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ABN AMRO Bank N.V.

Abbreviated Financial Statements

2011

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## 1 Introduction

These are the abbreviated Financial Statements for the year ended 31 December 2011 of ABN AMRO Bank N.V.

ABN AMRO Bank N.V. is a wholly owned subsidiary of ABN AMRO Group N.V. The Annual Report of ABN AMRO Group N.V. has been filed separately at the AFM and is not a part of these abbreviated Financial Statements.

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 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 for the year 2011 is EUR 665 million (2010: loss EUR 65 million). The decrease of Other operating result was mainly due to large loan impairments of EUR 880 million on Greek Government-Guaranteed Corporate Exposures. The loss in 2010 was mainly due to the sale of the EC Remedy, which resulted in a (tax exempt) loss of EUR 812 million.

In September an amount of EUR 200 million was paid as interim dividend. In addition the Managing Board proposes to declare a final dividend of EUR 88 million.

## 3 Post balance sheet events

There have been no significant events between the year end and the date of approval of these accounts which would require a change to or disclosure in the accounts.

## 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 2011 (as at and for the period ended 31 December 2011), 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, 10 April 2012

Managing Board

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

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## 5 Abbreviated Financial Statements

### ABN AMRO Bank N.V.

#### Company income statement

| <i>(in millions)</i>                             | <i>2011</i> | <i>2010</i> |
|--------------------------------------------------|-------------|-------------|
| Results from participating interests             | 517         | -732        |
| Other operating result                           | 66          | 1,084       |
| <b>Operating profit / (loss) before taxation</b> | <b>583</b>  | <b>352</b>  |
| Income tax expense                               | -82         | 417         |
| <b>Profit / (loss) for the period</b>            | <b>665</b>  | <b>-65</b>  |

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# ABN AMRO Bank N.V.

## Company statement of financial position

| <i>(in millions)</i>                       | <i>31 December 2011</i> | <i>31 December 2010<br/>(restated)</i> |
|--------------------------------------------|-------------------------|----------------------------------------|
| <b>Assets</b>                              |                         |                                        |
| Cash and cash equivalents                  | 7,431                   | 686                                    |
| Financial assets held for trading          | 20,678                  | 16,183                                 |
| Financial investments                      | 17,371                  | 16,259                                 |
| Loans and receivables - banks              | 220,839                 | 185,112                                |
| Loans and receivables - customers          | 221,610                 | 186,179                                |
| Participating interests in group companies | 6,197                   | 7,217                                  |
| Equity accounted investments               | 379                     | 381                                    |
| Property and equipment                     | 1,017                   | 1,171                                  |
| Goodwill and other intangible assets       | 98                      | 174                                    |
| Assets held for sale                       | 68                      |                                        |
| Accrued income and prepaid expenses        | 4,191                   | 4,696                                  |
| Current tax assets                         | 140                     | 894                                    |
| Deferred tax assets                        | 1,042                   | 600                                    |
| Other assets                               | 4,283                   | 4,304                                  |
| <b>Total assets</b>                        | <b>505,344</b>          | <b>423,856</b>                         |
| <b>Liabilities</b>                         |                         |                                        |
| Financial liabilities held for trading     | 22,169                  | 18,251                                 |
| Due to banks                               | 162,577                 | 134,043                                |
| Due to customers                           | 215,316                 | 209,462                                |
| Issued debt                                | 68,404                  | 26,222                                 |
| Subordinated liabilities                   | 8,675                   | 8,056                                  |
| Provisions                                 | 1,071                   | 1,143                                  |
| Accrued expenses and deferred income       | 5,300                   | 6,741                                  |
| Current tax liabilities                    | 129                     | 669                                    |
| Deferred tax liabilities                   |                         | 37                                     |
| Other liabilities                          | 10,278                  | 7,133                                  |
| <b>Total liabilities</b>                   | <b>493,919</b>          | <b>411,757</b>                         |
| <b>Total equity</b>                        | <b>11,425</b>           | <b>12,099</b>                          |
| <b>Total liabilities and equity</b>        | <b>505,344</b>          | <b>423,856</b>                         |

Due to an incorrect elimination process of intercompany balances with subsidiaries in 2010 certain line items have been restated in the comparative figures of the company statement of financial position.

The following line items have been restated for 2010:

- Loans and receivables – banks: increased by EUR 97.6 billion;
- Loans and receivables – customers increased by EUR 4.1 billion;
- Accrued income and prepaid expenses increased by EUR 0.6 billion;
- Due to banks increased by EUR 90.9 billion;
- Due to customers increased by EUR 10.3 billion;
- Accrued expenses and deferred incomes increased by EUR 1.2 billion.

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## 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>  |
|------------------------------------|----------------------|------------------------------|---------------------------------------------------|-------------------------------------|-----------------------------------|--------------------------------|--------------------------------|---------------|
| <b>Balance at 31 December 2010</b> | <b>800</b>           | <b>2,441</b>                 | <b>9,641</b>                                      | <b>22</b>                           | <b>110</b>                        | <b>-976</b>                    | <b>61</b>                      | <b>12,099</b> |
| Total comprehensive income         |                      |                              | 665                                               | -22                                 | -424                              | -714                           | 21                             | -474          |
| Dividend                           |                      |                              | -200                                              |                                     |                                   |                                |                                | -200          |
| <b>Balance at 31 December 2011</b> | <b>800</b>           | <b>2,441</b>                 | <b>10,106</b>                                     |                                     | <b>-314</b>                       | <b>-1,690</b>                  | <b>82</b>                      | <b>11,425</b> |

Other reserves including retained earnings also includes a legal reserve for participating interests of EUR 93 million (2010: EUR 56 million) which relates to profits from participating interests.



# Annual Report 2011

ABN AMRO Group N.V.



# Notes to the reader

## Introduction

This is the Annual Report for the year 2011 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, and the Consolidated Annual Financial Statements.

## 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).

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. As a result of the integration, the current segment reporting is still subject to minor changes.

This report can be downloaded from [abnamro.com](http://abnamro.com)

For more information, please go to [abnamro.com/ir](http://abnamro.com/ir) or contact us at [investorrelations@nl.abnamro.com](mailto:investorrelations@nl.abnamro.com)

## ABN AMRO Group N.V.

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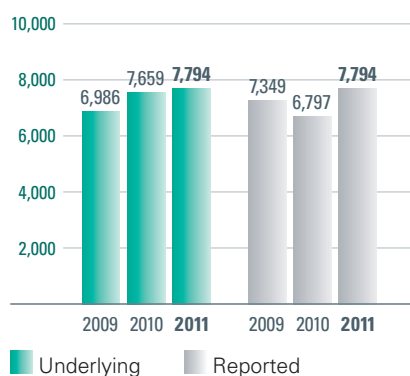
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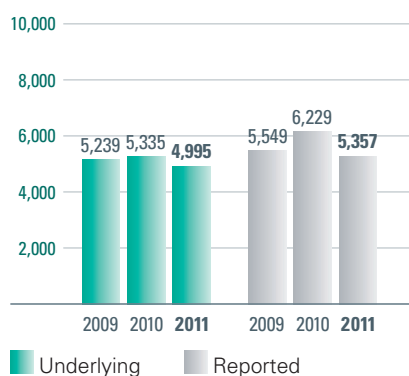
## Operating income<sup>1</sup>

(in millions)



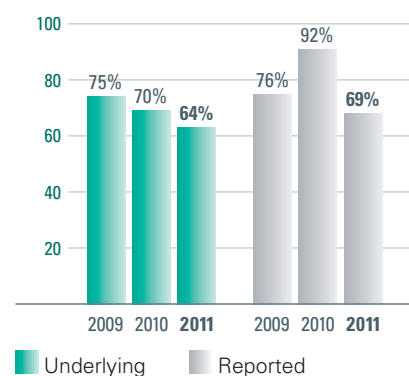
## Operating expenses<sup>1</sup>

(in millions)



## Cost/Income ratio<sup>1</sup>

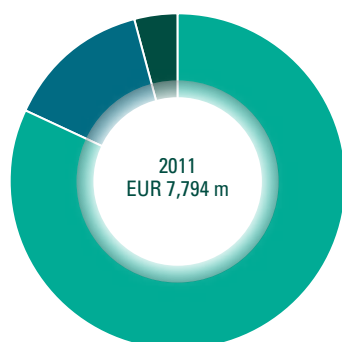
(in %)



## Capital, Funding and Liquidity

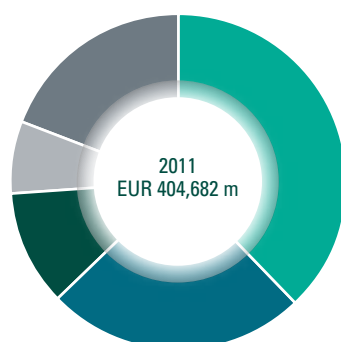
|                                    | 2011              | 2010  | 2009 |
|------------------------------------|-------------------|-------|------|
| Risk-Weighted Assets (in billions) | 118.3             | 116.3 | n/a  |
| Core Tier 1 ratio (Basel II)       | 10.7%             | 10.4% | n/a  |
| Tier 1 ratio (Basel II)            | 13.0%             | 12.8% | n/a  |
| Total Capital ratio (Basel II)     | 16.8%             | 16.6% | n/a  |
| Loan-to-Deposit ratio              | 130% <sup>2</sup> | 135%  | 133% |
| Liquidity buffer (in billions)     | 58.5              | 47.9  | n/a  |
| RWA/Total Assets (Basel II)        | 29%               | 31%   | n/a  |

## Operating income by region



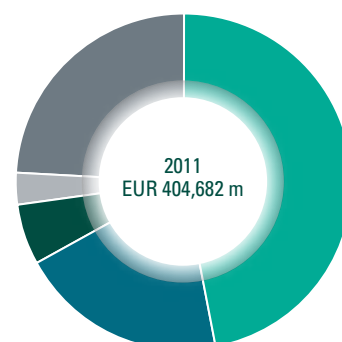
- 82% The Netherlands
- 14% Rest of Europe
- 4% Rest of the world

## Assets breakdown



- 38% Mortgages
- 25% Customer loans<sup>3</sup>
- 11% Securities financing
- 7% Held for trading
- 19% Other

## Liabilities and equity breakdown



- 47% Customer deposits<sup>3</sup>
- 20% Long-term & Subordinated debt
- 6% Securities financing
- 3% Equity
- 24% Other

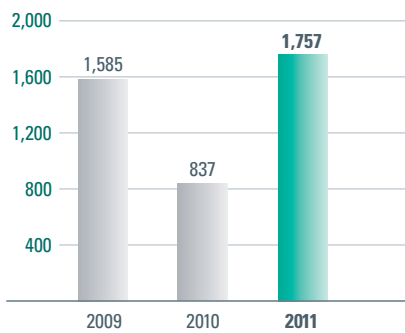
<sup>1</sup> Underlying excludes the impact of separation and integration-related costs.

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

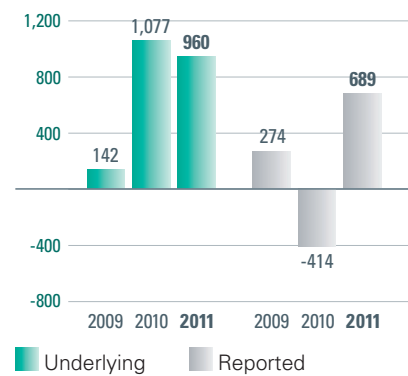
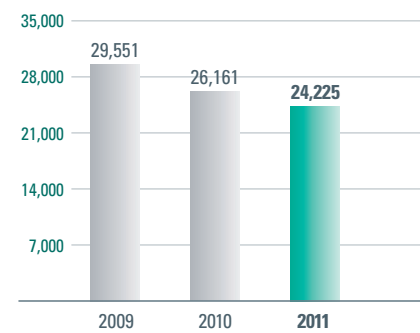
<sup>3</sup> Excluding securities financing.

**Loan impairments**

(in millions)

**Profit for the period<sup>1</sup>**

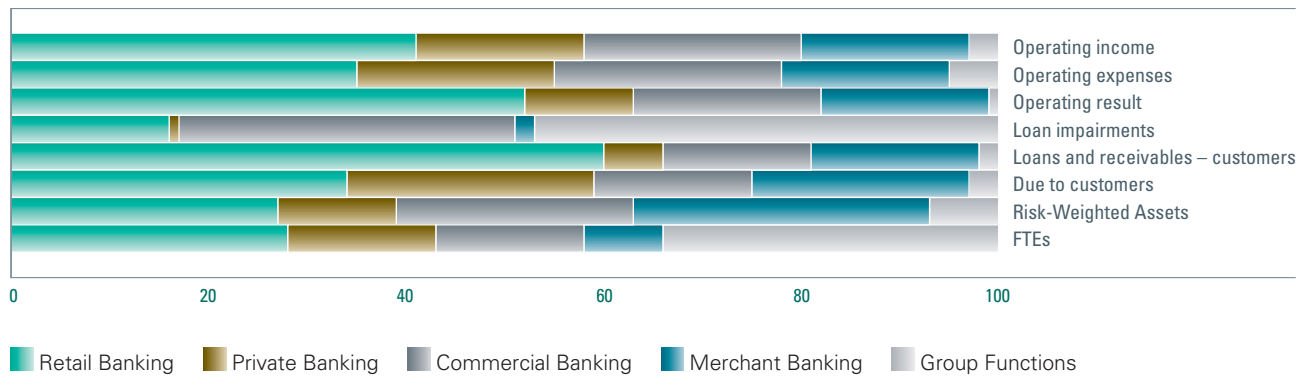
(in millions)

**FTEs****Performance indicators**

|                                    | 2011  | 2010  | 2009  |
|------------------------------------|-------|-------|-------|
| NII/average RWA                    | 4.4%  | 4.2%  | n/a   |
| Loan impairments/average RWA (bps) | 156   | 72    | n/a   |
| Impaired ratio – customers         | 3.0%  | 3.1%  | 2.9%  |
| Return on average RWA (bps)        | 85    | 93    | n/a   |
| ROE (based on IFRS equity)         | 7.8%  | 8.9%  | n/a   |
| Assets under Management            | 146.6 | 164.2 | 149.7 |

**2011 Contribution by segment**

(in %, underlying)



# Chairman's review 1

Against the backdrop of a stormy global economy and a sovereign debt crisis, the bank had another eventful year. We largely finalised the integration while continuing to improve the service to our clients. The deteriorating economic environment had a major impact on our financial results. Significant impairments on Greek Government-Guaranteed Corporate Exposures eroded the second-half profit, resulting in a disappointing 11% decrease in underlying profitability for the year 2011. Amid all the ups and downs, we kept the bank on a steady course, keeping our sights set on the long term as we shaped and grew the bank.

## Client focus

With the integration of the two retail banks finalised in 2010, our focus was on further improving the service to all our clients in 2011. Behind the scenes, employees joined forces to embrace Customer Excellence, a more efficient, client-driven way of working which we will be implemented bank-wide until 2014. In this spirit, we launched various bottom-up initiatives throughout the year that helped us redesign processes and cut through bureaucracy. We made life easier for retail clients by simplifying our product range and rewriting terms and conditions in plain language. In remaining alert to the needs of today's clients, we kept pace with rapidly-changing technological developments and launched the vastly popular Mobile Banking app. Our business clients, meanwhile, are served faster now than the local branches can approve loans up to EUR 1 million. All these initiatives led to a more agile organisation, enabling us to serve clients better and faster.

But we need more than just efficient processes to meet our clients' needs; the key to success is highly service-minded staff. On this front, too, we made great strides in 2011 – partly through the Customer Excellence programme – in building a new corporate culture which is truly client-centric. With this in mind, we offer our employees a series of training and development programmes, for which we have received wider recognition: we ranked as number 11 employer in the Netherlands in two leading Dutch surveys, and our new trainee programme was named Best Traineeship in the Netherlands in 2011.

All of the programmes and training we offer our employees have one common denominator: they are designed to instil client focus as a key value. In practice, this means that our top priority is to put our clients' interests first at all times. I am pleased to report that these efforts are paying off: the latest surveys show that client satisfaction is on the rise.

## Integration

Having completed the retail integration in 2010, we achieved another milestone in November of 2011 when almost all commercial and private banking clients – around 100,000 – were successfully transferred from the former Fortis Bank Nederland systems to a single ABN AMRO system. Although the migration was less visible to the outside world, it was a major and highly complex operation which we completed ahead of schedule, with a minimum of inconvenience to clients. We also migrated and integrated our head office functions and most of the Markets infrastructure. With all of these operations behind us, we have completed the lion's share of the integration – a goal we are proud to have achieved. A few smaller integration projects still remain, which we expect to complete in 2012.

## Strategic choices

Back in 2009, we mapped out a broad outline of ABN AMRO's strategy. Since then, we have refined and detailed our plans. We are focusing on strengthening our position by serving Dutch-based clients at home and abroad. As for our foreign operations, a key element of our strategy is the principle of responsible growth: we are not expanding for expansion's sake; rather, we are making very deliberate strategic choices. We are now able to offer our Dutch-based clients services in those countries where they do most of their foreign business. In addition, we have selectively expanded our footprint in those areas and countries in which we have proven expertise, know our clients well and have solid systems in place.

One of our growth pillars is to pursue growth in private banking in the eurozone and Asia. Hence we acquired LGT Bank Deutschland and sold off our Swiss private banking activities, as the Swiss private banking market is rapidly changing and consolidating. Other growth pillars are the global client activities of Energy, Commodities & Transportation – where we have a long-standing history – and ABN AMRO Clearing, a worldwide leader in derivatives and equity clearing. Lease and commercial finance are two other activities in which we have a strong position in Western Europe. We will continue to take into account regulatory changes, technological developments and macro-environment factors as we further execute our strategy.

## Sustainability

Needless to say, our sense of responsibility goes far beyond the realm of growing the business. ABN AMRO is firmly committed to being a good corporate citizen and to helping our clients achieve sustainable success. In doing so, we expect our clients to comply with social and environmental criteria; to that end, we pursue policies in areas such as the environment, defence and child labour, to name a few, and have taken a series of initiatives designed to reduce our own environmental footprint. We hold ourselves to our beliefs and intend to become one of the Netherlands' most sustainable banks. Meanwhile, we carried on with our community involvement in 2011, with the ABN AMRO Foundation facilitating volunteer work for approximately 10,000 employees in 400 different social projects. Under one such project, bank employees taught school children how to handle their money responsibly as part of a nationwide financial education week. That is just one way we are doing our part to secure a brighter future.

## Diversity

Our efforts to create a diverse workforce are another way we are working towards change. Not only is this an important issue culturally, but workplace diversity also makes good business sense: the more diverse our workforce is, the more we represent our diverse client base and the better we can meet the needs of the various communities we serve. As part of our commitment to gender and ethnic diversity, we offer mentoring programmes to women and to staff from ethnic minority backgrounds. Under one such programme, each member of the Managing Board mentors women in senior management positions. We will continue to pursue our target of placing women in 20% of senior positions and in 25% of middle-management positions by 2014, and we have also teamed up with a number of large Dutch companies to offer a mentoring programme to students with non-Western backgrounds.

