium to the SPE. In order to provide credit protection, the SPE may issue credit-linked notes. The proceeds of the issue are kept in a deposit as collateral for the credit protection provided by the SPE.

The total amount of assets securitised decreased from EUR 100.4 billion in 2011 to EUR 70.0 billion in 2012, down EUR 30.4 billion. This decline was caused mainly by the unwinding of all the remaining synthetic securitisations. The amount of assets securitised in true sale securitisations remained roughly the same at EUR 70.0 billion, a decrease of EUR 1.5 billion.

The amount of notes¹ sold to external parties totalled EUR 14.2 billion at 31 December 2012, compared to EUR 20.4 billion at year-end 2011. The difference was primarily caused by calling several RMBS notes.

ABN AMRO is – on a limited basis – an investor in positions in third-party securitisations (2012: EUR 1.4 billion, 2011: EUR 1.4 billion).

Asset classes

ABN AMRO securitises two types of receivables: (i) residential mortgages and (ii) loans to small and medium-sized enterprises. The relevant residential mortgages were originated by ABN AMRO Bank or one of its subsidiaries.

¹ Notes reported under the CRD framework (excl. European Mortgage Securities VIII B.V.).

SME loans are loans to Dutch small and medium-sized enterprises and the securitised loans were all originated by ABN AMRO in the Netherlands.

Risks associated with the roles in the securitisation process

There are several risks involved in securitisations, the most significant of which are described below.

Credit risk

Credit risk relates to the risk of credit losses on the securitised assets. ABN AMRO retains part of the credit risk by retaining notes and other securitisation positions such as liquidity facilities, swaps and first loss tranches. Regulatory capital is held for all retained securitisation positions in accordance with the applicable solvency regulation.

Liquidity risk

Liquidity risk relates to the risk that ABN AMRO might incur additional cash outflows. Any potential future cash outflows relating to these positions, including collateral requirements, are taken into account within ABN AMRO's stress tests and are integrated into the liquidity ratios where relevant. This includes the potential impact of the liquidity facilities or swap agreements which ABN AMRO has as part of a number of securitisation transactions, most of which relate to transactions where ABN AMRO is the originator of the underlying assets. A liquidity facility provides cash to the SPE in the event of a temporary liquidity shortfall.

Approaches to calculating risk-weighted exposure

Fully retained transactions

No RWA asset reduction is applied to securitisation transactions of which all notes have been retained.

Partially retained transactions

For securitisation transactions where notes have been sold to third parties, the credit risk related to the securitised loans has in effect been transferred to the note holders and RWAs for the related loans is set to zero.

ABN AMRO may, however, retain certain risk positions, such as retained notes, liquidity facilities, swaps and first loss tranches. The IRB approach of the CRD securitisation framework is used for calculating the capital requirements on these retained positions. Positions for which external ratings are available or for which ratings can be inferred are reported via the Ratings Based Approach (RBA). In all other cases, positions are reported based on the Supervisory Formula. Eligible external ratings on securitisation positions from Moody's, Standard & Poor's, Fitch Ratings and/or DBRS are applied for the RBA. An assessment is performed to determine whether significant risk transfer has been achieved.

Monitoring process

ABN AMRO periodically monitors changes in credit risk relating to securitisation exposures. Once a month, ABN AMRO assesses the significance of the amount of credit risk transferred to third parties by securitisation of own originated assets in accordance with the regulatory significant risk transfer test. For investments in third-party securitisations, the risk is monitored by reviewing the investor reports of these transactions. Additionally, third-party securitisation positions are included in the firm-wide comprehensive stress tests in which downgrade and default risk under stressed market conditions is assessed.

Overview of securitisation positions and securitised assets

The total amount of assets securitised decreased from EUR 100.4 billion in 2011 to EUR 70.0 billion in 2012, down EUR 30.4 billion. This change was mainly caused by the unwinding of all the remaining synthetic securitisations (e.g. Shield 1, SMILE 2005).

The amount of assets securitised in true sale securitisations remained roughly the same at EUR 70.0 billion, a decrease of EUR 1.5 billion. ABN AMRO did not originate any new securitisation transactions for the purposes of capital relief.

Securitisation overview of own originated assets (overall pool size) (Audited)

(in millions)	True sale securitisations		Synthetic transactions		
	Mortgage loans	SME loans	Mortgage loans	SME loans	Total
31 December 2012					
Total assets securitised reported under the CRD securitisation framework	42,465	1,465			43,930
Total assets securitised not reported under the CRD securitisation framework ¹	26,114				26,114
Total assets securitised	68,579	1,465			70,044
31 December 2011					
Total assets securitised reported under the CRD securitisation framework	43,481	1,744		6,019	51,244
Total assets securitised not reported under the CRD securitisation framework ¹	26,283		21,426	1,443	49,152
Total assets securitised	69,764	1,744	21,426	7,462	100,396

¹ Securitisation positions might be excluded from the CRD securitisation framework due to the fact that these securitisations do not provide any capital relief. At 31 December 2012 EUR 1,967 million (31 December 2011: 2,109 million) of assets were transferred.

Details on retained and purchased securitisation positions

The tables in the following sections contain data of securitisation positions in which ABN AMRO acts as originator or investor. These tables exclude securitisations not reported in accordance with the CRD securitisation framework, for example fully retained securitisations (see table size of securitisation special purpose entities). Amounts reported are based on the regulatory exposure values calculated in accordance with the regulatory

guidelines. This not only includes the notes issued under the securitisation, but also liquidity facilities, the credit equivalent of interest rate swaps and first loss positions. As a result, the total exposure value (EUR 48.3 billion) is higher than the total amount of securitised assets (EUR 43.9 billion) under the CRD securitisation framework.

The following table shows the total amount of ABN AMRO's exposure value on securitisation positions in which ABN AMRO acts as originator or investor.

Overview of retained, purchased and transferred securitisation positions

(in millions)	True sale securitisations		Synthetic transactions		Total
	Mortgage loans	SME loans	Mortgage loans	SME loans	
31 December 2012					
Securitisation position in own originated transactions	46,679	1,595			48,274
Securitisation positions transferred	-13,997	-181			-14,178
Retained securitisation positions	32,682	1,414			34,096
Securitisation position in purchased securitisations	1,397				1,397
Total securitisation positions	34,079	1,414			35,493
31 December 2011					
Securitisation position in own originated transactions	46,301	1,879		6,114	54,294
Securitisation positions transferred	-20,436	-197			-20,633
Retained securitisation positions	25,865	1,682		6,114	33,661
Securitisation position in purchased securitisations	1,371			1,550	2,921
Total securitisation positions	27,236	1,682		7,664	36,582

The amount of securitisation positions decreased by EUR 1.1 billion, coming down from EUR 36.6 billion to EUR 35.5 billion in 2012. This decline was mainly the result of the unwinding of all remaining synthetic transactions (EUR -7.7 billion) as well as calling several RMBS notes (EUR +6.4 billion).

At 31 December 2012, 32% of the notes relating to true sale securitisations in which ABN AMRO acts as originator and reported under the CRD securitisation framework were held by external parties. The amount of capital relief

at 31 December 2012 resulting from these transactions was limited to EUR 0.3 billion RWA (2011: EUR 2.5 billion).

The following table outlines all securitisation positions retained or purchased broken down by risk weight bands. The risk weight bands applied relate to risk weights before applying any multiplication factors under the applicable solvency regulation. Note that actual RWAs reported on securitisation positions are lower due to a cap on RWAs, where the RWAs of the securitisation positions exceed the RWAs of the underlying assets.

Risk weight distribution of securitisation positions retained and purchased

(in millions)		31 December 2012			31 December 2011		
	Own-originated securitisation positions retained	Securitisation position purchased	Total	Own-originated securitisation positions retained	Securitisation position purchased	Total	
0%-12%	30,501	1,397	31,898	30,536	1,371	31,907	
12%-20%	1,427		1,427	1,181		1,181	
20%-50%	928		928	941		941	
50%-100%	664		664	578		578	
100%-250%	88		88	29	1,550	1,579	
250%-425%							
425%-650%							
650%-1250%	3		3	3		3	
1250%	485		485	393		393	
Total	34,096	1,397	35,493	33,661	2,921	36,582	

Details on securitised asset portfolios

The table in this section outlines the notional amounts outstanding of the underlying pool of assets, which amounted to EUR 43.9 billion at year-end 2012. This table

provides an overview of the exposures securitised by ABN AMRO, broken down into buckets which reflect the credit quality of the underlying assets.

Credit rating distribution of underlying assets

(in millions)	31 December 2012	31 December 2011
Investment grade	32,436	38,594
Sub-investment grade	10,936	11,932
Default without provision	34	151
Default with provision	524	567
Total	43,930	51,244

Details on total notes outstanding per special purpose entity

The following table provides details on the outstanding notes issued by consolidated SPEs which were

established by ABN AMRO for securitisation purposes, exceeding 0.1% of the bank's total asset size.

Size of securitisation special purpose entities (Audited)

(in millions)		31 December 2012		31 December 2011	
Category	Total notes issued	% of total assets	Total notes issued	% of total assets	
Dolphin Master Issuer B.V. ¹	30,412	7.71%	30,412	7.52%	
Oceanarium Master Issuer B.V.	14,631	3.71%	14,631	3.62%	
Fishbowl Master Issuer B.V.	9,840	2.49%	10,000	2.47%	
Goldfish Master Issuer B.V. ¹	9,522	2.41%	9,752	2.41%	
Shield I B.V.			4,016	0.99%	
Beluga Master Issuer B.V. ¹	3,243	0.82%	3,943	0.97%	
European Mortgage Securities VIII B.V.	1,967	0.50%	2,109	0.52%	
SMILE Securitisation Company 2007 B.V. ¹	1,488	0.38%	1,761	0.44%	
SMILE Securitisation Company 2005 B.V.			1,512	0.37%	
Total	71,103		78,136		

¹ Securitisation SPEs in the CRD securitisation framework.

Other material special purpose entities

At present, there is one material, consolidated SPE
 – not related to securitisation activities – exceeding 0.1%
 of the bank's total assets as reported in the table below.

Size of consolidated special purpose entities related to other activities

(in millions)		31 December 2012		31 December 2011	
Entity name	Asset size	% of total assets	Asset size	% of total assets	
Moeara Enim Investeringsmij. IV BV	31	0.01%	2,156	0.53%	
Brooklyn Investments BV	31	0.01%	1,613	0.40%	
Palila Investments S.A.			1,003	0.25%	
AA Covered Bond Company B.V.	2,000	0.51%	2,002	0.49%	
Total	2,062		6,774		

There are only a few SPEs related to Merchant Banking activities which are material in size and not consolidated by ABN AMRO. In general these SPEs are structured entities, set up with the purpose of funding either

ABN AMRO or third parties, and are not controlled by ABN AMRO. In most cases these entities are accounted for as an associate. More information is provided in note 18 to the Annual Financial Statements.

annual financial statements

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Consolidated income statement for the year ended 31 December 2012

(in millions)	Note	2012	2011
Income			
Interest income		13,038	13,223
Interest expense		8,010	8,225
Net interest income	4	5,028	4,998
Fee and commission income		2,552	2,548
Fee and commission expense		996	737
Net fee and commission income	5	1,556	1,811
Net trading income	6	263	224
Results from financial transactions	7	31	274
Share of result in equity accounted investments		74	84
Other income	8	386	403
Operating income		7,338	7,794
Expenses			
Personnel expenses	9	2,424	2,517
General and administrative expenses	10	2,269	2,439
Depreciation and amortisation of tangible and intangible assets	11	266	401
Operating expenses		4,959	5,357
Impairment charges on loans and other receivables		1,228	1,757
Total expenses		6,187	7,114
Operating profit/(loss) before taxation		1,151	680
Income tax expense	12	203	-9
Profit/(loss) for the year		948	689
<i>Attributable to:</i>			
Owners of the company		948	665
Non-controlling interests			24

The notes to the Consolidated Financial Statements, including the audited sections in Risk management, Capital management, Liquidity & funding and Securitisation, are an integral part of these statements.

Consolidated statement of comprehensive income for the year ended 31 December 2012

(in millions)	2012	2011
Profit/(loss) for the year	948	689
<i>Other comprehensive income:</i>		
Currency translation reserve	-1	-9
Available-for-sale reserve	377	-535
Cash flow hedge reserve	-243	-954
Share of other comprehensive income of associates	61	
Other changes	-22	16
Other comprehensive income for the period before taxation	172	-1,482
Income tax relating to components of other comprehensive income	39	-343
Other comprehensive income for the period after taxation	133	-1,139
Total comprehensive income/(expense) for the period after taxation	1,081	-450
<i>Total comprehensive income attributable to:</i>		
Owners of the company	1,081	-474
Non-controlling interests		24

The increase of the Available-for-sale reserve is due to lower market interest rates and the decrease of the credit spread of interest-bearing securities in 2012 as a result of the market circumstances.

The increase of the Cash flow hedge reserve is the result of a sharp decline of the yield curve during 2012 compared to 2011. This increase is partially offset by the purchase of new swaps with higher duration and the amortisation of the fair-value from the unwinding of swaps that form part of cash flow hedges.

The notes to the Consolidated Financial Statements are an integral part of these statements.

Consolidated statement of financial position as at 31 December 2012

(in millions)	Note	31 December 2012	31 December 2011
Assets			
Cash and balances at central banks	13	9,796	7,641
Financial assets held for trading	14	22,804	29,523
Financial investments	15	21,407	18,721
Loans and receivables – banks	16	46,398	61,319
Loans and receivables – customers	17	276,283	272,008
Equity accounted investments	18	1,011	920
Property and equipment	19	1,519	1,609
Goodwill and other intangible assets	20	223	276
Assets held for sale	21	55	68
Accrued income and prepaid expenses	22	3,940	4,369
Current tax assets	23	278	244
Deferred tax assets	23	856	1,139
Other assets	24	9,834	6,845
Total assets		394,404	404,682
Liabilities			
Financial liabilities held for trading	14	18,782	22,779
Due to banks	25	21,263	30,962
Due to customers	26	216,021	213,616
Issued debt	27	94,043	96,310
Subordinated liabilities	28	9,566	8,697
Provisions	29	1,407	1,646
Accrued expenses and deferred income	31	5,698	5,986
Current tax liabilities	23	99	241
Deferred tax liabilities	23	47	41
Other liabilities	32	13,441	12,984
Total liabilities		380,367	393,262
Equity			
Share capital		1,015	1,015
Share premium		13,105	11,505
Other reserves (incl. retained earnings/profit for the period)		1,681	818
Other components of equity		-1,783	-1,938
Equity attributable to owners of the parent company		14,018	11,400
Equity attributable to non-controlling interests		19	20
Total equity	33	14,037	11,420
Total liabilities and equity		394,404	404,682
Committed credit facilities	38	17,635	14,484
Guarantees and other commitments	38	16,777	18,056

The notes to the Consolidated Financial Statements are an integral part of these statements.

Consolidated statement of changes in equity for the years ended 31 December 2012 and 31 December 2011

(in millions)	Share capital	Share premium reserve	Other reserves including retained earnings	Other comprehensive income	Net profit attributable to shareholders	Total	Non-controlling interests	Total equity
Balance at 1 January 2011	1,015	11,505	779	-783	-417	12,099	13	12,112
Total comprehensive income			16	-1,155	665	-474	24	-450
Transfer			-417		417			
Dividend			-225			-225	-11	-236
Increase of capital							-6	-6
Balance at 31 December 2011	1,015	11,505	153	-1,938	665	11,400	20	11,420
Total comprehensive income			-22	155	948	1,081		1,081
Transfer			665		-665			
Dividend			-63			-63		-63
Increase of capital	0 ¹							
MCS Conversion		2,000				2,000		2,000
Ageas settlement		-400				-400		-400
Other changes in equity							-1	-1
Balance at 31 December 2012	1,015	13,105	733	-1,783	948	14,018	19	14,037

¹ In connection with the MCS Conversion, ABN AMRO Group N.V. issued one class A ordinary share (nominal value of EUR 1.00) to NLFI.

Specification of other comprehensive income is as follows:

(in millions)	Currency translation reserve	Available-for-sale reserve	Cash flow hedge reserve	Share of OCI of associates and joint ventures	Total
Balance at 1 January 2011	8	185	-976		-783
Net gains/(losses) arising during the period	-9	-519	-1,097		-1,625
Net realised (gains)/losses included in income statement		-16	143		127
Related income tax	7	97	239		343
Balance at 31 December 2011	6	-253	-1,691		-1,938
Net gains/(losses) arising during the period	-1	411	-355	61	116
Net realised (gains)/losses included in income statement		-34	112		78
Related income tax		-100	61		-39
Balance at 31 December 2012	5	24	-1,873	61	-1,783

The notes to the Consolidated Financial Statements are an integral part of these statements.

The realised Cash flow hedge (gains)/losses included in income statement of EUR 112 million (2011: EUR 143 million) are disclosed in note 40 Hedge accounting.

Share of OCI of associates and joint ventures are mainly related to the revaluation of associates. In 2011 the revaluation of EUR 22 million was included in other reserves. This has been reclassified in 2012 and is included in EUR 61 million as recorded in Share of OCI of associates and joint ventures.

2012

Due to the conversion of the EUR 2.0 billion Mandatory Convertible Securities (MCS Conversion, see also note 28 Subordinated liabilities), the share premium reserve increased by EUR 2.0 billion. In connection with the settlement, ABN AMRO Group N.V. issued one share (nominal value of EUR 1) to NLFI.

The settlement of all legal proceedings between ABN AMRO and the Dutch State on the one side and Ageas on the other side on 28 June 2012 led to a one-off cash payment by ABN AMRO to Ageas of EUR 400 million. This transaction is characterised as a shareholders transaction under IFRS, therefore the amount of EUR 400 million was charged directly to equity (deduction from the share premium reserve).

Total equity grew by EUR 2.6 billion, mainly driven by abovementioned EUR 1.6 billion increase in equity following the MCS Conversion/Ageas settlement and EUR 948 million profit for the year 2012.

In 2012 a final dividend of EUR 50 million for the year 2011 was paid to ordinary shareholders and EUR 13 million to the holders of the preference shares A.

Transfer includes the allocation of the profit/loss of the prior period to the other reserves.

2011

The decrease of total equity in 2011 is mainly reflecting the profit for the year of EUR 689 million, other comprehensive income of EUR -1.139 million and a dividend paid out of EUR 236 million. The EUR 225 million dividend consisted of EUR 200 million paid to the ordinary shareholders while the class A non-cumulative preference shareholders received a dividend related to 2010 and 2009 of EUR 25 million out of the dedicated preference share dividend reserve.

Consolidated statement of cash flows for the year ended 31 December 2012

(in millions)	Note	2012	2011
Profit/(loss) for the year		948	689
<i>Adjustments on non-cash items included in profit:</i>			
(Un)realised gains/(losses)		1,144	-117
Share of profits in associates and joint ventures		-82	-84
Depreciation, amortisation and accretion		412	660
Provisions and impairment losses		1,340	2,105
Income tax expense		203	-9
<i>Changes in operating assets and liabilities:</i>			
Assets held for trading		6,729	-5,021
Liabilities held for trading		-3,996	2,763
Loans and receivables – banks		15,363	-23,231
Loans and receivables – customers		-5,655	-698
Other assets		-2,461	-441
Due to banks		-9,782	12,143
Due to customers		2,517	7,652
Liabilities arising from insurance and investment contracts		-243	-317
Net changes in all other operational assets and liabilities		-138	1,804
Dividend received from associates		66	47
Income tax paid		-128	-135
Cash flow from operating activities		6,237	-2,190
<i>Investing activities:</i>			
<i>Purchases of financial investments</i>		<i>-4,952</i>	<i>-8,805</i>
Proceeds from sales and redemptions of financial investments		3,547	10,851
Acquisition of subsidiaries (net of cash acquired), associates and joint ventures	3	-73	45
Divestments of subsidiaries (net of cash sold), associates and joint ventures	3	67	-1,259
Purchases of property and equipment	19	-268	-229
Proceeds from sales of property and equipment	19	64	105
Purchases of intangible assets		-24	-26
Proceeds from sales of intangible assets			6
Other changes		-5	
Cash flow from investing activities		-1,644	688

continued >

(in millions)	Note	2012	2011
Financing activities:			
Proceeds from the issuance of debt		79,014	82,913
Repayment of issued debt		-83,232	-75,268
Proceeds from subordinated liabilities issued		2,794	353
Repayment of subordinated liabilities issued		-23	-28
Ageas settlement		-400	
Dividends paid to the owners of the parent company		-63	-225
Dividends paid to non-controlling interests			-11
Cash flow from financing activities		-1,910	7,734
Net increase/(decrease) of cash and cash equivalents		2,683	6,232
Cash and cash equivalents as at 1 January		11,397	5,066
Effect of exchange rate differences on cash and cash equivalents		-8	99
Cash and cash equivalents as at 31 December	34	14,072	11,397
Supplementary disclosure of operating cash flow information			
Interest paid		-8,057	-8,439
Interest received		13,099	13,462
Dividend received from investments		59	70

notes to the annual financial statements

1 Accounting policies

Corporate information

ABN AMRO Group N.V. (referred to as 'ABN AMRO Group') is the parent company of ABN AMRO Bank N.V., and a related consolidated group of companies (referred to as 'the Group' or 'ABN AMRO'). ABN AMRO Group is a public limited liability company, incorporated under Dutch law on 18 December 2009, and registered at Gustav Mahlerlaan 10, 1082 PP Amsterdam, the Netherlands.

All ordinary shares in ABN AMRO Group N.V., representing 92.6% of the voting rights, are held by a foundation named Stichting administratiekantoor beheer financiële instellingen ('NLF'). The non-cumulative preference shares in ABN AMRO Group N.V., representing 7.4% of the voting rights, are held by ABN AMRO Preferred Investments B.V. The issued shares in this entity are held by NLF (70%, all priority shares) and two institutional investors (30%, all ordinary shares).

ABN AMRO provides a broad range of financial services to retail, private, commercial and merchant banking customers. These activities are primarily in the Netherlands and selectively abroad.

The Consolidated Annual Financial Statements of ABN AMRO Group for the annual period ended 31 December 2012 incorporate financial information of ABN AMRO Group N.V., its controlled entities, interests in associates and joint ventures. The Annual Financial Statements were prepared by the Managing Board and authorised for issue by the Supervisory Board and Managing Board on 28 February 2013.

Statement of compliance

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). They also comply with the financial reporting requirements included in Title 9 of Book 2 of the Dutch Civil Code, as far as applicable.

Basis of presentation

The Consolidated Annual Financial Statements are prepared in accordance with IFRS (EU) on the basis of a mixed valuation model as follows:

- ▶ Fair value is used for:
 - ▶ derivative financial instruments;
 - ▶ financial assets and liabilities held for trading or designated as measured at fair value through income;
 - ▶ available-for-sale financial assets;
 - ▶ investments in associates of a private equity nature;
- ▶ Other financial assets (including loans and receivables) and liabilities are valued at amortised cost less any impairment if applicable;
- ▶ The carrying value of assets and liabilities measured at amortised cost included in a fair value hedge relationship is adjusted with respect to fair value changes resulting from the hedged risk;
- ▶ Non-financial assets and liabilities are generally stated at historical cost;
- ▶ Equity-accounted investments are accounted for using the net equity method.

Disclosures under IFRS 7, 'Financial Instruments: Disclosures', which concerns the nature and extent of risks arising from financial instruments, are incorporated in the consolidated annual financial statements by reference to four audited sections of the Managing Board report: section Risk management, section Capital management, section Liquidity & funding and section Securitisation.

The Annual Financial Statements are prepared under the going concern assumption. The Annual Financial Statements are presented in euros, which is the presentation currency of ABN AMRO, rounded to the nearest million (unless otherwise noted).

Changes in accounting policies

IFRS 7 Financial Instruments: Disclosures

The amendments to IFRS 7 require additional information on transferred assets that are not derecognised in their entirety, and on transferred assets that are fully derecognised but where ABN AMRO has continuing involvement. This standard is applicable for annual periods beginning on or after 1 January 2012. The European Commission endorsed this standard in the fourth quarter of 2012. Please refer to note 36 for the disclosure of transferred financial assets.

IAS 12 Income taxes

The amendments to IAS 12 provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40 Investment property. This standard is applicable for annual periods beginning on or after 1 January 2012. The European Commission endorsed this standard in the fourth quarter of 2012. This amendment did not have a material impact on ABN AMRO.

New accounting standards and interpretations

The following new or revised standards and interpretations were issued by the IASB, which become effective for ABN AMRO after 2012, if and when endorsed by the European Union:

- ▶ Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities, effective as of 2013;
- ▶ Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities, effective as of 2014;
- ▶ IFRS 10 Consolidated Financial Statements, effective within EU as of 2014;
- ▶ IFRS 11 Joint Arrangements, effective within EU as of 2014;
- ▶ IFRS 12 Disclosure of Interests in Other Entities, effective within EU as of 2014;

- ▶ Amendments to IFRS 10, IFRS 11 and IFRS 12: Transition Guidance, effective as of 2014;
- ▶ Amendments to IAS 27 Separate Financial Statements, effective within EU as of 2014;
- ▶ Amendments to IAS 28 Investments in Associates and Joint Ventures, effective within EU as of 2014;
- ▶ Improvements to IFRSs (2009-2011), effective as of 2013.

Although these new requirements are still being analysed and the final impact is not yet known, ABN AMRO does not expect the adoption of these new or revised standards and interpretations to have a significant effect on the equity and/or result of ABN AMRO.

IAS 19 Employee Benefits

The amended IAS 19 states that changes in the defined benefit obligation and fair value of plan assets should be recognised in the period in which they occur. The 'corridor' method is eliminated and actuarial gains and losses and unrecognised past service costs are recognised directly in other comprehensive income. Because actuarial gains and losses are no longer deferred, both the net defined benefit liability or asset and the amounts recognised in profit or loss are affected. The amended standard splits changes in the net defined benefit liability or asset into:

- ▶ service cost (including past service costs, curtailments and settlements) – in profit or loss;
- ▶ net interest costs (i.e. net interest on the net defined benefit liability) – in profit or loss;
- ▶ remeasurements – in other comprehensive income.

The amended IAS 19 is effective for periods beginning on or after 1 January 2013. ABN AMRO currently uses the 'corridor' method. If the amended standard had been applied in 2012, this would have had a negative impact (net of tax) of EUR 1,154 million on ABN AMRO's total equity, based on the situation as at 31 December 2012, mainly due to the direct recognition of actuarial gains and losses. The actuarial gains and losses are highly volatile by nature. Furthermore, the profit would have been EUR 205 million higher (net of tax). Therefore, this amended standard has a significant impact on the financial position of ABN AMRO. This impact is disclosed in note 30.

IAS 1 Presentation of Financial Statements

The new amendment requires separation of items presented in other comprehensive income into two groups, based on whether or not they can be recycled into the income statement in the future. Items that will not be recycled in the future are presented separately from items that may be recycled in the future. The amendment will be adopted on 1 January 2013 and will be applied retrospectively. The application of this amendment impacts presentation and disclosures only.

IFRS 13 Fair Value Measurement

The IASB has published IFRS 13 Fair Value Measurement, which came into force on 1 January 2013. IFRS 13 clarifies how to measure fair value but does not change the requirements regarding which items should be measured at fair value. In addition, IFRS 13 requires additional disclosures about fair value measurements. The new standard will not have any significant impact on the income statement or balance sheet. The bank will apply this standard as from 1 January 2013 prospectively.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. The standard has not yet been endorsed by the European Union, and is therefore not available for early adoption. In subsequent phases, the IASB is addressing impairments and hedge accounting. Exposure drafts have been issued. The completion of these IASB projects is expected in 2013. ABN AMRO is currently assessing the impact on its financial statements of all phases in IFRS 9.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain estimates. It also requires management to exercise its judgement in the process of applying ABN AMRO's accounting policies and to make estimates and assumptions concerning the future. Actual results may differ from those judgemental decisions and estimates. The most significant areas requiring management to make judgements and estimates that affect reported amounts and disclosures are as follows:

Impairment losses on loans and receivables

Allowances for loan losses are made on outstanding loans for which it is doubtful if the borrower is able to repay the principal and/or the interest. These allowances for loan losses are intended to adjust the value of ABN AMRO's loan assets for incurred credit losses as of the balance sheet date. Allowances are determined through a combination of specific reviews, statistical modelling and estimates, i.e. on the basis of the ABN AMRO's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors. Allowances against a given loan or portfolio may be released where there is improvement in the quality of the loan or portfolio.

Certain aspects require judgement, such as the identification of loans that are deteriorating, the determination of the probability of default, the assessment of the objective evidence for impairment, the expected loss, the value of collateral and current economic conditions. The use of different estimates and assumptions can lead to different allowances for loan losses over time, and amendments to allowances may be required in the future, as a consequence of changes in the value of collateral, the amounts of cash to be received or other economic events.

Fair value of financial instruments

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

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

ABN AMRO refines and modifies its valuation techniques as markets and products develop and the pricing for such products becomes more or less transparent. Financial markets are sometimes subject to significant stress conditions where steep falls in perceived or actual asset values are accompanied by a severe reduction in market liquidity. In such cases, observable market data may become less reliable or disappear altogether.

Where there is doubt over the reliability of the market data due to either market illiquidity or unavailability, other valuation techniques are used. These alternative techniques would include scenario analysis and discounted cash flow calculations.

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

Fair values include appropriate adjustments to account for known inadequacies in the valuation models or to reflect the credit quality of the instrument or counterparty. Factors that could affect estimates are incorrect model assumptions, market dislocations and unexpected correlation. We believe our estimates of fair value are adequate. However, the use of different models or assumptions could result in changes in our reported results. For a further discussion on the use of fair values and the impact of applying reasonable possible alternative assumptions as inputs, see note 39 to the Consolidated Financial Statements.