## Financial results

It was a difficult year, with Europe in particular straining under the weight of the sovereign debt crisis. The Dutch economy held up well in the first half of the year, but slid into recession in the second half. The impact of these factors was felt in the second half of 2011 as significantly

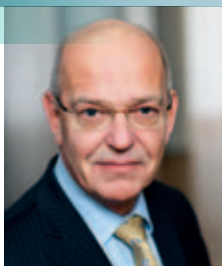
higher impairments eroded the second-half profit. The bank delivered a disappointing result for the full year, with underlying profit decreasing 11% from EUR 1,077 million in 2010 to EUR 960 million in 2011. The reported net profit for the year, which includes additional separation and integration costs, was EUR 689 million compared to a loss of EUR 414 million in 2010. The combination of higher revenues and lower costs on the back of the integration improved the underlying cost/income ratio from 70% to 64%. However, significant loan impairments on Greek Government-Guaranteed Corporate Exposures together with a provision for further staff reductions led to a decline in underlying profitability in 2011. Our capital position remained sound in 2011 and the bank's funding profile further improved as we were able to attract a significant amount of long-term funding.

One of our long-term targets is to reduce the cost/income ratio to under 60% by 2014 – and to keep it below this figure on a structural basis. An inevitable consequence of these efforts is the need for a smaller and more efficient workforce. To this end, we announced in 2011 that we expect to further reduce the number of FTEs by 2,350 by 2014. We will, of course, do everything we can to help redundant employees find a new job, either within or outside the bank, as we have successfully done in the past two years.

## Closing remarks

In conclusion, ABN AMRO had a good year on many fronts: we largely completed the integration, solidified our position at home and expanded our presence abroad, and improved client satisfaction. Although the changing macroeconomic environment did have a negative impact on our financial performance, we have created a firm basis on which to build further in the years ahead. All in all, we've made considerable progress in becoming the bank we aspire to be.

As ever, the success of our bank depends on the loyalty of our clients and dedication of our employees. In the knowledge that clients can choose to bank with whomever they want, I am genuinely grateful for the trust they place in ABN AMRO. We will remain steadfast in our commitment to live up to their expectations and be worthy of their loyalty. Our employees, too, have consistently worked hard to make our bank a success, displaying exceptional resilience even in times of uncertainty. I am proud of their accomplishments and sincerely appreciate their commitment.



**Gerrit Zalm**

Chairman of the Managing Board

# Supervisory Board report



# Supervisory Board review 2

The external arena in which ABN AMRO operates was a challenging one in 2011. The sovereign debt crisis persisted against the background of a complex international political situation, which dominated the local and international media and consequently influenced the level of confidence and volatility of the financial markets. Like many other financial institutions, ABN AMRO is not immune to adverse market conditions, as described by the Managing Board in the Business, Operating and Financial Review in this report. Despite these challenging conditions, ABN AMRO successfully completed the migration of nearly all clients to a single IT platform in 2011, ahead of schedule. Against this backdrop, ABN AMRO delivered a satisfactory operational and financial performance in 2011. The Supervisory Board would like to express its gratitude to the Managing Board and all employees for their determination and commitment during 2011.

The Supervisory Board has reviewed the Annual Report and the Annual Financial Statements and all annexed information. 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 2011. The Annual Financial Statements were prepared by the Managing Board and authorised for issue by the Supervisory Board and Managing Board on 8 March 2012.

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. 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 in 2011

The Supervisory Board met on nine occasions in 2011 during plenary scheduled sessions. Eight of these meetings were conducted in person and one meeting took place by conference call. The members of the Managing Board attended the plenary scheduled meetings and other members of senior management were regularly invited to present information on specific topics. Two of these meetings were held at the offices of selected business units, allowing the Supervisory Board to be introduced to local business activities, and one meeting was dedicated solely to strategic developments. Another meeting was held at an off-site location to provide room for debates with leading external experts on key developments in the regulatory environment, the financial services industry and the overall economy.

The Supervisory Board 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. During one of these meetings the Supervisory Board assessed its own performance, that of its committees and of its individual members.

No Supervisory Board member was frequently absent from the meetings held in 2011. 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 Chairman of the Managing Board met on a weekly basis throughout 2011. The Chairman of the Supervisory Board and the Company Secretary prepared the agenda for the meetings of the Supervisory Board in 2011.

## Activities and focus areas in 2011

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 2011 are described below.

### Corporate strategy and inherent business risks

Throughout 2011 the Supervisory Board actively engaged with the Managing Board on further refinement of the mid-term and long-term strategic goals and performance targets. Particular attention was devoted to improving the financial and operational performance, in addition to the disposal of the Swiss private banking activities.

In accordance with the relevant provisions of the Dutch Banking Code and international regulations, the Supervisory Board approved the Risk Appetite Statement following a review and discussion with the Managing Board. ABN AMRO's risk appetite is reviewed yearly in light of the continuously changing market environment, enhanced insight, best practices and new regulations. The Risk Appetite Statement was marginally refined to account for credit risk, operational risk and other enterprise risks. Risk limits remained in line with 2010; explanatory wording was adjusted to better reflect the bank's approved risk policies.

The Supervisory Board was kept closely informed of key issues and developments in the integration activities, in particular on the technical migrations of client portfolios and the efforts to establish a single IT framework. This included periodic assessments of the transition risks and regular reporting on costs and synergies, which allowed

the Supervisory Board to effectively monitor the progress of the transition activities and the associated risks.

### Design and effectiveness of risk management and control systems

The Supervisory Board regularly reviewed the reports relating to ABN AMRO's enterprise risk management in 2011. The Risk & Capital Committee reported its deliberations and findings with respect to the Group's risk management functions and framework to the full Supervisory Board for further discussion.

The Supervisory Board discussed the main findings of Group Audit related to the governance, risk management and control processes following regular feedback from the Audit Committee. The Supervisory Board devoted special attention to the quality and documentation of customer advice, which requires ongoing management attention to ensure that clients' interests are handled appropriately at all times. The Supervisory Board also engaged with management to further improve the data quality of internal rating models required for compliance with the Basel Committee requirements, and closely monitored the ongoing optimisation of the three lines of defence model. Together with the observations of Group Audit regarding management's ongoing focus on the key risks impacting ABN AMRO and the follow-up of the reported items, this gave the Supervisory Board sufficient assurance on information provided by the Managing Board in the annual Management Control Statement.

### Financial reporting

With the assistance of the Audit Committee, the Supervisory Board reviewed the Annual Report 2011, the Interim Financial Report 2011, and the quarterly press releases of ABN AMRO Group N.V. and discussed these documents with the Managing Board, Group Audit and the independent external auditor. The Supervisory Board further considered the capital adequacy and liquidity requirements under the Basel Committee regulations, specifically addressing the importance of a varied composition of funding sources.

Throughout 2011 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 of these

reported findings by ABN AMRO's management and the response to the independent external auditor's management letter. Key topics discussed included the valuation of sovereign debt exposures, developments in loan loss provisioning and other accounting and financial reporting matters. Particular attention was devoted to ABN AMRO's treatment of an impairment on the Greek Government-Guaranteed Corporate Exposures. 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. Following an assessment of the loan loss impairments for commercial and mortgage loans by the independent external auditor, the Supervisory Board discussed the need for ongoing attention to impairment testing with the Managing Board. With respect to the remaining system migrations in the Markets business, the key controls related to compliance, finance and risk have been improved following recommendations by the internal and independent external auditor, although sufficient attention to further strengthening the control framework is required.

### Compliance with primary and secondary legislation

The Supervisory Board received regular updates from the Risk & Capital Committee on the major compliance issues and the effectiveness of the compliance procedures in 2011. The Head of the Legal department was invited to present all relevant legal files and proceedings on at least three occasions.

At the instigation of the Risk & Capital Committee, an in-depth review of the mandates of the Risk Management, Compliance and Legal departments in their role as second line of defence and Group Audit as the third line of defence was conducted in 2011. The outcome of this review demonstrates the overall effectiveness of the compliance procedures and control measures that have been put in place over the last two years. The review raised a number of issues regarding the overlap of responsibilities between these departments, which have been discussed with the Managing Board and Group Audit.

### Relationships with the shareholders and the Managing Board

Constructive discussions were held in 2011 with the Managing Board and shareholders on the mid-term and long-term strategic goals and performance targets, resulting in agreement on the strategic direction. The funding strategy and capital plan were adopted by the shareholders on the recommendation of the Supervisory Board, and timely shareholder approval was obtained for the sale of ABN AMRO Bank (Switzerland) AG. The Chairman of the Supervisory Board and the Chairman of the Managing Board met with representatives from the Dutch State (the majority shareholder) on a regular basis in 2011 to discuss the progress of capital planning and strategic developments. An introductory meeting with representatives from the foundation named *Stichting administratiekantoor beheer financiële instellingen* (NL Financial Investments, hereafter referred to as NLFI) took place in December 2011. As from 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. More information on the shareholder structure is provided in the Corporate governance section of this report.

### Corporate social responsibility

The Supervisory Board and its individual members maintained regular contact with the Works councils throughout 2011. A dedicated consultative meeting between the Supervisory Board, the Managing Board and the new Central Works Council took place for the first time in 2011. Key topics discussed included ABN AMRO's culture and leadership, and agreement was reached on a framework for effective cooperation with the Works councils. More information on the activities of the Work councils in 2011 is available in the Works council section of this report.

Contacts with the external supervisory authorities take place mainly via the Managing Board, but the Supervisory Board recognises the importance of direct contact with all key stakeholders and actively monitors the

correspondence with the main supervisory authorities. In 2011 the Chairman of the Supervisory Board and the Chairman of the Audit Committee met with representatives from the Dutch central bank (De Nederlandsche Bank, or DNB) and the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*, or AFM) to discuss key regulatory themes, as well as Customer Excellence.

## Supervisory Board committees

The Supervisory Board has three permanent committees to which certain tasks are assigned. The committees provide the Supervisory Board with regular updates of their meetings.

The composition of each committee is shown in the table below.

### Composition of Supervisory Board committees

|                              | Audit Committee | Remuneration, Selection & Nomination Committee | Risk & Capital 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          | Member                                         | Chairman                 |
| Peter Wakkie                 |                 | Chairman                                       | Member                   |

### Audit Committee

The Audit Committee is responsible for directly supervising all matters relating to the bank's financial strategy and performance, including selecting and maintaining the relationship with the external auditor, ensuring effectiveness of the accounting systems and related aspects of internal risk management and internal control.

The Audit Committee met on five occasions in 2011. In addition to the members of the Audit Committee, 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. The heads of the control departments were also present for relevant items of 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. The Chairman of the Audit Committee reported to the Supervisory Board about the activities of the Committee and about its meetings and discussions in the subsequent Supervisory Board meetings.

The Audit Committee and the independent external auditor discussed the Annual Report 2011 of ABN AMRO Group N.V. and the Group Audit reports with special attention for the loan impairments. In addition, the Audit Committee reviewed the Interim Financial Report 2011 and quarterly press releases and examined the details of the auditor's report on the financial statements together with the Managing Board and the independent external auditor. The Committee also discussed the independent external auditor's engagement and discussed the audit plan for both Group Audit and the independent external auditor. In addition, assignments to the independent external auditor for services not related to the audit itself were discussed and recommendations were made with regard to the appropriate volume of these services to safeguard independence. The Audit Committee received and discussed reports from Group Audit about audit and compliance issues on a regular basis and discussed the main findings from the audit conducted by the independent external auditor at each meeting. To underline the importance of ABN AMRO's integrity code, the Audit Committee discussed the whistleblowing policy and ensured direct access to the members of the Supervisory

Board in the event of reported misconduct concerning senior management. ABN AMRO's formal complaint procedures were redrafted following a review by the Audit Committee. The Audit Committee further closely monitored the integration and redesign of the Group Finance system architecture and control structure.

## Remuneration, Selection & Nomination Committee

The Remuneration, Selection & Nomination Committee is responsible for advising the Supervisory Board on appointments of, and remuneration for, members of the Managing Board and the Supervisory Board. To this end, the Committee is involved in drafting selection criteria and appointment procedures, preparing and periodically reviewing succession plans of these Boards, and identifying, selecting and nominating candidates for appointment or reappointment on the basis of an agreed profile. Furthermore, the Remuneration, Selection & Nomination Committee makes proposals for the remuneration of the Managing Board, defines performance standards and criteria and holds periodic reviews of the performance of individual members of the Managing Board. In accordance with the Dutch Corporate Governance Code, the Dutch Banking Code and the rules and regulations on remuneration policies as part of the European Union's Capital Requirements Directive (CRD III), the Committee is also responsible for advising on remuneration of selected members of senior management responsible for the control functions and reward policies for other Identified Staff.

The Remuneration, Selection & Nomination Committee met on three occasions in 2011. The main topics discussed at these meetings related to the revision of ABN AMRO's remuneration policy and performance management policy for the Managing Board, senior management and other Identified Staff. This includes the implementation of arrangements relating to the deferral of remuneration payments, the introduction of non-cash instruments and malus and clawback arrangements for Identified Staff members in line with Dutch and international requirements. The Committee discussed the criteria for awarding variable remuneration

in light of the financial and non-financial performance of ABN AMRO and provided recommendations to the Supervisory Board on the approval of variable remuneration for the selected members of senior management responsible for the control functions, including performance criteria and 2011 target-setting for these employees. Furthermore, the Committee reviewed the variable remuneration for senior international staff members in 2011 and concluded that this remuneration was awarded in compliance with group-wide policies and local regulatory requirements.

## 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 Risk & Capital Committee met on four occasions in 2011. These meetings were attended by the Chairman of the Managing Board, the CFO and the CRO with standing invitations for the heads of Group Audit and the ALM/Treasury and Credit Risk departments. During each meeting, the Committee extensively discussed the company's enterprise-wide risk profile, focusing particularly on ABN AMRO's funding profile and strategy and the impact of the EU sovereign debt crisis, including country risk exposures and policies. The Risk & Capital Committee reviewed ABN AMRO's product approval procedures in light of the increasing importance of Customer Excellence and duty of care. The Committee provided recommendations to the Supervisory Board on the effectiveness of the compliance procedures and related control processes and the approval of the adjusted Risk Appetite Statements in 2011. The Risk & Capital Committee performed in-depth reviews of ABN AMRO's mortgage-lending activities and operational risk procedures in 2011, strengthening the Committee's understanding of the associated risks and control processes. Recurring agenda items included updates on the implementation of the Basel Committee requirements and updates on overall transition risks. All issues discussed during the Risk & Capital Committee meetings

were reported to the full Supervisory Board in subsequent meetings of the Supervisory Board.

## Supervisory Board remuneration report

This section sets out the remuneration for the Managing Board and the 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, corporate values, long-term interests and positioning have been taken into account in designing a sustainable and responsible policy that reflects the position that the bank aims to play in the Netherlands and abroad. In addition to ABN AMRO's remuneration philosophy, the Supervisory Board adheres to external regulations and guidelines such as the Dutch Banking Code and the Regulation on Sound Remuneration Policies Pursuant to the Financial Supervision Act 2011 (*Regeling beheerst beloningsbeleid Wft 2011*).

### Remuneration policy changes in 2011

The Supervisory Board executes the remuneration policy for the Managing Board members that was implemented on 1 April 2010 and reviews the policy over time in line with market practice and considering the company's strategy, risk awareness, targets and corporate values. In addition, external requirements with respect to governance, the international context and public acceptance as well as relevant market data are taken into account. The Supervisory Board also approves the general remuneration principles as laid down in the ABN AMRO Global Reward Policy and fulfils its duties with respect to the assessment of the general principles and exceptions as embedded in the applicable governance structures. Whenever relevant, the Supervisory Board receives input from control functions such as Risk, Compliance, Human Resources and Audit.

In the course of 2010, new legal obligations resulting from the recent restrictions for remuneration policies in the financial sector as introduced in the framework of the amended European Capital Requirements Directive (also designated as CRD III) came into force. CRD III implementation rules became effective on 1 January 2011 and have been set out in the Decree on Sound Remuneration Policies Pursuant to the Financial Supervision Act (*Besluit beheerst beloningsbeleid Wft*) and the Regulation on Sound Remuneration Policies Pursuant to the Financial Supervision Act 2011 (*Regeling beheerst beloningsbeleid Wft 2011*, RBB) and result from the Guidelines on Remuneration Policies and Practices as formally adopted on 10 December 2010 by the Committee of European Banking Supervisors (CEBS Guidelines). ABN AMRO applies all these rules within its related and/or associated companies, branch offices, direct and indirect subsidiaries, including those established in off-shore financial centres. The rules not only apply 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 Group<sup>1</sup>, 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.

In order to comply with the new rules, the Supervisory Board – at the proposal of the Remuneration, Selection & Nomination Committee – has amended the remuneration policy for the Managing Board and also approved changes in the remuneration policies for Identified Staff. The new general remuneration principles and the arising new variable remuneration plan were formally approved by the shareholders in August 2011. The new variable remuneration plan applies to ABN AMRO's Management Group and to all other Identified Staff, located both in the Netherlands and abroad.

<sup>1</sup> The Management Group is a group of senior managers positioned in management layers below the Managing Board level. The majority of this group are employed under 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.



Control functions such as Risk, Compliance, Human Resources and Audit have all contributed to this review process, ensuring compliance with the new external guidelines and the internal organisation, and with respect to establishing a variable remuneration component that meets the new regulations for the financial sector. The variable remuneration component is linked to long-term value creation, an integrated risk management and risk-awareness culture and ownership.

### Remuneration principles for Managing Board and Identified Staff

The following sections set out 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 remuneration 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 within and outside the Netherlands. All are companies with which ABN AMRO competes in attracting and retaining talented 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, active in financial and non-financial markets in the Netherlands and in Europe. The 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 stock exchange (AEX), i.e. both financial and non-financial companies.

Pursuant to recent legislation, the variable remuneration element has been abolished retroactively to 1 January 2011.

#### Management Group and other Identified Staff

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

Remuneration packages for Identified Staff located in the Netherlands who are not members of the Management Group are governed by the ABN AMRO collective labour agreement.

When deciding on the exact composition of the pay package for Identified Staff based outside the Netherlands, ABN AMRO takes account of the business dynamics at hand (e.g. relevant market conditions, local labour and tax legislation).

### Composition of remuneration package for Identified Staff

Further to new regulations for the financial sector as described above, the remuneration package for Identified Staff has been amended retroactively to 1 January 2011. 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 as from 2011 consists of the following components:

- ▶ Annual base salary;
- ▶ Annual variable remuneration (with deferred payout);
- ▶ Benefits and other entitlements.

The table on the next page provides further information on the new variable remuneration plan for Identified Staff that took effect on 1 January 2011.

## Integrated variable component for Identified Staff

|                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Performance period</b>                                                                                 | 1 year                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Performance measures                                                                                      | <p>Management Group</p> <ul style="list-style-type: none"> <li>▶ Group level (30%) – Financial: RARORAC, Cost/income ratio, Stable Funding, Tier 1 ratio, Cost ceiling, and Non-Financial: Progress with regard to integration, Customer satisfaction, Employee engagement/culture, Sustainability (including diversity);</li> <li>▶ Business unit level (40%) – Financial: RARORAC, Cost ceiling, Non-Financial: Progress with regard to integration, Customer satisfaction, Employee engagement/culture, Sustainability (including diversity);</li> <li>▶ Individual (30%): Individual performance rating.</li> </ul> <p>Other Identified Staff</p> <ul style="list-style-type: none"> <li>▶ Group, business unit and individual level (financial and non-financial performance measuring).</li> </ul> |
| Up-front payment<br>(directly after the performance period)                                               | <p>In principle: up to 60%</p> <p>50% in cash</p> <p>50 % in non-cash instruments (fluctuates with the value of ABN AMRO)<sup>1</sup></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Deferral period</b>                                                                                    | 3 years (tranche vesting: 1/3 vests every year)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Deferred payment<br>(respectively 2 years, 3 years, 4 years<br>after the performance period)              | <p>In principle: up to 40%</p> <p>For 50% in cash</p> <p>For 50% in non-cash instruments (fluctuates with the value of ABN AMRO)<sup>1</sup></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Measures for malus assessment<br>(in any of the following situations,<br>the deferred part will not vest) | <p>If reassessment of initial performance gives reason for applying malus. Malus can also be applied in the event of:</p> <ul style="list-style-type: none"> <li>▶ Evidence of misconduct or serious error by the staff member (e.g. breach of code of conduct or other internal rules, especially concerning risks);</li> <li>▶ The institution and/or the business unit subsequently suffers a significant downturn in its financial performance (specific indicators are to be used);</li> <li>▶ The institution and/or the business unit in which the staff member works suffers a significant failure of risk management;</li> <li>▶ Significant changes in the institution's economic or regulatory capital base.</li> </ul>                                                                       |

<sup>1</sup> Retention period for non-cash instruments is a minimum of 2 years.

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

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

Both the up-front and deferred part of variable remuneration are paid out in cash (50%) and in non-cash instruments (50%). The non-cash instruments fluctuate 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.

Prior to adopting the integrated variable pay component with partial payout in instruments, the Supervisory Board analysed the possible outcomes of the new variable component and how this may affect the remuneration of Identified Staff. For a specific group of Identified Staff, it holds that the settlement in cash of non-cash instruments is capped at 50% of the maximum amount of variable pay.

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 also has the authority 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 shall 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.

## Further details on remuneration of Managing Board

### Annual base salary

The annual base salary in 2011 for the six members of the Managing Board amounted to EUR 600,000. The Chairman's salary is set at EUR 750,000. Salary adjustments for the Managing Board will follow developments in the collective labour agreement for the banking industry (*Algemene Banken CAO*) and will apply as from 1 January of any given year.

### Variable remuneration

In compliance with new Dutch legislation prohibiting variable remuneration for board members of financial institutions that have received state support with effect from 2011, the Managing Board members will no longer participate in a variable compensation plan, up until the state support has been repaid.

### Benefits

The Chairman and the members of the Managing Board participated in the ABN AMRO pension scheme in 2011. The pensionable salary of the members of the Managing Board is 100% of the annual base salary, and the pension contribution is paid by the bank. The standard retirement age for Managing Board members is 65, based on an average income (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.

### 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 and profiles of the members of the Managing Board in the Corporate governance section of this report.

Details on the remuneration of the individual members of the Managing Board in 2011 are provided in note 44 to the Annual Financial Statements.

## Managing Board performance in 2011

Collective financial and non-financial targets are set for all Managing Board members in order to measure performance at Group level. The Supervisory Board has opted for collective targets so as to emphasise cooperation within the Managing Board. A new element was introduced in 2011 in order to assess performance with regard to individual leadership and the specific focus areas of the respective Managing Board members. 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 such as RARORAC, cost ceiling and several capital and liquidity ratios with an average rating above target. Performance targets with regard to non-financial aspects such as client and employee satisfaction and progress on the integration were also amply met.

Although all Managing Board members delivered above-target performances in 2011, the members of the Managing Board are not eligible for any variable remuneration over 2011.

## Disclosure further to Regulation on Sound Remuneration Policies Pursuant to the Financial Supervision Act 2011 (*Regeling beheerst beloningsbeleid Wft 2011*)

The table on the next page provides information on aggregated pay for Identified Staff, broken down into:

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

## Aggregated total compensation over 2011 per business

(in thousands)

| Business segment              | Aggregated figure |
|-------------------------------|-------------------|
| Retail & Private Banking      | 19,649            |
| Commercial & Merchant Banking | 25,044            |
| Other                         | 22,765            |
| <b>Total</b>                  | <b>67,458</b>     |

## Details of aggregated total compensation over 2011

| (in thousands)                                   | Number of Identified Staff | Aggregated figure |
|--------------------------------------------------|----------------------------|-------------------|
| Fixed compensation over 2011                     | 175                        | 39,776            |
| Variable compensation over 2011                  | 175                        | 26,415            |
| <i>of which in cash</i>                          |                            | 17,538            |
| <i>of which in performance certificates</i>      |                            | 8,877             |
| <i>of which unconditional (up-front payment)</i> |                            | 16,241            |
| <i>of which conditional (deferred payment)</i>   |                            | 10,174            |
| Sign-on bonus over 2011                          | 7                          | 1,267             |
| Severance pay over 2011 <sup>1</sup>             | 1                          |                   |
| Highest severance pay over 2011 <sup>1</sup>     |                            |                   |

<sup>1</sup> Not disclosed for confidentiality reasons.

## Remuneration of Supervisory Board members

The remuneration of members of the Supervisory Board is determined 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 remained unchanged in 2011 and will remain at the agreed levels in 2012. In the course of 2012, a benchmark review will take place in order to assess whether an adjustment of the remuneration is required with effect from 2013. Details on the remuneration of members of the Supervisory Board in 2011 are provided in note 44 to the Annual Financial Statements.

## Profile and learning programmes in 2011

### Profile and composition

The Supervisory Board determines its own composition and the number of its members, with the minimum being three people. The composition of the Supervisory Board should match the Supervisory Board profile in terms of combined experience and expertise, independence and diversity in terms of age and gender. The full profile of the composition of the Supervisory Board is available at [abnamro.com](http://abnamro.com), under the Rules of Procedure of the Supervisory Board.

The Supervisory Board evaluated the desired profile and competence of the Supervisory Board in 2011 and is of the opinion that its composition is currently in accordance with its profile. 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.

An overview of the current composition of the Supervisory Board including key information on the background and terms of office of each Board member are provided in the Composition of the Supervisory Board section of this report and at [abnamro.com](http://abnamro.com). The procedures for appointment and retirement of Supervisory Board members are provided in the Corporate governance section.

### Introduction and lifelong learning 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 exact curriculum of the introductory programme is tailored to each member.

The lifelong learning programme was specifically designed for the Supervisory Board and includes a training programme which was set up in close consultation with individual members of the Supervisory Board. Topics are

selected taking into account current developments in the financial industry and the expertise required of the Supervisory Board. Sessions held in 2011 covered developments relating to the Basel Committee requirements and management accounting, financial reporting and ABN AMRO's product approval procedures. A number of consultations with Supervisory Board members of other Dutch financial institutions were held at the initiative of the Dutch Banking Code Monitoring Committee, the purpose of which was to foster experience sharing among the Board members and to discuss key issues in the application of the Dutch Banking Code. Topics discussed included cultural aspects of behavioural risk management, the relationship between Customer Excellence and risk control measures, and implementation of domestic and international requirements governing the remuneration of senior management. The Supervisory Board considers these consultations to be a critical part of the ongoing training and development of Board members.

The Supervisory Board's lifelong learning programme is continuously being developed to ensure a balanced programme in which all relevant aspects of the bank's performance are addressed, including Customer Excellence and product approval procedures. The programme has been expanded to include regular visits to business lines to enable the Board members to gain a better understanding of the interests of all internal and external stakeholders. In 2011 the Supervisory Board visited the Markets business at ABN AMRO's dealing room and the Retail businesses, devoting special attention to the ongoing efforts to improve Customer Excellence and bolster client relationships.

## Performance evaluation and conclusions

The Supervisory Board reviews its performance and that of the Supervisory Board committees on an ongoing basis. The Supervisory Board performed a full-scope review of its own performance over the full year 2011, including an evaluation of the introductory and lifelong learning programmes, based on a questionnaire distributed to the members of the Supervisory Board. The results of this self-assessment show that all relevant aspects of the Supervisory Board's responsibilities received appropriate attention in 2011 and that there was ample room for discussion among its individual members.

The Supervisory Board is pleased with the general course of affairs at ABN AMRO during 2011 and believes that its own working processes, level of frequency of engagement in all critical company activities, and access to all necessary and relevant information (including management and staff) were satisfactory and enabled it to carry out its duties towards all of ABN AMRO's stakeholders. Compared with the transitional period in 2010 immediately following the legal separation and legal merger of ABN AMRO and Fortis Bank Nederland, 2011 saw a marked improvement in the depth and breadth of discussions with management. The Supervisory Board values the cooperative relationship with the Managing Board and its individual members. Several suggestions were made regarding the further strengthening of relationships with key stakeholders and Dutch society in general and improving the lifelong learning programme. With regard to the Supervisory Board's procedures, suggestions were made to expand the time available for meetings in order to facilitate debate and information sharing among the Supervisory Board members. In accordance with the principles of the Dutch Banking Code, a full evaluation of the Supervisory Board's functioning including that of its committees and individual members over the year 2012 is scheduled to take place under independent supervision.

# Managing Board report

# economic and regulatory environment 3

## The economic environment

### Review of 2011

From an economic perspective, 2011 got off to a strong start. The global economic recovery following from the sharp contraction in 2008 continued through 2010 and concerns about the eurozone crisis faded into the background. But by early 2011 several countries in the Middle East saw unrest erupt into large-scale protests, ultimately culminating in full-blown revolutions. Oil prices consequently spiralled to highs above USD 100 in late April, 35% higher than at the start of the year. The increased oil price eroded spending power and led to rising inflation figures, which in turn worried central banks. The European Central Bank (ECB) opted to raise interest rates to keep inflation in check.

Further uncertainty arose following the major tsunami that hit Japan in March, which had a great impact on the Japanese economy and Japanese exports.

Closer to home, various euro countries ran into problems due to their large public deficits and outstanding debt and refinancing needs. In the US, meanwhile, political tensions flared as the debt ceiling was hit. A provisional compromise was reached, but the road to a long-term solution has proven complicated and triggered a rating downgrade.

These events resulted in declining growth rates in the US and the eurozone starting in the second quarter of 2011. Since then, divergent developments have occurred.

Oil prices, which initially rose sharply in early 2011, stabilised as of June. Large Japanese corporations rapidly overcame the supply problems that had dampened growth around the world. And thanks to continuing stimuli from the Federal Reserve, the US economy did not collapse. On the contrary: in the third quarter of 2011 the US economy grew faster than in previous quarters. The deceleration in growth remained within bounds in emerging markets, but became increasingly noticeable in the eurozone in the course of the year. The ECB responded by reversing the previous interest rate hikes.

The cooling of world trade, alongside doubts over the debt crisis, caused the Dutch economy to shrink in the third and fourth quarters of 2011. The Netherlands kept in step with the eurozone, the destination of 60% of its exports. Dutch consumers were restrained in the face of austerity measures and a stagnating housing market.

The eurozone has a small external deficit and its collective public debt is lower than that of, for instance, the US. Still, this did not prevent an escalation of tensions in several eurozone countries in 2011. Greece was initially at the epicentre. Its problems, however, are manageable in themselves as this EU member state only accounts for 2.5% of the eurozone's entire GDP. The main worry concerned the risk of contagion to large economies such as Italy and Spain, and even France. This led to rising interest rates on these countries' government bonds and to stagnating financial markets.

### Interest rates: Greece, Germany and the Netherlands

(in %)



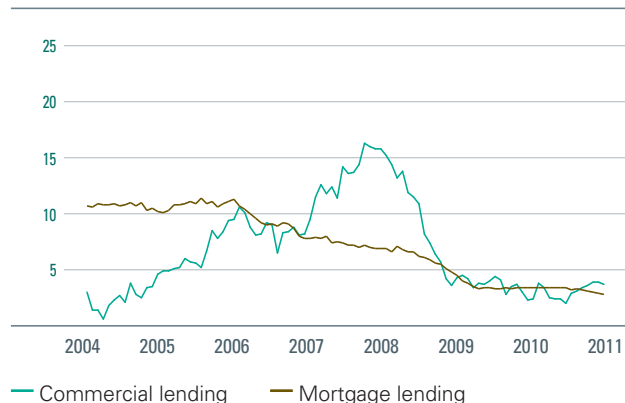
Source: Bloomberg

After the European debt crisis escalated in the autumn of 2011, further arrangements were made by the EU member states in December to tighten budgetary discipline. These steps are highly significant, although many challenges still lie ahead. Ultimately, the costs (economic, political, social, etc.) of fragmenting the eurozone are expected to be very high, both in exiting countries as well as those that remain within the single currency. Austerity measures alone are not sufficient to reduce public debt, as these measures also have an adverse impact on economic growth. Spending cuts must therefore be accompanied by measures to make economies more flexible and competitive.

A combination of strong volatility and lack of direction characterised the financial markets in 2011. This applied to equity, bond, commodity and currency markets. Over the course of the year, banks, which often hold large portfolios of government bonds on their balance sheets, gradually lost trust in each other. Bank credit default swaps, a measure for risk premiums, rallied. The interbank money market ground to a halt and the ECB was forced to play a more important role in the bank funding market. Funding costs for banks rose as a result of these tensions. Liquidity tensions and stricter solvency requirements prompted banks in the eurozone to tighten their lending conditions. Combined with the low levels of economic activity, this led to lower levels of commercial lending growth. Furthermore, competition for deposits increased, resulting in lower margins on deposits for financial institutions.

### Commercial and mortgage lending by Dutch financial institutions

Commercial and mortgage lending growth (in % YoY)



Source: DNB

The European problems are partly reflected in the Dutch residential mortgage market. Potential home buyers took a more cautious stance because of the worsened economic outlook and concerns that the Dutch government may alter the terms of the Dutch mortgage tax relief system. Lenders are similarly cautious due to the problems sketched above, as well as the more stringent Dutch Mortgage Finance Code of Conduct (*Gedragcode hypotheaire financieringen*). The transaction volume in the Dutch market therefore remained low in 2011; properties took longer to sell and house prices fell further. Unfortunately, there is still no upturn in sight.

### ECB deposit facility

Deposits placed at the ECB (in billions)



Source: ECB

### Outlook for 2012

ABN AMRO's view on the global economy in 2012 is largely determined by the events that unfolded in the closing months of 2011 and can be summarised as

“predominantly concerned, but also cautiously optimistic.” If Europe succeeds in containing the crisis – which is by no means certain – the bank expects that the recession can be kept in check and need not unduly affect the rest of the world. The US saw economic growth accelerate in the second half of 2011. Meanwhile, growth is decelerating in the emerging economies, but policymakers are in the process of relaxing their monetary policies. Moreover, a decline in inflation thanks to lower commodity prices may boost spending power in 2012.

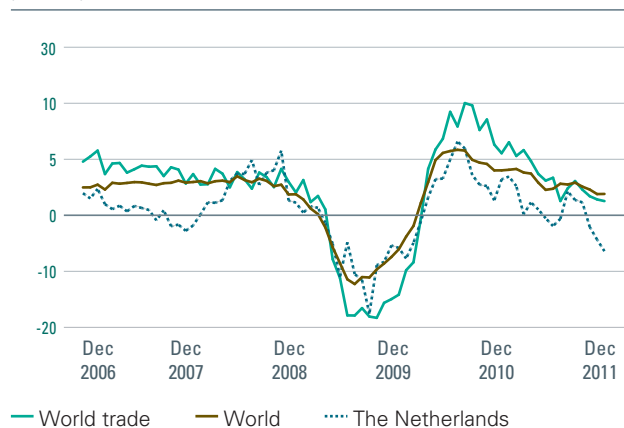
The eurozone cannot be ranked among the regions that give cause for moderate optimism. The growth rate dropped during 2011 and the eurozone seems to be heading for a recession in the first half-year of 2012. If European policymakers manage to embed budgetary discipline and implement structural reforms, the damage may be limited. In this case, a modest recovery seems feasible in the course of 2012. But this is conditional on regaining the trust of the financial markets. Progress on this front is absolutely vital. A strong European economy is necessary for success in the increasingly fierce competitive struggle with the US and the emerging economies.

The Dutch economy also appears to be an unlikely candidate for growth in 2012, although economic activity is expected to pick up in the second half. The dominant factor is the export sector, which is contending with slackening growth in world trade. If exports fall, new business investments will also come under pressure. Consumers face more spending cuts and, as noted, the Dutch housing market remains vulnerable. Despite the current muted economic outlook, in general the Dutch economy remains healthy. Government debt levels are low in a European context (government debt to GDP at around 65%), unemployment ranks among the lowest in Europe (5.4% vs 10.1% eurozone average in 2011<sup>1</sup>) and the Netherlands is one of a limited number of European countries which has an AAA-rating from all major ratings agencies.

While the current economic developments clearly demand close attention, it is also good to look further ahead. After all, alongside the normal economic ups and downs, the world is undergoing structural change.

## World trade vs industrial production in the Netherlands and the world

(in % YoY)



Source: Thomson Reuters Datastream, CPB

The increasing availability of free information influences the behaviour of producers and consumers. Consumers can shop around for the best deals in terms of price and quality. Producers are responding by relocating to the cheapest manufacturing countries, offering customised products and services, and cultivating new markets. Globalisation is a centuries-old trend. Growth in world exports is continually outpacing total global production and technological innovations are reinforcing this trend. Together, these are the drivers of prosperity.

Globalisation is also meeting with resistance. The Occupy movement that burgeoned in 2011 gave voice to the prevailing dissatisfaction with the current shape of society. People are concerned about the environment and imbalances in the distribution of power and income. At the same time, there are growing tensions in the supply and demand for commodities. Large corporations are judged by their contribution to resolving these issues. Changing competitive relationships can induce protectionist reactions.

The competitive arena is changing beyond recognition, largely due to the relentless rise of emerging economies. These countries carry more economic weight than ever. The difference in the pace of growth with mature economies will probably diminish, but will remain significant, while distinctions between the two will fade. And new emerging markets will step forward; some African countries, for instance, have already been asserting themselves for some years now. The demand

<sup>1</sup> Source: Thomson Reuters Datastream, ABN AMRO Group Economics.



for financial services is growing strongly in emerging economies, but in many cases these services are still in very short supply. This is in sharp contrast with the banking markets in industrial countries, which are contending with saturation and debt reduction.

In the Netherlands, as elsewhere, the proportion of over-65s is growing. The ageing problem will diminish as people start to work longer and fewer jobs cause physical wear and tear. But there are also psychological limits to a person's working life. So a rising number of middle-aged or even younger people will probably start saving more to ensure they can retire at an acceptable age.

## Main regulatory developments

A large number of regulatory changes will come into effect in the next few years, which individually and collectively will have a significant impact on the financial sector. Although the majority of these changes will not come into effect in 2012, ABN AMRO expects that the sector in general and ABN AMRO in particular will need to allocate a significant amount of resources to continue to prepare for these changes throughout the year.

### Capital Requirements Directive II, III and IV including Basel III

A range of regulatory measures intended to increase the stability and safety of the financial sector have been introduced. Capital Requirements Directive (CRD) II consists mainly of adjustments to risk calculation, the treatment of securitisations and the definition of capital instruments. Apart from a further refinement of the capital ratio calculation, CRD III comprises remuneration principles. CRD II came into effect partly on 1 January 2011 and partly on 31 December 2011, while CRD III came into effect on 1 January 2011. ABN AMRO has implemented both CRD II and III. CRD IV is expected to come into force on 1 January 2013, and requirements will subsequently be phased in. These will include measures to sharpen definitions, and increase the amount and quality of the buffers of bank capital and bank liquidity. Given the material impact on the banking sector, preparations are already being made. More information is provided in the Risk management, Capital management and Liquidity and funding sections of this report.

## IFRS developments

In 2011, ABN AMRO implemented a further refinement of accounting harmonisations (more details are provided in note 1 to the Annual Financial Statements). Planned IFRS changes and amendments will represent significant changes to accounting requirements from 2013. These are explained in note 1 to the Annual Financial Statements – New accounting standards and interpretations.