Pension and post-retirement benefits

Significant pension and post retirement benefit costs are based on actuarial calculations. Inherent within these calculations are assumptions including: discount rates, salary increases and the expected return on plan assets. Changes in pension and post-retirement costs may occur in the future as a consequence of changes in interest rates, the return on assets or other factors (e.g. inflation and expected salary increase).

ABN AMRO determines the appropriate discount rate at the end of each reporting period. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the benefit obligations. In determining the appropriate discount rate, ABN AMRO considers the interest rates of high quality corporate bonds that have maturity dates approximating the terms of ABN AMRO's obligations.

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed-interest investments are based on gross redemption yields as at the date of the consolidated statement of financial position. Expected returns on equity and property investments reflect long-term real rates of returns experienced in the respective markets.

Income taxes

ABN AMRO is subject to income taxes in numerous jurisdictions. Income tax expense consists of current and deferred tax. Income tax is recognised in the income statement in the period in which profits arise, except to the extent that it arises from: (1) a transaction or event that is recognised directly in equity; or (2) a business combination accounted for as an acquisition.

Deferred tax assets and liabilities are recognised for qualifying temporary differences, i.e. temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The future tax benefit of tax losses available for carry forward is recognised as an asset when it is probable that future taxable profits will be available against which losses can be utilised. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets and liabilities are offset on the balance sheet when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to taxes levied by the same taxation authority.

Impairment of available-for-sale instruments

Interest-bearing securities and equities classified as available-for-sale investments are assessed at each reporting date to determine whether they are impaired. 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. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event since initial recognition of the asset or an event since reclassification into available-for-sale from trading have adversely affected the amount or timing of future cash flows from the assets.

If any objective evidence exists for available-for-sale debt securities, the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in net result is removed from equity and recognised in the income statement within Results from financial transactions. If, in a subsequent period, the fair value of a debt security classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. In general, ABN AMRO uses 20% and 9 months as triggers for a significant or prolonged decline in the fair value below cost. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is moved from equity and recognised in the income statement within Results from financial transactions. Impairment losses recognised on equity instruments can never be reversed through the profit or loss account.

Assessment of risk and rewards

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

Significant accounting policies

Basis of consolidation

The Consolidated Financial Statements of ABN AMRO Group N.V. include the financial statements of the parent and its controlled entities. It incorporates assets, liabilities, revenues and expenses of ABN AMRO Group N.V. and its subsidiaries. Non-controlling interests, held by third parties, in both equity and results of group companies are stated separately in the Consolidated Financial Statement.

Subsidiaries are included using the same reporting period and consistent accounting policies. Intercompany balances and transactions, and any related unrealised gains and losses, are eliminated in preparing the Consolidated Financial Statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of ABN AMRO's interest in the enterprise. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

Subsidiaries

Subsidiaries are those enterprises controlled by ABN AMRO. Control is deemed to exist when ABN AMRO has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The existence and effect of potential voting rights that are presently exercisable or convertible are taken into account when assessing whether control exists, unless, in exceptional circumstances, it can be demonstrated that such ownership does not constitute control. Control also exists when the parent owns one half or less of voting power but has the power to govern the financial and operating policies.

ABN AMRO sponsors the formation of entities, including certain special purpose entities, which may or may not be directly owned, for the purpose of asset securitisation transactions and other narrow and well defined objectives. Particularly in the case of securitisations, these entities may acquire assets from other ABN AMRO companies. Some of these entities hold assets that are not available to meet the claims of creditors of ABN AMRO or any of its subsidiaries. Such entities are consolidated in ABN AMRO's financial statements when the substance of the relationship between ABN AMRO and the entity indicates that control is held by ABN AMRO. The financial statements of subsidiaries and special purpose entities are included in the Consolidated Financial Statements

from the date on which control commences until the date on which control ceases. Equity attributable to non-controlling interests is shown separately in the consolidated balance sheet as part of total equity. Current period profit or loss attributable to non-controlling interests is presented as an attribution of profit for the year.

Business combinations

All items of consideration transferred by ABN AMRO are measured and recognised at fair value, including contingent consideration, as of the acquisition date. Transaction costs incurred by the acquirer in connection with the business combination, other than those associated with the issuance of debt and equity securities, do not form part of the cost of the business combination transaction but are expensed as incurred. The excess of the purchase consideration over ABN AMRO's share of the fair value of the identifiable net assets (including certain contingent liabilities) acquired is recorded as goodwill. In a step acquisition, where a business combination occurs in stages and control of the business is obtained in stages, the identifiable assets and liabilities of the acquiree are recognised at fair value when control is obtained. A gain or loss is recognised in profit or loss for the difference between the fair value of the previously held equity interest in the acquiree and its carrying amount. Changes in interests in subsidiaries that do not result in a change of control are treated as transactions between equity holders and are reported in equity.

Equity-accounted investments

Equity-accounted investments comprise associates and joint ventures. Associates are those enterprises in which ABN AMRO has significant influence (this is generally assumed when ABN AMRO holds between 20% and 50% of the voting rights), but not control, over the operating and financial policies. Joint ventures are contractual agreements whereby ABN AMRO and other parties undertake an economic activity that is subject to joint control.

Investments in associates and joint ventures including ABN AMRO's strategic investments are accounted for using the equity method and presented as Equity-accounted investments. Under this method the investment is initially recorded at cost and subsequently increased (or decreased) for post-acquisition net income (or loss), other movements impacting the equity of the investee and any adjustments required for impairment. ABN AMRO's share of the profit or loss of the investee is recognised and separately disclosed in ABN AMRO's income statement. When ABN AMRO's share of losses exceeds the carrying amount of the investment, the carrying amount is reduced to zero, including any other unsecured receivables, and recognition of further losses is discontinued except to the extent that ABN AMRO has incurred obligations or made payments on behalf of the investee. The equity method is discontinued from the date joint control or significant influence ceases to exist. Investments in associates of a private equity nature are designated to be held at fair value with changes through profit or loss, consistent with the management basis for such investments.

Equity investments held without significant influence which are not held for trading or not designated at fair value through profit or loss are classified as available for sale.

Segment reporting

Operating segments are the segments that engage in business activities from which ABN AMRO earns income and incurs expenses. These segments are the reporting segments whose operating results are reviewed by the Managing Board on a monthly basis and for which discrete financial information is available.

The amounts reported are the same as those measures used by the Managing Board for determining resource allocation and for assessing performance. Eliminations include intersegment revenues, expenses and reconciling differences between management reporting and the financial statements.

Geographical data is presented according to the location of the transacting Group entity.

Foreign currency

The Consolidated Financial Statements are stated in euros, which is the functional currency of ABN AMRO.

Foreign currency differences

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

The assets and liabilities of foreign operations, including goodwill and purchase accounting adjustments, are translated to ABN AMRO's presentation currency, the euro, at the foreign exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to the euro at the rate that approximates the rates prevailing at the transaction date. Currency translation differences arising on these translations are recognised directly in equity (currency translation reserve).

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.

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

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

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

Fiduciary activities

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

Interest income and expenses

Interest income and expenses are recognised in the income statement for all interest-bearing instruments (whether classified as held-to-maturity, available-for-sale, designated at fair value through profit or loss or non-trading derivatives) on an accrual basis using the effective interest rate method and including the value adjustments to the carrying amount of the hedged item related to the termination of a fair-value hedge of interest risk.

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

Fee and commission income**Fees as integral part of effective interest rate**

Fees and commissions generated as an integral part of negotiating and arranging funding transactions with clients, such as the issuance of loans, are included in the calculation of the effective interest rate and are included in interest income and expense.

Fees recognised as services are provided

Service fees are typically recognised on a straight line basis over the service contract period; portfolio and other management advisory and service fees are recognised based on the applicable service contracts.

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.

Fees and commissions dependent on the outcome of a particular event or contingent upon performance are recognised when the relevant criteria have been met.

Net trading income

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

Results from financial transactions

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

Dutch bank tax

In 2012 the Dutch government introduced a bank tax that becomes payable on 1 October of every year. The bank tax is a levy that is charged to the income statement at the moment it becomes payable. The payable amount is based on the balance sheet of the previous year. ABN AMRO recognised the payable amount to the income statement for the first time on 1 October 2012.

Financial assets and liabilities

ABN AMRO classifies financial assets and liabilities based on the business purpose of entering into these transactions.

Classification of financial assets

Financial assets can be classified as assets held for trading, investments, loans and receivables – banks and loans and receivables – customers.

Their measurement and income recognition in the income statement depend on the 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 classification determines the measurement and recognition as follows:

- ▶ Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They generally arise when money or services are directly provided to a customer with no intention of trading or selling the loan;
- ▶ Held-to-maturity investments are non-derivative financial assets that consist of instruments quoted on an active market with fixed or determinable payments and fixed maturity for which the positive intent 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:
 - ▶ financial assets held for trading;
 - ▶ irrevocably designated financial assets at initial recognition as held at fair value through profit or loss, because:
 - ▶ The host contract includes an embedded derivative that would otherwise require separation. This applies to certain structured notes issued with hybrid features. Fair value measurement helps to achieve offset against changes in the value of derivatives and other fair value positions used to economically hedge these notes;

- ▶ It eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise. In this regard unit-linked investments held for the account and risk of policyholders and the related obligation to policyholders are designated at fair value with changes through profit or loss;
 - ▶ 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 (including private equity investments) 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.

Classification of financial liabilities

Financial liabilities are classified as liabilities held for trading, due to banks, due to customers, debt certificates, subordinated liabilities and other borrowings. Their measurement and recognition in the income statement depends on the classification of the financial liabilities, being: (a) financial liabilities at fair value through profit or loss, and (b) other financial liabilities. This classification determines the measurement and recognition in the income statement as follows:

- ▶ Financial liabilities at fair value through profit or loss include:
 - ▶ financial liabilities held for trading;
 - ▶ financial liabilities that ABN AMRO has irrevocably designated at initial recognition as held at fair value through profit or loss, because:
 - ▶ The host contract includes an embedded derivative that would otherwise require separation. This applies to certain structured notes issued with hybrid features. Fair value measurement helps to achieve offset against changes in the value of derivatives and other fair value positions used to economically hedge these notes;
 - ▶ 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 measured at fair value (including transaction costs).

Classification of 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 trading derivative (except for a derivative that is a designated and effective hedging instrument).

Recognition and derecognition

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

Financial assets are generally derecognised when ABN AMRO loses control and the ability to obtain benefits over the contractual rights that comprise that asset. This occurs when the rights are realised, expire, substantially all risk and rewards are transferred, or not substantially all risk and rewards are transferred nor retained, although control is transferred. If a servicing function is retained which is profitable, a servicing asset is recognised.

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

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income shall be recognised in profit or loss.

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

ABN AMRO has protected assets through synthetic securitisations. Through a synthetic securitisation a substantial part of the credit risk related to these assets is transferred, while actual ownership of the assets remains with ABN AMRO. Additionally, ABN AMRO participates in various mortgage-related transactions in the Netherlands that have been conducted without the involvement of an SPE. In these transactions derecognition criteria are not fully met and the entire asset continues to be recognised in the consolidated balance sheet.

A financial liability is derecognised when the obligations specified in the contract are discharged, cancelled or expired. ABN AMRO derecognises financial liabilities when settled or if ABN AMRO repurchases its own debt. The difference between the former carrying amount and the consideration paid is included in Results from financial transactions in income. Any subsequent resale is treated as a new issuance.

Measurement

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

The measurement of liabilities held at fair value includes the effect of changes in own credit spreads. The change in fair value applies to those financial liabilities designated at fair value where ABN AMRO's own credit risk would be considered by market participants. Exchange traded own debt at fair value through profit or loss is valued against market prices.

The fair value changes are calculated based on a yield curve generated from observed external pricing for funding and quoted CDS spreads.

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

All other financial assets and liabilities are initially measured at fair value including directly attributable incremental transaction costs. They are subsequently valued at amortised cost using the effective interest rate method.

Through the use of the effective interest rate method, premiums and discounts, including qualifying transaction costs included in the carrying amount of the related instrument, are amortised over the period to maturity or expected prepayment on the basis of the instrument's original effective interest rate.

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

Valuation models are validated prior to use by employees independent of the initial selection or creation of the models. Wherever possible, inputs to valuation models represent observable market data from reliable external data sources. Unobservable inputs are estimated using a combination of management judgement, historical data, market practice and benchmarking to other relevant observable market data. The difference between the transaction price and the internal valuation at inception, calculated using a model, is reserved and amortised to income at appropriate points over the life of the instrument, typically taking account of the ability to obtain reliable external data, the passage of time and the use of offsetting transactions.

Where significant inputs to the valuation of a new transaction cannot be reliably sourced from external providers, the transaction is initially recognised at its transaction price. Subsequent changes in fair value as calculated by the valuation model are reported in income.

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

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.

Reclassifications

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

Impairment of available-for-sale instruments

Interest-bearing securities and equities classified as available-for-sale investments are assessed at each reporting date as to whether they are impaired. 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. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event since initial recognition of the asset or an event since reclassification into available for sale from trading have adversely affected the amount or timing of future cash flows from the assets.

If an objective evidence for impairments exists for available-for-sale debt securities, the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in net result is removed from equity and recognised in the income statement within Results from financial transactions. If, in a subsequent period, the fair value of a debt security classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. In general, ABN AMRO uses 20% and 9 months as triggers for a significant or prolonged decline in the fair value below cost. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is moved from equity and recognised in the income statement within Results from financial transactions. Impairment losses recognised on equity instruments can never be reversed through the profit or loss account.

Loans and receivables from banks and customers

Classification

Loans and receivables from banks and customers include loans originated by ABN AMRO, 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 to be sold or securitised in the short term are classified as assets held for trading.

Measurement

Incremental costs incurred and loan origination fees earned that are directly attributable to the acquisition or disposal of a loan are carried at amortised cost. Incremental costs and fees are amortised using the effective interest method.

Impairment of loans and receivables

An indication that a loan may be impaired is obtained through ABN AMRO's credit review processes, which include monitoring customer payments and regular loan reviews depending on the rating of the facility.

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

The amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the income statement line item Impairment charges on loans and other receivables. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that are likely to result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Future cash flows of a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the portfolio and historical loss experience for loans with credit risk characteristics similar to those in ABN AMRO. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the historical data and to remove the effects of conditions in the historical data that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The impact of changes in estimates and recoveries is recorded in the income statement line item Impairment charges on loans and other receivables. Allowances against a given portfolio may be released where there is improvement in the quality of the portfolio.

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

Although the decrease in estimated future cash flows from a portfolio of loans may not yet be identified with the individual loans in the portfolio, there may be indications that there is a measurable decrease in cash flows on portfolio level. These include adverse changes in the payment status of borrowers in the portfolio and national or local economic conditions that correlate with defaults in the portfolio. This is dealt with through an allowance for incurred but not identified losses.

Renegotiated loans

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

Transactions with professional counterparties

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

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

Hedge accounting

ABN AMRO uses derivative instruments to manage exposures to interest rate risk, foreign currency risk and credit risk, including exposures arising from forecasted transactions. ABN AMRO applies fair value, cash flow or net investment hedging to qualifying transactions that are documented as such at inception. The hedged item can be an asset, liability, highly probable forecasted transaction or net investment in a foreign operation that (a) exposes the entity to risk of changes in fair value or future cash flows and (b) is designated as being hedged. The risks being hedged (the 'hedged risks') are typically changes in interest rates or foreign currency rates. ABN AMRO may also enter into credit risk derivatives (sometimes referred to as 'credit default swaps') for managing portfolio credit risk. However, these are generally not included in hedge accounting relationships.

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

Hedge ineffectiveness is represented by the following:

- ▶ the amount by which the changes in the fair value of the derivative are different from changes in the fair value of the hedged item in a fair value hedge;
- ▶ the amount by which the changes in the cash flows of the derivative are in excess of the expected future cash flows of the hedged item in a cash flow hedge; or
- ▶ the amount by which the changes in the fair value of the hedged instrument are in excess of change in the value of a net investment in a foreign hedge.

Hedge ineffectiveness and gains and losses of derivatives that are excluded from the assessment of hedge effectiveness are recorded directly in Results from financial transactions. ABN AMRO discontinues hedge accounting when the hedge relationship has ceased to be effective or is no longer expected to be effective, or when the derivative or hedged item is sold or otherwise terminated.

Adoption of EU carved out version of IAS 39

Macro fair value hedging implies that a group of financial assets is reviewed in combination and jointly designated as the hedged item. However the portfolio may, for risk management purposes, include assets and 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 fair value hedging, ABN AMRO uses the 'carved out' version of IAS 39 as 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 changes in the estimates of the repricing dates is only considered ineffective if it leads to over-hedging.

Fair value hedges

Where a derivative financial instrument hedges the exposure to changes in the fair value of recognised or committed assets or liabilities, the hedged item is adjusted in relation to the risk being hedged. Gains or losses on re measurement of both the hedging instrument and the hedged item are recognised in the income statement, typically within Results from financial transactions. When a fair value hedge of interest rate risk is terminated, any value adjustment to the carrying amount of the hedged asset or liability is amortised to income over the original designated hedging period, or taken directly to income if the hedged item is derecognised.

Cash flow hedges

When a derivative financial instrument hedges the exposure to variability in the cash flows from recognised assets, liabilities or anticipated transactions, the effective part of any gain or loss on remeasurement of the hedging instrument is recognised directly in equity. Hedge effectiveness for cash flow hedges is measured as the amount by which the changes in the fair value of the derivative are in excess of changes in the fair value of the expected cash flow in the cash flow hedge. Any ineffective part of the cash flow hedge is recognised in the profit and loss account immediately. When a cash flow hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in equity remains in equity.

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

Hedging of net investments in foreign operations

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

Forecasted transactions

When the hedge of a forecasted transaction or firm commitment results in the recognition of a non-financial asset or of 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 forecasted transaction affects the income statement. If the hedge no longer meets the criteria for hedge accounting or is otherwise discontinued, but the hedged forecasted transactions or firm commitments are still expected to occur, hedge accounting is discontinued prospectively. If the hedged forecasted transactions or firm commitments are no longer expected to occur, the amounts deferred in equity are transferred to the income statement directly.

Other receivables

Other receivables arising from the normal course of business and originated by ABN AMRO are initially recorded at fair value and subsequently measured at amortised cost using the effective interest method, less impairments.

Property and equipment

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

- ▶ land not depreciated;
- ▶ buildings 25 to 50 years;
- ▶ equipment 5 to 12 years;
- ▶ leasehold improvements 10 to 25 years;
- ▶ computer installations 2 to 5 years.

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

Intangible assets

Goodwill

Goodwill is capitalised and stated at cost, being the excess of the consideration paid over the fair value of ABN AMRO's share of the acquired entity's net identifiable assets at the date of acquisition, less any accumulated impairment losses. For the purpose of calculating goodwill, the fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. If the recognition of the assessed fair value of acquired assets and liabilities at the time of acquisition took place on the basis of provisional amounts, any changes in the assessed fair value of acquired assets and liabilities at the time of acquisition identified within one year following the acquisition are corrected against goodwill. Any revisions identified after one year are recorded in income. Goodwill on the acquisition of equity-accounted investments is included in the carrying amount of the investment. Gains and losses on the disposal of an entity, including equity-accounted investments, are determined as the difference between the sale proceeds and the carrying amount of the entity including related goodwill and any currency translation differences recorded in equity. Goodwill is not amortised but is subject to an annual test for impairment or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test.

Software

Costs that are directly associated with identifiable software products that are controlled by ABN AMRO, and likely to generate future economic benefits exceeding these costs, are recognised as intangible assets and stated at cost less accumulated amortisation and any adjustment for impairment losses. Expenditure that enhances or extends the performance of computer software beyond its original specification is recognised as a capital improvement and added to the original cost of the software. Software is amortised over a period of three years unless the software is classified as core application software. This software is valued at cost and depreciated over its estimated useful lifetime set at a maximum of seven years. Amortisation rates and residual values are reviewed at least annually to take into account any change in circumstances. Costs associated with maintaining computer software programmes are recognised as expenses as incurred.

Other intangible assets

Other intangible assets that are acquired by ABN AMRO are stated at cost less accumulated amortisation and any adjustment for impairment losses. Other intangible assets are comprised of separately identifiable items arising from acquisition of subsidiaries, such as client relationships and certain purchased trademarks and similar items. Amortisation is charged to the income statement systematically over the estimated useful life of the intangible asset. In general the estimated useful

life does not exceed ten years. Amortisation rates and residual values are reviewed at least annually to take into account any change in circumstances.

Impairment of non-financial assets

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

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

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

Leasing

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

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

Non-current assets held for sale and discontinued operations

Non-current assets and/or businesses are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction planned to occur within 12 months, rather than through continuing use. Held-for-sale assets are not depreciated and are measured at the lower of their carrying amount and fair value less costs to sell. Assets and liabilities of a business held for sale are separately presented. Businesses that may be transferred to shareholders by means of a distribution will not be presented as businesses held for sale. The results of discontinued operations (an operation held for sale that represents a separate major line of business or a geographical area of operation) are presented in the income statement as a single amount comprising the net results of the discontinued operations and the after tax gain or loss realised on disposal. Corresponding income statement data is re-presented if in the current period an activity qualifies as a discontinued operation and qualifies for separate presentation.

Provisions

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

A provision for restructuring is recognised when an obligation exists. An obligation exists when ABN AMRO has approved a detailed plan and has raised a valid expectation in those affected by the plan by starting to implement the plan or by announcing its main features. Future operating costs are not provided for. Provisions for insurance risks are determined by actuarial methods, which include the use of statistics, interest rate data and settlement costs expectations.

Provisions are established for certain guarantee contracts for which ABN AMRO is responsible to pay upon default of payment.

Pension and other post-retirement benefits

For employees in the Netherlands and the majority of staff employed outside the Netherlands, pension or other retirement plans have been established in accordance with the regulations and practices of the countries in question. Separate pension funds or third parties administer most of these plans. The plans include both defined contribution plans and defined benefit plans. In the case of defined contribution plans, contributions are charged directly to the income statement in the year to which they relate.

The net obligations under defined benefit plans are regarded as ABN AMRO's own commitments regardless of whether these are administered by a pension fund or in some other manner. The net obligation of each plan is determined as the difference between the present value of the defined benefit obligations and the fair value of plan assets, together with adjustments for unrecognised past service costs.

Pension obligations

Defined benefit plan pension commitments are calculated by independent actuaries in accordance with the projected unit credit method of actuarial cost allocation. Under this method, the present value of pension commitments is determined on the basis of the number of active years of service up to the balance sheet date and the estimated employee salary at the time of the expected retirement date, and is discounted using the market rate of interest on high-quality corporate bonds.

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

The impact of any plan amendment is broken down into elements which relate to past service (for example, discount rate) and elements which are dependent on future service (such as the impact of future salary increases included in the defined benefit obligation). Having bifurcated the plan amendment into mutually exclusive past and future service elements, negative past service cost or curtailment accounting treatment is applied for the respective elements.

Net cumulative unrecognised actuarial gains and losses for defined benefit plans exceeding the corridor (greater than 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.

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

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 ABN AMRO or its creditors. If these criteria are not met, the assets are included in the relevant item on the balance sheet (such as financial investments, or property and equipment).

If the assets meet the criteria, they are netted against the pension liability. When the fair value of plan assets is netted against the present value of the obligation of a defined benefit plan, the resulting amount could be a negative (an asset). In this case, the recognised asset cannot exceed the total of any cumulative unrecognised net actuarial losses and 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.

Other post-retirement benefits

Some group companies give their retirees post-retirement benefits, such as long-term service benefits, discount on banking products and post-retirement healthcare. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. These obligations are valued annually.

ABN AMRO's net obligation with respect to post-retirement benefits is the amount of benefits after retirement that employees have earned in return for their service in current and prior periods. The obligation is calculated by independent qualified actuaries using the projected unit credit method. It is then discounted to its present value and the fair value of any related assets is deducted.

Other liabilities

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

Financial guarantee contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due are initially recognised at fair value and subsequently measured at the higher of the discounted best estimate of the obligation under the guarantee and the amount initially recognised less cumulative amortisation to reflect revenue recognition principles.

Income taxes

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

Deferred tax is also recognised for qualifying temporary differences. Temporary differences represent the difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The most significant temporary differences arise from the revaluation of certain financial assets and liabilities including derivative contracts, allowances for loan impairment, provisions for pensions and business combinations. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that this asset can be utilised against future taxable profits.

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

Issued debt and equity securities

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

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

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

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

Share capital and other components of equity**Share issue costs**

Incremental costs directly attributable to the issue of new shares or share options, other than on a business combination, 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 Company are classified as equity.

Compound financial instruments

Components of compound financial instruments (liability and equity parts) are classified in their respective area of the statement of financial position.

Other reserves

The other reserves mainly comprise retained earnings, the profit for the period and legal reserves.

Currency translation reserve

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

Available-for-sale reserve

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

Cash flow hedging reserve

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

Net investment hedging reserve

The net investment hedging reserve is comprised of the currency translation differences arising on translation of the currency of these instruments to euros, insofar as they are effective.

Off-balance sheet items**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 ABN AMRO 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 ABN AMRO to pay bills of exchange drawn on customers. ABN AMRO 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.

Cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, freely available balances with central banks and other banks, net credit balances on current accounts with other banks, with less than three months maturity from the date of acquisition.

The statement of cash flows, based on the indirect method of calculation, gives details of the source of cash and cash equivalents which became available during the year and the application of these cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operations, including banking activities, investment activities and financing activities. Movements in loans and receivables and interbank deposits are included in the cash flow from operating activities. Investment activities are comprised of acquisitions, sales and redemptions in respect of financial investments, as well as investments in, and sales of, subsidiaries and associates, property and equipment. The issuing of shares and the borrowing and repayment of long-term funds are treated as financing activities.

notes to the consolidated income statement

2 Segment reporting

The primary segment information is presented in respect of ABN AMRO business segments. The operating segments are consistent with the ABN AMRO management and internal reporting structure.

ABN AMRO is organised into Retail & Private Banking (R&PB), Commercial & Merchant Banking (C&MB) and Group Functions. For financial reporting purposes, based on the components of the business that management monitors in making decisions about operating matters, the segment reporting is further refined as follows:

- ▶ Retail Banking;
- ▶ Private Banking;
- ▶ Commercial Banking;
- ▶ Merchant Banking;
- ▶ Group Functions.

Segment assets, liabilities, income and results are measured based on the ABN AMRO accounting policies. Segment assets, liabilities, income and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Transactions between segments are conducted at arm's length. Geographical data is presented according to the location of the transacting Group entity.

Interest income is reported as net interest income as management primarily relies on net interest income as a performance measure, not gross income and expense.

There is no revenue from transactions with a single external client or counterparty exceeding 10% of the bank's total revenue in 2012 or 2011.

Retail Banking

Retail Banking serves Mass Retail and Preferred Banking clients and offers a wide variety of banking and insurance products and services through the branch network, online, via contact centres and through subsidiaries.

Private Banking

Private Banking provides total solutions to its clients' global wealth management needs and offers a rich array of products and services designed to address their individual needs. Private Banking operates under the brand name ABN AMRO MeesPierson in the Netherlands and internationally under ABN AMRO Private Banking and local brands such as Banque Neuflyze OBC in France and Bethmann Bank in Germany. The Private Banking segment includes the activities of the International Diamond & Jewelry Group (ID&JG).

Commercial Banking

Commercial Banking serves commercial clients with annual turnover up to EUR 500 million and clients in the public sector, commercial finance and leasing. Commercial Banking consists of two business lines: Business Banking and Corporate Clients.

Merchant Banking

Merchant Banking serves Netherlands-based corporates, financial institutions and real estate investors as well as international companies active in Energy, Commodities & Transportation (ECT). Merchant Banking is organised into two business lines: Large Corporates & Merchant Banking (LC&MB) and Markets.

Group Functions

Group Functions supports the business segments and consists of Technology, Operations & Property Services (TOPS); Finance; Risk Management & Strategy; Integration, Communication & Compliance (ICC); Group Audit and the Corporate Office. The majority of costs of Group Functions are allocated to the business. The results of Group Functions include the results of ALM/Treasury.

Segment information for the year 2012

Income Statement

(in millions)

2012

	Retail & Private Banking		Commercial & Merchant Banking		Group Functions	Reconciling items	Total
	Retail Banking	Private Banking	Commercial Banking	Merchant Banking			
Net interest income	2,604	537	1,264	652	-29		5,028
Net fee and commission income	465	508	302	376	-95		1,556
Net trading income		28	1	303	-69		263
Results from financial transactions		4		91	-64		31
Share of result in equity accounted investments	36	13	-4	13	16		74
Other income		24	22	26	314		386
Operating income	3,105	1,114	1,585	1,461	73		7,338
Personnel expenses	461	436	301	306	742	178	2,424
General and administrative expenses	366	222	78	213	1,128	262	2,269
Depreciation and amortisation of tangible and intangible assets	7	19	3	14	213	10	266
Separation and integration-related items	4	15		3	428	-450	
Intersegment revenues/expenses	854	218	599	407	-2,078		
Operating expenses	1,692	910	981	943	433		4,959
Impairment charges on loans and other receivables	383	203	587	256	-201		1,228
Total expenses	2,075	1,113	1,568	1,199	232		6,187
Operating profit/(loss) before taxation	1,030	1	17	262	-159		1,151
Income tax expenses	259	-34	10	20	-52		203
Profit/(loss) for the year	771	35	7	242	-107		948
<i>Attributable to:</i>							
Owners of the company	771	35	7	242	-107		948
Non-controlling interests							

An explanation is provided in the Business, Operating & Financial review of this Annual Report.