## EU regulation

The European Union is currently working on a broad range of regulatory measures aimed to bring more stability and transparency to the European financial sector. These measures include the European market infrastructure regulation, a framework on crisis management, a financial transaction tax, amendments to the Markets in Financial Instruments Directive (MiFID) and a European deposit guarantee scheme.

The European Market Infrastructure Regulation (EMIR) aims to guarantee stability in the market of over-the-counter derivatives (OTC) by means of central counterparties (CCPs) and improve the transparency and regulatory oversight in this market. Set up as an EU regulation, EMIR will be enacted into law with immediate effect and simultaneously in all EU member states. It is expected that the final version of EMIR will be published in the first quarter of 2012.

The objective of the European Union framework on crisis management in the financial sector is to create a framework for prevention, crisis management and resolution across the EU in times of crisis. Concrete measures stemming from this framework include recovery and resolution plans, requirements regarding the introduction of bail-in instruments and early intervention powers to the relevant authorities. A proposal is expected to be presented by the European Commission in 2012.

In October 2011, the final proposals for amendments to MiFID, referred to as MiFID II, were sent to the European Parliament and the EU member states for negotiation and adoption. MiFID II introduces a new set of rules to increase transparency and will change the way certain instruments (including bonds, commodities, derivatives and structured finance) are traded. The revision of MiFID II is also aimed at strengthening investor protection within



the EU. Implementation is expected to proceed in steps, starting in 2013.

The European Commission and European Parliament are negotiating the European Commission proposal for a revision of the Deposit Guarantee Scheme (DGS) on a European level. The DGS guarantees certain client deposits 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. The precise details of this proposal are currently under negotiation between Council and Parliament, but implementation is expected by 2014 at the latest. The EU proposals are similar to the current Dutch system (more information is provided in the following section), although certain elements differ such as the inclusion of corporate deposits in the guarantee under the EU proposal. It is currently unclear what extra demands will be made on Dutch banks in addition to the Dutch DGS as a result of the EU proposal.

The financial transaction tax (FTT) is a tax applied to financial transactions. The purpose of the FTT is twofold: to make the financial sector contribute to the costs of the financial crisis and to create a stronger market for financial services by avoiding competitive distortions and discouraging risky trading activities. Proposals for a European FTT are currently under discussion by European member states. Some countries oppose such a tax, making it unclear if and in which countries the FTT will come into force. The precise impact on ABN AMRO is therefore as yet unknown.

## Dutch regulation

In addition to the supranational regulatory developments described above, the Dutch government and regulators have proposed a number of measures such as the introduction of a banking tax, liquidity risk controls, an intervention act, a ban on referral fees, a ban on bonuses for companies that receive State support and changes to the system of the Dutch Deposit Guarantee Scheme.

The Dutch government has announced a new tax on risk-bearing liabilities of banks residing in the Netherlands which is intended to raise approximately EUR 300 million in 2012. The Dutch government has also indicated that if a financial transactions tax were to be implemented in

the Netherlands and the proceeds of such a tax were to exceed that of the bank tax, the latter could be withdrawn.

The Dutch government has also announced the introduction of a new financial levy intended to pre-fund the Dutch Deposit Guarantee Scheme, which 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. This levy is expected to come into effect as of 1 July 2012.

The draft Dutch intervention act (*Wetsvoorstel bijzondere maatregelen financiële ondernemingen*) aims to provide a framework ensuring a timely and orderly resolution of financial institutions in the case of serious problems without the necessity to enter into bankruptcy proceedings. The draft act grants transfer powers to the Dutch central bank in the event an individual bank experiences serious and irreversible problems, while also providing for intervention powers to the Minister of Finance if the stability of the financial system as a whole is at stake. In the most extreme case, the Minister of Finance can decide to expropriate the financial institution. The act has been adopted by the Dutch Parliament. When adopted by the Senate, this act is expected to be enacted retroactively, coming into force as of January 2012.

The Dutch central bank declared in late 2011 that four Dutch banks, among which ABN AMRO, qualify as local SIFIs (systemically important financial institutions). These banks are expected to be required to hold excess capital above the general Basel III minimum levels. The precise amount of these additional buffers has not yet been determined. Implementation is expected to take place between 2016 and 2019.

In 2011, the Dutch central bank introduced ILAAP, the internal liquidity adequacy assessment process, in which banks are required to thoroughly evaluate their individual liquidity risk controls. ILAAP aims to ensure robust management of liquidity risk. Financial institutions are expected to report to the Dutch central bank the description and internal assessment of how they manage liquidity risk. This includes both qualitative as well as quantitative information.

The Dutch government has introduced a legislative proposal with a ban on referral fees relating to 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 January 2013.

A draft proposal introducing a law to restrict bonuses for companies that receive State support is currently under consideration in the Senate of Dutch Parliament. The law will target both companies that will receive state support in the future as well as companies that have received state support in the past. This law includes a ban on variable remuneration (i.e. bonuses) as well as other forms of remuneration by the aforementioned companies to their board of directors. The ban on variable remuneration will also apply to key senior management for financial institutions that have received state support after February 2012. The law is expected to come into force during 2012.

A new Code of Conduct for financial institutions regarding mortgages (*Gedragscode Hypothecaire Financieringen*) came into effect in August 2011. The new code includes a maximum mortgage loan of 104% of the property value plus the costs of stamp duty (currently 2%), leaving a total mortgage loan of 106% of the property value. Furthermore, the interest-only component of a mortgage loan may not exceed 50% of the value of the property. The rest should include some form of redemption or mortgage-linked savings/investment products. Separately, the government has temporarily lowered the stamp duty on house purchases from 6% to 2% to stimulate the housing market. This temporary measure will terminate in July 2012, after which the stamp duty is currently set to return to 6% provided the government does not decide to extend the measure.

## US regulation

A number of US regulatory measures have been introduced and are expected to come into force in the coming years and which may impact ABN AMRO, among which the Dodd-Frank Act and FATCA.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was passed into US law on 21 July 2010. The Act has been hailed as the most sweeping financial services regulatory reform legislation in the US since 1933, covering a broad sweep 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. Implementation of the new OTC derivatives rules has been delayed, but it is anticipated that implementation will be fully completed by the end of 2012. The effects of the changes introduced by the Dodd-Frank Act on the bank's businesses are as yet unclear. However, as with EMIR, ABN AMRO has been closely watching the legislative process and will set up specific implementation task forces if and when necessary.

The Foreign Account Tax Compliance Act (FATCA) was enacted 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 concludes an FFI Agreement with the US tax authorities, under which an FFI agrees to comply with certain reporting, client due diligence and withholding requirements. The first major milestone for FATCA compliance is scheduled for 1 July 2013. To understand the impact of FATCA, ABN AMRO executed a high-level impact review of various business lines, including subsidiaries, monolines, entities and products, in August and September 2011. The result of this review of the most important client segments shows that FATCA has a considerable impact on client onboarding processes, client segmentation and client administration as well as on reporting systems.

# strategy 4

ABN AMRO is one of the three largest banks in the Netherlands, serving retail, private and commercial banking clients, and is active internationally in private banking and a number of global specialist activities.

To create sustainable value for our stakeholders – our clients, shareholders, employees and society at large – we concentrate on the following strategic themes: focus on the client, selectively grow our business, maintain a moderate risk profile, control costs while achieving healthy returns, embed sustainability bank-wide, and promote a strong, client-driven culture.

## Client focus

We strive to build enduring relationships with all of our clients by genuinely understanding their needs. To this end we set up a community of a few hundred retail clients in 2011 with whom we discuss a range of service-related issues on a regular basis. We also regularly consult our 10,000-strong client panels as a sounding board and when conducting surveys.

In the knowledge that it is equally important for our clients to fully understand our products, we improved the transparency and readability of our contracts and product terms and conditions in 2011. We also simplified our product offering, for example by paring down the number of saving products.

Behind the scenes, we launched a major client focus initiative in 2011 known as Customer Excellence. A combination of customer focus and operational excellence, Customer Excellence is a more efficient, client-driven way of working that is based on lean management principles. Putting Customer Excellence into practice entails fostering bottom-up initiatives designed to improve processes and cut through bureaucracy with the aim of serving clients better. Customer Excellence has been introduced in Retail Banking, Private Banking and Group Functions, and will be deployed across the organisation this year.

## Growth

The Netherlands has a mature banking market with three major players offering similar products. We intend to maintain and, where possible, further strengthen our domestic position. We expect growth in the Netherlands to be limited, with the exception of the corporate market, where we are rebuilding the presence we lost in complying with competition measures imposed by the European Commission. To be able to serve our Dutch clients' international needs, we will selectively grow our international network.

The bank's main growth areas are in private banking in the eurozone and Asia and in global specialist activities such as Energy, Commodities & Transportation (ECT), Clearing, and Lease & Commercial Finance. We are also rebuilding certain wholesale activities required to serve our Dutch clients, but have no ambition to build a full-scale wholesale bank serving a global client base.

In 2011 we took the opportunity to acquire LGT Bank Deutschland, a German private bank. The acquisition strengthened our top-5 position in private banking in Germany, while increasing assets under management in Germany to EUR 19 billion. We intend to grow our private banking business through organic growth as well.

## Moderate risk profile

Under our long-term corporate strategy, we maintain a moderate risk profile; hence our strategic choice to only serve clients with whom we can build enduring relationships. The risk profile is safeguarded by ongoing day-to-day risk management in the widest sense.

As an all-round bank in the Netherlands, we understand our clients' business and can therefore manage the risks associated with our Dutch client base. Internationally we only do business in areas where we can form long-term relationships with clients, allowing us to gain an in-depth understanding of their business. For example, we have been active in the Energy, Commodities & Transportation business for decades, thanks to the Netherlands' importance as a trading nation. We understand the dynamics of our clients' business as we are active throughout the supply chain; often our clients' suppliers and customers are also clients of ABN AMRO. This allows us to manage our risk effectively, as evidenced by our excellent loss history through the cycle.

To safeguard our moderate risk profile, we manage our risks based on a "three lines of defence" approach. The first line of defence is formed by the management of the various businesses, which are held accountable for the risks they take. The second line of defence is formed by the central risk organisation, which defines and maintains the risk framework and is responsible for monitoring and managing the aggregate portfolio risk; it also serves as the bank's risk knowledge centre, supporting and advising the

businesses. The third line of defence is formed by Group Audit, which independently evaluates the effectiveness of the bank's risk management, controls and processes.

With regards to managing our liquidity risk, an ongoing objective in the coming years is to strengthen our liquidity profile by lengthening the average maturity of our outstanding debt. We place great emphasis on diversifying our funding sources to maximise access to the funding markets.

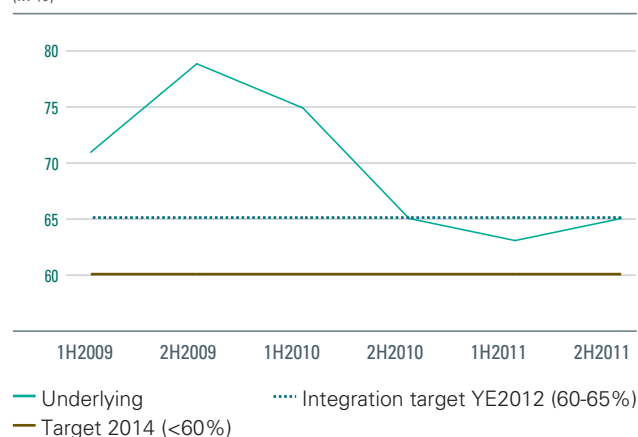
In keeping with our moderate risk profile, we hold sufficient capital buffers to cover large, unexpected one-off events. The level of capital we target is based on a combination of internal models, regulatory requirements and expectations of external parties, such as the financial markets and rating agencies. Major changes are currently being made to the regulatory capital requirements under the new Basel III rules. We believe we are relatively well positioned to meet the new minimum capital requirements at the time of introduction in 2013.

## Financial ambition

We intend to solidify the bank's financial position in the years ahead by focusing on enhancing efficiency and achieving healthy and stable returns. Managing costs is an important element in meeting our financial targets. We take a controlled approach by first implementing cost control measures before phasing-in cost reductions. Our goal is to reduce the cost/income ratio to below 60% in 2014 – and to keep it below this figure on a structural basis.

### Cost/income ratio

(in %)



In the run-up to 2014, the targeted cost/income ratio following completion of the integration in 2012 is between 60% and 65%. We aim to achieve this interim target in part by realising annual pre-tax integration synergies of EUR 1.1 billion as from 2013. At this point, we are on schedule and within the EUR 1.6 billion budget earmarked for the integration process. The large-scale and complex technical migrations were completed ahead of schedule, with the migration of almost all our corporate and private banking clients to a single IT platform in November 2011.

## Sustainability

ABN AMRO is firmly committed to being a good corporate citizen and to helping clients and other key stakeholders achieve sustainable success. To this end we established the Sustainability Advisory Board in March 2011, a forum including Managing Board and senior market experts which discusses the group's sustainability strategy. We encourage our staff to contribute to sustainability initiatives. For example at Neufilze OBC, ABN AMRO's French private banking subsidiary, almost one in eight employees engage in the company's sustainability think tank where sustainability initiatives are discussed and launched. ABN AMRO Foundation, meanwhile, helps staff give back to the community by facilitating volunteer projects and was awarded best employee engagement programme in the Netherlands.

We have embedded sustainability in our credit proposal and new product approval processes taking into account environmental, social and ethical aspects. For example, certain industries, such as shipping, are required to complete an environmental impact assessment as part of the application process.

ABN AMRO is a founding partner of FIRA, an independent third party that issues sustainability ratings to suppliers. We will use these ratings going forward to target suppliers with good sustainability track records.

Bethmann Bank, ABN AMRO's private bank in Germany, launched two sustainable investment funds for Private Banking clients, which have met with great interest. In our Dutch operations, meanwhile, we are seeing solid growth in our sustainable investment mandates and are expanding our sustainable product range with services such as impact investing for our private banking clients.

Workforce diversity is an important issue culturally, but also makes good business sense as it allows us to better represent our diverse client base and meet the needs of the various communities we serve. We have set explicit targets of placing women in 20% of senior positions and in 25% of middle-management positions by 2014.

Although banking as such has a limited environmental impact, we aim to minimise our carbon footprint by reducing total energy consumption by 20% in 2012 compared with 2009.

## Culture and core values

We are committed to the ongoing personal and professional growth of our employees and place great importance on employee satisfaction. We expect Customer Excellence to help improve overall job satisfaction, as it allows us to identify and reduce internal bureaucracy and overlap of responsibilities and to broaden the scope of many jobs.

The success of our bank relies on a strong corporate culture based on three core values: Trusted, Professional and Ambitious. The Management Group (the company's top 100 managers) participated in an intensive business school programme in 2011 focusing on how to translate the core values into leadership competencies and leadership vision. A new series of programmes along similar lines will be introduced in 2012 for the next management level.

# customer excellence 5

## Introduction

Customer Excellence – a combination of customer focus and operational excellence – is a new way of working that is based on lean management principles.

Putting Customer Excellence into practice entails an organisational transformation, one which should enable the bank to achieve better service delivery to clients, more efficient processes and more motivated staff. Improvement initiatives are designed and implemented bottom-up by employees. Customer Excellence is not a project or a programme, but a journey of continuous improvement. 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.

ABN AMRO has embarked on this journey in response to the rapidly changing world and ever-changing client expectations. The bank aims to be a front-runner in meeting clients' needs now and in the future. Ahead of completion of the integration by the end of 2012, ABN AMRO is now working ambitiously to enhance

its service. Customer Excellence is not about major operational changes, but about 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 the bank achieve its target of reducing the cost/income ratio to structurally below 60% by 2014.

## How it works

Customer Excellence involves an integrated approach in which improvements are analysed through five lenses, with the client at the heart of each initiative. It starts with customer demand. Clients want excellent, reliable and dedicated service. At ABN AMRO, clients actively participate in Customer Excellence in the so-called Client Arena, where they can share their experiences with the bank and discuss potential improvements directly with employees. Based on what customers want, the next step is to review and improve process efficiency, performance management, mindset and behaviours, and capabilities and organisation.



## The five lenses

### Process efficiency

We organise our processes in response to clients' needs. We give clients what they need, when they need it – and always deliver quality.



### Performance management

We visualise results to gain insight into individual and team performance. By continually suggesting and developing ideas for improvement, we create an organisation that is constantly learning.



## Client

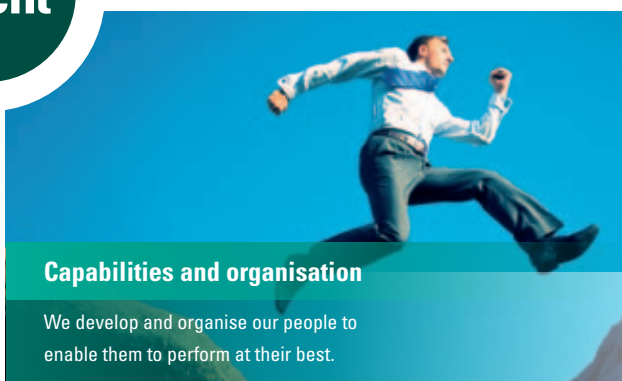
### Mindsets and behaviours

We empower individuals to contribute to continuous improvement and take ownership of the way we work.



### Capabilities and organisation

We develop and organise our people to enable them to perform at their best.



## Direct impact on the client experience

The pursuit of Customer Excellence results in many successes – some major, some minor. Below are results of some of the bank's Customer Excellence initiatives in 2011.

### Reduced waiting time at bank shops

ABN AMRO has introduced capacity planning in its bank shops and advice centres which is aligned to the flow of customers throughout any given day. Staff go for lunch in shifts during peak times, and clients who visit the shop in their lunch break are served without waiting.

### Proactive response to skimming

If a client's bank card has been skimmed, the bank sends a text message informing them that their card has been blocked and the money will be refunded. Aligning cross-departmental processes enables the bank to refund skimmed amounts faster: the bank first refunds the customer, then investigates the fraud.

### Easy account check by phone

Clients can verify the real-time status of their account by answering questions to verify the last transaction or balance of their account without being required to provide a Telephone Identification number (TIN): the client provides the input, the call centre agent assesses whether the information is correct.

### Less paperwork

The bank has halved the amount of documentation and reduced the number of forms clients are required to complete to obtain consumer credit.

### First-time fix

Customer Excellence has made doing business with ABN AMRO much easier for clients:

- ▶ Incoming calls are routed directly to the right department (i.e. call forwarding is no longer necessary);
- ▶ Clients are phoned on the number they prefer, even if the number is not in the bank's database;

- ▶ The top 30 outbound client emails have been re-written in plain, understandable language, with reference to easy-to-use self-service;
- ▶ Clients can obtain their IBAN-BIC without having to verify their identity or complete any forms;
- ▶ Cash and cards: cheques with form errors are not transferred for collection, meaning clients are no longer charged for unnecessary collection fees;
- ▶ Call centre agents can correct items themselves and no longer hand over work to other departments, reducing handling times of complaints from eighteen to two-and-a-half days.

### Reduced processing time

Many processes have been redesigned, reducing delays:

- ▶ The time it takes to open a bank savings account has been reduced by 57%;
- ▶ The time it takes to open a savings account for children has been reduced by 60%;
- ▶ The time it takes to process an application for consumer credit has been reduced by 65% and for business credits by 41%;
- ▶ Clients who ask a question by email receive a response within one hour.

### Progress

The deployment of Customer Excellence is a demand-driven transformation where division managers start their journey based on the change readiness of their individual business and workforce. The methodology for roll-out is managed centrally and scheduled in waves of 14 weeks, with each roll-out customised to the needs of each division and its processes, employees and type of customers. The first Customer Excellence initiative was launched at the TOPS division in 2010; Retail Banking, Risk Management and Finance joined in during 2011; and Private Banking followed in January 2012.

Customer Excellence will be further deployed across the organisation, including all support departments, until 2014.



# corporate governance 6

## Corporate structure

ABN AMRO Group is a public company with limited liability incorporated on 18 December 2009 under the laws of the Netherlands. The company has a two-tier system of corporate governance consisting of a Managing Board and a Supervisory Board. ABN AMRO Group and ABN AMRO Bank share the same Managing Board and Supervisory Board and committees of the Managing and Supervisory Boards.

## Managing Board

### Responsibilities of the Managing Board

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. The Managing Board carefully considers the interests of all of ABN AMRO's stakeholders, such as its clients and employees, its shareholders 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. 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. More information on the delegated authority of these committees is provided in the Risk Management and Integration sections of this report.

### 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 and Vice-Chairman of the Managing Board are appointed by the Supervisory Board from among the members of the Managing Board.

Only candidates declared by DNB as meeting the requirements in the banking licence as described in 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.

### Composition and retirement

Curriculum vitae of each member of the Managing Board are provided in the Composition of the Managing Board section and at [abnamro.com](http://abnamro.com). There were no retirements from the Managing Board in 2011.

Managing Board members are appointed for a period of four years and may be reappointed for a term of four years at a time. 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.

### **Lifelong learning programme**

A lifelong learning programme for 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. The curriculum is continuously being developed to ensure a balanced programme in which all relevant aspects of the bank's performance are addressed and has, where appropriate, been closely aligned with the Supervisory Board's lifelong learning programme to foster knowledge-sharing between the Boards. Topics covered in 2011 relate to the Basel Committee requirements, Customer Excellence and risk governance principles and standards. Specifically for the Managing Board, parts of the programme are organised in cooperation with a well-known global financial training institution to allow training courses to be tailored to the specific needs and requirements of individual Board members. In addition, consultation meetings with Managing Board members of other Dutch financial institutions took place in 2011 at the initiative of the Dutch Banking Code Monitoring Committee, which were attended by the Chairman of the Managing Board. Mainly topics with regard to the duty of care towards clients, Customer Excellence and related governance aspects were discussed with the aim of strengthening Board members' understanding of these themes, which are critical for the development of the financial industry.

## **Supervisory Board**

### **Responsibilities of the Supervisory Board**

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 proposed by the Managing Board. 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. More information on the tasks and responsibilities of these permanent committees is provided in the Supervisory Board Review included in this report.

The Rules of Procedure of the Supervisory Board are available at [abnamro.com](http://abnamro.com). These rules also include the terms of reference of the committees of the Supervisory Board.

### **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. Supervisory Board members are appointed for a term of four years and may be reappointed after that term. Members of the Supervisory Board may serve a maximum term of 12 years.

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 whom DNB has declared as meeting the requirements in the banking licence described in the Dutch Financial Supervision Act 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.

### Composition and retirement

An overview of the current composition of the Supervisory Board including key information on the background and the terms of office of each Board member are provided in the Composition of the Supervisory Board section of this report and at [abnamro.com](http://abnamro.com).

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](http://abnamro.com). There were no retirements from the Supervisory Board in 2011.

More information on the further development of the lifelong learning programme for Supervisory Board members in 2011 is provided in the Supervisory Board Review included in this report.

## Shareholders

### 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. 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 can also 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.

An overview of ABN AMRO's shareholder structure can be found in the Legal structure and ownership section of this report. The authorised and issued share capital of ABN AMRO Group N.V. as at 31 December 2011 are reported in the Annual Financial Statements of ABN AMRO Group N.V. included in this report.

### General Meetings 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, but not limited to, 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 8 April 2011. No extraordinary General Meetings of Shareholders were held in 2011, although the General Meeting of Shareholders passed a number of resolutions outside a meeting relating, among other things, to the determination of the reserve and dividend policy and the distribution of the full dividend reserves A in the amount of EUR 25.1 million to the holders of class A non-cumulative preference shares.

### Dividend policy

The General Meeting of Shareholders approved a dividend policy in March 2011 that targets a dividend payout of 40% of the net reported annual profit.

Following the state aid investigation, the European Commission allows ABN AMRO to make a dividend payment on its ordinary shares provided that the dividend payment exceeds the amount of EUR 100 million per annum. In 2011 ABN AMRO paid an interim dividend of EUR 200 million on the ordinary shares. The payment of an interim dividend required the prior release of the retained dividend reserve A for the class A non-cumulative preference shares in the amount of EUR 25 million for which the required approval was provided by the shareholders. An additional EUR 63 million as final dividend over the full year 2011 has been proposed, of which EUR 13 million is allocated to the preference shareholders.

The payment of an (interim) dividend also 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. More information on the European Commission's state is provided in the Capital management section of this report.

## Corporate governance

Good corporate governance is critical to ABN AMRO's ability to realise its strategic goal of creating sustainable long-term value for all its stakeholders. ABN AMRO believes that corporate governance codes that meet high international standards significantly boost confidence in Dutch companies and that compliance with these codes by financial institutions is crucial to restoring trust in the financial sector as a whole.

Integrity, transparency and accountability are key elements of ABN AMRO's corporate governance, as they are in the Group's business as a whole. These key elements should ensure that the controls and oversight necessary for effective risk management, proper compliance with rules and regulations, and accurate and complete disclosure of information to the market are in place and functioning well.

To promote good corporate governance, ABN AMRO has installed a Corporate Governance Committee. A key responsibility of this committee is to ensure that corporate governance principles and best practice provisions are accepted and supported throughout the entire organisation. The Corporate Governance Committee is chaired by the Company Secretary in the role as Chief Corporate Governance Officer.

## Dutch Corporate Governance Code

Although ABN AMRO – as a non-listed company – is not required to adhere to the Dutch Corporate Governance Code, it attaches importance to a transparent governance structure and therefore substantially complies with the Dutch Corporate Governance Code.

### Non-applicability

ABN AMRO holds 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. ABN AMRO believes that best practice provisions II.1.9, IV.1.2, IV.1.7, IV.3.8 and IV.3.13 are not applicable because ABN AMRO Group's shares are not admitted to listing and trading on a regulated market and the Dutch State (indirectly) and NLF control the voting rights in ABN AMRO Group. Principle III.8 and best practice

provisions III.8.1 – III.8.4 are not applicable because ABN AMRO Group has a two-tier board and principle IV.2 and best practice provisions IV.2.1 – IV.2.8 are not applicable because ABN AMRO has not cooperated in the issuance by NLF1 of depositary receipts for shares.

### Comply or explain principle

ABN AMRO is pleased to confirm that it observed the relevant principles and best practice provisions of the Dutch Corporate Governance Code in 2011, with the exception of the best practice provisions II.1.3(b), II.3.2 – II.3.4 and III.6.1 – III.6.3. The explanation regarding these deviations is provided below.

Best practice provision II.1.3(b) provides that ABN AMRO should publish a code of conduct on its website which is an instrument of its internal risk management and control system. ABN AMRO upholds the core values Trusted, Professional and Ambitious. These values are elaborated upon in the company's Business Principles, which were approved by the Managing Board in December 2011. The Business Principles are scheduled for roll-out in the early months of 2012, following which they will be published on the company's website. ABN AMRO therefore expects to comply with this best practice provision as of 2012.

Best practice provisions II.3.2 to II.3.4 and III.6.1 to III.6.3 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 qualitative 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 shall 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.

ABN AMRO is committed to complying with the Dutch Banking Code and devotes 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, ABN AMRO Bank is pleased to confirm that it 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](http://abnamro.com).

Throughout 2011 ABN AMRO has continued to improve the manner in which it applies the principles of the Dutch Banking Code across the entire Group. In line with the focus areas of the Monitoring Committee Dutch Banking Code as reported on in its December 2011 report, ABN AMRO paid particular attention to the implementation of measures to improve client focus and customer excellence. In this respect a comprehensive evaluation of the product approval procedures for Retail and Private Banking products took place in conjunction with a review of the existing product portfolios. This resulted in the introduction of a new governance framework for the approval and regular review of all products offered to clients, in addition to a rationalisation of the overall product portfolio and the use of more accessible language in the general terms and conditions. Similar procedures and measures were introduced for Commercial and Merchant Banking. More information on the efforts undertaken by ABN AMRO to further improve client focus and the duty of care towards clients is provided in the Business Overview section of this report. With regard to the provisions in the Dutch Banking Code related to risk management and governance, ABN AMRO

has put particular emphasis on refining the enterprise-wide risk reporting and translating the requirements of new regulations on liquidity risks and risk weighting into effective risk procedures. The measures taken to strengthen the risk management and governance frameworks are reported on in more detail in the Risk management section of this report. The interim report on the application of the principles related to the remuneration policy published by the Monitoring Committee Dutch Banking Code in September 2011 and the integral report published by the Committee in December 2011 highlighted the need for banks to be more transparent about the remuneration policies and actual compensation awarded to senior management. To that end a comprehensive report on the effects of the revised remuneration policy for designated staff members introduced in 2011 is provided in the Supervisory Board Review included in this report.

### **Subsidiaries of ABN AMRO Bank and the Dutch Banking Code**

On 31 December 2011, ABN AMRO Bank had six direct and indirect Dutch subsidiaries with a banking licence: ABN AMRO Clearing Bank N.V., ABN AMRO Consumer Finance N.V., ABN AMRO Groenbank B.V., ABN AMRO Hypotheken Groep B.V., Direktbank N.V., and International Card Services B.V. These subsidiaries with a banking licence are hereafter referred to as the “Dutch bank subsidiaries”.

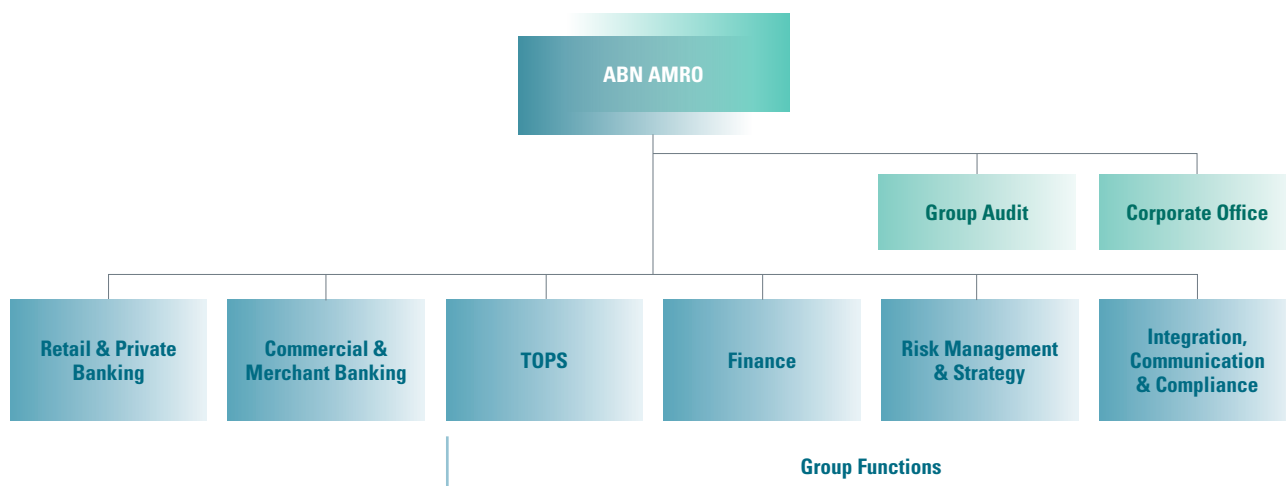
ABN AMRO applies the principles of the Dutch Banking Code to all Dutch bank subsidiaries within its group of companies on a consolidated basis. As such, ABN AMRO has designed group-wide policies and standards to ensure that the requirements of and intentions behind the Dutch Banking Code are adhered to in all relevant parts of the organisation. Considering the varying business activities, organisations and risk frameworks of the Dutch bank subsidiaries, the actual implementation of the group-wide policies and standards may differ between the subsidiaries. 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](http://abnamro.com).

# business, operating and financial review 7

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 2011 and 2010.

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, in 2011 the Managing Board adopted a further refinement of ABN AMRO's segment reporting as follows:

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

As from 2011, the majority of the costs of Group Functions have been allocated to business segments. This change had an impact on the year-on-year comparison of the results of the business segments. Items that are not allocated to the businesses include the operating result from ALM/Treasury, general restructuring charges, certain integration costs, and costs for the Dutch Deposit Guarantee Scheme.

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 2011 (including the summary of significant accounting policies).

The reported figures have been impacted by several items which are related to the demerger of ABN AMRO Bank from RBS N.V., the separation of Fortis Bank Nederland (FBN) from BNP Paribas Fortis and the integration of

ABN AMRO Bank and FBN. For a better understanding of underlying trends, the 2010 and 2011 figures have been adjusted for these items. The analysis 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)                        | Full year 2011 | Full year 2010 | Change      |
|--------------------------------------|----------------|----------------|-------------|
| Net interest income                  | 4,998          | 4,905          | 2%          |
| Net fee and commission income        | 1,811          | 1,766          | 3%          |
| Other non-interest income            | 985            | 988            |             |
| <b>Operating income</b>              | <b>7,794</b>   | <b>7,659</b>   | <b>2%</b>   |
| Personnel expenses                   | 2,538          | 2,533          |             |
| Other expenses                       | 2,457          | 2,802          | -12%        |
| <b>Operating expenses</b>            | <b>4,995</b>   | <b>5,335</b>   | <b>-6%</b>  |
| <b>Operating result</b>              | <b>2,799</b>   | <b>2,324</b>   | <b>20%</b>  |
| Loan impairments                     | 1,757          | 837            | 110%        |
| <b>Operating profit before taxes</b> | <b>1,042</b>   | <b>1,487</b>   | <b>-30%</b> |
| Income tax expenses                  | 82             | 410            | -80%        |
| <b>Profit for the period</b>         | <b>960</b>     | <b>1,077</b>   | <b>-11%</b> |

## Other indicators

|                                 | 31 December 2011 | 31 December 2010 <sup>1</sup> |
|---------------------------------|------------------|-------------------------------|
| Underlying cost/income ratio    | 64%              | 70%                           |
| Return on average Equity (IFRS) | 7.8%             | 8.9%                          |
| Return on average RWA (in bps)  | 85               | 93                            |
| RWA/Total assets                | 29%              | 31%                           |
| Assets under Management         | 146.6            | 164.2                         |
| FTEs (end of period)            | 24,225           | 26,161                        |

<sup>1</sup> The 2010 average figures are based on year-end 2010 position instead of average.



The rapidly deteriorating macro-economic environment impacted the results over 2011. Substantially higher loan impairments eroded the second half profit completely. More than 80% of the full-year loan impairments were accounted for in the second half of 2011.

The results in both 2011 and 2010 were influenced by several large items (Large Items) as well as by several divestments (Divestments). Further details on these Large Items and Divestments are included at the end of this section.

## Operating income

Operating income rose by 2% year-on-year to EUR 7,794 million.

In spite of several divestments and unfavourable economic circumstances, net interest income was 2% higher compared to 2010. The increase in interest income was mainly driven by volume growth of the commercial loan portfolio (Commercial & Merchant Banking, especially in ECT<sup>1</sup>). This was partly offset by a combination of a decline in mortgage loan volumes, pressure on deposit margins due to increased competition and higher funding spreads. The net interest margin, in basis points of average total assets, remained virtually unchanged at 125bps in 2011.

Fees and commissions were 3% higher in 2011 compared to 2010, due to lower costs for a credit protection instrument<sup>2</sup>. Net fees and commissions were under pressure in 2011, due to lower transaction volumes as a consequence of adverse market conditions.

Other non-interest income remained stable compared to 2010. Excluding the impact of a gain on the sale of the Swiss Private Banking activities in 2011 and the buyback result on a subordinated note in 2010, other non-interest income would have showed a marked increase. This was mainly driven by good results in Commercial & Merchant Banking and several positive one-offs (recorded in the first half of 2011<sup>2</sup>).

Out of total operating income, 82% of operating income was generated in the Netherlands and 14% came from the rest of Europe.

## Operating expenses

Operating expenses dropped by 6% to EUR 4,995 million in 2011. Excluding the impact of large items and divestments, operating expenses would have decreased by 2%.

Personnel expenses, which included a EUR 187 million restructuring provision, remained unchanged in 2011 compared to 2010. Excluding the impact of the restructuring provision, personnel expenses would have decreased by 7% due to a reduction in the number of FTEs (resulting from divestments and the integration), though this was partly offset by higher pension costs and wage inflation.

Other expenses decreased to EUR 2,457 million, down by 12% from 2010, which included EUR 305 million in litigation costs and provisions<sup>2</sup>.

## Operating result

The operating result grew sharply to EUR 2,799 million, up 20% compared to 2010. The underlying cost/income ratio improved to 64% in 2011 (from 70% in 2010).

This improvement reflects the realisation of integration synergies and is in line with the targeted cost/income ratio of 60-65% set for year-end 2012 following the completion of the integration as well as the target of bringing the cost/income ratio to structurally below 60% by 2014.

## Loan impairments

Loan impairments rose substantially to EUR 1,757 million in 2011, up from EUR 837 million in 2010. The increase relates largely to loan impairments of EUR 880 million on Greek Government-Guaranteed Corporate Exposures<sup>3</sup>. Excluding these, loan impairments would have gone up by EUR 40 million or 5%, caused by higher impairments in Commercial & Merchant Banking, predominantly in Commercial Banking. Loan impairments in Private Banking declined sharply.

<sup>1</sup> Energy, Commodities & Transportation.

<sup>2</sup> See Large Items and Divestments.

<sup>3</sup> These legacy exposures, which were entered into around 2000, are loans and notes of Greek government-owned corporates guaranteed by the Greek state. More details are provided in the paragraph "Government and government-guaranteed exposures" in the Risk management section.

Total loan impairments over average RWA (cost of risk) went up to 156bps in 2011 (from 72bps in 2010<sup>1</sup>). Excluding the impairments on the Greek Government-Guaranteed Corporate Exposures, this figure would have been 78bps for 2011.

### Income tax expenses

The underlying effective tax rate dropped to 8% in 2011 from 28% in 2010. The decline was largely driven by tax exempt gains and a tax provision release in 2011.

### FTEs

The total number of full-time equivalents excluding temporary staff (FTEs) declined by 1,936 to 24,225 at year-end 2011 as a result of the integration as well as divestments of Prime Fund Solutions (-472 FTEs), the international division of Fortis Commercial Finance (-492 FTEs), and the Swiss Private Banking activities (-323 FTEs).

### Assets under Management

Assets under Management (AuM) decreased to EUR 146.6 billion, down from EUR 164.2 billion at year-end 2010. This decline was mainly caused by the negative market performance (EUR -9.3 billion) and disposal of the Swiss Private Banking activities, but was compensated by the acquisition of LGT Germany (net effect of disposal and acquisition was EUR -5.0 billion) and a net inflow of EUR 0.9 billion. Some legislative changes in the Netherlands<sup>2</sup> explain the remaining decline in AuM (EUR -4.2 billion).