Selected statement of financial position

(in millions)						31 December 2012
	Retail & Private Banking		Commercial & Merchant Banking		Group Functions	Total
	Retail Banking	Private Banking	Commercial Banking	Merchant Banking		
Assets						
Financial assets held for trading	42	148	189	22,528	-103	22,804
Loans and receivables – customers	161,668	17,310	42,378	49,557	5,370	276,283
Total assets	164,100	22,689	44,063	102,276	61,276	394,404
Liabilities						
Financial liabilities held for trading	42	169	1	18,570		18,782
Due to customers	81,905	58,911	34,444	37,029	3,732	216,021
Total liabilities¹	164,100	22,689	44,063	102,276	47,239	380,367

¹ Total liabilities per segment are after elimination of intercompany transactions and may therefore be lower than the line items specified above.

Segment information for the year 2011

Income Statement

(in millions)

2011

	Retail & Private Banking		Commercial & Merchant Banking		Group Functions	Reconciling items	Total
	Retail Banking	Private Banking	Commercial Banking	Merchant Banking			
Net interest income	2,671	558	1,231	546	-8		4,998
Net fee and commission income	490	578	366	364	13		1,811
Net trading income	-3	38		192	-3		224
Results from financial transactions				115	159		274
Share of result in equity accounted investments	34	11		36	3		84
Other income	20	117	80	77	109		403
Operating income	3,212	1,302	1,677	1,330	273		7,794
Personnel expenses	499	484	342	285	928	-21	2,517
General and administrative expenses	352	274	84	143	1,206	380	2,439
Depreciation and amortisation of tangible and intangible assets	6	45	83	16	248	3	401
Separation and integration-related items	11	20		23	308	-362	
Intersegment revenues/expenses	908	187	638	416	-2,149		
Operating expenses	1,776	1,010	1,147	883	541		5,357
Impairment charges on loans and other receivables	276	16	606	27	832		1,757
Total expenses	2,052	1,026	1,753	910	1,373		7,114
Operating profit/(loss) before taxation	1,160	276	-76	420	-1,100		680
Income tax expenses	280	36	-12	16	-329		-9
Profit/(loss) for the period	880	240	-64	404	-771		689
<i>Attributable to:</i>							
Owners of the company	880	240	-64	381	-772		665
Non-controlling interests				23	1		24

Selected Statement of financial position

(in millions)

31 December 2011

	Retail & Private Banking		Commercial & Merchant Banking		Group Functions	Total
	Retail Banking	Private Banking	Commercial Banking	Merchant Banking		
Assets						
Financial assets held for trading	49	183	205	29,118	-32	29,523
Loans and receivables – customers	162,566	15,953	41,946	46,566	4,977	272,008
Total assets	164,603	21,361	43,255	123,460	52,003	404,682
Liabilities						
Financial liabilities held for trading	48	174	3	22,541	13	22,779
Due to customers	72,009	54,270	34,031	46,643	6,663	213,616
Total liabilities¹	164,603	21,361	43,255	123,460	40,583	393,262

¹ Total liabilities per segment are after elimination of Intercompany transactions and may therefore be lower than the line items specified above.

Geographical segments

(in millions)						2012
	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
Net interest income	4,354	469	62	119	24	5,028
Net fee and commission income	1,059	308	64	110	15	1,556
Net trading income	205	28	3	26	1	263
Results from financial transactions	-13	44				31
Share of result in equity accounted investments	60	11		1	2	74
Other income	355	29	1	1		386
Operating income	6,020	889	130	257	42	7,338
Personnel expenses	1,948	330	48	88	10	2,424
General and administrative expenses	1,970	219	30	41	9	2,269
Depreciation and amortisation of tangible and intangible assets	233	25	3	3	2	266
Intercountry revenues/expenses	-29	15	2	14	-2	
Operating expenses	4,122	589	83	146	19	4,959
Impairment charges on loans and other receivables	1,100	127	2	-1		1,228
Total expenses	5,222	716	85	145	19	6,187
Operating profit/(loss) before taxation	798	173	45	112	23	1,151
Income tax expenses	171		10	17	5	203
Profit/(loss) for the year	627	173	35	95	18	948
<i>Attributable to:</i>						
Owners of the company	627	173	35	95	18	948
Non-controlling interests						

(in millions)						2011
	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
Net interest income	4,360	491	46	76	25	4,998
Net fee and commission income	1,255	406	35	96	19	1,811
Net trading income	151	49		23	1	224
Results from financial transactions	257	18		-1		274
Share of result in equity accounted investments	73	9			2	84
Other income	263	123	1	12	4	403
Operating income	6,359	1,096	82	206	51	7,794
Personnel expenses	1,998	388	38	81	12	2,517
General and administrative expenses	2,075	284	26	43	11	2,439
Depreciation and amortisation of tangible and intangible assets	290	100	3	7	1	401
Intercountry revenues/expenses	-35	19	3	13		
Operating expenses	4,328	791	70	144	24	5,357
Impairment charges on loans and other receivables	1,799	-28	-7	-7		1,757
Total expenses	6,127	763	63	137	24	7,114
Operating profit/(loss) before taxation	232	333	19	69	27	680
Income tax expenses	-79	49	1	13	7	-9
Profit/(loss) for the year	311	284	18	56	20	689
<i>Attributable to:</i>						
Owners of the company	287	284	18	56	20	665
Non-controlling interests	24					24

3 Acquisitions and divestments

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 and equity-accounted investments at the date of acquisition or disposal.

(in millions)	31 December 2012		31 December 2011	
	Acquisitions	Divestments	Acquisitions	Divestments
Assets and liabilities of acquisitions and divestments				
Cash and balances at central banks			5	-40
Financial assets held for trading				-128
Financial investments				-235
Loans and receivables – banks		-11	227	-648
Loans and receivables – customers			328	-2,019
Equity accounted investments	73	-40	78	-330
Property and equipment			1	-17
Goodwill and other intangible assets		-1		-17
Accrued and other assets		-5	6	-2,267
Financial liabilities held for trading				123
Due to banks		1	-29	2,711
Due to customers		3	-427	2,773
Subordinated liabilities				39
Provisions			-5	8
Accrued expenses and deferred income		1	-1	43
Tax liabilities		1		12
Other liabilities		7	-13	1,031
Non-controlling interests			5	1
Net assets acquired/Net assets divested	73	-44	175	1,040
Negative goodwill				
Result on divestments, gross		34		188
Less: non cash items				-19
<i>Cash used for acquisitions/received from divestments:</i>				
Total purchase consideration/Proceeds from sale	-73	78	-175	-871
Less: Cash and cash equivalents acquired/divested		-11	220	-388
Cash used for acquisitions/received for divestments	-73	67	45	-1,259

Acquisitions include increases in the investments in several equity-accounted investments for both 2012 and 2011.

Divestments in 2012

Divestments in 2012 consist of the sale of Solveon, which was completed on 1 December 2012, and several equity accounted investments.

The sale of the commercial insurance broker activities for corporate clients to Aon was completed on 2 July 2012. The insurance operations for small and medium-sized businesses were transferred to ABN AMRO Verzekeringen. ABN AMRO Verzekeringen is a joint venture between ABN AMRO Bank N.V. and Delta Lloyd Group, the latter holding 51% of the shares and ABN AMRO Bank N.V. having a 49% stake.

Acquisitions in 2011

On 7 December 2011, ABN AMRO completed the acquisition of LGT Bank Deutschland.

During 2011 the assets and liabilities of ID&JG United Arab Emirates, Hong Kong and ID&JG Japan were transferred from RBS N.V. and RBS Plc respectively to ABN AMRO.

Divestments in 2011

In May 2010, ABN AMRO and Credit Suisse AG signed a sale and purchase agreement regarding the sale of certain assets and liabilities of Prime Fund Solutions. The sale of the majority of the Prime Fund Solutions activities was completed on 2 May 2011.

On 3 October 2011, ABN AMRO completed the sale of the international division of Fortis Commercial Finance (FCF) to BNP Paribas Fortis. The Dutch part of FCF remained with ABN AMRO and was integrated into ABN AMRO's factoring business, ABN AMRO Commercial Finance.

The sale of ABN AMRO's Swiss Private Banking activities to Union Bancaire Privée, UBP SA was finalised on 31 October 2011.

4 Net interest income

(in millions)	2012	2011
Interest income	13,038	13,223
Interest expense	8,010	8,225
Net interest income	5,028	4,998

Net interest income

Net interest income increased by 1% as higher Net interest income in Commercial & Merchant Banking was partly offset by lower Net interest income in Retail & Private Banking. The rise in Net interest income was driven mainly by improved margins on new mortgage production and other loans and higher Net interest income in Merchant Banking (mainly Markets and ECT). Lower margins on savings and higher funding costs for subordinated liabilities partly neutralised this rise. Divestments had a marginal impact on Net interest income.

Interest income

The breakdown of Interest income by type of product for the years ended 31 December is shown in the following table.

(in millions)	2012	2011
<i>Interest income from:</i>		
Cash and balances at central banks	5	32
Financial investments available-for-sale	351	344
Loans and receivables – banks	631	590
Loans and receivables – customers	11,116	11,487
Other	935	770
Total interest income	13,038	13,223

Interest income on Loans and receivables-banks increased because of reclassifications from Loans and receivables-customers, offset by lower security financing interest.

Interest expense

The breakdown of Interest expenses by type of product for the years ended 31 December is shown in the following table.

(in millions)	2012	2011
<i>Interest expenses from:</i>		
Due to banks	474	686
Due to customers	3,385	3,280
Issued debt	1,882	2,068
Subordinated liabilities	271	203
Other	1,998	1,988
Total interest expense	8,010	8,225

The decrease in the Due to banks interest expense is mainly due to lower security financing interest. The interest expense of subordinated liabilities is higher because of new issued Tier 2 notes.

5 Net fee and commission income

(in millions)	2012	2011
Fee and commission income	2,552	2,548
Fee and commission expense	996	737
Net fee and commission income	1,556	1,811

In 2011, the international division of Fortis Commercial Finance and the Swiss Private Banking activities were divested, resulting in lower fees in 2012.

Net fee and commission income decreased mainly as a result of lower transaction volumes (Retail and Private Banking clients in particular conducted fewer transactions) due to market uncertainty.

The decrease was further caused by a reclassification of costs for international payment services from general expenses to fee and commission expense in 2012.

Fee and commission income

Fee and commission income for the years ended 31 December is specified in the following table.

(in millions)	2012	2011
<i>Fee and commission income from:</i>		
Securities and custodian services	1,179	1,106
Insurance and investment fees	94	110
Portfolio management and trust fees	362	392
Payment services	648	597
Guarantees and commitment fees	134	148
Other service fees	135	195
Total fee and commission income	2,552	2,548

Securities and custodian services income increased due to higher volume processed in the USA (at Clearing). The increase was partly offset by lower assets of custodians and the sale of the Swiss Private Banking activities in 2011 and a reclassification to portfolio management and trust fees.

Portfolio management and trust fees decreased as a result of lower volume of assets managed in 2012 compared to 2011. This is also partly due to the sale of the Swiss Private Banking activities in 2011. This decrease was partially offset by a reclassification from Securities and custodian services to Portfolio management and trust fees.

Payment services fees grew in 2012, due mainly to higher credit card fees.

Other service fees decreased mainly due to the sale of the international division of Fortis Commercial Finance in October 2011.

Fee and commission expense

The components of Fee and commission expenses for the years ended 31 December are as follows:

(in millions)	2012	2011
<i>Fee and commission expenses from:</i>		
Securities and custodian services	739	549
Insurance and investment fees	18	20
Portfolio management and trust fees	40	51
Payment services	168	70
Guarantees and commitment fees	9	14
Other service fees	22	33
Total fee and commission expense	996	737

Securities and custodian services expenses increased due to higher volumes processed in the US.

Payment services expenses increased due to a reclassification for payment services from General expenses to Fee and commission expense.

6 Net trading income

(in millions)	2012	2011
Interest instruments trading	293	170
Equity trading	98	-40
Foreign exchange transaction results	91	177
Other	-219	-83
Total net trading income	263	224

Foreign exchange transactions results include gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities.

The increase in Net trading income was mainly related to Merchant Banking.

Interest instruments trading benefitted from volume and results realised within short-term securities trading.

Equity trading increased by EUR 138 million due to positive variation results between FX and Equity Trading positions.

The decrease in foreign exchange results was mainly due to negative variation results between FX and Equity Trading positions and cancellation of specific financing deals (EUR 33 million).

Other trading income decreased mainly as a result of higher losses with respect to Credit value adjustment (counterparty risk related to interest rate derivatives recorded under Interest instruments trading).

7 Results from financial transactions

(in millions)	2012	2011
<i>Net result on the sale of:</i>		
Available-for-sale debt securities	8	-40
Available-for-sale equity investments	45	9
<i>Impairments of:</i>		
Available-for-sale equity investments	-4	-4
<i>Other net results:</i>		
Other equity investments	20	22
Dividends	18	57
Fair value changes in own credit risk and repurchase of own debt	-24	44
Net result on risk mitigants	-16	26
Other	-16	160
Total result from financial transactions	31	274

The result on Available-for-sale debt securities increased due to the sale of German bonds (EUR 5 million) and Dutch bonds (EUR 3 million) in 2012. The loss in 2011 of EUR 60 million was caused by the sale of a part of the Investment portfolio. On the Statement of financial position, EUR 300 million Italian government bonds matured as well as a sale of EUR 1.2 billion of Dutch, German and French papers (gain EUR 16 million). Cash from matured and sold bonds was reinvested.

The result related to Available-for-sale equity investments increased mainly due to the gain on the sale of London Metal Exchange shares in 2012 (EUR 36 million).

Dividends decreased as a result of the lower performance of specific financing deals, which came to EUR 13 million (2011: EUR 53 million).

Fair value changes in own credit risk and repurchase of own debt decreased mainly due to a loss of EUR 24 million related to the debt value adjustment on own issued debt (2011: gain EUR 19 million). Furthermore, in 2012 the buy-back of own RMBS resulted in a loss of EUR 1 million (2011: gain EUR 25 million on the buy back of own issued covered bonds).

Net result on risk mitigants includes the negative result related to the ineffectiveness of specific hedge accounting programmes. More details on hedge accounting are provided in note 40 Hedge accounting.

Other includes economic hedges (e.g. hedges not qualified for hedge accounting) amounting to a loss of EUR 11 million (2011: gain EUR 95 million). Revaluation of the funding by Private Investment Products, as far as they form part of the trading portfolio, resulted in a loss of EUR 109 million for 2012 (2011: gain EUR 34 million) due to developments of liquidity spread. Exchange rate changes resulted in a profit of EUR 76 million (2011: EUR 33 million).

8 Other income

(in millions)	2012	2011
Leasing activities	19	96
Disposal of operating activities and equity accounted investments	34	188
Other	333	119
Total other income	386	403

Other income from leasing activities decreased due to reclassification of leasing costs from depreciation to other income in 2012.

Disposal of operating activities and equity accounted investments decreased due to a gain on the sale of Swiss Private Banking activities and private equity divestments in 2011.

Other increased due to the positive impact of releases from the Credit Umbrella and other EC Remedy-related provisions (EUR 215 million).

9 Personnel expenses

(in millions)	2012	2011
Salaries and wages	1,692	1,763
Social security charges	214	201
Pension expenses relating to defined benefit plans	304	223
Defined contribution plan expenses	35	41
Other	179	289
Total personnel expenses	2,424	2,517

A slight decrease of EUR 71 million in Salaries and wages was mainly due to the reduction of the number of employees resulting from the integration and divestments during the year.

The increase in pension expenses related to the costs of merging the two Dutch pension funds of EUR 162 million (part of integration costs) and offset by amortisation of actuarial gains of EUR 84 million. The merger costs have been recognised as past service cost for EUR 154 million and EUR 8 million as administrative expense. Note 30 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.

The line Other decreased by EUR 110 million, mainly due to the EUR 181 million restructuring charge taken in 2011.

Other personnel expenses include medical costs, termination benefits and restructuring costs.

10 General and administrative expenses

(in millions)	2012	2011
Agency staff, contractors and consultancy costs	612	675
Staff-related costs	92	87
Information technology costs	899	938
Housing	211	258
Post, telephone and transport	93	105
Marketing and public relations costs	136	154
Other	226	222
Total general and administrative expenses	2,269	2,439

General and administrative expenses include integration and separation costs for specific cost categories. Integration and separation costs amounted to EUR 262 million in 2012 (2011: EUR 380 million) and are mainly recorded under Information technology costs and Agency staff, contractors and consultancy costs.

In 2012 Other includes an amount of EUR 112 million for the Dutch bank tax. This increase was offset by lower costs for international payment services (due to reclassification to Fee and commission expense) and lower addition of provisions. Other also includes a release of EUR 3 million in the legal provisions (2011: release of EUR 23 million).

Fees paid to KPMG are included under Agency staff, contractors and consultancy costs. These fees are specified in the following table.

	2012	2011
Financial statements audit fees	6	6
Audit-related fees	4	5
Other fees	1	1
Total auditor's fee	11	12

11 Depreciation and amortisation

(in millions)	2012	2011
<i>Depreciation on tangible assets</i>		
Land and buildings held for own use	73	49
Leasehold improvements	18	24
Equipment	80	163
Other	1	1
<i>Amortisation on intangible assets</i>		
Purchased software	63	89
Internally developed software	12	18
Other intangible assets	4	3
<i>Impairment losses on tangible assets</i>		
Land and buildings held for own use (incl. held for sale)	14	6
Leasehold improvements		
Equipment	1	1
<i>Impairment losses on intangible assets</i>		
Goodwill		28
Purchased software		4
Internally developed software		15
Total depreciation and amortisation	266	401

Total depreciation and amortisation decreased by EUR 135 million in 2012.

In 2012 ABN AMRO adopted the market view of the treatment concerning operating lease as lessor. Depreciation under Operating lease is now reported as negative income under Other income (see also note 8). The amount included in 2011 als Plant and equipment under operating lease was EUR 73 million.

Impairment losses on Land and buildings held for own use include an impairment amount of EUR 8 million (2011: EUR 5 million) for assets held for sale.

There were no impairments on intangible assets in 2012 (2011: EUR 47 million).

More information on the impairment of goodwill is provided in note 20 Goodwill and other intangible assets.

Depreciation and amortisation include EUR 10 million separation and integration-related costs.

12 Income tax expenses

(in millions)	2012	2011
<i>Recognised in income statement:</i>		
Current tax expenses for the current period	-93	295
Adjustments recognised in the period for current tax of prior periods	60	-27
Previously unrecognised tax losses, tax credits and temporary differences increasing (reducing) current tax expenses		1
Total current tax expense	-33	269
Deferred tax arising from the current period	240	-293
Impact of changes in tax rates on deferred taxes		-1
Deferred tax arising from the write-down or reversal of a write-down of a deferred tax asset	53	15
Previously unrecognised tax losses, tax credits and temporary differences reducing deferred tax expense	-57	1
Total deferred tax expense	236	-278
Total income tax expense	203	-9

Reconciliation of the total tax charge

The effective rate was 17.7% in 2012 (2011: -1.3%) and differs from the theoretical rate that would arise using the statutory tax rate of the Netherlands. This difference is explained as follows:

(in millions)	2012	2011
Profit/(loss) before taxation	1,151	680
Applicable tax rate	25.0%	25.0%
Expected income tax expense	288	170
<i>Increase/(decrease) in taxes resulting from:</i>		
Tax exempt income	-92	-138
Share in result of associates and joint ventures	-8	-10
Non-deductable Dutch bank tax	28	
Other non-deductable expenses	-46	-3
Previously unrecognised tax losses and temporary differences	-64	-24
Write-down and reversal of write-down of deferred tax assets	49	15
Impact of changes in tax rates on temporary differences		4
Foreign tax rate differential	-16	13
Adjustments for current tax of prior years	60	-27
Other	4	-9
Actual income tax expense	203	-9

ABN AMRO's effective tax rate in 2012 is affected by non-taxable gains and income, a mix of income rates that are applied to profits and losses in various countries outside the Netherlands and adjustments to prior years due to the fact that ABN AMRO continued to settle open tax issues with tax authorities. Furthermore, the Dutch bank tax law was enacted in 2012, which resulted in a EUR 112 million non-deductible expense.

More details on the tax assets and liabilities are provided in note 23.

notes to the consolidated statement of financial position

13 Cash and balances at central banks

This item includes cash on hand and available demand balances with central banks in countries in which the bank has a presence.

(in millions)	31 December 2012	31 December 2011
Cash on hand and other cash equivalents	591	605
Balances with central banks readily convertible to cash other than mandatory reserve deposits	9,205	7,036
Total cash and balances at central banks	9,796	7,641

Cash and balances at central banks increased EUR 2.2 billion to EUR 9.8 billion, predominantly as a result of an increase in overnight deposits placed at DNB.

Mandatory reserve deposits are recorded in note 16 Loans and receivables – banks.

14 Financial assets and liabilities held for trading

The assets and liabilities held for trading are managed on a combined basis and should therefore be assessed on a total portfolio basis and not as stand-alone assets and liability classes.

Financial assets held for trading

The following table shows the composition of assets held for trading.

(in millions)	31 December 2012	31 December 2011
<i>Trading securities:</i>		
Government bonds	2,127	2,355
Corporate debt securities	799	333
Equity securities	2,539	10,808
Total trading securities	5,465	13,496
<i>Derivatives held for trading:</i>		
Over the counter (OTC)	15,437	13,479
Exchange traded	289	763
Total derivatives held for trading	15,726	14,242
Trading book loans	1,107	1,255
Commodities	506	530
Total assets held for trading	22,804	29,523

Financial assets held for trading decreased to EUR 22.8 billion, mainly due to lower equity trade positions following uncertainty regarding the impact of Basel III, offset by higher market value of interest rate derivatives.

The decrease in financial assets held for trading and financial liabilities held for trading is partly due to the decision in December 2012 to close down the Equity Derivatives Delta 1 arbitrage activities. Merchant Banking will focus on offering client driven Equity Derivative Products only.

Financial liabilities held for trading

The following table shows the composition of liabilities held for trading.

(in millions)	31 December 2012	31 December 2011
Short security positions	3,138	8,858
<i>Derivatives held for trading:</i>		
Over the counter (OTC)	14,551	13,150
Exchange traded	517	316
Total derivatives held for trading	15,068	13,466
Other liabilities held for trading	576	455
Total liabilities held for trading	18,782	22,779

Financial liabilities held for trading decreased by EUR 4.0 billion to EUR 18.8 billion, mainly due to lower equity trade positions.

The decrease in Short security position includes a EUR 0.6 billion reclassification of a structured medium-term note that was reported as issued debt in 2012.

OTC Derivatives increased in both financial assets and liabilities held for trading. This was mainly due to the higher fair value of the net floating payer and net floating receiver derivatives as a result of a decrease in interest rates.

The fair value of assets pledged as security is shown in note 37 Pledged and encumbered assets.

Derivatives held for trading

Derivatives held for trading comprise the following:

(in millions)		31 December 2012			31 December 2011		
		Notional amount	Fair values		Notional amount	Fair values	
			Assets	Liabilities		Assets	Liabilities
<i>Interest rate derivatives:</i>							
OTC	Swaps	709,627	13,703	12,224	629,725	10,822	10,487
	Forwards	20,341	1	1	61,577	13	13
	Options	19,408	901	1,359	20,361	1,196	1,271
Exchange	Futures	1	3	3	463	133	132
	Options				152		7
Subtotal		749,377	14,608	13,587	712,278	12,164	11,910
<i>Currency derivatives:</i>							
OTC	Swaps	38,866	455	561	30,478	655	366
	Forwards	8,607	80	85	18,508	450	345
	Options	4,203	55	96	4,219	80	120
Exchange	Futures	223	7		117		5
	Options	28					
Subtotal		51,927	597	742	53,322	1,185	836
<i>Other:</i>							
OTC	Swaps	11,941	212	179	14,577	180	452
	Forwards	960	7		730	5	3
	Options	1,605	23	46	1,168	68	64
Exchange	Futures	1,628	1		739		
	Options	1,594	278	514	2,364	630	172
Subtotal		17,728	521	739	19,578	883	691
Other		10			80	10	29
Balance as at 31 December		819,042	15,726	15,068	785,258	14,242	13,466
Over the counter (OTC)		815,568	15,437	14,551	781,423	13,479	13,150
Exchange traded		3,474	289	517	3,835	763	316
Total derivatives held for trading		819,042	15,726	15,068	785,258	14,242	13,466

The notional amounts increased mainly in interest and currency Derivatives OTC Swaps. This was mainly due to the increase in volume and new trades and positions in 2012.

15 Financial investments

The composition of Financial investments is as follows:

(in millions)	31 December 2012	31 December 2011
<i>Financial investments:</i>		
Available-for-sale	21,056	18,360
Held at fair value through profit or loss	370	377
Total, gross	21,426	18,737
<i>Less: Available-for-sale impairment allowance</i>	19	16
Total financial investments	21,407	18,721

The fair value of transferred assets is shown in note 37 Pledged and encumbered assets.

Investments available for sale

The fair value of ABN AMRO's available-for-sale investments (including gross unrealised gains and losses) breaks down as follows:

(in millions)	31 December 2012	31 December 2011
<i>Interest-earning securities:</i>		
Dutch government	5,304	4,538
US Treasury and US government	1,544	4
Other OECD government	7,665	7,404
Non-OECD government	117	164
Mortgage and other asset-backed securities	3,688	3,512
Financial institutions	2,417	2,371
Non financial institutions	125	128
Subtotal	20,860	18,121
Equity instruments	196	239
Total investment available-for-sale	21,056	18,360

Most of these instruments are part of the liquidity buffer and are held for liquidity contingency purposes. For this reason, the changes in the portfolio are mainly due to active management of the liquidity buffer.

Government bonds by country of origin

The government bonds by country of origin for 2012 and 2011 were as follows as at 31 December:

(in millions)		31 December 2012			31 December 2011		
	Gross unrealised gains (losses) and fair value hedges gains (losses) ¹	Impairments	Fair value		Gross unrealised gains (losses) and fair value hedges gains (losses) ¹	Impairments	Fair value
Dutch national government	742		5,304		490		4,538
French national government	204		2,201		147		1,927
Belgian national government	24		137				126
Italian national government	13		365		-62		294
German national government	325		1,273		289		1,832
Great Britain national government	50		234		105		464
Austrian national government	320		1,426		188		1,321
USA national government	28		1,544				4
Irish national government							
Finnish national government	62		668		22		253
Greek national government							
Portuguese national government							
Spanish national government							7
Other national governments ²	150		1,478		-21		1,344
Total government bonds	1,918		14,630		1,158		12,110

¹ Of the total gross unrealised gains (losses), fair value hedge accounting was applied for an amount of EUR 1,940 million as at 31 December 2012 (2011: EUR 1,468 million) and losses of EUR 22 million (2011: loss EUR 310 million) through Available-for-sale financial assets within Other comprehensive income.

² Other national governments of EUR 1,478 million included EU bonds (EUR 990 million with gross unrealised losses and fair value hedge losses of EUR 90 million), Polish bonds (EUR 338 million with gross unrealised losses and fair value hedge gains of EUR 60 million), Japanese bonds (EUR 18 million), Hong Kong bonds (EUR 39 million) and Singapore bonds (EUR 78 million). For 2011, Other national governments of EUR 1,344 million included EU Bonds (EUR 688 million with gross unrealised gains and fair value hedge gains EUR 13 million), Polish bonds (EUR 231 million with gross unrealised losses and fair value hedge losses of EUR 46 million), Japanese bonds (EUR 247 million with gross unrealised gains and fair value hedge of EUR 12 million), Hong Kong bonds (EUR 15 million) and Singapore bonds (EUR 149 million).

No impairment charges were recorded on these government bonds.

More information on country risk positions is provided in the Risk management section of this Annual Report.

Impairments on investments available for sale

(in millions of euros)	2012	2011
Balance as at 1 January	16	11
Increase in impairments	4	4
Reversal on sale/disposal	-1	
Foreign exchange differences and other adjustments		1
Balance as at 31 December	19	16

Investments designated 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.

(in millions)	31 December 2012	31 December 2011
Government bonds	203	183
Corporate debt securities	5	61
Private equities and venture capital	134	133
Equity securities	28	
Total investments held at fair value through profit or loss	370	377

In Merchant Banking some private equity investments are measured at fair value through profit or loss, reflecting the business of investing in financial assets to benefit from their total return in the form of interest or dividend and changes in fair value.

16 Loans and receivables – banks

(in millions)	31 December 2012	31 December 2011
Interest-bearing deposits	21,461	15,294
Loans and advances	10,207	14,195
Professional securities transactions	14,277	27,825
Mandatory reserve deposits with central banks	287	3,648
Other	194	383
Total	46,426	61,345
Less: loan impairment allowance	28	26
Loans and receivables - banks	46,398	61,319

Loans and receivables – banks decreased by EUR 14.9 billion, as a result of lower volumes in professional securities transactions (EUR 13.5 billion) and termination of a financing transaction offset by an increase in term deposits at central banks. Collateral requirements decreased marginally for the derivative activities.

A specification of the Professional securities transactions can be found in note 35 Professional securities transactions.

The monthly mandatory obligation with the Dutch central bank has been met. The excess balance on the Mandatory reserve deposits with central banks are included in Cash and balances at central banks. Mandatory reserve deposits with central banks are not available for use in the bank's day-to-day operations.

Details on loan impairments are provided in the Risk management section.