### Results for 2011 by segments

ABN AMRO is organised into Retail & Private Banking (R&PB), Commercial & Merchant Banking (C&MB) and Group Functions. For financial reporting purposes, the Managing Board adopted a further refinement of the segment reporting in 2011, as follows: Retail Banking,

Private Banking, Commercial Banking, Merchant Banking and Group Functions. As from 2011, the majority of the costs of Group Functions have been allocated to business segments<sup>3</sup>. This change affects the year-on-year segment comparison.

Retail Banking posted a profit of EUR 888 million, down by EUR 239 million from 2010, due to the transfer of activities to other segments<sup>4</sup> and higher internal cost allocation, increased margin pressure in deposits, and lower fee-generating activities.

Private Banking recorded a EUR 255 million profit, up from EUR 64 million in 2010, due largely to a gain on the sale of the Swiss Private Banking activities<sup>5</sup> and the absence of high litigation costs and provisions (included in 2010).

Commercial Banking made a loss of EUR 64 million in 2011, compared with a profit of EUR 57 million in 2010, as costs rose due to higher internal cost allocation, the rebuilding of the presence lost in EC Remedy areas and the international network, and loan impairments increased.

Merchant Banking posted a profit of EUR 421 million, up from EUR 115 million in 2010, driven primarily by higher operating income levels in LC&MB<sup>6</sup> (including ECT), lower costs and low loan impairments.

Group Functions posted a loss of EUR 540 million in 2011. Group Functions recorded a higher operating income and lower operating expenses, due to reallocation of internal costs to the business segments; the loss was caused by the loan impairments on the Greek Government-Guaranteed Corporate Exposures and a restructuring provision.

<sup>1</sup> The 2010 figures are based on year-end RWA position instead of average RWA.

<sup>2</sup> An amendment to the Dutch Securities Giro Transfer Act resulted in cancellation of the physical delivery of securities as of 1 July 2011, which means that investors have had to register physical securities with Euroclear Netherlands, the Dutch Central Securities Depository.

<sup>3</sup> Items that are not allocated to the businesses include the operating results from ALM/Treasury, general restructuring charges, certain integration costs, and costs for the Dutch Deposit Guarantee Scheme.

<sup>4</sup> For example, the transfer of the SME portfolio from Retail Banking to Commercial Banking.

<sup>5</sup> See Large Items and Divestments.

<sup>6</sup> Large Corporates & Merchant Banking, one of the businesses of Merchant Banking.

## Condensed statement of financial position

| (in millions)                                           | 31 December 2011 | 31 December 2010 <sup>1</sup> |
|---------------------------------------------------------|------------------|-------------------------------|
| Cash and balances at central banks                      | 7,641            | 906                           |
| Financial assets held for trading                       | 29,523           | 24,300                        |
| Financial investments                                   | 18,721           | 20,197                        |
| Loans and receivables – banks                           | 61,319           | 41,117                        |
| Loans and receivables – customers                       | 272,008          | 273,944                       |
| Other                                                   | 15,470           | 16,818                        |
| <b>Total assets</b>                                     | <b>404,682</b>   | <b>377,282</b>                |
| Financial liabilities held for trading                  | 22,779           | 19,982                        |
| Due to banks                                            | 30,962           | 21,536                        |
| Due to customers                                        | 213,616          | 209,466                       |
| Issued debt                                             | 96,310           | 86,591                        |
| Subordinated liabilities                                | 8,697            | 8,085                         |
| Other                                                   | 20,898           | 19,510                        |
| <b>Total liabilities</b>                                | <b>393,262</b>   | <b>365,170</b>                |
| Equity attributable to the owners of the parent company | 11,400           | 12,099                        |
| Equity attributable to non-controlling interests        | 20               | 13                            |
| <b>Total equity</b>                                     | <b>11,420</b>    | <b>12,112</b>                 |
| <b>Total liabilities and equity</b>                     | <b>404,682</b>   | <b>377,282</b>                |

<sup>1</sup> Please note that due to a further refinement of accounting harmonisation in 2011, certain balance sheet line items were subject to netting adjustments and reclassifications.

For further details, please refer to the section "Basis of presentation" in the notes to the Annual Financial Statements 2011.

### Total assets

Total assets grew by almost EUR 27.4 billion to EUR 404.7 billion at year-end 2011. The increase was due mainly to the client-driven growth in securities financing activities, an increase in swaps derivatives volume, and the loan portfolio. In addition, market circumstances resulted in higher market valuations of derivatives and expansion of the cash component of the liquidity buffer.

The year-end 2010 balance sheet includes activities divested in 2011<sup>1</sup>.

### Cash and balances

Cash and balances with central banks rose by EUR 6.7 billion to EUR 7.6 billion, predominantly due to overnight deposits placed at DNB.

### Loans and receivables – banks

Loans and receivables – banks rose sharply by EUR 20.2 billion (49.1%), mainly due to a steady increase in client flows in securities financing activities, higher

collateral requirements for the derivatives activities and the expansion of the liquidity buffer.

### Loans and receivables – customers

Loans and receivables – customers decreased by EUR 1.9 billion to EUR 272.0 billion at the end of December 2011 as the net result of:

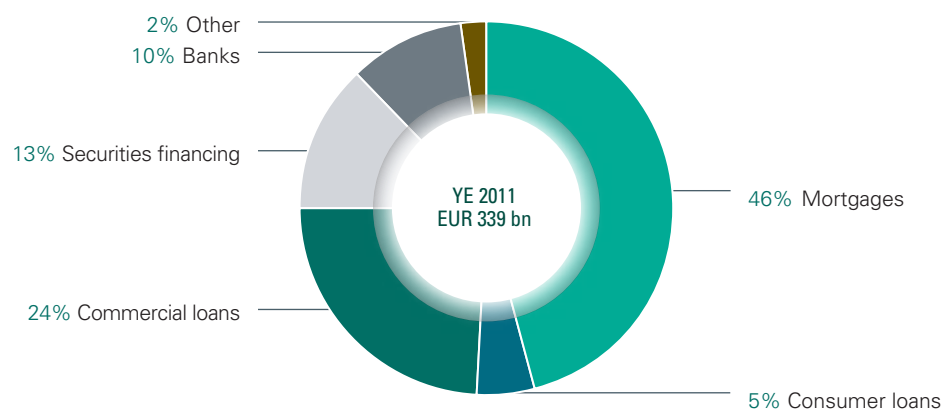
- Growth in client-driven securities financing volumes;
- Loans and receivables – customers excluding securities financing declined by EUR 4.0 billion. Growth in the loan portfolio of Commercial Banking and ECT<sup>2</sup> was more than offset by a decrease in the residential mortgage loan portfolio, predominantly due to accounting changes and lower new mortgage production, the divestment of the international division of Fortis Commercial Finance and a reduction in current accounts following a harmonisation of netting principles (impact of EUR 6.1 billion).

The bulk of the loan book is generated in the Netherlands (more than 90%), reflecting the fact that the majority of ABN AMRO's business mix is located in the Netherlands.

<sup>1</sup> See Large Items and Divestments.

<sup>2</sup> Total ECT loan book was EUR 13.4 billion at year-end 2011.

### Loans and receivables – customers and banks gross of impairments



### Total liabilities

Total liabilities went up by EUR 28.1 billion to EUR 393.3 billion mainly as a consequence of increased securities financing flows and a larger amount of issued debt outstanding.

#### Due to banks

The increase in Due to banks was mainly the result of higher securities financing deposits.

#### Due to customers

Due to customers increased by 2% as a result of growth in Retail and Private Banking deposits, which were offset by the sale of Prime Fund Solutions (PFS) and the Swiss Private Banking activities, and the abovementioned reduction in current accounts of EUR 6.1 billion following a harmonisation of netting principles. In addition, a rise in

securities financing deposits due to increased client flows was partly neutralised by a harmonisation of netting principles.

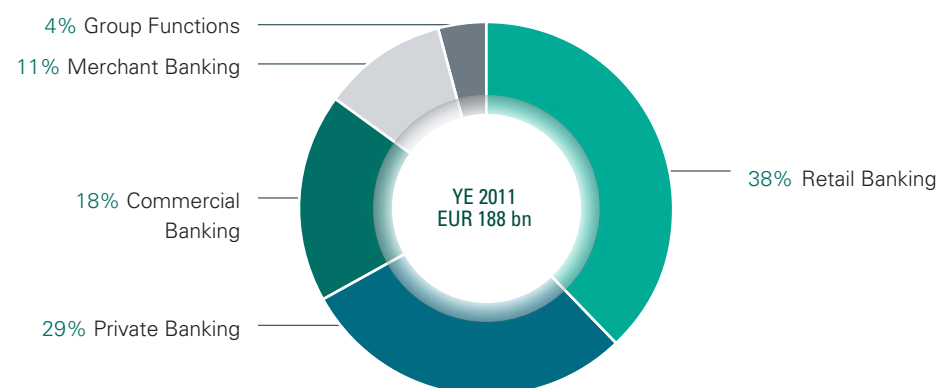
#### Issued debt

Issued debt increased by EUR 9.7 billion. More details can be found in the Liquidity and funding section.

### Total equity

Total equity decreased by 6% to EUR 11.4 billion, due to a change of EUR -1.2 billion in the special component of equity (SCE), partly offset by the retained part of the reported net profit. The SCE includes the effective portion of fair market value fluctuations<sup>1</sup> of interest rate derivatives used for macro cash flow hedge accounting relating to assets and liabilities not reported at fair market value.

### Total deposits



<sup>1</sup> Fair value movements of derivatives that mirror cash flow variability (the effective portion) of hedges on non-trading assets and liabilities is recorded in the cash flow hedge reserve, part of the SCE. The remainder of fair value movements on the interest rate derivatives (ineffective portion) is recorded in the income statement.

## Retail & Private Banking



“Acting in the long-term interests of our clients.”

Chris Vogelzang

“Despite difficult conditions, Retail & Private Banking has shown stable net results and continued growth in customer deposits. This is a reflection of the growing trust our clients put in us. This trust and customer intimacy are key drivers to develop and grow our Retail and Private Banking franchises further.”

In Retail Banking, the growth of internet and mobile remains very strong, and customer intimacy takes different forms. It is about the right in-depth advice at the right time, but also about being able to personalise your mobile banking using images. It is about offering a warm welcome in our branches, about competitive pricing, and automated and personal financial planning tools to manage your finances. And about being at the forefront of technological developments, as evidenced by the top user ratings for our mobile banking applications.

Private Banking was recognised with various awards in 2011 for their services as trusted advisors. In a year which saw the successful completion of a complex system migration, client satisfaction remained stable at high levels.

Private Banking International has mapped out a clear strategy focusing on growth in the Eurozone and in Asia. This has been reflected in clear choices with the sale of the Swiss Private Banking activities, the acquisition of LGT in Germany and the strengthening of our capabilities in Asia.

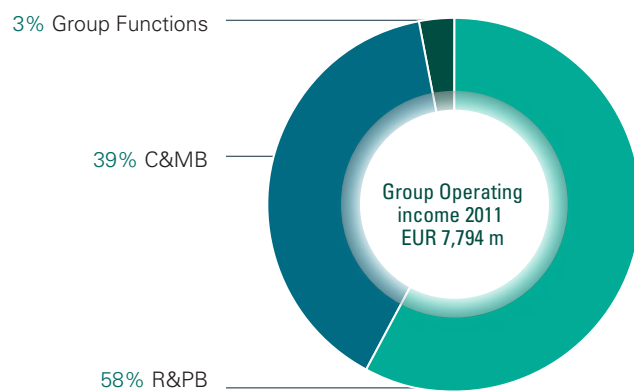
Naturally, we are proud to see an overall rise in client satisfaction, but putting the client first is not about short-term client satisfaction in both Retail and Private Banking. It is about acting in the long-term interests of our clients. About acting as a trusted advisor: sometimes denying a loan request, or advising against a planned course of action. Also, Retail and Private Banking has strengthened its product approval processes, evaluating products not only against short-term benefits but also against the long-term interests of our clients.

Looking ahead, Retail & Private Banking will continue to focus on putting clients first. We will do so by further strengthening our service and advisory capabilities, leading online offering and through investing in the professional know-how of our staff.

**Chris Vogelzang**

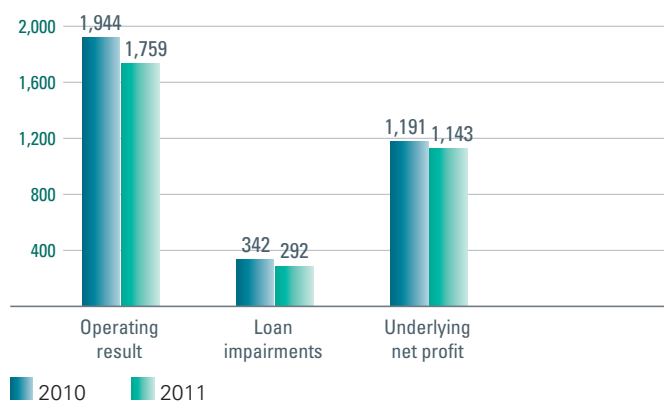
Member of the Managing Board

### Operating income contribution Retail & Private Banking



### Financial performance

(in millions)



# Retail Banking



"To make the client feel truly appreciated by ABN AMRO. We believe we will only be successful by building sincere, lasting relationships with all our clients. All our efforts are aimed at putting the client first."

## Key achievements in 2011

- ▶ Finalisation and commercial follow-up of integration of retail clients and positive, upward trend in business development;
- ▶ Solid market position in a highly competitive savings market and higher market share of ABN AMRO mortgages in a contracting Dutch mortgage market;
- ▶ Significant year-on-year increase in number of new accounts opened by young people and students – drivers for future growth;
- ▶ Introduction of best rated financial app, Mobile Banking, now part of modern daily service to clients;
- ▶ Increase in client satisfaction, both for Retail and Preferred Banking clients<sup>1</sup>.

## Interesting facts

- ▶ Stable basis of 6.8 million clients, including 800,000 Preferred Banking clients;
- ▶ Main bank for 20% of the Dutch population<sup>2</sup>;
- ▶ 3.2 million regular users of Internet Banking;
- ▶ 500,000 users – and rapidly growing – of Mobile Banking;
- ▶ 470 bank branches, 24x7 telephone and webcare access;
- ▶ No. 2 position in savings and new mortgage production<sup>3</sup>.

## Business performance

Retail Banking offers Mass Retail and Preferred Banking clients a wide variety of banking, loan and insurance products and services through the branch network, online, via Advice & Service centres, via intermediaries and through subsidiaries. The majority of the loan portfolio of Retail Banking consists of residential mortgages.

Having completed the integration, Retail Banking made great strides in 2011, with successful product launches and several milestones showing that the bank has regained momentum. The bank is confident that, despite the economic uncertainty, it will continue to deliver stable results in 2012.

<sup>1</sup> Preferred Banking is ABN AMRO's servicing concept for clients with a net monthly income exceeding EUR 5,000 or EUR 50,000 to EUR 1 million in investable assets.

<sup>2</sup> Source: GfK (Research company) online tracker.

<sup>3</sup> Source: CBS (Dutch Statistical Office) and Kadaster (Dutch Land Registry).



## Key strategic pillars

- ▶ **A warm welcome.** This is what ABN AMRO wants all of its clients to experience. Clients are welcome at the bank any time of the day, through any channel – branch, Advice & Service Centre, online or mobile phone. The bank knows its clients and understands their needs. Client satisfaction is on the rise, as reflected in the client satisfaction survey;
- ▶ **Modern service.** Today's bank offers products and services characterised by convenience, simplicity and speed. A prime example is the country's best rated financial app, Mobile Banking, introduced by ABN AMRO in June 2011;
- ▶ **Personal and professional advice.** ABN AMRO strives to exceed clients' expectations with its first-rate advice, which is personal, professional, understandable and transparent.

## Clients' interests centre stage

To help the bank understand its clients' needs, ABN AMRO engages them in a dialogue every day. To this end, ABN AMRO has set up a community of a few hundred clients with whom it discusses a range of service-related issues. The bank also uses its 10,000-strong client panel as a sounding board, conducting surveys to determine whether proposed solutions meet their needs. The result of these efforts in 2011 was twofold: client satisfaction improved and 20% of the Dutch population now say they consider ABN AMRO to be their main bank.

### Convenience

Clients can now open a current account whenever and wherever they want – at a bank branch, online or via the Advice & Service Centre – and can even make an appointment with a bank employee to provide identification at their own home or work address. Clients are no longer confined by the bank's opening hours.

### Supporting employees

Extending a warm welcome to clients begins with setting a good example to new employees. All new Retail staff participate in an intensive training programme where they learn how to give clients a warm welcome and how to focus on clients in everything they do. The bank also introduced a fresh, modern corporate attire for all client-facing staff in 2011.

## Trimmed-down product range

As the number of products on offer has grown explosively in recent years, ABN AMRO decided to review and trim its product range, as befits a modern bank. The bank continued to further simplify its range of savings products and converted more than 140,000 Flexible Credit contracts into a new portfolio, with a reduced number of products.

## Transparent, open and understandable

In the past, many ABN AMRO terms and conditions, offers and brochures contained complex language and jargon. As part of its drive to promote transparency, the bank rewrote the texts in plain language. These efforts paid off straight away: there was a drastic decline in the number of questions about savings products, and clients have been complimenting the bank on social media for the clarity of its mortgage offers.

## Fast, mobile, personal and simple

Today's clients want to do their banking business quickly and on-the-go. The free ABN AMRO Mobile Banking app allows clients to transfer money, check their balances, scan giro collection forms and search their debits and credits whenever and wherever they want. ABN AMRO is the first bank in the Netherlands to offer the option of personalising banking by linking photos to their profile and own accounts and to accounts of third parties.

The Mobile Banking app is available for iPhone, Android, BlackBerry and iPad and has been downloaded 1,200,000 times with clients logging in nearly 15 million times per month. The App Store has named the ABN AMRO Mobile Banking app the best financial app for iPad of 2011.

ABN AMRO also offers other apps for various purposes, including the ABN AMRO locator (showing all ABN AMRO branches and ATMs), ABN AMRO On the Road (allows users to phone emergency services and report loss or theft of bank cards) and ABN AMRO Stock Exchange Trends.

## Teach them young

Young people approach money differently compared to their parents. To address this group of clients, the bank introduced the special *Jongerengroeirekening* in August, an account for young people that keeps pace with the child's development and allows parents to guide their



children step-by-step in handling their banking affairs. More than 75,000 new accounts of this kind were opened in 2011.

### Financial Diary

A growing number of clients are using this online planner, which gives clients a clear picture of their finances and allows them to categorise their income and spending, set up a personal budget and compare their spending with the rest of the Dutch population. Clients can add accounts held at other banks, giving them a complete, clear picture of their financial situation at all times.

### Operational efficiency

Retail Banking continued to improve service delivery to clients in 2011 by increasing its efficiency through continuous improvement of processes. The bank closed down almost 40 retail branches in 2011, with virtually no impact on the level of service to clients.

### Good grades and accolades

ABN AMRO had a good year in terms of awards and scores. The Consumers' Association rated ABN AMRO Internet Banking a 9.4 – the best online banking service in the Netherlands – and the bank's payment package a 9.1. ABN AMRO was named best large bank for online investing for the fifth consecutive year.

ABN AMRO ranked number five – the highest rating for a financial institution – in the Social Media Monitor<sup>1</sup>. The results showed that the bank is a front-runner in the use of LinkedIn and Twitter, coming in first place for these elements. The bank's Facebook page and YouTube activities scored high as well.

The bank received two WUA Awards<sup>2</sup> this year in the Web Performance Scan: users gave ABN AMRO a 7.4, recognising it as the best online provider of loans in the Netherlands, and the bank's mortgage site was rated number 1 with a 7.8.

### Subsidiaries

A total of 2,000 employees work for ABN AMRO's subsidiaries. These subsidiaries achieved a number of notable successes in 2011:

- ▶ International Card Services (ICS) issues more than 25 different credit cards in partnership with companies such as the Royal Dutch Touring Club (ANWB), high street shops and other Dutch banks. A total of more than 3.25 million credit cards, including the ABN AMRO portfolio, have been issued to date in the Netherlands and Belgium;
- ▶ Internet subsidiary MoneYou has 150,000 clients in the Netherlands. MoneYou has been active on the German savings market since July and now has more than 15,000 German clients;
- ▶ Alfam's consumer credit loan book further increased in 2011, with over EUR 1 billion of credit provided to households;
- ▶ ABN AMRO Hypotheken Groep (AAHG) held onto its market position in an adverse housing market, posting absolute growth over the past year. AAHG expects to continue this positive trend in the coming year, allowing it to gain market share in ABN AMRO-labelled residential mortgages. Most importantly, clients have spoken: ABN AMRO won an award for the best mortgage product in the Netherlands (rated by clients) and is the country's fastest climber in appreciation and brand preference;
- ▶ 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.

<sup>1</sup> Social Media Monitor: independent research into the use of social media by the top 100 brands in the Netherlands, performed by Social Embassy.

<sup>2</sup> WUA is market leader in the Netherlands in online user research in the field of online orientation and service. WUA publishes a yearly review.

## Financial performance

### Underlying results of Retail Banking

| (in millions)                        | Full year 2011 | Full year 2010 | Change      |
|--------------------------------------|----------------|----------------|-------------|
| Net interest income                  | 2,671          | 2,945          | -9%         |
| Net fee and commission income        | 490            | 504            | -3%         |
| Other non-interest income            | 51             | 90             | -43%        |
| <b>Operating income</b>              | <b>3,212</b>   | <b>3,539</b>   | <b>-9%</b>  |
| Personnel expenses                   | 499            | 557            | -10%        |
| Other expenses                       | 1,266          | 1,210          | 5%          |
| <b>Operating expenses</b>            | <b>1,765</b>   | <b>1,767</b>   | <b>0%</b>   |
| <b>Operating result</b>              | <b>1,447</b>   | <b>1,772</b>   | <b>-18%</b> |
| Loan impairments                     | 276            | 271            | 2%          |
| <b>Operating profit before taxes</b> | <b>1,171</b>   | <b>1,501</b>   | <b>-22%</b> |
| Income tax expenses                  | 283            | 374            | -24%        |
| <b>Profit for the period</b>         | <b>888</b>     | <b>1,127</b>   | <b>-21%</b> |

Please note that certain small and medium-sized enterprise clients were included in the results of Retail Banking until November 2010. As from that date, these results were included in Commercial Banking. The full P&L effect of this transfer was shown in 2011.

### Other indicators

|                                                 | 31 December 2011 | 31 December 2010 <sup>1</sup> |
|-------------------------------------------------|------------------|-------------------------------|
| Underlying cost/income ratio                    | 55%              | 50%                           |
| Loan-to-Deposit ratio                           | 218%             | 240%                          |
| Loans and receivables – customers (in billions) | 162.6            | 167.5                         |
| Of which: mortgages (in billions)               | 151.5            | 155.2                         |
| Due to customers (in billions)                  | 72.0             | 69.7                          |
| RWA (in billions)                               | 32.3             | 35.1                          |
| Return on average RWA (in bps)                  | 272              | 321                           |
| FTEs (end of period)                            | 6,680            | 7,116                         |

<sup>1</sup> The 2010 average figures are based on year-end 2010 position instead of average.

Despite lower expenses, Retail Banking's net profit 2011 came down by EUR 239 million to EUR 888 million. This decrease was mainly the result of the transfer of SME portfolios to Commercial Banking and a mismatch result to Group Functions.

### Operating income

Operating income for 2011 showed a marked decline of EUR 327 million to EUR 3,212 million.

Net interest income decreased by EUR 274 million to EUR 2,671 million, mainly as a result of the abovementioned transfers (total impact of EUR 189 million).

In addition to these transfers, both loan margins and volumes shrank over the course of 2011. The total loan portfolio decreased by 3% to EUR 162.6 billion. Net interest income on the mortgage portfolio declined as a result of a lower average volume and lower margins on mortgages with a variable interest rate.

The average volume of client deposits grew compared to year-end 2010. However, the positive volume impact was offset by lower margins due to increases in client rates throughout the year as competition in the savings market increased.

Net fee and commission income decreased by EUR 14 million to EUR 490 million due to lower transaction volumes as a result of economic uncertainty.

Other non-interest income showed a EUR 39 million decrease as results from joint ventures and other equity accounted investments in 2011 were lower compared to 2010. In addition, 2010 included a one-off gain on the sale of a mortgage portfolio.

## Operating expenses

Operating expenses were flat compared to 2010 as integration synergies and the transfer of activities to Group Functions and Commercial Banking were fully offset by higher internal cost allocation.

Personnel expenses came down by 10% due to the integration of the branch network, which led to a reduction in the number of FTEs, and the transfer of activities and related personnel to C&MB and Group Functions.

Other expenses increased by 5%. The cost benefits from the transfer of activities to Group Functions were more than offset by an increase in allocated costs.

## Operating result

The operating result decreased by 18% and the cost/income ratio went up to 55% from 50% in 2010.

## Loan impairments

Loan impairments increased marginally to EUR 276 million. Despite economic circumstances, impairments on the mortgage portfolio were marginally lower. Impairments on

consumer loans slightly increased. The combination of an increase in loan impairments and a decrease in RWA resulted in an increase in the cost of risk by 7bps to 84bps over 2011.

## Risk-Weighted Assets

RWA were EUR 2.8 billion lower than in 2010, mainly due to a reduction of RWA add-ons following the completion of the integration of the former FBN and ABN AMRO IT systems.

## Loans and receivables – customers

Loans and receivables – customers decreased by EUR 4.9 billion to EUR 162.6 billion, mainly due to the transfer of an SME portfolio to Commercial Banking in 2011 and a decline in the mortgage portfolio.

More than 90% of Retail Banking's loan book is comprised of prime Dutch residential mortgages. The residential mortgage portfolio decreased by EUR 3.7 billion, approximately half of which was related to a reclassification<sup>1</sup> to consumer loans (no impact on total movement of Loans and receivables – customers). The current economic downturn combined with uncertainty regarding the fiscal treatment of mortgage interest contributed to a decrease in the number of transactions.

Excluding the abovementioned reclassification, consumer loans declined somewhat. The decrease occurred predominantly in the first half of the year as households used their holiday payments to redeem loans. The total market volume for consumer loans was virtually stable compared to 2010.

## Due to customers

Due to customers rose by EUR 2.3 billion to EUR 72.0 billion at year-end 2011. This growth was realised in a highly competitive market and was evenly divided over the first and second halves of the year. The increase in the second half of 2011 was driven mainly by the successful launch of MoneYou in Germany.

## FTEs

FTEs in Retail Banking decreased by 436 to 6,680 at 31 December 2011, mainly due to further optimisation of the branch network and the closing of branches as part of the integration.

<sup>1</sup> Consumer loans collateralised with residential property.

# Private Banking



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

## Key achievements in 2011

- ▶ 52% of Dutch clients rate services as excellent;
- ▶ Successful integration of MeesPierson and ABN AMRO systems;
- ▶ Introduction of an INSEAD Private Banking Certification Programme;
- ▶ Acquisition of LGT Bank in Germany;
- ▶ Winner of several awards, including Best Private Bank in the Netherlands by peers (Euromoney) and highly commended in the Best Private Bank in Europe category (Financial Times).

## Interesting facts

- ▶ No. 1 private bank in the Netherlands<sup>1</sup>;
- ▶ No. 3 private bank in the eurozone<sup>1</sup>;
- ▶ No. 7 private bank in Europe<sup>1</sup>;
- ▶ Present in 11 countries;
- ▶ Global market leader in the financing of the diamond industry.

## Business performance

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 situation. 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 Neufilize OBC in France and Bethmann Bank in Germany.

ABN AMRO offers private banking services to clients with freely investable assets exceeding EUR 1 million (or USD 1 million in Asia). Client service teams offer different service models according to 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).

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

The bank completed the integration of private banking platforms ABN AMRO and MeesPierson in the Netherlands in 2011, finalising the systems migration in the fourth quarter of the year. Thanks to careful preparation, the migration was carried out virtually flawlessly. As with Retail Banking clients in the previous year, the bank invited clients to participate in designing the content and manner of communication during the

<sup>1</sup> Source: based on Scorpio Private Banking Benchmark report 2011.

integration, and their feedback contributed greatly to the successful outcome. All clients now have access to the bank's full range of products and services, including award-winning internet banking applications. The bank regularly uses client panels to obtain information and feedback and to improve its offering.

### Key strategic pillars

- ▶ **A holistic approach.** Rather than focusing solely on their investments, ABN AMRO believes that being a trusted advisor involves supporting and challenging clients in the broadest sense, by understanding their needs and interests and acting on that knowledge;
- ▶ **Multiple solutions.** Offering a range of choices to well-informed clients is key – choices based on best-in-class selection in an open architecture environment, mainly using investment products and solutions from external reputable financial institutions;
- ▶ **Professional.** ABN AMRO has the capabilities to deliver services to clients through an international network, knowledgeable staff and a strong suite of tested products.

### Bringing clients together

Keeping close to clients has helped the bank shape and further tailor its service offering to the different private banking client segments, such as families, entrepreneurs, and institutions and charities. ABN AMRO offers families the Generation Next Academy, a safe and professional environment in which children of wealthy clients learn about the benefits and obligations that wealth brings and participate in workshops on a variety of subjects. Clients appreciate the networking opportunities and the chance to share experiences with peers. The Academy has welcomed participants from Europe, Asia, the Middle East and Latin America.

This networking approach also benefits entrepreneurial clients. ABN AMRO MeesPierson organises entrepreneur associations for Private, Corporate and Commercial Banking clients in the Netherlands. The idea is to inspire and facilitate discussions among local communities on issues such as the use of social media or the implications of social responsibility for businesses, to transfer knowledge and to offer access to a unique, exclusive network. ABN AMRO MeesPierson also organises investor circles across the Netherlands, consisting of a small group of joint investors, to whom it presents select, non-listed business opportunities. Eleven of these circles are currently active.

These initiatives underpin the bank's ambition to serve clients with an entrepreneurial spirit while pursuing cross-business cooperation and acquisition. Cross-business line efforts in the international network are paying off: an increasing number of Energy, Commodities & Transportation (ECT) clients, for example, are expanding their relationship with ABN AMRO by hiring Private Banking to manage part of their international private wealth. The bank offers these clients cross-border investment ideas, hedge fund capabilities and international structuring capabilities.

### Raising the bar

Setting the standard for client-centric private banking is at the heart of this business's strategy. Some 4,000 professionals in eleven countries are passionate about delivering on the promise to be a trusted advisor. As part of its efforts to raise the bar for client service skills and industry and market knowledge, Private Banking teamed up with INSEAD to develop a certification programme. The first 70 relationship managers graduated from the programme in 2011, and the goal is to certify all relationship managers by the end of 2013.

ABN AMRO has set up a product approval process whereby it reviews all products – existing and new – and measures them against a moral framework. The review criteria include suitability and added value for clients, transparency, proportionality of cost and liquidity.

## Focus and commitment

Based on its strategic decision to focus on selective growth in the eurozone and in Asia, ABN AMRO divested its private banking activities in Switzerland in 2011. In the rapidly changing and consolidating Swiss private banking market, transferring the operations to a leading Swiss private bank was in the best interests of both clients and staff.

In Germany, ABN AMRO acquired LGT Deutschland into its subsidiary Bethmann Bank, which is in alignment with the bank's strategy, brings new clients, assets and capabilities, and secures Bethmann Bank's top-five position in the important German private banking market.

In France, Banque Neuflyze OBC offers a unique private banking model based on an integrated approach to private and commercial wealth articulated around a dedicated advisory and products offer. Banque Neuflyze OBC and its subsidiaries cover a range of activities including traditional banking services, asset management and discretionary portfolio management (through Neuflyze OBC Investissements, Neuflyze Private Assets, its leading asset managers), life insurance (with Neuflyze Vie) and advisory services: estate planning, financial engineering, corporate finance, art advisory and real estate.

In the Netherlands, the Institutions & Charities dedicated client teams address the specific needs of fundraising, religious, public and institutional clients. This highly specialised service offering is greatly appreciated, as exemplified by steady growth of market share and high client satisfaction scores<sup>1</sup>.

Private Banking is also strengthening its position in Asia, building client service teams by recruiting private bankers, investment advisors and other key specialists to enhance its relationship management-focused offering.

## Private Banking International, leveraging our expertise locally

- ▶ **Long entrepreneurial heritage.** PBI's relationships with clients in all markets go back for generations. In the Netherlands, ABN AMRO dates back to 1824 and MeesPierson to 1720. Bethmann Bank will celebrate its 300-year anniversary in 2012, Neuflyze OBC can trace its roots back to 1667, and ABN AMRO is one of the few banks that have been in Asia for longer than 100 years;
- ▶ **Strong local roots.** Clients are often the frontrunners in their local economies, play an important role in their local businesses and set the trends that are emerging around us. PBI's position as a network of strong local private banks enables it to create more value for clients;
- ▶ **Top positions in Europe** with a clear focus on core markets;
- ▶ **Concrete growth ambitions in Asia.** In the coming five years PBI wants to double clients' assets by hiring experienced relationship managers, building external brand awareness and focusing on client service delivery;
- ▶ **Proven ability to expand abroad.** The recent acquisition of LGT Bank Deutschland in Germany will strengthen ABN AMRO's private banking activities in the market;
- ▶ **Ability to leverage expertise across the bank** and create cross-selling business opportunities: PBI's independent research – provided by a team of 40 specialists – is used internationally, as are cross-border investments and solutions such as international structuring and estate planning; ECT Private Office combines the ECT network with international Private Wealth Management expertise.

<sup>1</sup> 63% of ABN AMRO's Institutions & Charities clients are very satisfied (8 out of 10 score).

## International Diamond & Jewelry Group

International Diamond & Jewelry Group is the global market leader in the financing of the diamond and jewellery industry, offering financial services to internationally active businesses. Its position is underpinned by a unique footprint in eight key diamond centres, innovative global trade services and financing solutions such as lending and trade finance-based products. As a founding member of the Responsible

Jewellery Council, ABN AMRO aims to promote the highest standards in the diamond industry.

ID&JG operations in Hong Kong, Japan and UAE were separated from RBS and integrated into the ABN AMRO systems in 2011, while continuing to deliver positive results. The final separation – in India – is planned for 2012. ID&JG represents 4% of the operating income of private banking.

## Financial performance

### Underlying results of Private Banking

| (in millions)                        | Full year 2011 | Full year 2010 | Change     |
|--------------------------------------|----------------|----------------|------------|
| Net interest income                  | 558            | 485            | 15%        |
| Net fee and commission income        | 578            | 652            | -11%       |
| Other non-interest income            | 166            | 89             | 87%        |
| <b>Operating income</b>              | <b>1,302</b>   | <b>1,226</b>   | <b>6%</b>  |
| <b>Operating expenses</b>            | <b>990</b>     | <b>1,054</b>   | <b>-6%</b> |
| <b>Operating result</b>              | <b>312</b>     | <b>172</b>     | <b>81%</b> |
| Loan impairments                     | 16             | 71             | -77%       |
| <b>Operating profit before taxes</b> | <b>296</b>     | <b>101</b>     |            |
| Income tax expenses                  | 41             | 37             | 11%        |
| <b>Profit for the period</b>         | <b>255</b>     | <b>64</b>      |            |

### Other indicators

|                                                 | 31 December 2011 | 31 December 2010 <sup>1</sup> |
|-------------------------------------------------|------------------|-------------------------------|
| Underlying cost/income ratio                    | 76%              | 86%                           |
| Loan-to-Deposit ratio                           | 28%              | 31%                           |
| Loans and receivables – customers (in billions) | 16.0             | 16.4                          |
| Of which: mortgages (in billions)               | 3.6              | 4.2                           |
| Due to customers (in billions)                  | 54.3             | 53.5                          |
| RWA (in billions)                               | 13.8             | 14.5                          |
| Return on average RWA (in bps)                  | 187              | 44                            |
| FTEs (end of period)                            | 3,746            | 4,016                         |

<sup>1</sup> The 2010 average figures are based on year-end 2010 position instead of average.



Private Banking's net profit increased by EUR 191 million to EUR 255 million as a result of a book gain on the sale of the Swiss Private Banking activities, lower operating expenses and lower loan impairments.

### Operating income

Operating income improved by 6% to EUR 1,302 million, driven mainly by higher interest results and a book gain on the sale of the Swiss Private Banking activities in 2011.

A 15% increase in net interest income to EUR 558 million was the result of higher deposit volumes and better margins.

Net fee and commission income decreased by 11% as clients switched partly out of investments into cash during 2011.

Other non-interest income increased to EUR 166 million from EUR 89 million, mainly driven by a gain on the sale of the Swiss Private Banking activities.

### Operating expenses

Operating expenses declined by 6% or EUR 64 million. Operating expenses in 2010 included legal provisions that did not recur in 2011. Adjusted for these legal provisions, operating expenses increased slightly as a result of one-off IT costs and higher internal cost allocation.

### Operating result

Operating result improved significantly from EUR 172 million to EUR 312 million and the cost/income ratio improved to 76% from 86%.

### Loan impairments

Loan impairments were significantly lower due to a combination of releases and considerably lower loan impairments compared to the high levels of 2010.

### Risk-Weighted Assets

RWA decreased by 5% mainly due to the harmonisation of models.

### Loans and receivables – customers

Loans and receivables – customers decreased by 3% to EUR 16 billion mainly as a result of the sale of the Swiss Private Banking activities. The mortgage portfolio of Private Banking amounted to EUR 3.6 billion; the remainder relates mainly to the International Diamond & Jewelry Group activities.

### Due to customers

Despite the sale of the Swiss Private Banking activities, Due to customers increased as selected retail clients were migrated to Private Banking, new inflow in deposits was recorded and clients sold their securities and moved to cash.

### Assets under Management

Assets under Management (AuM) decreased by EUR 17.6 billion to EUR 146.6 billion. This decline was mainly caused by a negative market performance and the disposal of the Swiss Private Banking activities compensated by the acquisition of LGT Germany and a net inflow of EUR 0.9 billion. Legislative changes in the Netherlands<sup>1</sup> also resulted in a decline in AuM.