17 Loans and receivables – customers

(in millions)	31 December 2012	31 December 2011
Government and official institutions	1,329	1,432
Residential mortgages	153,875	155,168
Fair value adjustment from hedge accounting on residential mortgages	4,906	3,863
Consumer loans	16,568	16,275
Commercial loans	85,260	82,525
Fair value adjustment from hedge accounting on commercial loans	1,135	962
Professional securities transactions	14,495	16,449
Financial lease receivables	3,045	213
Factoring	1,182	641
Total	281,795	277,528
Less: loan impairment allowance	5,512	5,520
Loans and receivables – customers	276,283	272,008

Loans and receivables – customers increased by EUR 4.3 billion. Commercial loans increased by EUR 2.7 billion. Excluding reclassification impacts for financial leases and factoring and nettings the commercial loan portfolio grew by EUR 7.8 billion, predominantly due to growth of Merchant Banking (especially at Clearing) and, to a lesser extent, in Private Banking. This was offset by lower securities transactions (EUR 2 billion). The mortgage portfolio decreased slightly to EUR 153.9 billion as new production did not fully compensate redemptions.

In 2011, commercial loans related to financial leases (EUR 2.7 billion) and factoring (EUR 0.4 billion) were mainly reported as commercial loans. In 2012 this is recorded under Financial lease receivables and Factoring.

The bulk of the loan book is generated in the Netherlands (around 90%), reflecting the fact that the majority of ABN AMRO's business mix is located in the Netherlands.

A specification of the Professional securities transactions can be found in note 35 Professional securities transactions.

Details on loan impairments are provided in the Risk management section. See note 40 for details on fair value from hedge accounting.

Financial lease receivables

Receivables related to financial lease agreements as at 31 December consisted of:

(in millions)	Minimum lease payments		Present value of the minimum lease payments receivable	
	2012	2011	2012	2011
<i>Gross investment in financial leases:</i>				
Not later than 3 months	247	12	246	12
Later than 3 months and not later than 1 year	204	9	199	9
Later than 1 year and not later than 5 years	2,184	109	1,979	96
Later than 5 years	744	96	621	96
Total financial lease receivables	3,379	226	3,045	213
Unearned finance income	334	13		

In 2011, commercial loans related to financial leases were mainly reported as commercial loans.

In 2012, this is recorded under Financial lease receivables.

18 Equity accounted investments

The activities conducted through joint ventures include cash transfer, insurance, finance and leasing activities. The following table provides an overview of the most significant investments in associates and joint ventures as at 31 December.

(in millions)	31 December 2012		31 December 2011	
	% of ownership	Carrying amount	% of ownership	Carrying amount
<i>Joint ventures:</i>				
Neuflize Vie	60%	200	60%	191
Car Carriers Management BV	50%	45	50%	39
Aline Holding S.A.	50%	17		
CM Bulk Ltd.	50%	14	50%	15
Bethmann Liegenschaft K.G.	50%	5		
<i>Associates:</i>				
Delta Lloyd ABN AMRO verzekeringen Holding B.V.	49%	248	49%	238
Alma Maritime Ltd.	38%	81	38%	79
Equens S.E.	18%	57	18%	67
Alcover A.G.	34%	50	34%	48
Nederlandse Financieringsmij voor Ontwikkelings-landen N.V.	20%	43	20%	26
Safe Ship Inv. Comp. S.C.A. SICAR	49%	29	49%	31
PJW 3000 LLC	33%	26	33%	25
European Merchant Services B.V.	49%	14	49%	12
Currence Holding B.V.	36%	12	36%	1
Edda Accomodations DIS	20%	12	20%	12
Geldservice Nederland B.V.	33%	11	33%	11
Cofiloisirs S.A.	45%	8	45%	10
Qinvest - ABN AMRO NL Shipping Fund			47%	19
Private Equity Investments		102		41
Other		37		55
Total equity accounted investments		1,011		920

Neuflize Vie S.A. is a joint venture whereby the power to govern the financial and operating policies of the economic activity is subject to joint control.

Although ABN AMRO has a share of 18% in Equens S.E., it has significant influence in Equens S.E. because of representation in the Board of Directors. ABN AMRO therefore accounts for Equens S.E. as an associate.

Impairments on equity-accounted investments

The following table shows the changes in impairments on equity-accounted investments.

(in millions)	2012	2011
Balance as at 1 January	12	11
Increase in impairments	8	
Foreign exchange differences		1
Other	-9	
Balance as at 31 December	11	12

The majority of the Group's equity-accounted investments are regulated entities. Their ability to transfer funds to the Group is therefore subject to regulatory approval.

The line Other represents the provision related to the increase in impairments to avoid a negative value of the respective participation.

The combined financial information of the joint ventures and associates include the following assets and liabilities, income and expenses, and represent the proportionate share:

(in millions)	31 December 2012		31 December 2011	
	Associates	Jointly controlled	Associates	Jointly controlled
Assets				
Financial assets held for trading	2,989			4
Financial investments	4,579	5,464	2,298	3,242
Loans and receivables-banks and customers	1,072	158	239	57
Property and equipment	394	104	361	30
Accrued income and prepaid expenses	140	57	36	
Other assets	233	2	3,182	2,308
Total assets	9,407	5,785	6,116	5,641
Liabilities				
Financial liabilities held for trading	30		11	
Due to banks and customers	5,642	53	2,381	54
Provisions	2,702	3,062	90	3,064
Other Liabilities	303	2,389	2,916	2,270
Total liabilities	8,677	5,504	5,398	5,388
Total operating income	737	40	682	39
Operating expenses	649	23	590	25
Operating profit/(loss)	88	17	92	14
Income tax expense	15	7	15	6
Profit/(loss) for the period	73	10	77	8

The increase in assets and liabilities was due to acquisitions of associates (private equity investments).

19 Property and equipment

The following table shows the carrying amount for each category of Property and equipment as at 31 December.

(in millions)	31 December 2012	31 December 2011
Land and buildings held for own use	895	952
Leasehold improvements	70	86
Equipment	523	539
Other	31	32
Total property and equipment	1,519	1,609

Land and buildings held for own use decreased by EUR 57 million. This was mainly due to higher depreciations amounting to EUR 24 million (information regarding depreciation is provided in note 11).

The book value of Property and equipment changed as follows for the years 2012 and 2011:

(in millions)	2012				
	Land and Buildings held for own use	Leasehold improvements	Equipment	Other property and equipment	Total
Acquisition costs as at 1 January	1,817	232	1,393	34	3,476
Additions	27	11	230		268
Reversal of cost due to disposals	-75	-21	-164		-260
Foreign exchange differences	1			1	2
Other	20	-21	-54	-1	-56
Acquisition costs as at 31 December	1,790	201	1,405	34	3,430
Accumulated depreciation as at 1 January	-833	-141	-851	-2	-1,827
Depreciation	-73	-18	-158	-1	-250
Reversal of depreciation due to disposals	50	16	116		182
Other	-17	12	13		8
Accumulated depreciation as at 31 December	-873	-131	-880	-3	-1,887
Impairments as at 1 January	-32	-5	-3		-40
Increase of impairments charged to the income statement	-6		-1		-7
Reversal of impairments credited to the income statement	1				1
Reversal of impairments due to disposals	9	5	3		17
Other	6		-1		5
Impairments as at 31 December	-22		-2		-24
Property and equipment as at 31 December	895	70	523	31	1,519

(in millions)

2011

	Land and Buildings held for own use	Leasehold improvements	Equipment	Other property and equipment	Total
Acquisition costs as at 1 January	1,847	323	1,749	43	3,962
Acquisitions/divestments of subsidiaries	-8	-15	-37		-60
Additions	22	12	194	1	229
Reversal of cost due to disposals	-85	-70	-315	-5	-475
Foreign exchange differences	1	1	4	1	7
Other	40	-19	-202	-6	-187
Acquisition costs as at 31 December	1,817	232	1,393	34	3,476
Accumulated depreciation as at 1 January	-813	-178	-1,216	-4	-2,211
Acquisitions/divestments of subsidiaries	5	6	33		44
Depreciation	-49	-24	-163	-1	-237
Reversal of depreciation due to disposals	47	43	292	3	385
Foreign exchange differences			-2		-2
Other	-23	12	205		194
Accumulated depreciation as at 31 December	-833	-141	-851	-2	-1,827
Impairments as at 1 January	-34	-35	-3		-72
Increase of impairments charged to the income statement	-6		-1		-7
Other	8	30	1		39
Impairments as at 31 December	-32	-5	-3		-40
Property and equipment as at 31 December	952	86	539	32	1,609

The fair value of Land and buildings held for own use is estimated at EUR 1,031 million at 31 December 2012. Of this fair value, 80% is based on external valuations performed in 2012 and 20% is based on Dutch local government property tax valuations with a discount of 20% to reflect the current market situation. There are some properties that have a lower fair value than the recorded carrying value. No impairment is recorded because these properties are considered corporate assets. The value in use for the cash-generating units within ABN AMRO Group is sufficient to cover the total value of all these assets.

Lessor

In its capacity as lessor, ABN AMRO leases out various assets, included in Equipment, under operating leases. Future minimum lease receipts under non-cancellable operating lease are as follows:

(in millions)

31 December 2012

31 December 2011

Not later than 1 year	13	64
Later than 1 year and not later than 5 years	194	267
Later than 5 years	69	45
Total property rented out under operating lease	276	376

During the year ended 31 December 2012, EUR 98 million (2011: EUR 96 million) was recognised as rental income in the income statement and EUR 78 million (2011: EUR 73 million) in respect of directly related expenses recorded as negative other income. More information is provided in note 11 Depreciation and amortisation.

20 Goodwill and other intangible assets

Goodwill and other intangible assets as at 31 December were as follows:

(in millions)	31 December 2012	31 December 2011
Goodwill	134	132
Purchased software	62	102
Internally developed software	14	25
Other	13	17
Total goodwill and other intangible assets	223	276

Goodwill is tested for impairment at least annually by comparing the recoverable amount to the carrying value. In general, software is amortised over a maximum of seven years and other intangible assets have an expected useful life of ten years at most.

Internally developed software includes large-scale administrative and organisational investment projects that introduce or replace an important business platform or model. These internal projects are capitalised according to IAS 38 Intangible assets.

Other includes intangible assets with definite useful lives, such as concessions, patents, licences, trademarks and other similar rights.

With the exception of goodwill, ABN AMRO does not have intangible assets with indefinite useful lives.

Changes in goodwill and other intangible assets for the years 2012 and 2011 were as follows:

(in millions)					2012
	Goodwill	Purchased software	Internally developed software	Other intangible assets	Total
Acquisition costs as at 1 January	159	785	372	20	1,336
Acquisitions/divestments of subsidiaries			-2		-2
Additions		24			24
Reversal of cost due to disposals		-98	-13	-2	-113
Foreign exchange differences	2				2
Other			3		3
Acquisition costs as at 31 December	161	711	360	18	1,250
Accumulated amortisation as at 1 January		-679	-332	-3	-1,014
Acquisitions/divestments of subsidiaries			1		1
Amortisation expense		-63	-12	-4	-79
Reversal of amortisation due to disposals		98	12	2	112
Other		-1	-1	1	-1
Accumulated amortisation as at 31 December		-645	-332	-4	-981
Impairments as at 1 January	-27	-4	-15		-46
Other			1	-1	
Impairments as at 31 December	-27	-4	-14	-1	-46
Goodwill and other intangible assets as at 31 December	134	62	14	13	223

The goodwill impairment tests resulted in no impairments in 2012. A slight variance is due to exchange rate differences.

Purchased software has been partly derecognised and fully amortised after review by the IT department since specific applications are no longer in use (EUR 95 million). Furthermore, some licences were purchased in 2012.

Internally developed software and other intangible assets decreased mainly due to regular depreciations.

(in millions)

2011

	Goodwill	Purchased software	Internally developed software	Other intangible assets	Total
Acquisition costs as at 1 January	239	806	384	25	1,454
Acquisitions/divestments of subsidiaries	-51	-40	-8		-99
Additions		19	7		26
Reversal of cost due to disposals	-29	-13	-5	-6	-53
Foreign exchange differences	1	1			2
Other	-1	12	-6	1	6
Acquisition costs as at 31 December	159	785	372	20	1,336
Accumulated amortisation as at 1 January		-640	-332	-5	-977
Acquisitions/divestments of subsidiaries		35	8		43
Amortisation expense		-89	-18	-3	-110
Reversal of amortisation due to disposals		13	5	6	24
Foreign exchange differences		-1			-1
Other		3	5	-1	7
Accumulated amortisation as at 31 December		-679	-332	-3	-1,014
Impairments as at 1 January	-61		-4		-65
Divestments of subsidiaries	39				39
Increase in impairments charged to the income statement	-28	-4	-15		-47
Foreign exchange differences	-1				-1
Other	24		4		28
Impairments as at 31 December	-27	-4	-15		-46
Goodwill and other intangible assets as at 31 December	132	102	25	17	276

Goodwill impairments of EUR 1 million and EUR 9 million were made in 2011 as a result of an adjustment of the sale price of respectively Fortis Commercial Finance ('Atradius Factoring') and Fortis Commercial Finance. Furthermore, in 2011 the goodwill impairment test of ABN AMRO (Guernsey) resulted in an impairment of EUR 18 million.

Fortis Commercial Finance ('Atradius Factoring') and Fortis Commercial Finance were sold in 2011. As a result, goodwill decreased by EUR 51 million and impairments of goodwill decreased by EUR 39 million.

Impairment of goodwill

Impairment testing on goodwill is performed at least annually by comparing the recoverable amount of the cash-generating units (CGU) to their carrying amount. The CGU is the smallest identifiable group of assets that:

- ▶ generate cash inflows from continuing use; and
- ▶ are largely independent of the cash inflows from other assets or groups of assets.

Identification of an asset's cash-generating unit involves judgement. If the recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows. The recoverable amount is determined by the highest of the value in use or fair value less costs to sell. The type of the acquired entity determines the definition of the type of CGU.

The recoverable amount of a CGU is assessed through a discounted cash flow model of the anticipated future cash flows of the CGU. The discounted cash flow model uses assumptions which depend on 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. The values assigned to each key assumption reflect past experience that was modified based on management's expectation for the future and are consistent with external sources of information.

Besides the discount rates stated in the following table, 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 stated for the CGU.

(in millions)					31 December 2012	31 December 2011	
Entity	Segment	Method used for recoverable amount	Discount rate	Long term growth rate	Impairment charges	Goodwill	Goodwill
Bethmann Bank	Private Banking	Fair value less cost to sell	10.5%	2.0%		64	64
ABN AMRO (Guernsey)	Private Banking	Value in use	10.5%	2.0%		49	48
ABN AMRO Commercial Finance Holding	Commercial Banking	Value in use	10.5%	2.5%		10	9
Banque Neuflyze	Private Banking	Value in use	10.5%	2.0%		6	6
Other						5	5
Total goodwill and impairment charges						134	132

21 Assets held for sale

As part of the integration, several bank premises and bank shops were put up for sale in 2012 and 2011. The held-for-sale property is valued at the lower of fair value less cost to sell and the carrying value.

At 31 December 2012, the total held-for-sale amount was EUR 55 million (2011: EUR 68 million). A total impairment of EUR 8 million (2011: EUR 5 million) was charged to the income statement. The sale of held-for-sale offices resulted in a EUR 3 million gain in 2012 (2011: gain of EUR 16 million).

22 Accrued income and prepaid expenses

The following table shows the components of Accrued income and prepaid expenses at 31 December.

(in millions)	31 December 2012	31 December 2011
Accrued interest income	3,315	3,376
Accrued other income	602	958
Prepaid expenses	23	35
Total accrued income and prepaid expenses	3,940	4,369

Accrued income and prepaid expenses include a reclassification of other receivables from Accrued other income to Other assets (see also note 24 Other assets).

23 Tax assets and tax liabilities

The following table summarises the tax position as at 31 December.

(in millions)	31 December 2012		31 December 2011	
	Assets	Liabilities	Assets	Liabilities
Current tax	278	99	244	241
Deferred tax	856	47	1,139	41
Total tax assets and liabilities	1,134	146	1,383	282

The components of deferred tax assets and deferred tax liabilities as at 31 December are shown in the following table.

(in millions)	Balance sheet		Income statement		Equity	
	2012	2011	2012	2011	2012	2011
<i>Deferred tax assets:</i>						
Assets held for trading (trading securities / derivative financial instruments/other assets held for trading) and derivatives	643	558	-12	-3	-61	-239
Investments (Available-for-sale)	43	126	1		78	-96
Investment property						
Property and equipment	18	16	-1	-8		
Intangible assets (excluding goodwill)	1	2	1	-2		
Loans and receivables – customers	2	6	4	-4		
Impairments on loans	66	32	-42	-2		
Provisions for pensions and post-retirement benefits	12	19	8	-7		
Accrued expenses and deferred income	77	6	-71	-5		
Unused tax losses and unused tax credits	271	582	304	-330		
Other	37	-69	-110	24		-1
Total deferred tax assets before offsetting	1,170	1,278	82	-337	17	-336
Offsetting DTA	314	139				
<i>Deferred tax liabilities related to:</i>						
Assets held for trading (trading securities/derivative financial instruments / other assets held for trading)	2		2			
Investments (Available-for-sale)	49	29	-3	-2	22	-1
Property and equipment		2	-2	-8		
Intangible assets (excluding goodwill)	3		3			
Loans and receivables – customers	11	15	-4	-2		
Impairments on loans		3	-3	-14		
Issued debt and subordinated liabilities	16	9	7	9		
Provisions for pensions and post-retirement benefits	225	86	139	86		
Deferred policy acquisition costs	1	2	-1			2
Deferred expense and accrued income		2	-2			
Tax exempt realised reserves						
Other	54	32	18	-10		-8
Total deferred tax liabilities before offsetting	361	180	154	59	22	-7
Deferred tax expense			236	-278	39	-343
Offsetting DTL	314	139				
Net deferred tax	809	1,098				

Results on financial instruments are for tax purposes recognised in accordance with IFRS. Deferred taxes are therefore recognised on fair value movements reported directly in OCI.

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 tax authority. The amounts after offsetting in the balance sheet are shown in the following table.

(in millions)	31 December 2012	31 December 2011
Deferred tax asset	856	1,139
Deferred tax liability	47	41
Net deferred tax	809	1,098

Deferred tax assets

The total accumulated losses available for carry forward at 31 December 2012 amounted to EUR 2,087 million (2011: EUR 2,965 million) of which EUR 793 million (2011: EUR 1,870 million) could be recognised for future tax benefits. The recorded deferred tax asset for tax losses carried forward amounted to EUR 202 million (2011: EUR 472 million).

The expiration of the total accumulated losses is presented in the following table.

(in millions)	31 December 2012	31 December 2011
Within one year	9	
Between one and two years	4	
Between two and three years	2	
Between three and four years		
Between four and five years		1
After five years	750	1,862
No expiration	1,322	1,102
Total accumulated tax losses	2,087	2,965

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. This is based on estimates of sufficient taxable income by jurisdiction in which ABN AMRO operates, available tax planning opportunities, and the period over which deferred tax assets are recoverable. Management considers this more than likely. In the event that actual results differ from these estimates in future periods, and depending on the tax strategies that ABN AMRO may be able to implement, changes to the recognition of deferred tax assets could be required, which could impact ABN AMRO's financial position and net profit.

As of 31 December 2012, ABN AMRO recognised net deferred tax assets of EUR 752 million (2011: EUR 977 million) that exceed deferred tax liabilities in entities which have suffered a loss in either 2012 or 2011.

Unrecognised tax assets

Deferred tax assets of EUR 237 million (2011: EUR 181 million) have not been recognised in respect of gross tax losses of EUR 1,294 million (2011: EUR 1,095 million) because taxable profits are not considered probable.

Unrecognised tax credits

At 31 December 2012, ABN AMRO had carry-forward tax credits of EUR 286 million (2011: EUR 380 million) which are available to offset future tax benefits. The recorded deferred tax assets amounted to EUR 71 million. Unrecognised tax credits, where offset to future tax benefits is not expected, amounted to EUR 3 million (2011: EUR 3 million).

(in millions)	31 December 2012	31 December 2011
Within one year		
Between one and two years		
Between two and three years		
Between three and four years		
Between four and five years		
After five years	2	2
No expiration	284	378
Total tax credits carry forward	286	380

The expiration of the unrecognised tax losses and tax credits are presented in the following tables.

Unrecognised tax losses

(in millions)	31 December 2012	31 December 2011
Within one year		
Between one and two years		
Between two and three years		
Between three and four years		
Between four and five years		
After five years	156	25
No expiration	1,138	1,070
Total accumulated tax losses	1,294	1,095

Unrecognised tax credits

(in millions)	31 December 2012	31 December 2011
Within one year		
Between one and two years		
Between two and three years		
Between three and four years		
Between four and five years	2	
After five years		2
No expiration	1	1
Total tax credits carry forward	3	3

Tax exposure to distributable reserves

At the balance sheet date, the aggregate amount of temporary differences with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was approximately EUR 25.3 million (2011: EUR 19.6 million). No liability has been recognised in respect of these differences, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. In addition, if these earnings were to be distributed, no taxes would have to be paid. The estimated impact of foreign withholding tax is EUR 3.8 million (2011: EUR 2.9 million).

24 Other assets

Other assets can be specified as follows:

(in millions)	31 December 2012	31 December 2011
Non-trading derivative assets	3,563	2,415
Unit-linked investments	2,170	2,060
Defined benefit assets	1,031	734
Reinsurers share, trade and other receivables	1,496	354
Other	1,574	1,282
Total other assets	9,834	6,845

Non-trading derivative assets include the positive fair value of all derivatives qualifying as hedging instruments in fair value and in cash flow hedges as well as the positive fair value of derivatives related to assets and liabilities designated as fair value through profit or loss. A hedging instrument, for hedge accounting purposes, is a designated derivative whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item. A non-derivative financial asset or liability may be designated as a hedging instrument for hedge accounting purposes only if it hedges the risk of changes in foreign currency exchange rates. The hedging strategies are further explained in note 40.

Unit-linked investments are investments on behalf of insurance contracts policyholders who bear the investment risk. For certain contracts minimum guaranteed rates are agreed.

Defined benefit assets increased due to pension and other post-retirement employee benefit plans. More details on defined benefit assets are provided in note 30 Pensions and other post-retirement employee benefits.

Reinsurers share, trade and other receivables includes the amount of the receivables purchased by ABN AMRO (the factor) from its clients under contracts of non-recourse factoring. The increase in 2012 was mainly related to the reclassification of factoring receivables from commercial loans (EUR 0.4 billion; see note 17 Loans and receivables – customers) and reclassification of other receivables from accrued other income (EUR 0.5 billion; see note 22 Accrued income and prepaid expenses).

Other assets in 2012 include a net receivable of EUR 433 million mainly related to the bankruptcy of DSB Bank (2011: EUR 442 million). The remaining part relates to transactions still to be settled.

25 Due to banks

This item is comprised of amounts due to banking institutions, including central banks and multilateral development banks.

(in millions)	31 December 2012	31 December 2011
<i>Deposits from banks:</i>		
Demand deposits	2,755	3,343
Time deposits	9,436	9,796
Other deposits	4,663	3,209
Total deposits	16,854	16,348
Professional securities transactions	4,360	12,629
Advances against collateral		700
Other	49	1,285
Total due to banks	21,263	30,962

The increase in total deposits was partly due to increased volumes in Merchant Banking.

Professional securities transactions decreased due to lower securities lending volumes and repurchase agreements.

Details of the Professional securities transactions can be found in note 35 Professional securities transactions.

Furthermore, Advances against collateral and Other decreased due to the termination of specific financing deals (EUR 1.9 billion).

26 Due to customers

This item is comprised of amounts due to non-banking customers.

(in millions)	31 December 2012	31 December 2011
Demand deposits	73,511	72,428
Saving deposits	81,142	74,481
Time deposits	25,996	23,676
Other deposits	19,892	17,212
Total deposits	200,541	187,797
Professional securities transactions	15,142	25,394
Other borrowings	338	425
Total due to customers	216,021	213,616

Due to customers increased by EUR 2.4 billion. The increase in total client deposits (EUR 12.7 billion), predominantly in Retail Banking (EUR 9.9 billion) as well as Private Banking (EUR 4.6 billion), was almost fully neutralised by the decrease in professional securities transactions (EUR 10.3 billion).

Details of the Professional securities transactions can be found in note 35 Professional securities transactions.

27 Issued debt

The following table shows the types of debt certificates issued by ABN AMRO and the amounts outstanding as at 31 December.

(in millions)	31 December 2012	31 December 2011
Bonds and notes issued	70,018	72,879
Certificates of deposit and commercial paper	21,058	21,921
Saving certificates	686	1,004
Total at amortised cost	91,762	95,804
Designated at fair value through profit or loss	2,281	506
Total issued debt	94,043	96,310

Total issued debt decreased by EUR 2.3 billion. Issued debt at amortised cost decreased by EUR 4 billion, mainly due to maturing long-term funding exceeding newly issued long-term funding in 2012. Designated at fair value through profit and loss increased by EUR 1.2 billion mainly due to Private Investments Products and the reclassification of a medium-term note from financial liabilities held for trading (EUR 0.6 billion).

For the amounts of issued debt issued and redeemed during the period, please refer to the Consolidated Statement of Cash Flows.

For further details of the funding programmes, see the Liquidity & funding section.

Financial liabilities designated at fair value through profit or loss

(in millions)	31 December 2012	31 December 2011
Cumulative change in fair value of the structured notes attributable to changes in credit risk	10	39
Change during the year in fair value of the structured notes attributable to changes in credit risk	-29	19

For all financial liabilities designated at fair value through profit or loss, the amount that ABN AMRO would contractually be required to pay at maturity was EUR 2,415 million (2011: EUR 639 million). This is EUR 134 million (2011: EUR 133 million) more than the carrying amount at 31 December 2012.

28 Subordinated liabilities

Issued liabilities qualify as subordinated debt if claims by the holders are subordinated to all other current and future liabilities of ABN AMRO and its subsidiaries, respectively.

The following table specifies the issued and outstanding subordinated liabilities at 31 December.

(in millions)	31 December 2012	31 December 2011
Liability component of subordinated convertible securities		2,000
Other subordinated liabilities	9,566	6,697
Total subordinated liabilities	9,566	8,697

Subordinated liabilities showed a net increase of EUR 0.9 billion, mainly resulting from EUR 2.8 billion newly issued Tier 2 notes offset by the conversion of the EUR 2.0 billion liability resulting from the former Mandatory Convertible Securities.

In 2012, ABN AMRO issued three subordinated notes in order to strengthen its capital buffer in anticipation of the introduction of CRD IV. EUR 1.0 billion was issued to European institutional investors, USD 1.5 billion was issued to Asian retail and private banking clients and SGD 1.0 billion to institutional, retail and private banking clients in (predominantly) Singapore.

Total subordinated liabilities include EUR 997 million (2011: EUR 2,744 million) which qualifies as Tier 1 capital for capital adequacy purposes with the Dutch central bank (DNB), when taking into account remaining maturities. The Capital management section provides more information on the impact of Basel III on the capital position of ABN AMRO.

8.75% Mandatory Convertible Securities (MCS)

The derecognition of the MCS liability follows the settlement of the legal proceedings between ABN AMRO and the Dutch State on the one side and Ageas on the other side, on 28 June 2012. This settlement brings to a close all legal proceedings regarding ABN AMRO Capital Finance Ltd (AACF, the former Fortis Capital Company Ltd), the MCS and all outstanding disputes between the Dutch State and Ageas in relation to the equity transactions which resulted in the takeover of the Dutch activities of the former Fortis group by the Dutch State on 3 October 2008.

Until the settlement date, the EUR 2.0 billion liability resulting from the MCS was retained in the balance sheet as a subordinated liability.

The conversion of the EUR 2 billion liability into equity has been directly recorded in equity, more specifically in the share premium reserve and share capital.

The MCS is recorded in the balance sheet as at 31 December as follows:

(in millions)	2012	2011
Liability component		
Balance as at 1 January	2,000	2,000
Issued		
Interest expense		
Interest paid		
Converted into equity	-2,000	
Balance as at 31 December		2,000

The following table lists the subordinated liabilities.

(in millions)			31 December 2012	31 December 2011
	Maturity date	First possible call date	Subordinated liabilities	Subordinated liabilities
EUR 1,000 Million 4.31% per annum	Perpetual	March 2016	968	1,078
GBP 150 million (originally GBP 750 million) 5.00% per annum	Perpetual	February 2016	204	200
EUR 377 million (originally EUR 499 million)	June 2015	March 2013	377	377
EUR 440 million (originally EUR 1,000 million)	September 2016	March 2013	440	439
USD 457 million (originally USD 1,000 million)	January 2017	April 2013	345	351
EUR 1,650 million (originally EUR 2,000 million)	October 2017	October 2012	1,650	1,650
EUR 238 million (originally EUR 500 million)	May 2018	May 2013	237	237
EUR 1,228 million 6.375% per annum	April 2021		1,454	1,363
USD 595 million 6.250% per annum	April 2022		525	522
USD 113 million 7.75% per annum	May 2023		95	87
EUR 1,000 million 7.125% per annum	July 2022		1,028	
USD 1,500 million 6.25% per annum	September 2022	September 2017	1,125	
SGD 1,000 million 4.7% per annum	October 2022	October 2017	742	
EUR various smaller instruments	2015-2020		313	329
USD various smaller instruments	2015		63	64
Total other subordinated liabilities			9,566	6,697

More information regarding subordinated liabilities qualifying as capital instruments can be found in the Capital management chapter.

Changes in subordinated liabilities are shown in the following table.

(in millions)	
Balance as at 1 January 2011	8,085
Issuance	353
Redemption	-28
Conversion mandatory convertible notes into common equity	
Other	287
Balance as at 31 December 2011	8,697
Issuance	2,794
Redemption	-23
Conversion mandatory convertible notes into common equity	-2,000
Other	98
Balance as at 31 December 2012	9,566

Other subordinated liabilities

Other subordinated liabilities comprise a loan held by the Dutch State. This loan (EUR 1,650 million) has an interest rate of 1.16% and matures in 2017. This subordinated loan is also part of the related parties mentioned in note 41.

29 Provisions

The following table shows the breakdown of provisions as at 31 December.

(in millions)	31 December 2012	31 December 2011
Insurance fund liabilities	401	363
Provision for pension commitments	52	60
Restructuring	360	467
Other staff provision	182	191
Other	412	565
Total provisions	1,407	1,646

Insurance fund liabilities include the actuarial reserves, the premium and claims reserves of insurance companies. The expected cash outflow for 2013 is approximately EUR 67 million and for the period 2014-2017 approximately EUR 86 million.

Restructuring provisions cover the costs of restructuring plans for which implementation has been formally announced. Restructuring provisions are related to the integration and to further streamlining of the organisation and infrastructure. Restructuring provisions include allowances for staff and other operating expenses. The restructuring provisions will be used until the end of 2014.

Other staff provisions relate in particular to disability and other post-employee benefits, except early retirement benefits payable to non-active employees which are included in Provision for pension commitments. More details on Provision for pension commitments are provided in note 30.

Other provisions include provisions for tax litigations and legal litigation. The tax litigation and legal litigation provisions are based on best estimates available at year-end and taking into account the opinion of legal, tax 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.

Other provisions include credit commitments amounting to EUR 1 million (2011: EUR 16 million). Provisions for credit commitments are allowances covering credit risk on credit commitments recorded in off-balance sheet items 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 ABN AMRO expects to be required to settle its commitment.

Changes in provisions during the year are as follows:

(in millions)	Restructuring	Other staff provisions	Other	Total
At 1 January 2011	400	186	1,130	1,716
Acquisition and divestment of subsidiaries	1		-3	-2
Increase of provisions	261	3	83	347
Reversal of unused provisions	-62		-37	-99
Utilised during the year	-133	-1	-172	-306
Accretion of interest	6			6
Foreign exchange differences			1	1
Other	-6	3	-14	-17
At 31 December 2011	467	191	988	1,646
Acquisition and divestment of subsidiaries				
Increase of provisions	84	3	86	173
Reversal of unused provisions	-67	-9	-114	-190
Utilised during the year	-151	-3	-106	-260
Accretion of interest	5		2	7
Foreign exchange differences			1	1
Other	22		8	30
At 31 December 2012	360	182	865	1,407

The increase in the restructuring provision is due to an addition of EUR 24 million related to specific restructuring programme and an addition of EUR 40 million for IT employees. These additions are considerably lower than in 2011 as 2011 contained an increase also related to a restructuring provision. The reversal of the restructuring provisions is related to the integration activities. Regarding part of the integration activities, the final costs were lower than the provision.

The increase of Other provisions was mainly due to legal provisions and insurance fund liabilities. Due to the settlement of the EC Remedy, part of the other provisions have been reversed. The use of the other provisions during the year was mainly related to the settlement of the EC Remedy and legal provisions.

30 Pension and other post-retirement employee benefits

ABN AMRO sponsors a number of pension and VUT (early retirement) schemes in the Netherlands and abroad. These schemes are mainly defined benefit plans. The majority of the beneficiaries of the benefit plans are located in the Netherlands. In the case of defined contribution plans, contributions are recognised directly in the income statement in the year to which they relate. There are two pension funds in the Netherlands: ABN AMRO Pensioenfond for the average salary plan of all Dutch employees and Pensioenfond Fortis Bank Nederland. The latter contains the accrued rights until 31 December 2010 of the former Fortis Bank Nederland employees. According to pension laws in the Netherlands (*Pensioenwet*), Dutch pension funds are required to comply with the *Financial Assessment Framework* (FTK). The FTK requires a minimum funding level of 104%. Plans in all countries comply with applicable local regulations concerning investments and minimum funding levels.

On 29 November 2012, ABN AMRO, Pensioenfond Fortis Bank Nederland and ABN AMRO Pensioenfond agreed to merge the two pension funds. All accrued rights included in the Pensioenfond Fortis Bank Nederland will transfer to the ABN AMRO Pensioenfond. ABN AMRO Pensioenfond facilitated the merger with certain compensation payments to ensure that the accrued rights will not deteriorate. Costs related to the transfer of the investment portfolio are also for the account of ABN AMRO. Additionally, ABN AMRO has safeguarded both pension funds against a negative impact the transfer might have. The total costs regarding this merger amounted to EUR 162 million, consisting of EUR 154 million past service costs and EUR 8 million administrative expenses. The transfer took place on 1 January 2013.

A restructuring programme was set up in 2011, leading to a reduction of headcount. This reduction affected ABN AMRO's pension scheme as employees who will leave or left the bank will earn no further pension benefits. The reduction of the defined benefit obligation is reflected as a curtailment of EUR 22 million in 2011.

ABN AMRO Group does not have contingent liabilities as a result of pension plans.

In addition to pensions, post-employment benefits include other expenses such as favourable conditions on residential mortgages, which continue to be granted to employees after retirement.

As at 31 December 2012, a provision of EUR 79 million (2011: EUR 95 million) for post-employee benefits relating to healthcare and banking products was recorded. This provision is recognised in Other provisions.

Amounts recognised in the income statement

(in millions)	2012	2011
Current service cost	99	128
Interest cost	668	657
Expected return on plan assets	-545	-564
Administrative expenses paid	37	30
Past service cost	154	7
Amortisation of past service cost (non vested)	16	16
Amortisation of actuarial (gains)/losses	-82	
Losses / (gains) on settlements and curtailment	-4	-22
Other	-39	-29
Pension expenses relating to defined benefit plans	304	223
Defined contribution plans	35	41
Total Pension expenses	339	264

The increase in pension expenses with EUR 75 million is mainly due to amortisation of actuarial gains of EUR 82 million offset by the merger cost for the two Dutch pension funds of EUR 162 million. These merger costs are recognised as past service cost for EUR 154 million and EUR 8 million as administrative expense.

Reconciliation to the statement of financial position

(in millions)	2012	2011	2010
Present value of funded obligations	18,231	12,009	12,688
Fair value of plan assets	17,281	15,022	12,946
	950	-3,013	-258
Present value of unfunded obligations	4	6	52
Unrecognised actuarial gains (losses)	-1,779	2,503	58
Unrecognised past service cost	-154	-170	-259
Net Defined benefit liabilities (assets)	-979	-674	-407
Provisions for pension commitments (in Provisions)	52	60	101
Less: pension assets (in Other assets)	1,031	734	508
Net Defined benefit liabilities (assets)	-979	-674	-407

Change in defined benefit obligations

(in millions)	2012	2011
Defined benefit obligation as at 1 January	12,015	12,740
Current service cost	99	128
Past service cost	154	7
Interest cost	668	657
Actuarial losses (gains) on defined benefit obligation	5,667	-859
Participants' contributions	60	60
Benefits paid	-448	-436
Curtailments / Settlements		-23
Acquisitions and disposals of subsidiaries	-7	-254
Foreign exchange differences		4
Other	27	-9
Defined benefit obligation as at 31 December	18,235	12,015

The actuarial losses of EUR 5,667 million in 2012 were mainly a result of:

- ▶ The decline in the discount rate from 5.6% to 3.5% in 2012. This results in actuarial losses of EUR 5,588 million (see the explanation below);
- ▶ The change in mortality assumptions which resulted in actuarial losses amounting to EUR 130 million;
- ▶ An experience gain of EUR 64 million.

The discount rate consists of a risk-free interest rate and a credit spread on AA-rated corporate bonds. The investment policy of the pension fund is to hedge the majority of the effects of a change in the risk-free interest rate. Therefore, the impact of a change in the risk-free rate on the net defined benefit liability is mitigated.

In 2012 the discount rate decreased from 5.6% to 3.5%, which is the reason for the actuarial loss on the defined benefit obligation of EUR 5,588 million.

In 2011 the discount rate increased from 5.3% to 5.6%, which is the main reason for the actuarial gain on the defined benefit obligation of EUR 859 million.

In 2011 the disposals were related to the sale of Fortis Commercial Finance and the Swiss Private Banking activities.

The following table presents a breakdown of the defined benefit obligation between amounts owing to active members, deferred members and pensioners.

Benefit obligations per member

(in %)	2012
Defined benefit obligation owed to active members	32%
Defined benefit obligation owed to deferred members	34%
Defined benefit obligation owed to pensioners	34%
Total	100%

Change in fair value of plan assets

(in millions)	2012	2011
Fair value of plan assets as at 1 January	15,022	12,946
Expected return on plan assets	545	564
Actuarial gains on plan assets	1,496	1,608
Employer's contributions	625	498
Administrative expenses paid	-37	-30
Participants' contributions	59	60
Benefits paid	-448	-436
Acquisitions and disposals of subsidiaries	-7	-192
Foreign exchange differences		3
Other	26	1
Fair value of plan assets as at 31 December	17,281	15,022

The gain on plan assets in 2012 of EUR 1,496 million was partly driven by a decline of the risk-free rate from 2.5% to 2.2%. The decline in the credit spread from 3.1% to 1.3%, has no effect on the assets.

The 2011 gain on plan assets of EUR 1,608 million was mainly caused by a decline of the risk-free rate from 3.5% to 2.5%. The increase in the credit spread from 1.8% to 3.1% has no effect on the assets.

Contributions are mainly determined by:

- ▶ Service costs calculated with a risk-free rate and with the assumption of 2% indexation;
- ▶ An extra premium of 1/15th of the shortfall in case of a funding ratio below 112%;
- ▶ Extra premiums, if necessary, to ensure that the funding ratio is above 104% within 3 years.

The funding level at 31 December 2012 was 115%, based on the ultimate forward rate.

Plan participants' contributions amounted to EUR 59 million in 2012 (2011: EUR 60 million).

The compensating employer contribution of EUR 41 million (2011: EUR 44 million) is included in Salaries and wages.

Expected contributions by the employer to post-employment benefit plans for the year ending 31 December 2013 amounts to EUR 662 million, i.e. the aggregate of (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) non-cash contributions.

Principal actuarial assumptions

	2012	2011
Discount rate	3.5%	5.6%
Indexation rate	1.8%	1.8%
Expected return on plan assets as at 31 December	3.4%	3.6%
Future salary increases	2.5%	2.5%

Asset liability matching strategy of the ABN AMRO Pensioenfond:

- ▶ An analysis based on Asset Liability Management of the strategic investment policies is performed annually. Following this analysis, the board of the pension fund sets the strategic investment policy for the year;
- ▶ The investment portfolio is split into a matching portfolio and a return portfolio;
- ▶ The (re-)distribution between both portfolios depends on the rebalancing strategy as stated in the yearly investment policy;
- ▶ The goal of the redistribution between the matching portfolio and the return portfolio is to achieve a rate of return which is sufficient to realise indexation of the pension rights within an acceptable risk level. The actual realised return is compared with the return on the expected benefit payments including expected inflation.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

(in millions)		2012			2011		
	Amount	Percentage	Expected rate of return	Amount	Percentage	Expected rate of return	
<i>Assets with quoted market prices in active markets</i>							
Equity securities	6,176	35.7%	5.18%	4,331	28.8%	5.55%	
Debt securities	3,695	21.4%	2.18%	1,218	8.1%	2.55%	
<i>Assets with no quoted market prices in active markets</i>							
Equity securities	512	3.0%	5.18%	386	2.6%	5.55%	
Debt securities	10,147	58.7%	2.18%	11,971	79.7%	2.55%	
Real estate	399	2.3%	4.18%	421	2.8%	4.55%	
Other	-3,648	-21.1%	2.22%	-3,305	-22.0%	2.53%	
Expected return on plan assets as at 31 December	17,281	100.0%	3.40%	15,022	100.0%	3.60%	

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the date of the consolidated statement of financial position. Expected returns on equity and property investments reflect long-term actual rates of return experienced in the respective markets.

The negative amount on the line Other consists of short positions used for mitigating interest rate risk. The expected rate of return of 2.22% is based on the average return over the past ten years of the 3-month Euribor.

Actuarial (gains) and losses

(in millions)	2012	2011	2010
Experience adjustments on defined benefit obligation	-64	-151	34
Assumption adjustments on defined benefit obligation	5,731	-708	220
Experience adjustments on plan assets	-1,496	-1,609	-700
Total	4,171	-2,468	-446

Impact of IAS 19 Employee Benefits (as revised in 2011)

The European Commission has endorsed the amendments to IAS 19 for the recognition of employee benefits (IAS 19R), effective for periods beginning on or after 1 January 2013. The impact of IAS 19R has been calculated for transparency purposes. The impact of these amendments on total equity is highly volatile.

The following table shows the impact of IAS 19R on the 2012 balance sheet. IAS 19R requires retrospective application in accordance with the transitional provisions as set out in IAS 19R.

(in millions)	Net defined pension asset	Deferred tax liability	Equity
Balance as per 1 January 2012	674	41	11,420
Effect of first-time adoption of IAS 19 (as revised in 2011)	2,566	641	1,925
Pro forma balance at 1 January 2012	3,240	682	13,345
Balance as per 31 December 2012	979	47	14,037
Effect of early adoption of IAS 19 (as revised in 2011)	2,566	641	1,925
Effect on Profit/(loss) for the year	273	68	205
Effect on Other comprehensive income for the year	-4,378	-1,094	-3,284
Pro forma balance at 31 December 2012	-560	-338	12,883

The effect on the income statement would have been as follows:

(in millions)	2012
Decrease of pension expenses	273
Increase of income tax expense	-68
Increase/(decrease) of profit for the year	205

The effect on the statement of comprehensive income would have been as follows:

(in millions)	2012
Remeasurement of defined benefit obligation	-4,378
(Increase)/decrease of income tax relating to components of other comprehensive income	1,094
Increase of profit/(loss) for the year	205
Increase/(decrease) of total comprehensive income for the year after taxation	-3,079

Sensitivity analysis

The actuarial gains and losses are highly volatile by nature. Changes in the discount rate and in the indexation rate influence the net defined benefit liability.

The following table shows the change in the defined benefit obligation under IAS19R, the plan assets and the net defined benefit liability resulting from a change in the risk-free interest rate, holding all other assumptions fixed. As the pension fund hedges most of the risk-free rate, the impact on the net defined benefit liability is relatively limited.

	Defined benefit obligation	Plan assets	Net defined benefit asset (liability)
<i>Change in risk-free rate</i>			
+0.5%	16,126	16,096	-30
0.0%	17,841	17,281	-560
-0.5%	19,595	18,390	-1,205

The following table shows the change in the defined benefit obligation, the plan assets and the net defined benefit liability under IAS19R resulting from a change in the credit spread, holding all other assumptions fixed.

	Defined benefit obligation	Plan assets	Net defined benefit asset (liability)
<i>Change in credit spread</i>			
+0.5%	16,126	17,281	1,155
0.0%	17,841	17,281	-560
-0.5%	19,595	17,281	-2,314

The following table shows the change in the defined benefit obligation, the plan assets and the net defined benefit liability under IAS19R resulting from a change in the expected indexation, holding all other assumptions fixed.

	Defined benefit obligation	Plan assets	Net defined benefit asset (liability)
<i>Expected indexation</i>			
+0.5%	19,554	17,281	-2,273
0.0%	17,841	17,281	-560
-0.5%	16,131	17,281	1,150

31 Accrued expenses and deferred income

The composition of Accrued expenses and deferred income as at 31 December was as follows:

(in millions)	31 December 2012	31 December 2011
Accrued interest expense	4,403	4,523
Accrued other expenses	1,295	1,463
Total accrued expenses and deferred income	5,698	5,986

Accrued interest expense in the amount of EUR 2,191 million relates to interest rate swaps (2011: EUR 2,228 million) while EUR 970 million relates to issued debt securities (2011: EUR 904 million). The rest is related to demand and time deposits.

Accrued other expenses include deferred income amounting to EUR 77 million (2011: EUR 220 million).

32 Other liabilities

The composition of Other liabilities as at 31 December was as follows:

(in millions)	31 December 2012	31 December 2011
Non-trading derivative liabilities	10,208	8,481
Liability to unit-linked policyholders	2,170	2,060
Other borrowings	4	4
Sundry liabilities and other payables	1,059	2,439
Total other liabilities	13,441	12,984

Non-trading derivative liabilities include mainly the negative fair value of three kinds of derivative instruments: derivatives qualifying as hedging instruments in Fair value hedges, derivatives qualifying as hedging instruments in Cash flow hedges and the negative fair value of derivatives related to assets and liabilities designated at fair value through profit or loss. Non-trading derivative liabilities grew in 2012 due to the lower fair value of net fixed payer swap positions in the cash flow hedge. This is the result of a sharp decrease of the yield curve during 2012 compared to 2011. The decrease was partially offset by the purchase of new swaps with higher duration and the unwinding of part of existing swaps for which mark-to-market value was amortised.

The hedging strategies are further explained in note 40. A large part of the line Sundry liabilities and other payables consists mostly of payments and trades to be settled.

Sundry liabilities decreased mainly as a result of the settlement of payment transactions. Furthermore in 2012, the liability positions related to the Credit Umbrella were settled.

33 Equity attributable to shareholders of the parent company

The following table shows the composition of Equity attributable to shareholders of the parent company as at 31 December 2012 and 31 December 2011.

(in millions)	31 December 2012	31 December 2011
Share capital	1,015	1,015
Share premium	13,105	11,505
Other reserves (incl. retained earnings / profit for the period)	1,681	818
Other components of equity	-1,783	-1,938
Equity attributable to shareholders of the parent company	14,018	11,400

As at 31 December 2012, the authorised share capital of ABN AMRO Group N.V. amounted to EUR 4,000 million distributed over 3,750,000,001 class A ordinary shares, 240,000,000 class A non-cumulative preference shares, 100,000,000 class B ordinary shares and 900,000,000 class B preference shares. The class A ordinary shares and class A non-cumulative preference shares have a nominal value of EUR 1.00 each and the class B ordinary shares and the class B preference shares have a nominal value of EUR 0.01 each.

Each class A ordinary share and each class A preference share entitles the shareholder to one hundred votes. Each class B ordinary share and each class B preference share entitles the shareholder to one vote.

As at 31 December 2012, issued and paid-up capital of ABN AMRO Group N.V. amounted to EUR 1,015 million distributed over 940,000,001 class A ordinary shares and 75,000,000 class A non-cumulative preference shares (5.85%).

The 2012 movements in Share capital and Share premium were all due to the conversion of the Mandatory Convertible Securities (EUR 2.0 billion) and the settlement with Ageas (EUR 400 million) as described in the Consolidated statement of changes in equity on page 220.

In 2012, a final dividend of EUR 50 million for the year 2011 was paid to ordinary shareholders and EUR 13 million to the holders of preference shares A.

An interim dividend of EUR 200 million was paid to the ordinary shareholders in September 2011. The class A non-cumulative preference shareholders received a dividend related to 2010 and 2009 of EUR 25 million out of the dedicated preference share dividend reserve.

The following table shows the number of outstanding shares:

	Class A ordinary shares	Non-cumulative class A preference shares	Total shares outstanding
Number of shares at 1 January 2011	940,000,000	75,000,000	1,015,000,000
Issued during the year			
Number of shares at 31 December 2011	940,000,000	75,000,000	1,015,000,000
Issued during the year	1		1
Number of shares at 31 December 2012	940,000,001	75,000,000	1,015,000,001

In connection with the MCS conversion, ABN AMRO Group N.V. issued one class A ordinary share (nominal value of EUR 1.00) to NLFI.

34 Additional cash flow information

The following table shows the determination of cash and cash equivalents at 31 December.

(in millions)	31 December 2012	31 December 2011
Cash and balances at central banks	9,796	7,641
Loans and receivables banks (less than 3 months) ¹	4,276	3,756
Total cash and cash equivalents	14,072	11,397

¹ Loans and receivables banks with a maturity of less than 3 months is included in Loans and receivables – banks, see note 16.

35 Professional securities transactions

Professional securities transactions include balances relating to reverse repurchase activities and cash collateral on securities borrowed. ABN AMRO controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to ABN AMRO when deemed necessary.

(in millions)	31 December 2012		31 December 2011	
	Banks	Customers	Banks	Customers
Assets				
Reverse repurchase agreements	7,082	7,346	8,483	8,857
Securities borrowing transactions	6,493	4,535	19,216	5,933
Unsettled securities transactions	702	2,614	126	1,659
Total	14,277	14,495	27,825	16,449
Liabilities				
Repurchase agreements	3,096	12,148	6,222	20,885
Securities lending transactions	1,121	2,517	6,076	3,657
Unsettled securities transactions	143	477	331	852
Total	4,360	15,142	12,629	25,394

For items of the professional securities transactions which ABN AMRO can repledge or resell, please refer to note 37 Pledged and encumbered assets.

36 Transferred financial assets

Transferred assets are arrangements/transactions where ABN AMRO has:

1. transferred the contractual rights to receive the cash flows of the financial asset to a third party;
2. retained the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to a third party;
3. alternatively, a financial asset has also been transferred by ABN AMRO when the counterparty has the right to re-pledge or to re-sell the asset.

This disclosure provides insight into the relationship between these transferred assets and associated liabilities in order to understand which risks the bank is exposed to when the assets are transferred.

Transferred financial assets that are not derecognised in their entirety

The following table shows transferred financial assets that are not derecognised in their entirety

(in millions)	31 December 2012			31 December 2011		
	Loans and receivables (at amortised cost)	Financial assets held for trading (at fair value through profit and loss)	Total	Loans and receivables (at amortised cost)	Financial assets held for trading (at fair value through profit and loss)	Total
Financial assets						
Securitisations						
Carrying amount Transferred assets	15,851		15,851	22,181		22,181
Carrying amount Associated liabilities	15,964		15,964	22,545		22,545
For those liabilities that have recourse only to the transferred assets						
Fair value of assets	15,826		15,826	21,873		21,873
Fair value of associated liabilities	16,010		16,010	22,501		22,501
Net position	-184		-184	-628		-628
Professional securities transactions						
Carrying amount Transferred assets		1,447	1,447		5,609	5,609
Carrying amount Associated liabilities		1,447	1,447		5,609	5,609
For those liabilities that have recourse only to the transferred assets						
Fair value of assets		1,447	1,447		5,609	5,609
Fair value of associated liabilities		1,447	1,447		5,609	5,609
Net position		0	0		0	0
Other						
Carrying amount Transferred assets		136	136		93	93
Carrying amount Associated liabilities		126	126		89	89
For those liabilities that have recourse only to the transferred assets						
Fair value of assets		136	136		93	93
Fair value of associated liabilities		126	126		89	89
Net position		10	10		4	4
Totals						
Carrying amount Transferred assets	15,851	1,583	17,434	22,181	5,702	27,883
Carrying amount Associated liabilities	15,964	1,573	17,537	22,545	5,698	28,243
For those liabilities that have recourse only to the transferred assets						
Fair value of assets	15,826	1,583	17,409	21,873	5,702	27,575
Fair value of associated liabilities	16,010	1,573	17,583	22,501	5,698	28,199
Net position	-184	10	-174	-628	4	-624

Securitisations

The bank uses securitisations as a source of funding whereby the SPE issues debt securities. Pursuant to securitisation transactions with true sale mechanics, the bank transfers the title of the assets to special purpose vehicles (SPEs). As control is held by ABN AMRO Group, the assets (mainly residential mortgage loans) are considered to be transferred in accordance with IFRS.

Professional securities transactions

Securities financing transactions are entered on a collateralised basis for mitigating the bank's credit risk exposure. In repurchase agreements and securities lending transactions, ABN AMRO gets the securities returned at maturity. The counterparty in the transactions holds the securities as collateral, but has no recourse to other assets of ABN AMRO. ABN AMRO transfers the securities and where the counterparty has the right to re-sell or to re-pledge them, the bank considers these assets transferred assets

Continuing involvement in transferred financial assets that are derecognised in their entirety

The transferred financial assets that are related to the Credit Umbrella and which were subject to continuing involvement were sold in the fourth quarter of 2012. At 31 December 2011, ABN AMRO's continuing involvement amounted to a recognised liability of EUR 309 million with a maximum exposure of EUR 3.1 billion. Due to the settlement of the Credit Umbrella, the bank's continuing involvement related to the Credit Umbrella was nil at 31 December 2012.

The bank does not have any other material transferred assets that are derecognised in their entirety, but where ABN AMRO has continuing involvement.

37 Pledged and encumbered assets

The objective of this disclosure is to differentiate which assets at the balance sheet date were used or restricted to secure, credit-enhance or collateralise a transaction.

Pledged assets are assets given as security to guarantee payment of a debt or fulfillment of an obligation. Predominantly the following activities conducted by ABN AMRO give rise to pledged assets:

- ▶ Cash and securities provided as collateral to secure trading and other liabilities, mainly derivatives;
- ▶ Cash and interest earning securities pledged to secure credit lines and deposits from central banks;
- ▶ Cash pledged to secure lending in reverse repurchase transactions and securities borrowing transactions;
- ▶ Mortgages and SME loans pledged to secure funding transactions such as covered bonds and securitisations;
- ▶ Securities lent as part of professional securities transactions;
- ▶ Assets pledged as security to comply with the contractual terms regarding the cross liability resulting from the sale under the EC Remedy. See note 38 Commitments and contingent liabilities for further information.

Encumbered assets are those that are pledged or other assets which are believed to be restricted to secure, credit-enhance or collateralise a transaction. In principle, pledged assets are encumbered assets. The following differences apply to ABN AMRO:

- ▶ Encumbered assets include mandatory reserve requirements with central banks and unit-linked investments (see note 24 Other assets);
- ▶ Encumbered assets exclude assets pledged for unused credit facilities with central banks at the statement of financial position date, i.e. mainly retained mortgage-backed securities.

The following table provides an overview of assets pledged as security and encumbered assets. The 2011 comparative information is adjusted to improve comparability to the 2012 information presented.

(in millions)	31 December 2012	31 December 2011
Assets pledged		
Cash and balances at central banks	292	292
Financial assets held for trading	1,584	5,702
Financial investments available-for-sale	162	162
Financial investments held at fair value through profit or loss		
Financial investments held to maturity		
Loans and receivables – Banks		
- Professional securities transactions	13,575	27,699
- Interest bearing deposits	10,219	10,878
Loans and receivables – Customers		
- Professional securities transactions	11,871	14,778
- Residential mortgages	110,956	132,105
- Commercial loans	6,795	14,444
Total assets pledged as security	155,454	206,060
Differences between pledged and encumbered assets		
Loans and receivables – Banks ¹	287	3,948
Loans and receivables – Customers ²	-56,085	-51,281
Other assets ³	2,170	2,060
Total differences between pledged and encumbered assets	-53,628	-45,273
Total encumbered assets	101,826	160,787
Total assets	394,404	404,682
Total encumbered assets as percentage of total assets	25.8%	39.7%

¹ Include mandatory reserve deposits.

² Exclude mainly mortgage backed securities.

³ Include unit-linked investments.

The encumbered assets have decreased with EUR 59.0 billion mainly due to decrease in Professional securities transactions and mortgage backed securities.

Off-balance sheet collateral held as security for assets

Mainly as part of professional securities transactions, ABN AMRO obtains securities on terms which permit it to repledge or resell the securities to others. These transactions are conducted under terms that are usual and customary to standard professional securities transactions.

ABN AMRO controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral value on a daily basis and requiring additional collateral to be deposited with or returned to the ABN AMRO when deemed necessary.

(in millions)	31 December 2012	31 December 2011
Fair value of securities accepted as collateral	45,235	65,353
- of which: fair value of securities repledged/sold to others	45,235	65,353

ABN AMRO has an obligation to return the securities accepted as collateral to its counterparties.

38 Commitments and contingent liabilities

Committed credit facilities

Commitments to extend credit take the form of approved but undrawn loans, overdraft revolving and underwriting facilities. New loan offers have a commitment period that does not extend beyond the normal underwriting and settlement period.

Guarantees and other commitments

ABN AMRO provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These transactions have fixed limits and generally extend for periods of up to 5 years. Expirations are not concentrated in any particular period. ABN AMRO also provides guarantees by acting as a settlement agent in securities borrowing and lending transactions. In addition, ABN AMRO has entered into transactions to guarantee various liabilities with respect to insurance-related regulatory reserve financing transactions.

The contractual amounts of commitments and contingent liabilities are set out by category in the following table. The amounts stated in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if the relevant contract parties completely failed to perform as contracted.

Many of the contingent liabilities and commitments are expected to expire without being advanced in whole or in part. This means that the amounts stated do not represent expected future cash flows. Additionally, guarantees and letters of credit are supported by varying levels of collateral.

Aside from the items which are included in Guarantees and other commitments, non-quantified guarantees have been given for ABN AMRO's securities custody operations and for interbank bodies and institutions. ABN AMRO or Group companies participate in collective guarantee schemes (e.g. deposit guarantees) applicable or mandatory in various countries. Furthermore, statements of liability within the meaning of Article 403 Book 2 of the Dutch Civil Code have been issued for a number of Group companies, including ABN AMRO Bank N.V.

The committed credit facilities, guarantees and other commitments at 31 December 2012 and 2011 are summarised in the following table.

(in millions)		Payments due by period			
	Less than one year	Between one and three years	Between three and five years	After five years	Total
31 December 2012					
Committed credit facilities	10,559	2,351	2,321	2,404	17,635
<i>Guarantees and other commitments:</i>					
Guarantees granted	732	1,153	30	1,902	3,817
Irrevocable letters of credit	4,203	568	155	548	5,474
Recourse risks arising from discounted bills	7,383	89	6	8	7,486
Total guarantees and other commitments	12,318	1,810	191	2,458	16,777
Total commitments and contingent liabilities	22,877	4,161	2,512	4,862	34,412
31 December 2011					
Committed credit facilities	9,080	1,712	757	2,935	14,484
<i>Guarantees and other commitments:</i>					
Guarantees granted	4,331	548	470	1,943	7,292
Irrevocable letters of credit	3,814	293	150	387	4,644
Recourse risks arising from discounted bills	4,082	1,969	69		6,120
Total guarantees and other commitments	12,227	2,810	689	2,330	18,056
Total commitments and contingent liabilities	21,307	4,522	1,446	5,265	32,540

Guarantees decreased by EUR 3 billion mainly due to settlement of the Credit Umbrella.

Leasing

ABN AMRO is a lessee under finance and operating leases, providing asset financing for its customers and leasing assets for its own use. An analysis of the impact of these transactions on the balance sheet and income statement is as follows.

Operating lease commitments

ABN AMRO leases various offices and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. There are no contingent rents payable. ABN AMRO also leases equipment under non-cancellable lease arrangements.

Where ABN AMRO is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

(in millions)	2012	2011
Not more than one year	117	115
Longer than 1 year and not later than 5 years	269	261
Longer than 5 years	93	110
Total operating lease agreements	479	486

Transactions involving the legal form of a lease

ABN AMRO has entered into IT outsourcing arrangements that involve leases in form but not in substance. The contract periods of the arrangements vary between one and five years. The total amount of the lease payments was EUR 504 million in 2012 (2011: EUR 533 million).

Other contingencies

ABN AMRO is involved in a number of legal proceedings in the ordinary course of business in a number of jurisdictions. In presenting consolidated financial information, management makes estimates regarding the outcome of legal, regulatory and arbitration matters, and takes a charge to income when losses with respect to such matters are probable. Charges, other than those taken periodically for costs of defence, are not established for matters when losses cannot be reasonably estimated.

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

In particular:

In 2009, Ageas initiated legal proceedings against ABN AMRO Capital Finance Ltd, ABN AMRO Bank and the Dutch State claiming EUR 363 million compensation for which Ageas was liable on the cash settlement date. Furthermore, on 7 December 2010 and in accordance with the transaction documentation, the EUR 2 billion of 8.75% Mandatory Convertible Securities converted into ordinary ageas shares and the final (semi-annual) coupon was paid. Ageas claimed it was entitled to receive EUR 2 billion of ABN AMRO ordinary shares by way of compensation. On 28 June 2012, however, ABN AMRO Group, ABN AMRO Bank and Ageas agreed to settle all disputes, including the proceedings initiated by Ageas regarding the two aforementioned claims, between ABN AMRO Group, ABN AMRO Bank, the Dutch State and Ageas in relation to the equity transactions which resulted in the takeover of the Dutch activities of the former Fortis group by the Dutch State on 3 October 2008. Previously, the EUR 2.0 billion liability resulting from the MCS was retained in the balance sheet, of which EUR 1.75 billion continued to qualify as Tier 1 capital. Under IFRS this obligation was required to be classified as a liability instead of equity since the number of shares to be issued by ABN AMRO, if any, for the conversion of the liability was unclear as the contract did not stipulate a fixed amount of shares to be delivered. After the settlement, core Tier 1 capital increased by EUR 1.6 billion, being the sum of the EUR 2.0 billion liability and the one-off settlement amount of EUR 400 million as paid by ABN AMRO to Ageas. As a result, Tier 1 and total capital decreased by EUR 150 million.

The MCS-related Hedge Fund Claims of EUR 1.75 billion plus 8.75% coupon until 7 December 2030 are not included in the settlement. The related proceedings initiated by certain hedge funds in Belgium against the four issuers of the MCS are still pending. On 23 March 2012, the Commercial Court in Brussels (Belgium) rejected all claims of the hedgefunds. This verdict underlines the verdict

in the summary proceedings (*'kort geding'*) of November 2010 that the MCS holders could not unilaterally amend the terms and conditions of the contract. Certain hedge funds have filed an appeal against the verdict. ABN AMRO remains confident that the MCS holders do not have the unilateral power to amend the terms and conditions of the MCS and therefore also continues to be positive about the outcome of the appeal proceedings.

As previously reported, ABN AMRO Bank, certain of its subsidiaries and some of their client funds had exposure to funds that suffered losses (in some cases, significant losses) as a result of the Madoff fraud. In some instances, ABN AMRO Bank and/or a subsidiary made collateralised loans to client funds that had indirect exposure to Bernard L. Madoff Investment Securities (BLMIS). In other instances, a subsidiary of ABN AMRO Bank entered into total return swap transactions with client funds that were indirectly exposed to BLMIS, and also purchased reference portfolio interests in funds that were exposed to BLMIS. If those BLMIS exposed funds remain impaired, ABN AMRO Bank estimates that its and its subsidiaries' losses could amount to EUR 922 million as provisionally provided for in 2008. In addition, certain subsidiaries of ABN AMRO Bank provided other services (including custodial and administration services) to client funds that had exposure to BLMIS. The provision of the custodial services has resulted in a number of legal claims, including by BLMIS' trustee in bankruptcy (Irving Picard), and liquidators of certain funds, as they pursue legal actions in attempts to recover payments made as a result of the Madoff fraud and/or to make good their alleged losses. ABN AMRO Bank subsidiaries are defending themselves in these proceedings to which they are defendants. In light of the preliminary status of those claims and other arrangements that may mitigate litigation exposure, it is not possible to estimate the total amount of ABN AMRO Bank subsidiaries' potential liability, if any. ABN AMRO Bank and its relevant subsidiaries are continuing to investigate and implement strategies for recovering the losses suffered. As previously reported, a total amount of EUR 16 million (exclusive of costs) was recovered in the first half of 2009. In 2012, ABN AMRO was able to sell a number of shares that were provided to it as collateral in the context of the collateralised loans referred to above. This sale resulted in proceeds of approximately EUR 78 million (2011: EUR 52 million) and an equivalent amount provided for in 2008 was subsequently released.

Cross liability

Article 2:334t of the Dutch Civil Code requires that in the event of an entity being divided into two or more parts through a legal demerger, each part remains liable to the creditors of the other demerged part. Such liabilities relate only to obligations existing as at the date of the Legal Demerger. The total amount of the liability is limited to the equity of the divided part on demerger. The cross liabilities will cease to exist upon expiration of the obligations.

On 6 February 2010, the old ABN AMRO Bank N.V. demerged into two entities: RBS N.V. (formerly ABN AMRO Bank N.V.) and ABN AMRO Bank N.V. (formerly ABN AMRO II N.V.). In principle, creditors now only have recourse to the entity to which the relevant assets and liabilities have been transferred. However, under Article 2:334t of the Dutch Civil Code, ABN AMRO Bank N.V. remains liable to the creditors of RBS N.V. in the event that RBS N.V. cannot meet its obligations to those creditors in respect of obligations that existed at the date of the demerger. Similarly, RBS N.V. remains liable to the creditors which transferred from RBS N.V. to ABN AMRO Bank N.V. on the date of the Legal Demerger in the event that ABN AMRO Bank N.V. cannot meet its obligation to those creditors in respect of obligations that existed at the date of Legal Demerger.

At the date of the Legal Demerger, the obligations of RBS N.V. exceeded the equity of ABN AMRO Bank N.V. Therefore the contingent liability of ABN AMRO Bank N.V. to creditors of RBS N.V. is limited to the amount of equity acquired at the Legal Demerger, which amounted to EUR 1.8 billion. At 31 December 2012 this amount remained unchanged. The RBS N.V. contingent liability is limited to the equity it retained at the Legal Demerger, amounting to EUR 4.0 billion.

ABN AMRO Bank N.V. has put in place arrangements to mitigate the risks of the contingent liability to the creditors which transferred to RBS N.V. upon the Legal Demerger. Due to a restructuring at RBS N.V., ABN AMRO Bank N.V. received collateral from RBS Plc for an amount of EUR 579 million. ABN AMRO Bank N.V. did not post collateral with RBS N.V. or RBS Plc.

On 7 August 2008, the EC Remedy part of ABN AMRO Bank N.V. was demerged to New HBU II N.V., giving rise to cross liabilities in the event that New HBU II N.V. fails to meet its obligations, ABN AMRO Bank N.V. remains liable to their creditors in respect of obligations that existed at the New HBU II N.V. demerger date. At 31 December 2012, this contingent liability was estimated at EUR 174 million (2011: EUR 289 million).

In the event that RBS N.V. or ABN AMRO Bank N.V. fails to meet its obligations, New HBU II N.V. remains liable to these creditors in respect of obligations that existed at the New HBU II N.V. demerger date. New HBU II N.V.'s contingent liability in this regard is capped at EUR 950 million under the provisions of Article 2:334t. In respect of these cross liabilities, ABN AMRO Bank N.V. and New HBU II N.V. have entered into cross indemnification and collateral arrangements for a period of five years starting 1 April 2010. In this respect, ABN AMRO Bank N.V. has indemnified New HBU II N.V. for losses that it might incur as a result of cross liability claims from creditors of ABN AMRO Bank N.V. or RBS N.V. The Dutch State, however, has provided ABN AMRO Bank N.V. with a counter-indemnity, capped at EUR 950 million for any losses incurred for RBS N.V. customers only.

As at 31 December 2012, ABN AMRO Bank N.V. had placed collateral with a fair value of EUR 162 million (2011: EUR 162 million) with New HBU II N.V. and New HBU II N.V. had placed collateral with a fair value of EUR 90 million (2011: EUR 56 million) with ABN AMRO Bank N.V.

At 31 December 2012, ABN AMRO Bank N.V. held regulatory capital agreed with the Dutch central bank for any residual risks.

39 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where available. Where the market for a financial instrument is not active, fair value is established using a valuation technique. Valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

Internal controls over fair valuation

ABN AMRO has designated controls and processes for the determination of the fair value of financial instruments. A process has been designed to ensure there are formalised review protocols for independent review and validation of fair values separate from those businesses entering into the transactions. This includes specific controls to ensure consistent pricing policies and procedures, incorporating disciplined price verification for both market and counterparty risk trades.

The business entering into the transaction is responsible for the initial determination and recording of the fair value of the transaction. There are daily controls over the profit or loss recorded by trading and treasury front office staff.

A key element of the control environment, segregated from the recording of the transaction's valuation, is the independent price verification process. Valuations are first calculated by the business. Such valuations may be current bid or offer prices in an active market, or may be derived using a model and variable model inputs. These valuations are reviewed, and if necessary amended, by the independent price verification process. This process involves a team independent of those trading the financial instruments performing a review of valuations in the light of available pricing evidence. Independent price verification is frequently performed by matching the business valuations with independent data sources. For liquid instruments the process is performed daily. The minimum frequency of review is monthly for trading positions, and six monthly for non trading positions. The independent price verification control includes formalised reporting and escalation to management of any valuation differences in breach of defined thresholds. When models are used to value products, those models are subject to a model review process. This process requires different levels of model documentation, testing and review, depending on the complexity of the model and the size of ABN AMRO's exposure to the model.

Valuation techniques

ABN AMRO uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include relative value methodologies based on observable prices for similar instruments, present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk adjusted interest rate, option pricing models such as Black Scholes or binomial option pricing models and simulation models such as Monte Carlo.

Values between and beyond available data points are obtained by interpolation and/or extrapolation. When using valuation techniques, the fair value can be significantly impacted by the choice of valuation model and underlying assumptions made concerning factors such as the amounts and timing of cash flows, discount rates and credit risk. The principal inputs to these valuation techniques are listed below:

- ▶ bond prices – quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products;
- ▶ credit spreads – where available, these are derived from prices of credit default swaps (CDS) or other credit-based instruments, such as debt securities. For others, credit spreads are obtained from pricing services;
- ▶ interest rates – these are principally benchmark interest rates such as the interbank rates and quoted interest rates in the swap, bond and futures markets;

- ▶ foreign currency exchange rates – there are observable markets both for spot and forward contracts and futures in the world's major currencies;
- ▶ equity and equity index prices – quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares;
- ▶ commodity prices – many commodities are actively traded in spot and forward contracts and futures on exchanges in London, New York and other commercial centres;
- ▶ price volatilities and correlations – volatility is a measure of the tendency of a price to change with time. Correlation measures the degree to which two or more prices or other variables are observed to move together. If they move in the same direction there is positive correlation; if they move in opposite directions there is negative correlation. Volatility is a key input in valuing options and the valuation of certain products such as derivatives with more than one underlying variable that are correlation dependent. Volatility and correlation values are obtained from broker quotations, pricing services or derived from option prices;
- ▶ prepayment rates – the fair value of a financial instrument that can be prepaid by the issuer or borrower differs from that of an instrument that cannot be prepaid. In valuing pre-payable instruments that are not quoted in active markets, ABN AMRO considers the value of the prepayment option;
- ▶ counterparty credit spreads – adjustments are made to market prices (or parameters) when the creditworthiness of the counterparty differs from that of the assumed counterparty in the market price (or parameters);
- ▶ recovery rates / loss given default - these are used as an input to valuation models and reserves for asset-backed securities as an indicator of severity of losses on default. Recovery rates are primarily sourced from market data providers or inferred from observable credit spreads.

ABN AMRO refines and modifies its valuation techniques as markets and products develop and as the pricing for individual products becomes more or less readily available. While ABN AMRO believes its valuation techniques are appropriate and consistent with other market participants, the use of different methodologies or assumptions could result in different estimates of fair value at the balance sheet date.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information derived from the above sources. These adjustments reflect management's assessment of factors that market participants would consider in setting a price, to the extent that these factors have not already been included in the information from the above sources. Furthermore, on an ongoing basis, management assesses the appropriateness of any model used. To the extent that the price provided by internal models does not represent the fair value of the instrument, for instance in highly stressed market conditions, management makes adjustments to the model valuation to calibrate to other available pricing sources. Where unobservable inputs are used, management may determine a range of possible valuations based upon differing stress scenarios to determine the sensitivity associated with the valuation. As a final step, ABN AMRO considers the need for further adjustments to the modelled price to reflect how market participants would price instruments. Such adjustments include, for example the credit quality of the counterparty, bid-ask adjustments and adjustments to correct model valuations for any known limitations. In addition, ABN AMRO makes adjustments to defer income for financial instruments valued at inception where the valuation of that financial instrument materially depends on one or more unobservable model inputs.

Fair value hierarchy

ABN AMRO analyses financial instruments held at fair value into the three categories as described below.

Level 1 financial instruments are those that are valued using unadjusted quoted prices in active markets for identical financial instruments. These financial instruments consist primarily of liquid listed equity shares, certain exchange-traded derivatives, and most government and corporate debt securities.

Level 2 financial instruments are those valued using techniques based primarily on observable market data. Instruments in this category are valued using quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data. Financial instruments included are other government agency securities, investment-grade corporate bonds, less liquid listed equities, state and municipal obligations, certain money market securities and most OTC derivatives.

Level 3 financial instruments are those valued using techniques that incorporate information other than observable market data. Instruments in this category have been valued using a valuation technique where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data. Financial instruments included are primarily unlisted equity shares.

The following table presents the valuation methods used in determining the fair values of financial instruments carried at fair value.

(in millions)				31 December 2012
	Quoted market prices in active markets	Valuation techniques -observable inputs	Valuation techniques -significant unobservable inputs	Total fair value
Assets				
Financial assets held for trading	5,984	16,820		22,804
Available-for-sale interest earning securities	13,619	7,241		20,860
Available-for-sale equities	116	27	34	177
Equities designated at fair value through profit or loss	118	118	134	370
Derivatives not held for trading		3,563		3,563
Unit-linked investments	542	1,628		2,170
Total financial assets	20,379	29,397	168	49,944
Liabilities				
Financial liabilities held for trading	3,620	15,162		18,782
Issued debt		2,281		2,281
Derivatives not held for trading		10,208		10,208
Unit-linked investments	542	1,628		2,170
Total financial liabilities	4,162	29,279		33,441

Financial assets and liabilities held for trading valued by quoted market prices in active markets consisted mainly of equity securities, exchange traded derivatives and corporate debt securities. Valuation techniques by observable inputs are mainly comprised of OTC derivatives.

(in millions)				31 December 2011
	Quoted market prices in active markets	Valuation techniques -observable inputs	Valuation techniques -significant unobservable inputs	Total fair value
Assets				
Financial assets held for trading	14,473	15,050		29,523
Available-for-sale interest earning securities	9,964	8,157		18,121
Available-for-sale equities	131	26	66	223
Equities designated at fair value through profit or loss	121	143	113	377
Derivatives not held for trading		2,415		2,415
Unit-linked investments	515	1,545		2,060
Total financial assets	25,204	27,336	179	52,719
Liabilities				
Financial liabilities held for trading	8,867	13,912		22,779
Issued debt		506		506
Derivatives not held for trading		8,481		8,481
Unit-linked investments	515	1,545		2,060
Total financial liabilities	9,382	24,444		33,826

Transfers between level 1 and 2

During 2012 ABN AMRO performed a reassessment of its government bond portfolio in Available-for-sale interest earning securities. Consequently, the fair value as of 31 December 2011 of the Austrian (EUR 1,321 million) and the Finnish (EUR 253 million) national government were transferred from level 2 to level 1.

Transfers from levels 1 and 2 into level 3

During 2012 there were no material transfers from levels 1 and 2 into level 3.

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amounts of level 3 financial assets that are recorded at fair value.

(in millions)		2012		2011	
	Equities designated at fair value through profit or loss	Available for sale equities	Equities designated at fair value through profit or loss	Available for sale equities	
Balance at 1 January	113	66	99	23	
Purchases	2	5	14	30	
Sales		-31	-7		
Gains/losses recorded in profit and loss ¹	-4	-1	-4		
Unrealised gains/losses	12		11		
Other movements	11	-5			13
Balance at 31 December	134	34	113	66	

¹ Included in Results from financial transactions. All assets were held at balance sheet date.

Level 3 sensitivity information

The following tables present the level 3 financial instruments carried at fair value as at the balance sheet date for which fair value is measured in full or in part using valuation techniques based on assumptions that are not supported by market observable inputs. There may be uncertainty about a valuation, resulting from the choice of the valuation technique or model used, the assumptions embedded in those models, the extent to which inputs are not market observable, or as a result of other elements affecting the valuation technique or model. At 31 December 2012 and 2011, ABN AMRO performed a sensitivity analysis to assess the range of reasonably possible alternative assumptions that would have a significant impact (i.e. increase or decrease) on the fair value of the instrument.

(in millions)	Valuation technique	Main assumptions	Carrying value	Reasonably possible alternative assumptions	
				Increase in fair value	Decrease in fair value
2012					
Equity shares	Private equity – valuation statements	EBITDA multiples	168	20	-20
2011					
Equity shares	Private equity – valuation statements	EBITDA multiples	179	21	-21

For the equity shares shown in the above table, below is a description of the types of products that comprise the portfolio and the valuation techniques that are applied in determining fair value, including a description of models used and inputs to those models. Where reasonably possible alternative assumptions of unobservable inputs used in models would change the fair value of the portfolio significantly, the alternative inputs are indicated along with the impact these would have on the fair value. Where there have been significant changes to valuation techniques during the year, a discussion of the reasons for this is also included.

Equities designated at fair value through income

Equities designated at fair value through profit or loss classified as level 3 mainly comprise private equity investments. In general, private equity investments cannot be valued directly from quoted market prices or by using valuation techniques supported by observable market prices or other market data. The fair value is determined using a valuation technique applied in accordance with the European Private Equity and Venture Capitalist Association (EVCA) guidelines.

Own credit

In certain circumstances, ABN AMRO designates own debt at fair value through profit and loss. Designation is performed either to eliminate an accounting mismatch, for example where the debt funds trading positions, or because the debt is managed and assessed on a fair value basis. When valuing financial liabilities recorded at fair value, IFRS requires that an entity takes into account the impact of its own credit standing, which, in aggregate, could have a significant impact on the valuation of the liabilities. The categories of financial liabilities on which own credit spread adjustments are made include issued debt securities and subordinated liabilities. An own credit adjustment is applied to positions where it is believed that counterparties will consider ABN AMRO's creditworthiness when pricing trades. ABN AMRO's trading systems discount future cash outflows for liabilities measured at fair value at interbank offered rates. The adjustment for ABN AMRO's own credit spread represents the difference between the interbank offered rate and the rate which includes ABN AMRO's own market perceived risk of default. In general, ABN AMRO anticipates that gains and losses arising from changes in ABN AMRO's own credit spread will reverse over the life of the instrument unless repurchased.

For issued debt securities, this adjustment is based on independent quotes from market participants for the debt issuance spreads above average interbank rates (at a range of tenors) which the market would demand when purchasing new senior or sub debt issuances from ABN AMRO. Where necessary, these quotes are interpolated using a curve shape derived from CDS prices (see also note 27).

Financial assets and liabilities not carried at fair value

The following methods and significant assumptions have been applied to estimate the fair values on behalf of the notes disclosures of financial instruments carried at cost:

- ▶ The fair value of variable rate financial instruments and financial instruments with a fixed rate maturing within six months of the balance sheet date are assumed to approximate their carrying amounts. The fair value estimate of these financial instruments does not reflect changes in credit quality, as the main impact of credit risk is already recognised separately through the deduction of the allowances for credit losses from the carrying amounts. Neither does the fair value of these financial instruments reflect changes in liquidity spreads or bid-ask adjustments;
- ▶ The fair value of fixed-rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans;
- ▶ The fair value of demand deposits and savings accounts (both included under Due to customers) with no specific maturity is assumed to be the amount payable on demand at the balance sheet date. The fair value of the other loans to customers and loans to banks is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans;
- ▶ The fair value of issued debt securities and subordinated liabilities is based on quoted prices. Where these are not available, fair value is based on independent quotes from market participants for the debt issuance spreads above average interbank offered rates (at a range of tenors) which the market would demand when purchasing new senior or sub debt issuances from ABN AMRO. Where necessary, these quotes are interpolated using a curve shape derived from CDS prices.

The following table compares the carrying amount of financial assets and liabilities recorded at amortised cost to their estimated fair values¹, based on the abovementioned assumptions.

(in millions)	31 December 2012			31 December 2011		
	Carrying amount ²	Fair value	Difference	Carrying amount ²	Fair value	Difference
Assets:						
Cash and balances at central banks	9,796	9,796		7,641	7,641	
Loans and receivables – banks	46,398	46,398		61,319	61,319	
Loans and receivables – customers	209,436	211,919	2,483	204,194	206,310	2,116
Total financial assets	265,630	268,113	2,483	273,154	275,270	2,116
Liabilities:						
Due to banks	21,263	21,263		30,962	30,962	
Due to customers	216,021	216,021		213,616	213,671	-55
Issued debt	52,644	52,791	-147	66,451	67,018	-567
Subordinated liabilities	3,520	3,446	74	5,533	4,940	593
Total financial liabilities	293,448	293,521	-73	316,562	316,591	-29

¹ Positive amounts represent an increase to net assets. Negative amounts represent a reduction to net assets.

² Excluding the balances designated at fair value through profit or loss and fair value hedge accounting.

For short-term receivables and payables, the carrying amount is a reasonable approximation of fair value.

40 Hedge accounting

ABN AMRO enters into various derivative and non-derivative instrument transactions with external parties to hedge risks on assets, liabilities, forecasted cash flows and net investments. The accounting treatment of the hedged item and the hedging instrument is dependent on whether the hedge relationship qualifies for hedge accounting. Qualifying hedges may be designated as either fair value hedges, cash flow hedges or hedges of net investments.

Hedges not qualifying for hedge accounting

The fair value changes of derivative transactions used to hedge against economic risk exposures that do not qualify for hedge accounting, or for which it is not cost beneficial to apply hedge accounting, are recognised directly through income.

Derivatives designated and accounted for as hedging instruments

The following results are recognised in results from financial transactions:

(in millions)	2012	2011
Fair value hedges	1	-4
Cash flow hedges	-16	1
Net investment hedging	-1	29
Total hedging results	-16	26

Fair value hedge accounting

ABN AMRO applies fair value hedge accounting on individual hedged items (micro fair value hedging) as well as on a portfolio of hedged items (macro fair value hedging).

Micro fair value hedge accounting

Hedging instruments designated in individual fair value hedge relations principally consist of interest rate swaps, interest rate options and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed rate assets and fixed rate liabilities due to changes in market interest rates.

For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the hedged item for the risk being hedged are recognised in the income statement.

Gains/(losses) arising from fair value hedge accounting:

(in millions)	2012	2011
Gains/(losses) on the hedged assets attributable to the fair value hedged risk	997	1,318
Gains/(losses) on hedging instruments used for the hedged assets	-995	-1,320
Gains/(losses) on the hedged liabilities attributable to the fair value hedged risk	-2,173	-1,586
Gains/(losses) on hedging instruments used for the hedged liabilities	2,176	1,587
Net effect fair value hedge	5	-1

Macro fair value hedge accounting

ABN AMRO hedges interest rate exposures of fixed-rate mortgages on a portfolio basis using interest rate swaps. ABN AMRO applies a portfolio fair value hedge ('macro fair value hedge accounting') in which it designates interest rate swaps as hedging instruments and fixed-rate mortgages as hedged items. On a monthly basis the hedge accounting relationship is reviewed and the hedging instruments and hedged items are de-designated or re-designated if necessary to maintain an effective hedge accounting relationship.

As a result of the hedge, the changes in the hedged item's fair value due to changes in the appropriate benchmark interest rate will be reduced by offsetting changes in the fair value of the hedging derivative financial instrument.

Hedged mortgages are pre-payable fixed-rate mortgages with the following features:

- ▶ denominated in local currency (euro);
- ▶ fixed term to maturity or re-pricing;
- ▶ pre-payable 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 of which the hedged item is designated in a fair value hedge accounting relationship. More than one group (or portfolio) of mortgages can be identified as the hedged item within the fixed-rate mortgage portfolio. Hedged items are designated to maintain an effective hedge accounting relationship.

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 re-pricing dates. ABN AMRO estimates re-pricing dates using a prepayment rate applied to the contractual cash flows and re-pricing dates of the mortgage portfolio.

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 attributable to the hedged interest rate risk and the carrying value of the hedged mortgages at de-designation of the hedge relationship is amortised over the remaining life of the hedged item.

(in millions)	2012	2011
Gains/(losses) on the hedged assets attributable to the fair value hedged risk	1,056	1,526
Gains/(losses) on hedging instruments used for the hedged assets	-1,060	-1,529
Net effect fair value hedge	-4	-3

Cash flow hedge accounting

ABN AMRO applies macro cash flow hedge accounting by which it designates interest rate swaps as hedging instruments and future cash flows on non-trading assets and liabilities as hedged items. The hedge accounting relationship is reviewed on a monthly basis and the hedging instruments and hedged items are de-designated or re-designated if necessary to maintain an effective hedge accounting relationship.

Future cash flows are derived from the projected balance sheet. This projected balance sheet is produced by Asset and Liability Management models and forms the basis for the management of interest rate risk. The model behind the projected balance sheet takes the contractual terms and conditions of financial assets and liabilities and combines these with estimated prepayments, growth rates and interest scenarios, based on statistical market and client data and an economic outlook. The primary interest-sensitive positions in the balance sheet stemming from the non-trading book are: loans and receivables, liabilities due to banks and customers, and issued debt securities.

Within the projected balance sheet, new assets and liabilities and the future re-pricing of existing assets and liabilities are mapped to specific interest rate indices at the yield curve (i.e. one month, three months, six months, one year). All assets and liabilities are clustered into monthly interest rate index clusters. These clusters are homogeneous in respect of the interest rate risk that is being hedged. Offsetting assets and liabilities in the same monthly interest rate index clusters are considered a natural offset for economic hedging. To manage the remaining interest-sensitive positions, interest rate swap transactions and cross-currency swap transactions are entered into.

The notional amounts of pay- or receive-floating swaps are designated to hedge the re-pricing cash flow exposure of a designated portion of current and forecasted assets and current and forecasted liabilities, respectively, in the clusters described above. These swap transactions are designated for hedge accounting purposes as a hedge of a gross position of a cluster of projected cashflows.

Also, the swap will only hedge the applicable floating swap rate portion of the interest re-pricing and re-investment risk of the cluster.

The longer the term of the hedge, the larger the excess of available cash flows from projected assets or liabilities in the clusters needed, since cash flow projections further into the future are inherently less certain. The availability of an excess of cash flows in the clusters and the increase of excess over time is evaluated on a monthly basis. Furthermore, back testing is performed on the interest rate risk sensitivity models. Historical data are used to review the assumptions applied.

Hedge accounting ineffectiveness recognised in the income statement related to cash flow hedging amounted to a loss of EUR 16 million in 2012 (2011: gain EUR 1 million).

The schedule of forecast principal balances on which the expected hedged cash flows are expected to impact profit or loss is as follows:

(in millions)	Within 3 months	More than 3 months but within 1 year	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years	Total
31 December 2012						
<i>Expected cash flow</i>						
Inflows (assets)	87	285	1,087	877	69	2,405
Outflows (liabilities)	63	499	1,468	1,063	2,015	5,108
Expected cash flow	24	-214	-381	-186	-1,946	-2,703

(in millions)	Within 3 months	More than 3 months but within 1 year	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years	Total
31 December 2011						
<i>Expected cash flow</i>						
Inflows (assets)	47	142	615	555	135	1,494
Outflows (liabilities)	67	204	1,061	978	1,624	3,934
Expected cash flow	-20	-62	-446	-423	-1,489	-2,440

Net gain/(loss) on cash flow hedges transferred from equity to the income statement is as follows:

(in millions)	2012	2011
Interest income	120	162
Interest expense	232	305
Subtotal	-112	-143
Tax expense	-28	-36
Total gains/(losses) on cash flow hedges	-84	-107

Hedges of net investments in foreign operations

ABN AMRO limits its exposure to certain investments in foreign operations by hedging its net investment in its foreign operations with forward contracts.

For qualifying net investment hedges, changes in the fair value of the hedging instrument are recorded in the currency translation reserve within equity. In 2012 ABN AMRO recorded a loss of EUR 1 million (2011: gain EUR 29 million) relating to termination of the hedged position.

Overview of the fair value of hedging instruments

(in millions)	2012		2011	
	Positive	Negative	Positive	Negative
Hedges Qualifying for hedge accounting				
Fair value hedges				
<i>Interest rate contracts:</i>				
Swaps	1,395	6,891	1,015	5,940
Options	5	540	7	518
Total	1,400	7,431	1,022	6,458
<i>Foreign currency contracts:</i>				
Interest and currency swaps	437	99	467	59
Cash flow hedges				
<i>Interest rate contracts:</i>				
Swaps	1,230	2,471	693	1,924
Net investment hedges	1			
Subtotal as at 31 December	3,068	10,001	2,182	8,441
Hedges not qualifying for hedge accounting	495	207	233	40
Balance as at 31 December	3,563	10,208	2,415	8,481

Notional amounts

(in millions)	31 December 2012	31 December 2011
Fair value hedges	62,081	65,915
Cash flow hedges	31,463	39,005
Net investment hedges	184	132

41 Related parties

Parties related to ABN AMRO include NLF1 with control, the Dutch State with significant influence, associates, pension funds, joint ventures, the Managing 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. ABN AMRO has applied the partial exemption for government-related entities as described in IAS 24 paragraphs 25-27.

As part of its business operations, ABN AMRO frequently enters into transactions with related parties. Transactions conducted with the Dutch State are limited to normal banking transactions, taxation and other administrative relationships with the exception of items specifically disclosed in this note. Normal banking transactions relate to loans and deposits and are entered into under the same commercial and market terms that apply to non-related parties.

Total outstanding loans and advances to members of the Managing Board and Supervisory Board of ABN AMRO amounted to EUR 5.8 million (2011: EUR 6.3 million). The outstanding loans and advances to members of the Managing Board and the Supervisory Board mainly consist of residential mortgages granted under standard personnel conditions. Other loans and advances are subject to client conditions (please refer to Remuneration report and note 42 to the Annual Financial Statements).

Credits, loans and bank guarantees in the ordinary course of business may be granted by ABN AMRO companies to executive managers or to close family members of Board members and close family members of executive managers. At 31 December 2012, there were no outstanding credits, loans or bank guarantees, other than the ones included in the ordinary course of business noted above.

Balances with joint ventures, associates and other

(in millions)		31 December 2012				31 December 2011			
		Joint ventures	Associates	Other	Total	Joint ventures	Associates	Other	Total
Assets		12	167	987	1,166	10	118	715	843
Liabilities		88	1,853		1,941	53	351		404
Irrevocable facilities			15		15		18		18
Income received		34	56		90	31	68	23	122
Expenses paid		14	3	334	351		3	239	242

Balances with the Dutch State

(in millions)	31 December 2012	31 December 2011
<i>Assets:</i>		
Financial assets held for trading	821	776
Financial investments – available for sale	5,304	4,538
Loans and receivables – customers	815	970
<i>Liabilities:</i>		
Due to customers ¹	2,111	2,100
Financial liabilities held for trading		
Subordinated loans ¹	1,650	1,650
	2012	2011
<i>Income statement:</i>		
Interest income	160	91
Interest expense	130	212

¹ The Dutch State acquired these liabilities from ageas on 3 October 2008, excluding EUR 11 million Due to customers.

ABN AMRO has medium-term notes of EUR 2.7 billion (2011: EUR 4.8 billion) outstanding that are guaranteed by the Dutch State under the EUR 200 billion Government Bond Scheme.

In addition to the balances with the Dutch State reported in the table above, the following transactions have been conducted with the Dutch State.

RBS is still legal owner of specific Consortium shared assets and liabilities. This means that these assets and the liabilities are for the risk and reward of RBS, Santander and the Dutch State as shareholder of RFS Holdings B.V. On 1 April 2010 ABN AMRO signed an indemnity agreement with the Dutch State for a shortfall in capital above a certain amount related to specific assets and liabilities of RFS Holdings. ABN AMRO has assessed the risk for this shortfall and considers the risk to be remote.

As stated in note 38 (part Cross liability), ABN AMRO took over the cross-liability exposure for NEW HBU II N.V. on Royal Bank of Scotland N.V. for a period of five years. ABN AMRO received an indemnity from the Dutch State for this exposure.

Transactions and balances related to taxation are included in note 12 Income tax expense and note 23 Tax assets and tax liabilities. Most of the tax items in above mentioned notes consist of transactions and balances with the Dutch tax authorities.

42 Remuneration of Managing Board and Supervisory Board

Remuneration of Managing Board

ABN AMRO's remuneration policy has been formally approved by shareholders and adopted by the Supervisory Board.

The remuneration package for the Managing Board consists of the following components:

- ▶ annual base salary;
- ▶ variable remuneration consisting of short- and long-term components;
- ▶ benefits and other entitlements;
- ▶ severance payments.

The following statement summarises the income components for the individual Managing Board members for the year 2012.

(In thousands)	Base salary	Variable remuneration ¹	Pension costs ²	Severance payments	Total	Employer charges ³	Total
2012							
G. Zalm	759		216		975	98	1,073
J.C.M. van Rutte	608		90		698	74	772
J. van Hall	608		81		689	74	763
C.E. Princen	608		114		722	74	796
W. Reehoorn	608		81		689	74	763
C.F.H.H. Vogelzang	608		82		690	74	764
J.G. Wijn	608		113		721	74	795
Total	4,407		777		5,184	542	5,726
2011							
G. Zalm	750		222		972		972
J.C.M. van Rutte	600		77		677		677
J. van Hall	600		83		683		683
C.E. Princen	600		124		724		724
W. Reehoorn	600		84		684		684
C.F.H.H. Vogelzang	600		86		686		686
J.G. Wijn	600		123		723		723
Total	4,350		799		5,149		5,149

¹ For 2012 and 2011 the Managing Board was not eligible for variable remuneration.

² Pension costs exclusively comprise service costs for the year computed on the basis of IAS 19.

³ The one-off Dutch wage tax imposed by the Dutch government ('*crisisheffing*'), payable by the employer for taxable wages above EUR 150,000 per employee, amounted to a total of EUR 542,000 for the Managing Board members. These expenses were accrued in 2012 and are payable in 2013.

Loans from ABN AMRO to Managing Board members

The following table summarises outstanding loans to the members of the Managing Board at 31 December 2012.

(In thousands)	2012		2011	
	Outstanding 31 December	Interest rate	Outstanding 31 December	Interest rate
J.C.M. van Rutte	451	3.0%	503	3.0%
J. van Hall	284	5.3%	284	5.3%
C.E. Princen	893	3.8%	960	3.9%
W. Reehoorn	1,588	3.8%	1,588	3.8%
C.F.H.H. Vogelzang	1,449	2.6%	1,459	2.7%
J.G. Wijn	1,093	2.7%	1,268	2.8%

Remuneration of the Supervisory Board

The following statement summarises the income components for the individual Supervisory Board members.

Remuneration of the Supervisory Board of ABN AMRO for 2012

(In thousands)	2012	2011
J.H.M. Lindenberg ¹	100	100
H.P. de Haan ¹	78	78
S. ten Have ¹	60	60
A. Meerstadt	63	63
M.J. Oudeman	60	60
J.M. Roobeek	63	63
D.J.G.M. van Slingelandt	88	88
P.N. Wakkie	75	75
Total	587	587

¹ Remuneration is excluding VAT.

Loans from ABN AMRO to Supervisory Board members

The following table summarises outstanding loans of the members of the Supervisory Board at 31 December 2012.

(In thousands)	2012		2011	
	Outstanding 31 December	Interest rate	Outstanding 31 December	Interest rate
P.N. Wakkie ¹			284	5.3%

¹ These outstanding loans were contracted prior to the appointment to the Supervisory Board.

43 Employee share option and share purchase plans

No employee share option plans are in place for the years 2012 and 2011.

44 Statutory financial statements ABN AMRO Group N.V.

Accounting policies

The company financial statements of ABN AMRO Group N.V. have been prepared in accordance with the requirements in Title 9 Book 2 of the Dutch Civil Code. ABN AMRO Group N.V. prepares its Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS). ABN AMRO Group N.V. applies the exemption as included in section 2:362 paragraph 8. Participating interests in group companies are valued at net asset value determined on the basis of EU-IFRS. 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. Reference is made to the accounting policies section in the Consolidated Financial Statements.

Basis of preparation

The financial statements are presented in euros, which is the presentation currency of the company, rounded to the nearest million (unless otherwise stated). The statement of comprehensive income has been drawn up in accordance with Section 402, Book 2 of the Dutch Civil Code.

Statement of comprehensive income ABN AMRO Group N.V.

(in millions)	2012	2011
<i>Income:</i>		
Share in result from participating interests after taxation	948	665
Other results after taxation		
Profit/(loss) for the year	948	665
Other comprehensive income	133	-1,139
Total comprehensive income/expense for the period	1,081	-474

Share in result from participating interests increased by EUR 283 million.

Other comprehensive income shows a gain of EUR 133 million (2011: loss EUR 1,139 million) mainly due to the Cash flow hedge reserve (increase of EUR 533 million) and the Available-for-sale reserve (increase of EUR 715 million).

Statement of financial position ABN AMRO Group N.V.

(before appropriation of profit)

(in millions)	31 December 2012	31 December 2011
Assets		
Participating interest in Group companies	14,018	11,425
Total assets	14,018	11,425
Due to Group companies		25
Total liabilities		25
Equity		
Share capital	1,015	1,015
Share premium	13,105	11,505
Other reserves (incl. retained earnings/profit for the period)	657	-228
Reserve participation	-759	-892
Total equity	14,018	11,400
Total liabilities and equity	14,018	11,425

Statement of changes in equity ABN AMRO Group N.V.

(in millions)	Share capital	Share premium reserve	Other reserves including retained earnings	Reserve participation	Total
Balance at 1 January 2011	1,015	11,505	-668	247	12,099
Total comprehensive income			665	-1,139	-474
Dividend			-225		-225
Balance at 31 December 2011	1,015	11,505	-228	-892	11,400
Total comprehensive income			948	133	1,081
Dividend			-63		-63
Increase of capital	0 ¹				
MCS Conversion		2,000			2,000
Ageas settlement		-400			-400
Balance at 31 December 2012	1,015	13,105	657	-759	14,018

¹ In connection with the MCS Conversion, ABN AMRO Group N.V. issued one class A ordinary share (nominal value of EUR 1.00) to NLFI.

Reserve participation includes currency translation reserve, available-for-sale reserve and cash flow hedge reserve, which are non-distributable reserves.

Other reserves including retained earnings also includes a legal reserve for participating interests of EUR 109 million (2011: EUR 93 million) which relates to profits retained from participating interests. The legal reserve was calculated in accordance with the collective method.

The legal reserves also includes a reserve for the positive 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)). If and to the extent that increases in the value of such assets must be included in a revaluation reserve, the net amount in unrealised changes in fair value as at December 2012 and 2011 did not give ABN AMRO Group N.V. reason to form a revaluation reserve.

Due to the conversion of the EUR 2.0 billion Mandatory Convertible Securities (MCS Conversion), the share premium reserve increased by EUR 2.0 billion. In connection with the settlement, ABN AMRO Group N.V. issued one share (nominal value of EUR 1) to NLF1.

The settlement of all legal proceedings between ABN AMRO and the Dutch State on the one side and Ageas on the other side on 28 June 2012 led to a one-off cash payment by ABN AMRO to Ageas of EUR 400 million. As this transaction can be characterised as a shareholder transaction under IFRS, the amount of EUR 400 million was charged directly to equity (deduction from the share premium reserve).

Total equity grew by EUR 2.6 billion, mainly driven by the abovementioned EUR 1.6 billion increase in equity following the MCS Conversion/Ageas settlement and EUR 948 million profit for 2012.

In 2012 a final dividend of EUR 50 million for the year 2011 was paid to ordinary shareholders and EUR 13 million to the holders of preference shares A.

In September 2011 an interim dividend of EUR 200 million was paid to ordinary shareholders. The class A non-cumulative preference shareholders received a dividend related to 2010 and 2009 of EUR 25 million out of the dedicated preference share dividend reserve.

Participating interests in group companies

ABN AMRO Group N.V. has one subsidiary, ABN AMRO Bank N.V. ABN AMRO Group N.V. is the sole shareholder of ABN AMRO Bank N.V.

Movements in participating interests in group companies are shown in the following table.

	2012	2011
Balance as at 1 January	11,425	12,099
Acquisition of the two merged entities		
Increase of capital		
Issuance of preference shares		
Result from participating interests	948	665
Dividend upstream	-88	-200
<i>Actuarial gains/losses) on defined benefit pension plans</i>		
<i>Currency translation</i>	-1	-2
<i>Available for sale</i>	277	-438
<i>Cash flow hedge</i>	-182	-715
<i>Share of OCI of associates and joint ventures</i>	61	
<i>Other</i>	-22	16
Other comprehensive income	133	-1,139
MCS Conversion	2,000	
Ageas settlement	-400	
Balance as at 31 December	14,018	11,425

Issued capital and reserves

Issued capital

As at 31 December 2012, the authorised share capital of ABN AMRO Group N.V. amounted to EUR 4,000 million distributed over 3,750,000,001 class A ordinary shares, 240,000,000 class A non-cumulative preference shares, 100,000,000 class B ordinary shares and 900,000,000 class B preference shares. The class A ordinary shares and class A non-cumulative preference shares have a nominal value of EUR 1.00 each and the class B ordinary shares and the class B preference shares have a nominal value of EUR 0.01 each.

Each class A ordinary share and each class A preference share entitles the shareholder to one hundred votes. Each class B ordinary share and each class B preference share entitles the shareholder to one vote.

As at 31 December 2012, issued and paid-up capital by ABN AMRO Group N.V. amounted to EUR 1,015 million distributed over 940,000,001 class A ordinary shares and 75,000,000 class A non-cumulative preference shares (5.85%).

The 2012 movements in Share capital and Share premium were all due to the conversion of the Mandatory Convertible Securities and the settlement with Ageas

In 2012 a final dividend of EUR 50 million for the year 2011 was paid to ordinary shareholders and EUR 13 million to the holders of preference shares A.

Issued guarantees

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 by ABN AMRO Group N.V. (see Other information for a list of the major subsidiaries and associated companies of ABN AMRO Group N.V. for which a general guarantee has been issued).

45 Post balance sheet events**SNS Reaal**

On 1 February, the Government of the Netherlands announced the nationalisation of SNS Reaal N.V. The Government of the Netherlands also announced the proposal of a EUR 1 billion one-off resolution levy for all banks to be levied in 2014. The impact of this proposal on the results of ABN AMRO is currently estimated to be in the range of EUR 200-250 million (net-of-tax), depending on the final details of the levy. ABN AMRO will further assess the financial impact of the levy (exact amount and timing of recording) as soon as more details become available.

Other information

Major subsidiaries and participating interests

ABN AMRO Bank N.V. ¹		Amsterdam, The Netherlands
ABN AMRO Arbo Services B.V. ¹		Amsterdam, The Netherlands
ABN AMRO Bank (Luxembourg) S.A.		Luxembourg, Luxembourg
ABN AMRO Clearing Bank N.V. ¹		Amsterdam, The Netherlands
ABN AMRO Clearing Chicago LLC		Chicago, USA
ABN AMRO Clearing Hong Kong Ltd		Hong Kong, China
ABN AMRO Clearing Singapore Pte Ltd		Singapore, Singapore
ABN AMRO Clearing Sydney Pty		Sydney, Australia
ABN AMRO Clearing Tokyo Ltd		Tokyo, Japan
ABN AMRO Shoken Kabushiki Kaisha		Tokyo, Japan
ABN AMRO Commercial Finance N.V. ¹		's Hertogenbosch, The Netherlands
ABN AMRO Commercial Finance Holding B.V. ¹		's Hertogenbosch, The Netherlands
ABN AMRO Commercial Finance GmbH		Köln, Germany
ABN AMRO Commercial Finance S.A.		Paris, France
ABN AMRO Commercial Finance (UK) Ltd		Haywards Heath, United Kingdom
ABN AMRO Effecten Compagnie B.V. ¹		Amsterdam, The Netherlands
ABN AMRO Funding USA LLC		New York, USA
ABN AMRO Groenbank B.V. ¹		Amsterdam, The Netherlands
ABN AMRO Holding International AG		Zug, Switzerland
ABN AMRO Holdings USA LLC		New York, USA
ABN AMRO Hypotheken Groep B.V. ¹		Amersfoort, The Netherlands
ABN AMRO Investment Holding B.V. ¹		Amsterdam, The Netherlands
ABN AMRO Investment Management B.V.		Amsterdam, The Netherlands
ABN AMRO Jonge Bedrijven Fonds B.V. ¹		Amsterdam, The Netherlands
ABN AMRO Lease N.V. ¹		Utrecht, The Netherlands
ABN AMRO Life Capital Belgium N.V.	67%	Brussels, Belgium
ABN AMRO Life S.A.		Luxembourg, Luxembourg
ABN AMRO Participaties Fund I B.V. ¹		Amsterdam, The Netherlands
ABN AMRO Participaties NPE Fund N.V. ¹		Amsterdam, The Netherlands
ABN AMRO Securities USA LLC		New York, USA
ABN AMRO (Guernsey) Ltd		St Peter Port, Guernsey, Channel Islands
Alcover AG	34%	Zug, Switzerland
Aline Holding S.A.	50%	Majuro, Marshall Islands
ALFAM Holding N.V. ¹		Bunnik, The Netherlands
Alma Maritime Ltd	38%	Majuro, Marshall Islands
Australian Multilateral Clearing Facility Pty Ltd.		Sydney, Australia
Banque Neuflyze OBC S.A.	99.86%	Paris, France
Bethmann Bank A.G.		Frankfurt am Main, Germany
Bethmann Liegenschaft K.G.	50%	Frankfurt am Main, Germany
Car Carriers Management B.V.	50%	Breskens, The Netherlands
Currence Holding B.V.	36%	Amsterdam, The Netherlands
CM Bulk Ltd	50%	Nassau, Bahamas
Cofiloisirs S.A.	45%	Paris, France
Delta Lloyd ABN AMRO Verzekeringen Holding B.V.	49%	Zwolle, The Netherlands
Edda Accommodations DIS	20%	Oslo, Norway
Direktbank N.V. ¹		Amersfoort, The Netherlands
European Merchant Services B.V.	49%	Diemen, The Netherlands
European Multilateral Clearing Facility N.V. ¹	78%	Amsterdam, The Netherlands
Equens S.E.	18%	Utrecht, The Netherlands
Geldservices Nederland B.V.	33%	Amsterdam, The Netherlands

Holland Clearing House N.V.		Amsterdam, The Netherlands
Holland Ventures B.V.	45%	Amsterdam, The Netherlands
Icestar B.V.		Rotterdam, The Netherlands
International Card Services B.V. ¹		Diemen, The Netherlands
Maas Capital Investments B.V. ¹		Rotterdam, The Netherlands
MeesPierson (Curaçao) N.V.		Willemstad, Curaçao
MeesPierson (N.A.) N.V.		Willemstad, Curaçao
MoneyYou B.V. ¹		Amsterdam, The Netherlands
Nederlandse Financieringsmij voor Ontwikkelingslanden N.V.	20%	Den Haag, The Netherlands
NeSBIC Groep B.V.		Amsterdam, The Netherlands
Neuflize Vie S.A.	60%	Paris, France
PJW 3000 LLC	33%	Majuro, Marshall Islands
Principal Finance Investments Holding B.V. ¹		Amsterdam, The Netherlands
Safe Ship Investment Company S.C.A. SICAR	49%	Luxembourg, Luxembourg
Stater N.V.		Amersfoort, The Netherlands
Triodos MeesPierson Sustainable Investment Management B.V.	50%	Zeist, The Netherlands

Branches/Representative Offices

ABN AMRO Bank N.V. (UAE/DIFC) Branch	Dubai, United Arab Emirates
ABN AMRO Bank N.V. (UAE/DIFC) Branch	Dubai, United Arab Emirates
ABN AMRO Bank N.V. Frankfurt Branch	Frankfurt am Main, Germany
ABN AMRO Bank N.V. (Jersey) Branch	St Helier, Jersey, Channel Islands
ABN AMRO Bank N.V. (Hong Kong) Branch	Hong Kong, China
ABN AMRO Bank N.V. (UK) Branch	London, United Kingdom
ABN AMRO Bank N.V. (Norway) Branch	Oslo, Norway
ABN AMRO Bank N.V. (Singapore) Branch	Singapore, Singapore
ABN AMRO Bank N.V. (Money Lending Business)	Tokyo, Japan
ABN AMRO Bank N.V. Representative Office (Dubai Multi Commodities Centre)	Dubai, United Arab Emirates
ABN AMRO Bank N.V. Representative Office Marbella	Marbella, Spain
ABN AMRO Bank N.V. Representative Office Moscow	Moscow, Russia
ABN AMRO Bank N.V. Representative Office New York	New York, USA
ABN AMRO Bank N.V. Representative Office Greece	Piraeus, Greece
ABN AMRO Bank N.V. Representative Office Shanghai	Shanghai, China
ABN AMRO Escritório de Representação LTDA	San Paulo, Brasil
ABN AMRO Clearing Bank N.V. (Belgium) Branch	Brussels, Belgium
ABN AMRO Clearing Bank N.V. Frankfurt Branch	Frankfurt am Main, Germany
ABN AMRO Clearing Bank N.V. (UK) Branch	London, United Kingdom
ABN AMRO Clearing Bank N.V. (Singapore) Branch	Singapore, Singapore
International Card Services B.V. Branch Diegem	Diegem, Belgium
International Card Services B.V. Deutschland	Düsseldorf, Germany

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.

The interest is 100% unless otherwise stated.

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.

Provisions of the Articles of Association concerning profit appropriation

These provisions are contained in Article 38. The Managing Board proposes, taking into account the reserve and dividend policy and subject to the approval of the Supervisory Board, to the General Meeting of Shareholders which part of the profit is to be reserved. The remainder of the profit will be applied to either pay or reserve, to be determined by the Managing Board, subject to the approval of the Supervisory Board, such amount on the preference shares A as to be calculated on the basis of Article 38.4(a). The remainder of the profit after application of the sentence above is at the disposal of the General Meeting of Shareholders.

Upon publication of the full-year 2010 results in March 2011, ABN AMRO announced its dividend policy, targeting a payout ratio of 40% of the reported net annual profit. Even though ABN AMRO is currently well positioned for Basel III, the bank would like to build up additional capital buffers in order to execute its strategic ambitions and to provide for the impact of other new regulations such as new accounting standards. For reasons of prudence and in close consultation with the shareholder, ABN AMRO has proposed a temporary reduction of the dividend payout ratio. Over the coming years, the targeted payout ratio will gradually increase again to a 40% payout ratio over the full year 2015 net profit. ABN AMRO intends to make an interim dividend payment if the interim results so allow.

Any distribution of dividend remains discretionary and deviations from the above policy can be proposed by the bank. In addition, in accordance with the current applicable EC restriction, which is applicable until 10 March 2013, dividend will only be distributed if the amount surpasses EUR 100 million on an annual basis.

Profit appropriation For 2012, in accordance with article 38.4(a) of the Articles of Association, the Managing Board has decided, subject to the approval of the Supervisory Board, to pay a dividend of EUR 12 million to the holders of the preference shares A.

Furthermore, in accordance with Article 38.7 of the Articles of Association, the Managing Board proposes, subject to the approval of the Supervisory Board, to declare a final dividend of EUR 250 million for the ordinary shares.

Independent auditor's report

To: the Shareholders of ABN AMRO Group N.V.

Report on the financial statements

We have audited the accompanying financial statements 2012 of ABN AMRO Group N.V., Amsterdam. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2012, the company statement of comprehensive income, statement of changes in equity for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Managing Board Report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 ABN AMRO Group N.V. as at 31 December 2012 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands 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 ABN AMRO Group N.V. as at 31 December 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the Managing Board Report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the Managing Board Report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 28 February 2013

KPMG ACCOUNTANTS N.V.

D. Korf RA

other

composition of the Managing Board

21

Gerrit Zalm (1952)



- ▶ Chairman
- ▶ Male
- ▶ Dutch, 60
- ▶ First appointment former ABN AMRO Bank on 23 December 2008
- ▶ Appointed on 1 April 2010 (ABN AMRO Group)
- ▶ Present term expires in 2014

Affiliations

- ▶ Non-executive Director, Royal Dutch Shell
- ▶ Chairman Advisory Council "Wigo-4it", a cooperative effort of the social welfare organisations of the four largest cities in the Netherlands

Jan van Rutte (1950)



- ▶ Chief Financial Officer/Vice-Chairman
- ▶ Male
- ▶ Dutch, 62
- ▶ First appointment former Fortis Bank Nederland on 11 January 2001
- ▶ Appointed on 18 December 2009 (ABN AMRO Group)
- ▶ Present term expires in 2014

Affiliations

- ▶ Member of Board, Dutch Banking Association
- ▶ Member of Board, Holland Financial Centre
- ▶ Member of Board, Duisenberg School of Finance
- ▶ Member of Supervisory Board, Ormit
- ▶ Member of Supervisory Board, Koninklijke Schouwburg, Den Haag (Royal Theatre, The Hague)
- ▶ Member of Board, ABN AMRO Foundation
- ▶ Member Curatorium VU Amsterdam, PGO Financial Professional in Banking

Johan van Hall (1960)



- ▶ Chief Operating Officer
- ▶ Male
- ▶ Dutch, 53
- ▶ First appointment former ABN AMRO Bank on 28 February 2009
- ▶ Appointed on 18 December 2009 (ABN AMRO Group)
- ▶ Present term expires in 2014

Affiliations

- ▶ Member of Supervisory Board, Equens SE (pan-European processor of payments and cards)
- ▶ Member of Board, Nyenrode Europe India Institute
- ▶ Chairman, Foundation ABN AMRO Support for Support

Caroline Princen (1966)

- ▶ Integration, Communication & Compliance, HR, Legal and Sustainability
- ▶ Female
- ▶ Dutch, 46
- ▶ Appointed on 1 April 2010 (ABN AMRO Group)
- ▶ Present term expires in 2014

Affiliations

- ▶ Member of Supervisory Board, Utrecht University
- ▶ Member of Supervisory Board, EYE Film Institute
- ▶ Member of Supervisory Board, WIFS (Women in Financial Services)
- ▶ Chairman, ABN AMRO Foundation

Wietze Reehoorn (1962)

- ▶ Chief Risk Officer and Strategy
- ▶ Male
- ▶ Dutch, 50
- ▶ Appointed on 1 April 2010 (ABN AMRO Group)
- ▶ Present term expires in 2014

Affiliations

- ▶ Member of Supervisory Board, Amsterdam Bright City
- ▶ Member of Supervisory Board, The Royal Tropical Institute
- ▶ Member of Supervisory Board, Amsterdam Institute of Finance
- ▶ Member of Supervisory Board, Topsport Community

Chris Vogelzang (1962)

- ▶ Retail & Private Banking
- ▶ Male
- ▶ Dutch, 50
- ▶ First appointment former ABN AMRO Bank on 28 February 2009
- ▶ Appointed on 1 April 2010 (ABN AMRO Group)
- ▶ Present term expires in 2014

Affiliations

- ▶ Member of Board, Dutch Banking Association
- ▶ Member of Board, Stichting Steun Emma Kinderziekenhuis (Foundation Support Emma Children's Hospital)
- ▶ Member of Board, Marketing Advisory Board Rijksmuseum
- ▶ Treasurer, Stichting Fotografiemuseum (FOAM)
- ▶ Member of Board, Stichting Vereniging van de Effectenhandel

Joop Wijn (1969)

- ▶ Commercial & Merchant Banking
- ▶ Male
- ▶ Dutch, 43
- ▶ Appointed on 1 April 2010 (ABN AMRO Group)
- ▶ Present term expires in 2014

Affiliations

- ▶ Chairman of Board, Oranje Fonds
- ▶ Member of Supervisory Board, Schiphol Group
- ▶ Member of Board, VNO-NCW
- ▶ Member of Supervisory Board, Royal Jaarbeurs Utrecht
- ▶ Member of Supervisory Board, Stadsherstel Amsterdam
- ▶ Member of Board, ICC Netherlands

composition of the Supervisory Board 22

Hessel Lindenberg (1943)



- ▶ Chairman
- ▶ Male
- ▶ Dutch, 69
- ▶ Appointed on 18 December 2009
- ▶ Present term expires in 2014
- ▶ Last position held: Member of the Managing Board of ING Group

Affiliations

- ▶ Chairman of Supervisory Board, Bank voor de Bouwnijverheid N.V.
- ▶ Chairman of Supervisory Board, Agendia B.V.
- ▶ Chairman of Supervisory Board, Doctors Pension Funds Services B.V.
- ▶ Member of Supervisory Board, Gamma Holding N.V.
- ▶ Member of Supervisory Board, Royal HaskoningDHV N.V.
- ▶ Member of Board, Stichting Continuïteit Post NL, Stichting Vopak, Stichting Preferente Aandelen Wolters Kluwer, Stichting Administratiekantoor van Aandelen Telegraaf Media Groep N.V.

Rik van Slingelandt (1946)



- ▶ Vice-Chairman
- ▶ Male
- ▶ Dutch, 66
- ▶ Appointed on 27 October 2010
- ▶ Present term expires in 2015
- ▶ Last position held: Member of the Managing Board of Rabobank

Affiliations

- ▶ Supervisory Director, Kahn Scheepvaart B.V.
- ▶ Member of Board, Stichting Neijenburg
- ▶ Chairman, Save the Children Fund Netherlands

Hans de Haan (1944)

- ▶ Member
- ▶ Male
- ▶ Dutch, 68
- ▶ Appointed on 18 December 2009
- ▶ Present term expires in 2014
- ▶ Last position held: Chartered accountant and partner with Ernst & Young Accountants

Affiliations

- ▶ Member of Board, Stichting Trustee Achmea Hypotheekbank
- ▶ Member of Board of Management, Stichting Lehman Brothers Treasury Co B.V.
- ▶ Trustee in the bankruptcy of Van der Hoop Bankiers N.V.

Steven ten Have (1967)

- ▶ Member
- ▶ Male
- ▶ Dutch, 45
- ▶ Appointed on 30 March 2010
- ▶ Present term expires in 2014
- ▶ Current position: Partner with Ten Have Change Management and professor of Strategy & Change at Vrije Universiteit in Amsterdam

Affiliations

- ▶ Chairman of Supervisory Board, Cito B.V.
- ▶ Vice-Chairman of Supervisory Board, Stichting Cito Instituut voor Toetsontwikkeling (Cito Institute for Educational Testing Development)
- ▶ Chairman, Postgraduate study Change Management, Vrije Universiteit, Amsterdam
- ▶ Member of Board, Stichting INK (Instituut Nederlandse Kwaliteit) (Institute for Netherlands Quality)
- ▶ Chairman, Foundation Center for Evidence Based Management

Bert Meerstadt (1961)

- ▶ Member
- ▶ Male
- ▶ Dutch, 51
- ▶ Appointed on 30 March 2010
- ▶ Present term expires in 2014
- ▶ Current position: Chairman of the Board of N.V. Nederlandse Spoorwegen (Netherlands Railways)

Affiliations

- ▶ Member of Supervisory Board, Lucas Bols
- ▶ Chairman of Board, Friends of Concertgebouw and Royal Concertgebouw Orchestra
- ▶ Chairman of Marketing Advisory Board Rijksmuseum
- ▶ Member of Board VNO-NCW
- ▶ Chairman of Society for Prevention and Rescue of Drowning Victims
- ▶ Chairman of Board Blinden-Penning Foundation for the Blind and Visually Impaired

Marjan Oudeman (1958)

- ▶ Member
- ▶ Female
- ▶ Dutch, 54
- ▶ Appointed on 1 April 2010
- ▶ Present term expires in 2014
- ▶ Current Position:
Member of Executive
Committee of AKZO Nobel N.V.

Affiliations

- ▶ Member of Supervisory Board,
N.V. Nederlandse Spoorwegen (Netherlands Railways)
- ▶ Member of Supervisory Board, Statoil ASA
- ▶ Member of Supervisory Board, Platform Bèta Techniek
- ▶ Member of Supervisory Board, Rijksmuseum
- ▶ Member of Board of Directors
of the Concertgebouw Foundation
- ▶ Member of Board of Nationaal Comité 4 en 5 mei
(the National Committee 4 and 5 May Foundation)

Annemieke Roobeek (1958)

- ▶ Member
- ▶ Female
- ▶ Dutch, 54
- ▶ Appointed on 30 March 2010
- ▶ Present term expires in 2014
- ▶ Current position: Professor
of Strategy and Transformation
Management (Nyenrode
University) and director and
owner of MeetingMoreMinds
and Open Dialogue B.V.

Affiliations

- ▶ Member of Supervisory Board,
RAI Amsterdam Exhibition Centres
- ▶ Member of Supervisory Board,
Abbott Healthcare Products B.V.
- ▶ Member of Supervisory Board, KLM N.V.
- ▶ Member of the Supervisory Board of DIGH
(Dutch International Guarantees for Housing)
- ▶ Member Advisory Board, Koninklijke Horeca Nederland
- ▶ Member, PGGM Advisory Board
for Responsible Investment
- ▶ Chairperson, REFILL
- ▶ Member and Treasurer, NexusLabs Foundation –
Where innovation means business
- ▶ Chairperson of Netherlands Center for Science
and Technology (NCWT) and Science Center NEMO,
Amsterdam
- ▶ Chairperson of INSID, Institute for sustainable
innovation & development, directed by His Royal
Highness Prince Carlos de Bourbon Parma
- ▶ Member of Board, Foundation of the Medical Centre
of Vrije Universiteit Amsterdam
- ▶ Member Raad van Eigen Wijzen CPI Governance
- ▶ Member, Sirius Leading Expert for Excellence
in Higher Education

Peter Wakkie (1948)

- ▶ Member
- ▶ Male
- ▶ Dutch, 64
- ▶ Appointed on 18 December 2009
- ▶ Present term expires in 2014
- ▶ Current position: Partner at law firm Spinath & Wakkie B.V.

Affiliations

- ▶ Vice-Chairman of Supervisory Board, Wolters Kluwer N.V.
- ▶ Member of Supervisory Board, TomTom N.V.
- ▶ Member of Supervisory Board, BCD Holdings N.V.
- ▶ Member of Board, Association for Corporate Litigation
- ▶ Member of Board, VEVO
- ▶ Member, Monitoring Committee Corporate Governance Code

Senior Managing Directors 23

Name

Paulus de Wilt
Frans van Lanschot
Jeroen Rijpkema

Hans Hanegraaf
Ruut Meijer
Rutger van Nieuhuijs
Jos ter Avest

Fred Bos
Frans Woelders
Frans van der Horst
Jeroen Dijkstra

Responsibilities

Retail Banking
Private Banking Netherlands
Private Banking International

Business Banking
Corporate Clients
Large Corporates & Merchant Banking
Markets

Central Risk Management
IT Solutions & Services
Business Services
ALM & Treasury

Company Secretary

Gwendolyn van Tunen

definitions of important terms 24

ABN AMRO or the Group

ABN AMRO Group N.V. incorporated on 18 December 2009 ('ABN AMRO Group' or 'the Company') and its consolidated subsidiaries.

ABN AMRO Bank

ABN AMRO Bank N.V. (formerly known as 'ABN AMRO II N.V.').

ABN AMRO Holding

ABN AMRO Holding N.V. and its consolidated subsidiaries, which was acquired by the Consortium and renamed RBS Holdings N.V. upon the Legal Separation. RBS Holdings N.V. is part of The Royal Bank of Scotland Group plc.

Absolute sensitivity

The absolute sensitivity adds up the different positions on the yield curve, regardless of whether they are positive or negative. It measures the absolute interest rate position.

Advanced Internal Ratings Based (AIRB)

The highest and most detailed level of credit risk calculation for determining capital adequacy levels under Basel II, based on the use of internal models to assess risk.

Advanced Measurement Approach (AMA)

The highest and most detailed level of operational risk calculation for determining capital adequacy levels under Basel II, based on the use of internal models to assess risk.

Ageas

Refers to ageas SA/NV (formerly known as Fortis SA/NV) and ageas N.V. (formerly known as Fortis N.V.) together.

Asset-based lending

Asset-based lending is any kind of lending secured by an asset.

Assets under Management (AuM)

Assets, including investment funds and assets of private individuals and institutions, which are professionally managed with the aim of maximising the investment result.

Basel I

The Basel Capital Accord is the 1988 agreement among the G10 central banks to apply common minimum capital standards to the banking industry.

Basel II

The Basel II Framework offers a new set of standards for establishing minimum capital requirements for banks. It was prepared by the Basel Committee on Banking Supervision.

Basel III

The third set of Basel accords, which was developed in response to the financial crisis of the late 2000's. The Basel III standards include higher and better-quality capital, better risk coverage and the introduction of a maximum leverage ratio.

Basis point (bp)

One hundredth of 1 percentage point.

BNP Paribas Fortis

Fortis Bank SA/NV, a consolidated subsidiary of BNP Paribas Group.

Bookrunner

Head of a securities syndicate responsible for arranging the subscription, allotment and aftermarket for all syndicate members.

Capital adequacy

Measure of a company's financial strength, often expressed in equity as a percentage of balance sheet total or – for banks – in the BIS ratio.

Cash and balances at central banks

This item includes all cash and only credit balances with central banks that are available on demand.

Certificate of deposit (CD)

Certificate of deposit is an unsecured short-term funding instrument with maturities up to one year.

Clearing

Refers to the clearing businesses of ABN AMRO.

Commercial paper (CP)

Commercial paper is an unsecured short-term funding instrument with maturities up to one year.

Consortium

Refers to The Royal Bank of Scotland Group plc ('RBS Group'), Ageas and Banco Santander S.A. ('Santander'), which jointly acquired ABN AMRO Holding on 17 October 2007 through RFS Holdings B.V. ('RFS Holdings'). On 3 October 2008 the State of the Netherlands became the successor of Ageas.

Core Tier 1 ratio

The bank's core capital, excluding preference shares, expressed as a percentage of total risk-weighted assets.

Cost of risk

The cost of risk is defined as annualised impairment charges on loans and other receivables divided by average risk-weighted assets.

Counterparty valuation adjustment

Market value adjustment for counterparty credit risk.

Country risk

Country risk is part of credit risk and is defined as the risk of losses due to country-specific events or circumstances (political, social, economic) relevant for credit exposures that are cross-border in nature.

Coverage ratio

The coverage ratio shows to which extent the impaired exposures are covered by impairment allowances for identified credit risk.

Credit equivalent

Sum of the costs of replacement transactions (when counterparties fail to fulfil their obligations) and the potential future credit risk, reflected in a mark-up percentage on the principal of the contract. The mark-up percentage depends on the nature and remaining term of the contract.

Covered bonds

Covered bonds (CB) are secured long-term funding instruments. This type of bond differs from a standard bond by recourse to a pool of assets. In a default event, the bondholder has recourse to the issuer and this pool of assets.

Credit rating

Assessment of a credit rating agency expressed in a combination of letters and/or figures indicating the creditworthiness of a country, company or institution.

Credit risk

Credit risk is the risk of a financial loss that occurs if a client or counterparty fails to meet the terms of a contract or otherwise fails to perform as agreed.

Credit Umbrella

Financial guarantee covering part of the potential credit losses on the portfolio that existed at the time of closing the sale under the EC Remedy.

Credit valuation adjustments

Market value adjustments for counterparty credit risk.

Customer Excellence

A new way of working being implemented at ABN AMRO, which is based on lean management principles.

Defaulted exposures

Exposures for which there are indicators that a counterparty may not be able to meet its contractual obligations and/or when an exposure is more than 90 days past due.

Derivatives

Financial instruments whose value is derived from the price of one or several underlying assets (e.g. currencies, securities, indices).

Duration of equity

Duration of equity indicates the sensitivity of the market value of equity to a 1% parallel change in the yield curve. The targeted interest risk profile results in a limit of the duration of equity between 0 and 7 years.

Dutch State

Refers to the State of the Netherlands.

Dutch State-acquired businesses

Refers to the businesses of ABN AMRO Holding acquired by the Dutch State.

Economic capital

An estimate of the amount of capital that the bank should possess in order to be able to sustain larger-than-expected losses with a given level of certainty.

Economic profit

Net profit after tax less risk-adjusted cost of capital.

Economic value

The value of future economic profits discounted to the present.

EC Remedy

The divestment of the EC Remedy Businesses by ABN AMRO Bank Standalone in order to satisfy the conditions imposed by the European Commission for approval of the integration of FBN with ABN AMRO Bank Standalone through the Legal Merger. The EC Remedy Businesses consist of New HBU II N.V. and IFN Finance B.V.

EC Remedy Businesses

Refers to New HBU II N.V. and IFN Finance B.V.

Encumbered assets

Assets that were pledged or subject to an arrangement, either explicitly or implicitly, in any way to secure, collateralise or credit enhance a transaction.

Exposure at Default (EAD)

EAD models estimate the expected exposure at the time of a counterparty default.

FBN

The legal entity Fortis Bank (Nederland) N.V., previously named Fortis Bank Nederland (Holding) N.V., which merged with ABN AMRO Bank Standalone pursuant to the Legal Merger.

Goodwill

The difference between the purchase price of a participation and the fair value of the individual net assets and liabilities.

Hedge

Protecting a financial position by going either long or short, often using derivatives.

Household

In Retail Banking, products and services are primarily administered by family/cohabitation cluster, which is called a financial household.

Impaired exposures

Exposures for which not all contractual cash flows are expected and/or exposures more than 90 days past due for which impairments are determined on a portfolio basis.

Impaired ratio

The impaired ratio shows which fraction of the gross carrying amount of a financial asset category consists of impaired exposures.

Impaired EAD ratio

The impaired EAD ratio shows which fraction of an EAD category consists of impaired exposures.

Impairment charges on loans and other receivables

Charge to the income statement to cover possible loan losses on non-performing loans.

International Financial Reporting Standards (IFRS)

IFRS, formerly known as International Accounting Standards, are drawn up and recommended by the International Accounting Standards Board. The European Union requires that IFRS be used by all exchange-listed companies in the EU starting from the financial year 2005.

Legal Demerger

The legal demerger effectuated on 6 February 2010 in accordance with the demerger proposal filed with the Amsterdam Chamber of Commerce on 30 September 2009, thereby demerging the majority of the Dutch State-acquired businesses held by RBS N.V. into ABN AMRO Bank Standalone.

Legal Merger

The legal merger effectuated on 1 July 2010 between ABN AMRO Bank Standalone and FBN. ABN AMRO Bank was the surviving entity and FBN was the disappearing entity.

Legal Separation

The transfer on 1 April 2010 of the shares of ABN AMRO Bank from ABN AMRO Holding to ABN AMRO Group N.V.

Liquidity coverage ratio (LCR)

The LCR is intended to promote resilience to potential liquidity disruptions over a thirty-day horizon. The LCR requires banks to hold sufficient highly-liquid assets equal to or greater than the net cash outflow during a thirty-day period.

Loan impairment allowance

Balance sheet allowance held against non-performing loans.

Long-term refinancing operations

The European Central Bank's long-term financing operation (LTRO) is a process by which the ECB provides financing to eurozone banks.

Market risk (banking book)

Market risk in the banking book, mainly interest rate risk, is the risk of yield curve development that is unfavourable for the bank. Other market risks are limited in the banking book either through hedging (foreign rate exchange risk) or in general (other market risk types).

Market risk (trading book)

Market risk in the trading book is the risk of loss resulting from unfavourable market price movements which can arise from trading or holding positions in financial instruments in the trading book.

Medium-term notes (MTN)

Medium-term notes are unsecured funding instruments with maturities up to ten years issued in several currencies.

Mergers & Acquisitions (M&A)

Activities in the fields of mergers, acquisitions, privatisations, advisory services and organisations.

Mismatch result

Interest rate mismatch is the difference in interest maturity between funds lent and funds borrowed.

NII-at-Risk

The NII-at-Risk metric indicates the change in net interest income during the coming 12 months, comparing the NII calculated using a constant yield curve with the NII calculated using a yield curve that is gradually shifted to a total of 200 basis points. The net interest income is negatively impacted when rates rise.

NLFI

Stichting administratiekantoor beheer financiële instellingen (NL Financial Investments (foundation)). On 29 September 2011 the Dutch State transferred its shares in ABN AMRO Group N.V. and in ABN AMRO Preferred Investments B.V. to NLFI. NLFI is set up as a means to avoid potential conflicting responsibilities that the Minister of Finance might otherwise face, as a shareholder and as a regulator, as well as to avoid political influence being exerted.

Notional amounts

The value of the principal of the underlying financial derivatives contracts.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events.

Options (shares and currencies)

Contractual right to buy (call option) or sell (put option) a specified amount of underlying shares or currency at a fixed price during a specified period or on a specified date.

Past due exposure

A financial asset is past due if a counterparty has failed to make a payment when contractually due, if it has exceeded an advised limit or if it has been advised of a limit lower than its current outstanding.

Past due ratio

The past due ratio shows which fraction of the gross carrying amount of a financial asset category is past due but not impaired.

Preference share

Share that receives a fixed rate of dividend prior to ordinary shares.

Qualifying revolving exposures

Qualifying revolving exposures are revolving, unsecured, and uncommitted exposures to private individuals that meet additional criteria specified in the CRD. These outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to a limit established by the bank.

RARORAC

A combination of two other measures: risk-adjusted return on capital (RAROC) and return on risk-adjusted capital (RORAC).

RBS

The Royal Bank of Scotland N.V., formerly known as ABN AMRO Bank N.V. prior to the Legal Demerger.

Regulatory capital adequacy

Measure of a bank's financial strength, often expressed in risk-bearing capital as a percentage of total risk-weighted assets.

Regulatory liquidity requirement

The regulatory liquidity requirement measures the one-month liquidity position in the scenario of a severe and short stress as defined by DNB. It requires the one-month liquidity position to exceed the minimum required regulatory level of zero.

Repo

A repo, also known as a repurchase agreement, is the sale of securities together with an agreement for the seller to buy back the securities at a later date.

Residential mortgage backed securities

Residential mortgage backed securities (RMBS) are secured long-term funding instruments. A pool of underlying assets, in this case own-originated residential mortgages, provides the cash flows to bondholders.

Return on average RWA

Annualised underlying profit for the period divided by average RWA.

Return on equity (ROE)

Net profit attributable to ordinary shareholders of the parent company divided by shareholders' equity.

Risk-weighted assets (RWA)

Total assets and off-balance sheet items calculated on the basis of the risks relating to the various balance sheet items.

Saving certificates

Saving certificates are non-exchange traded instruments with an annual coupon payment and have the same characteristics as bonds.

Savings mortgages

Savings mortgages are mortgages with a separate savings account whereby the balance of savings is used for redemption of the principal at maturity.

Securities financing transaction (also referred to as 'professional securities transaction')

A transaction whereby securities are temporarily transferred from a lender to a borrower, with the commitment to re-deliver the securities.

Securitisation

Restructuring credits in the form of marketable securities.

SF/NLA

The internally developed Stable Funding over Non-Liquid Assets ratio (SF/NLA) shows the extent to which core assets (non-liquid assets) are covered by core liabilities (stable funding).

Standardised Approach (Basel II)

The standardised approach for credit risk measures credit risk in a standardised manner, supported by external credit assessments.

Stress testing

Method of testing the stability of a system or entity when exposed to exceptional conditions.

Structured finance

Global activity aimed at the extension of credits in specialised product/market combinations, development and marketing of complex financial solutions, export financing of capital goods and large-scale project finance.

Survival period

The survival period indicates for what period the Group's liquidity position will remain positive in a situation where stress is observed in wholesale funding markets, but funds attracted through retail and commercial clients remain stable.

Three lines of defence

ABN AMRO's approach to risk management.

Tier 1 ratio

Tier 1 capital of the bank expressed as a percentage of total risk-weighted assets.

Uniform Counterparty Rating (UCR)

The UCR is an obligor rating and refers to the probability of default by an obligor, i.e. the likelihood that a counterparty fails to pay interest and/or principal and/or other financial obligations to the bank.

Value-at-Risk banking book

Value-at-Risk banking book (VaR banking book) is used as a statistical measure for assessing interest risk exposure. It estimates potential losses and is defined as the predicted maximum loss that might be caused by changes in risk factors under normal circumstances, over a specified period of time, and at a specified level of statistical confidence. A VaR for changes in the interest rate for the banking book is calculated at a 99% confidence level and a two-month holding period.

Volatility

Statistical measure for the degree to which items (market rates, interests) fluctuate over time.

403-Declaration

Section 2:403 of the Dutch Civil Code, which states that companies part of a consolidating group entity may publish limited annual accounts if the parent company, among other things, assumes joint and several liability for all liabilities of the group company.

abbreviations 25

AA	ABN AMRO	CHF	Swiss Franc
AAC	ABN AMRO Clearing	CLO	Collateralised Loan Obligation
AAHG	ABN AMRO Hypotheken Groep	C&MB	(ABN AMRO's) Commercial & Merchant Banking
AAL	ABN AMRO Lease	CP	Commercial Paper
ACF	ABN AMRO Commercial Finance	CRD	(the EU's) Capital Requirements Directive
AFM	<i>Autoriteit Financiële Markten</i> (Netherlands Authority for the Financial Markets)	CRO	Chief Risk Officer
AFS	Available-for-sale	CSA	Credit Support Annex
AIRB	Advanced Internal Ratings Based (Approach)	CVA	Credit Value Adjustment
ALCO	(ABN AMRO's) Asset & Liability Committee	CWC	Central Works Council
ALM	Asset & Liability Management	DBRS	Dominion Bond Rating Service
AMA	Advanced Measurement Approach	DGS	Deposit Guarantee Scheme
AuM	Assets under Management	DIGH	Dutch International Guarantees for Housing
BIS	Bank for International Settlements	DNB	<i>De Nederlandsche Bank N.V.</i> (Dutch Central Bank)
BLMIS	Bernard L Madoff Investment Securities	DSTA	Dutch State Treasury Agency
bn	Billion	DTA	Deferred Tax Asset
bp(s)	Basis point(s)	DTL	Deferred Tax Liability
BREEAM	Building Research Establishment Environmental Assessment Method	EAD	Exposure At Default
CAO	<i>Collectieve Arbeidsovereenkomst</i> (collective labour agreement)	EBA	European Banking Authority
CAF	Cycle Adjustment Factor	EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
CBS	<i>Centraal Bureau voor de Statistiek</i> (Statistics Netherlands)	EC	European Commission
CCC	(ABN AMRO's) Central Credit Committee	ECB	European Central Bank
CD	Certificate of Deposit	ECT	(ABN AMRO's) Energy, Commodities & Transportation
CDO	Collateralised Debt Obligation	EIF	European Investment Fund
CDS	Credit Default Swap	EMIR	European Market Infrastructure Regulation
CE	Customer Excellence	ESM	European Stability Mechanism
CEBS	Committee of European Banking Supervisors	EU	European Union
CET1	Common Equity Tier 1	EUR	Euro
CFO	Chief Financial Officer	EVCA	European Private Equity and Venture Capitalist Association
CFTC	Commodity Futures Exchange Commission	FATCA	Foreign Account Tax Compliance Act
CGU	Cash-Generating Units		

FBN	Fortis Bank Nederland	LC&MB	(ABN AMRO's) Large Corporates & Merchant Banking
FCF	Fortis Commercial Finance	LCR	Liquidity Coverage Ratio
FFI	Foreign Financial Institution	LGD	Loss Given Default
FIRB	Foundation Internal Ratings-Based (Approach)	LGT	Liechtenstein Global Trust
FR&R	(ABN AMRO's) Financial Restructuring & Recovery	LIP	Loss Identification Period
FTE	Full-Time Equivalent (a measurement of number of staff)	LtD	Loan-to-Deposit (ratio)
FTK	<i>Financieel Toetsingskader</i> (Financial Assessment Framework)	LtMV	Loan-to-Market-Value
FX	Foreign exchange	LTRO	Long-Term Refinancing Operations
G&I	(ABN AMRO's) Growth & Innovation desk	LT2	Lower Tier 2
GBP	British pound	m	Million
GDP	Gross Domestic Product	M&A	Mergers & Acquisitions
GfK	Gesellschaft für Konsumforschung (Society for Consumer Research)	MCI	Maas Capital Investment B.V.
GRC	(ABN AMRO's) Group Risk Committee	MCS	Mandatory Convertible Securities
HNW	High Net Worth Individuals	MCT	Mortgage Care Team
HR	Human Resources	MiFID	(the EU's) Markets in Financial Instruments Directive
HRM	Human Resource Management	MiFIR	(the EU's) Markets in Financial Instruments Regulation
IAS	International Accounting Standards	MtM	Mark-to-Market
IASB	International Accounting Standards Board	MTN	Medium-Term Notes
IBNI	Incurred But Not Identified	NCWT	Netherlands Centre for Science and Technology
ICC	(ABN AMRO's) Integration, Communication & Compliance	NHG	<i>Nationale Hypotheek Garantie</i> (Dutch State-guaranteed mortgages)
ICS	International Card Services	NII	Net Interest Income
ID&JG	(ABN AMRO's) International Diamond & Jewelry Group	NLFI	NL Financial Investments (foundation)
IEC	International Electrotechnical Commission	NSFR	Net Stable Funding Ratio
IFRS	International Financial Reporting Standards	NYSE	New York Stock Exchange
IGA	Intergovernmental Agreement	OCI	Other Comprehensive Income
ILAAP	Internal Liquidity Adequacy Assessment Process	OECD	Organisation for Economic Co-operation and Development
IMA	Internal Models Approach	OOE	One Obligor Exposure
INK	Institute for Netherlands Quality	OTC	Over-The-Counter
INSEAD	Institut Européen d'Administration des Affaires (European Institute of Business Administration)	PBNL	(ABN AMRO's) Private Banking Netherlands
INSID	Institute for Sustainable Innovation and Development	PD	Probability of Default
IRB	Internal Ratings-Based (Approach)	PWM	(ABN AMRO's) Private Wealth Management
ISDA	International Swaps and Derivatives Association	QoQ	Quarter-on-quarter
ISO	Information Security Office	RAROC	Risk-Adjusted Return On Capital
IT	Information Technology	RARORAC	Risk-Adjusted Return On Risk-Adjusted Capital
KPI	Key Performance Indicator	RORAC	Return On Risk-Adjusted Capital
		RBA	Ratings-Based Approach
		RBB	<i>Regeling Beheerst Beloningsbeleid Wft 2011</i> (Regulation on Sound Remuneration Policies Pursuant to the Financial Supervisor Act 2011)

RBS	The Royal Bank of Scotland plc	SSM	Single Supervisory Mechanism
RFD	<i>Raamovereenkomst Financiële Derivaten</i>	STP	Straight-Through Processing
RMBS	Residential Mortgage-Backed Security	SWOT	Strengths, Weaknesses, Opportunities and Threats
RM&S	(ABN AMRO's) Risk Management & Strategy	TCRC	(ABN AMRO's) Trading and Clearing Risk Committee
ROE	Return on Equity	TOPS	(ABN AMRO's) Technology, Operations & Property Services
RoRWA	Return on Risk-Weighted Assets	TSA	The Standardised Approach
R&PB	(ABN AMRO's) Retail & Private Banking	UBP	Union Bancaire Privée
RWA	Risk-Weighted Assets	UCR	Uniform Counterparty Rating
SA	Standardised Approach	UHNW	Ultra High Net Worth Individuals
SCE	Special Component of Equity	USD	US dollar
SEC	Securities and Exchange Commission	UT2	Upper Tier 2
SEPA	Single Euro Payments Area	VaR	Value-at-Risk
SF/NLA	Stable Funding over Non-Liquid Assets (ratio)	WIFS	Women in Financial Services
SGD	Singapore dollar	WSW	<i>Waarborgfonds Sociale Woningbouw</i>
SiFi	Systematically important Financial institution	YE	Year-end
SMEs	Small and Medium-sized Enterprises	YoY	Year-on-year
SPE	Special Purpose Entity		
SPV	Special Purpose Vehicle		
SREP	Supervisory Review and Evaluation Process		
SRI	Socially Responsible Investing		

cautionary statement on forward-looking statements 26

The Group has included in this Annual Report, and from time to time may make certain statements in its public filings, press releases or other public statements that may constitute “forward-looking statements” within the meaning of the safe-harbour provisions of the United States Private Securities Litigation Reform Act of 1995. This includes, without limitation, such statements that include the words “expect”, “estimate”, “project”, “anticipate”, “should”, “intend”, “plan”, “aim”, “desire”, “strive”, “probability”, “risk”, “Value at Risk” (“VaR”), “target”, “goal”, “objective”, “will”, “endeavour”, “outlook”, “optimistic”, “prospects” and similar expressions or variations on such expressions.

In particular, this document includes forward-looking statements relating, but not limited, to ABN AMRO’s potential exposures to various types of operational, credit and market risk, such as counterparty risk, interest rate risk, foreign exchange rate risk and commodity and equity price risk. Such statements are subject to risks and uncertainties. These forward-looking statements are not historical facts and represent only ABN AMRO’s beliefs regarding future events, many of which by their nature are inherently uncertain and beyond the bank’s control.

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

- ▶ The extent and nature of future developments and continued volatility in the credit and financial markets and their impact on the financial industry in general and ABN AMRO in particular;
- ▶ The effect on ABN AMRO’s capital of write-downs in respect of credit exposures;
- ▶ Risks related to ABN AMRO’s merger, separation and integration process;
- ▶ General economic, social and political conditions in the Netherlands and in other countries in which ABN AMRO has significant business activities, investments or other exposures, including the impact of recessionary economic conditions on ABN AMRO’s performance, liquidity and financial position;
- ▶ Macro-economic and geopolitical risks;
- ▶ Reductions in ABN AMRO’s credit ratings;
- ▶ Actions taken by the EC, governments and their agencies to support individual banks and the banking system;
- ▶ Monetary and interest rate policies of the ECB and G20 central banks;
- ▶ Inflation or deflation;
- ▶ Unanticipated turbulence in interest rates, foreign currency exchange rates, commodity prices and equity prices;
- ▶ Liquidity risks and related market risk losses;
- ▶ Potential losses associated with an increase in the level of substandard loans or non-performance by counterparties to other types of financial instruments, including systemic risk;

- ▶ Changes in Dutch and foreign laws, regulations, policies and taxes;
- ▶ Changes in competition and pricing environments;
- ▶ Inability to hedge certain risks economically;
- ▶ Adequacy of loss reserves and impairment allowances;
- ▶ Technological changes;
- ▶ Changes in consumer spending, investment and saving habits;
- ▶ Effective capital and liquidity management;
- ▶ The success of ABN AMRO in managing the risks involved in the foregoing.

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

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