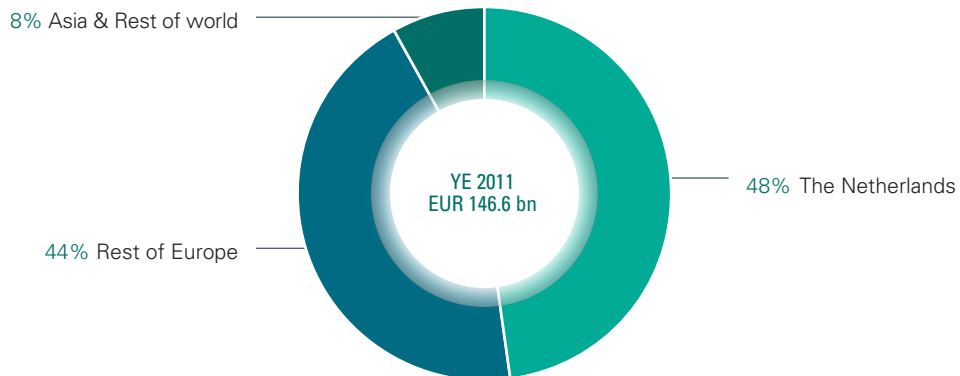
## Assets under Management development

| (in billions)                 | 2011         | 2010         |
|-------------------------------|--------------|--------------|
| <b>Balance on 1 January</b>   | <b>164.2</b> | <b>149.7</b> |
| Net new assets                | 0.9          | 0.6          |
| Market performance            | -9.3         | 10.5         |
| Divestments/acquisitions      | -5.0         |              |
| Legislative changes           | -4.2         |              |
| Other                         |              | 3.4          |
| <b>Balance on 31 December</b> | <b>146.6</b> | <b>164.2</b> |

<sup>1</sup> An amendment to the Dutch Securities Giro Transfer Act has resulted in cancellation of the physical delivery of securities as of 1 July 2011, which means that investors have had to register physical securities with Euroclear Netherlands, the Dutch Central Securities Depository.



### Assets under Management by geography



As a result of the EC state aid investigation, ABN AMRO had to offer Private Banking clients in the Netherlands the possibility to transfer their portfolios to another bank at no cost during a period of two months starting at the end of July 2011. Fewer than 200 clients made use of this option, with no material impact on AuM or on operating income.

Most of the Assets under Management were generated in Europe and were equally divided between the Netherlands and the rest of Europe.

### FTEs

The number of FTEs decreased by 270 mainly as a result of the sale of the Swiss Private Banking activities (-323 FTEs) partly offset by the acquisition of LGT Deutschland in Germany (112 FTEs).

## Commercial & Merchant Banking



“Our ambition is to be the best commercial and merchant bank with the most satisfied clients and the best professionals.”

Joop Wijn

“Despite turbulent financial markets Commercial & Merchant Banking has been able to deliver an improved net result compared to last year and has achieved selective growth, for example in Energy, Commodities & Transportation (ECT) and Lease.”

For small businesses up to large corporate companies, C&MB offers a range of comprehensive and innovative products, in-depth sector knowledge and valued service by our dedicated professionals. As a result of good cooperation between business lines, products and the risk department we are able to provide optimal service to our clients.

C&MB wants to be where our clients do most of their business. Our selective international network is consistent with our clients' needs for their financial requirements abroad including international payments.

Our specialised activities in ECT, ABN AMRO Clearing, Lease and Commercial Finance continue to improve their leading market positions and good performance.

Our client base has increased particularly in Corporate Clients and Business Banking. Client and employee satisfaction improved across all business lines.

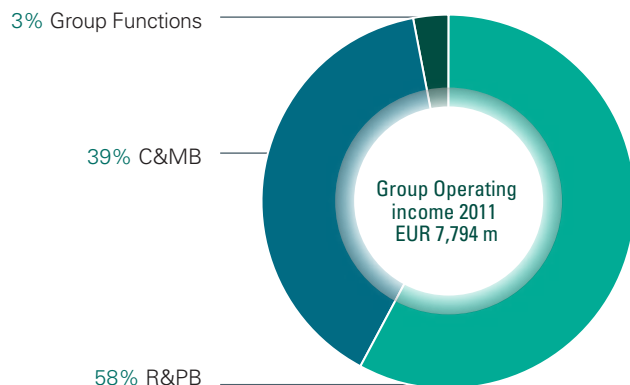
We successfully achieved one of the last – and largest – milestones in the integration in 2011 ahead of schedule, migrating nearly all former Fortis Bank Nederland commercial clients to ABN AMRO's IT systems.

Looking ahead, 2012 is expected to be a challenging year. The focus for next year will be on satisfied clients, domestic and international growth and further increasing employee engagement. C&MB remains as committed as ever to our ambition to be the best commercial and merchant bank in the Netherlands.

**Joop Wijn**

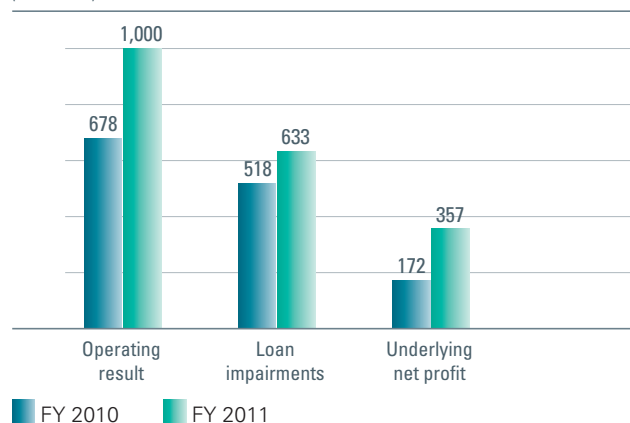
Member of the Managing Board

### Operating income contribution Commercial & Merchant Banking



### Financial performance

(in millions)



### Key strategic pillars

- ▶ C&MB offers a comprehensive product range and services to commercial clients in the Netherlands and surrounding countries – Germany, Belgium, France and the United Kingdom – as more than 80% of the bank's commercial clients conduct their international business in these countries;
- ▶ C&MB serves Dutch-based corporates with international activities, offering a one-stop shop for all financial solutions and tailor-made services. Clients have access to the bank's international network including the ten largest financial and logistics hubs in the world, including New York, São Paulo, London, Frankfurt, Singapore and Hong Kong;
- ▶ Internationally, C&MB offers selected specialised activities where it holds or can achieve a top-5 position: Energy, Commodities & Transportation (ECT) and ABN AMRO Clearing globally, and Lease and Commercial Finance in Western Europe.

# Commercial Banking



"With our continuous client focus we strive to be the best commercial bank for SMEs and corporates."

## Key achievements in 2011

- ▶ Commercial Banking further consolidated its position in the Netherlands and developed its capabilities and operations abroad;
- ▶ Today's Business Banking clients want to do their business fast and easy, in a convenient manner and at convenient times. As of 2011 it is possible to open a YourBusiness Banking account online;
- ▶ Corporate Clients achieved strong growth in client satisfaction, as indicated by TNS NIPO;
- ▶ ABN AMRO Lease posted an all-time record high in lease volume provided to SMEs and corporate clients and enhanced market share in the Netherlands (rising to 2nd place, with a market share of 28%<sup>1</sup>);
- ▶ Commercial Banking completed the migration of all former Fortis Bank Nederland Commercial Banking clients to the ABN AMRO IT systems at the end of 2011, ahead of schedule.

## Interesting facts

- ▶ ABN AMRO serves around 380,000 Business Banking clients and more than 2,500 Corporate Clients;
- ▶ Large commercial banking player in the Netherlands;
- ▶ Strong position in leasing and commercial finance in our core markets in Western Europe;
- ▶ Commercial Banking remained strongly committed to providing financing solutions to SMEs and corporates in 2011.

## Business performance

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.

Challenging economic conditions impacted the results for Commercial Banking, especially due to higher impairment levels in 2011. Despite this, Commercial Banking consolidated its position in the Netherlands and developed its capabilities and operations abroad.

<sup>1</sup> Source: Nederlandse Vereniging van Leasemaatschappijen.

## Business Banking, a partner for SMEs

Business Banking offers small and medium-sized businesses with turnover up to EUR 30 million a comprehensive range of standard and customised products, self-directed YourBusiness Banking, a nationwide network of 78 business offices and access to ABN AMRO's international network. Dedicated client support units provide day-to-day services.

The YourBusiness Banking service model allows companies 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 and is supported by specialists who offer advice on insurance, payments, 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.

### Business Banking responds to clients' needs

Today's business clients want to conduct their banking affairs quickly and easily, however and whenever they want. In response to their needs, ABN AMRO has continued to expand its online and mobile services, popular examples of which are the service linking clients' online accounting systems to ABN AMRO's Internet Banking, the Mobile Banking app and the "open an account online" service.

Business Banking launched the Mobile Banking app for YourBusiness Banking clients in 2011. This app allows clients to view their balances and transactions and to transfer funds. ABN AMRO expects to make Mobile Banking available to all business clients in mid-2012.

## Corporate Clients, important player in the Dutch market

Corporate Clients serves Netherlands-based companies with an annual turnover between EUR 30 and 500 million as well as clients in the public sector. ABN AMRO Lease, ABN AMRO Commercial Finance and Commercial Banking International are part of Corporate Clients and provide solutions to clients in all C&MB segments.

### Helping clients achieve their ambitions

Clients are served from five regions in the Netherlands, each providing a full range of services and offering in-depth expertise in 11 key sectors of the Dutch economy. Each client is assigned a dedicated client team, consisting of a relationship manager and a shared team of specialists in various product areas such as cash management and credits. Clients also have access to a dedicated support unit for their day-to-day banking affairs.

### A strategic partner for our clients

Corporate Clients has cultivated a solid market position in the Dutch corporate client segment and is actively pursuing its long-term commercial objectives, as evidenced by the high number of deals and strong growth in client satisfaction (according to an independent study by TNS NIPO).

Clients have access to merchant banking products and advice, such as M&A and capital structure advisory, provided by established professionals who apply their in-depth expertise to each client's unique situation and work in close cooperation with the client's relationship manager.

### Integrated advice approach

In cooperation with Private Banking, Corporate Clients offers the Enterprise & Entrepreneur service to entrepreneurs who are clients of the bank both as private individuals and as representatives of their companies.

### ABN AMRO Lease, a strong growth

As the second largest leasing company in the Netherlands, ABN AMRO Lease posted strong growth in 2011 thanks to its successful client-focused strategy. In the year under review, ABN AMRO Lease launched a lease financing programme designed specifically for start-ups in the Netherlands.

## Commercial Banking International, following clients abroad

Corporate Clients has been restoring and expanding its Commercial Banking International network in selected key markets in Western Europe, the United States, Hong Kong and Singapore to meet the needs of Dutch clients with international activities. Agreements with partner banks have been set up in other locations to serve clients elsewhere.

Looking ahead to 2012, the bank aims to selectively extend the range of its banking services and solutions abroad. Good examples are its leading products and expertise in asset-based financing, which are offered through its offices in selected markets in Europe.

## ABN AMRO Commercial Finance, almost 50 years of experience

ABN AMRO Commercial Finance offers receivables financing and asset-based lending. In 2011 the Dutch operations of Fortis Commercial Finance were carved out of the rest of the activities, which were sold to BNP Paribas. The Dutch business has been rebranded to ABN AMRO Commercial Finance and has been integrated into the former IFN Finance organisations in Germany, France and the United Kingdom. The German and French businesses were already rebranded to ABN AMRO Commercial Finance and the operations in the United Kingdom followed in February 2012. ABN AMRO Commercial Finance continued to pursue its strategy of focusing on receivables financing and asset-based lending in Western Europe and aligning its product portfolio and services across regions. Its asset-based approach allows it to provide additional liquidity for growth scenarios and acquisitions initiated by clients. This business will further broaden its product capabilities in Germany (asset-based lending) and the Netherlands (reverse factoring) in 2012.

## Financial performance

### Underlying results of Commercial Banking

| (in millions)                        | Full year 2011 | Full year 2010 | Change      |
|--------------------------------------|----------------|----------------|-------------|
| Net interest income                  | 1,231          | 1,199          | 3%          |
| Net fee and commission income        | 366            | 375            | -2%         |
| Other non-interest income            | 80             | 91             | -12%        |
| <b>Operating income</b>              | <b>1,677</b>   | <b>1,665</b>   | <b>1%</b>   |
| <b>Operating expenses</b>            | <b>1,147</b>   | <b>1,034</b>   | <b>11%</b>  |
| <b>Operating result</b>              | <b>530</b>     | <b>631</b>     | <b>-16%</b> |
| Loan impairments                     | 606            | 538            | 13%         |
| <b>Operating profit before taxes</b> | <b>- 76</b>    | <b>93</b>      |             |
| Income tax expenses                  | - 12           | 36             | -133%       |
| <b>Profit for the period</b>         | <b>- 64</b>    | <b>57</b>      |             |

Please note that certain small and medium-sized enterprise clients were included in the results of Retail Banking until November 2010. As from that date, these results were included in Commercial Banking. The full P&L effect of this transfer was shown in 2011.

## Other indicators

|                                                 | 31 December 2011 | 31 December 2010 <sup>1</sup> |
|-------------------------------------------------|------------------|-------------------------------|
| Underlying cost/income ratio                    | 68%              | 62%                           |
| Loan-to-Deposit ratio                           | 122%             | 109%                          |
| Loans and receivables – customers (in billions) | 41.9             | 42.4                          |
| Due to customers (in billions)                  | 34.0             | 39.0                          |
| RWA (in billions)                               | 28.3             | 29.3                          |
| Return on average RWA (in bps)                  | -23              | 19                            |
| FTEs (end of period)                            | 3,547            | 4,013                         |

<sup>1</sup> The 2010 average figures are based on year-end 2010 position instead of average.

Net profit for Commercial Banking was impacted by high loan impairments both in 2010 and 2011. In addition, profitability was affected by higher internal cost allocations starting from 2011.

### Operating income

Operating income, at EUR 1,677 million, remained virtually unchanged compared to 2010.

Net interest income increased by 3% to EUR 1,231 million, partly due to the transfer of activities from Retail Banking. Lower margins on corporate loans were offset by higher margins on deposits. Loan volumes increased marginally, while deposit volumes decreased marginally.

Net fee and commission income decreased by 2%, due largely to lower payment fees and the sale of the international division of Fortis Commercial Finance in 2011.

### Operating expenses

Operating expenses increased by EUR 113 million due to higher allocation of internal costs.

Personnel expenses remained flat. The increase in other expenses was due to higher allocation of internal costs.

### Operating result

The operating result decreased by 16% and the cost/income ratio increased to 68% from 62% in 2010.

### Loan impairments

Loan impairments amounted to EUR 606 million in 2011, an increase of EUR 68 million compared to 2010. Loan impairments rose in the second half of 2011 compared

with the first half of 2011 as the Dutch economy slid into recession. Impairment levels were already elevated in 2010. As a result, risk costs increased to 221bps, up 37bps from 2010 levels<sup>1</sup>. The sectors impacted in 2011 were mainly real estate, construction and industrial goods & services.

### Risk-Weighted Assets

RWA at year-end 2011 were EUR 28.3 billion, only a fraction lower compared to 2010.

### Loans and receivables – customers

Loans and receivables – customers decreased by EUR 0.5 billion to EUR 41.9 billion. The sale of the international division of Fortis Commercial Finance resulted in a decline of EUR 1.1 billion. The technical migration of all commercial clients to a single IT platform led to a harmonisation of netting of certain current accounts which caused Loans and receivables – customers as well as Due to customers to decrease by EUR 4.0 billion in Q4 2011. This decline was partly offset by growth in loans to commercial clients.

### Due to customers

Due to customers was EUR 34.0 billion at year-end 2011 compared to EUR 39.0 billion at year-end 2010. The decrease of EUR 5.0 billion was mainly related to the abovementioned netting of current accounts. A limited decline in SME deposits was recorded.

### FTEs

The number of FTEs declined by 12% mainly due to the sale of the international division of Fortis Commercial Finance.

<sup>1</sup> The 2010 figures are based on year-end RWA position instead of average RWA.

# Merchant Banking



"Our current success and our future growth is based on providing state-of-the-art solutions and advice to our clients, based on the thorough know how and professionalism of our staff."

## Key achievements in 2011

- ▶ International footprint re-established with offices in locations which offer strategic relationship management and specialised debt solutions. Offices recently opened in São Paulo and Dallas to serve ECT clients;
- ▶ Significant increase in deal flow, reflecting that product capabilities have been re-established in several product groups;
- ▶ ABN AMRO Clearing ranked top 3 globally;
- ▶ Substantial growth (32%) of operating income compared with 2010, despite adverse and volatile economic and financial conditions.

## Interesting facts

- ▶ ABN AMRO Clearing faultlessly processed around EUR 27 million in transactions on peak days (in August 2011 – twice the volume of "regular" days);
- ▶ ECT rankings:
  - ▶ No. 2 in relationship banking in Commodities and Trade Finance<sup>1</sup>;
  - ▶ No. 5 as Mandated Lead Arranger in syndicated loans of facilities in Offshore and Shipping globally<sup>2</sup>.
- ▶ Obtained markets dealerships:
  - ▶ Primary dealership in the Netherlands: ranked 2nd for primary offerings;
  - ▶ Primary dealer in Belgium since 1 January 2011;
  - ▶ Member of bidding group in Germany since 1 February 2011;
  - ▶ Primary dealer for European Financial Stability Facility;
  - ▶ Two Euromoney structured retail products awards:
    - ▶ Best Manufacturer in the Netherlands;
    - ▶ Best Manufacturer Interest Rates in the Netherlands.

<sup>1</sup> Source: Fimetricx.

<sup>2</sup> Source: Dealogic.



## Business performance

Merchant Banking serves Netherlands-based corporates, financial institutions and real estate investors and developers 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. LC&MB offers a full array of banking products and services, including Cash & Liquidity Management, Debt Solutions and Corporate Finance & Capital Markets. Markets serves the bank's entire client base and has two global businesses: Securities Financing and Clearing.

Economic trends and financial markets were unfavourable in 2011, impacting profit especially in derivatives trading-related services in the second half of 2011. Net profit rose year-on-year, however, thanks to healthy growth in ECT and the resilience of Clearing.

### Large Corporates & Merchant Banking, a bank of choice

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. Its services 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.

LC&MB had a successful year, with several domestic and international clients engaging its services. This business executed significantly more transactions in 2011 than it did in 2010.

According to the Greenwich Client Survey, many more clients designated ABN AMRO as their lead bank in 2011 than in 2010. Clients report that they are pleased with their relationship with ABN AMRO and are especially satisfied with ABN AMRO's senior management support and involvement in their strategic thinking. ABN AMRO was also classified as market leader in book running of syndicated loans.

### Large Corporates & Financial Sponsors

Corporates based in the Netherlands with turnover exceeding EUR 500 million are offered strategic relationship management by sector coverage teams supported by product teams and credit specialists. The financial sponsor team maintains and continuously develops strategic relationships with a select group of professional private equity funds supported by primarily acquisition and leveraged finance and corporate finance and capital market 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 in delivering correspondent banking and trade finance facilities.

### Real Estate Finance, Dutch focused

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 as well as several advisory services. ABN AMRO has a well balanced real estate portfolio which, despite adverse market conditions, has delivered a reasonable performance in 2011.

### Energy, Commodities & Transportation (ECT), a core business

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 12 locations around the world, in the three main time zones: Asia, Europe and the Americas. Offices were recently established in São Paulo and Dallas and an office is scheduled to be opened in Shanghai in 2012. ECT specialises in bilateral and syndicated facilities and trade & commodities finance. Its debt solutions offering follows the ECT client base abroad.

#### Energy, Commodities & Transportation, global knowledge, global network

- ▶ **Long track record** – Experience and knowledge of the ECT sectors are ingrained in the bank's DNA;
- ▶ **Enduring relationships** throughout the client's life cycle, supported with appropriate solutions at every stage;
- ▶ **Deep sector knowledge and research** transcending the Group's Economics, Markets, Private Banking and ECT departments, offering unique alignment of resources;
- ▶ **Value chain approach** – Distinctive service model which centres around financing the whole commodity value chain, underpinning risk awareness and providing the bank with unique commercial insight and a competitive edge in creating customised solutions;
- ▶ **Sustainability Assessment Tool**, introduced as part of the client acceptance and credit assessment procedures, enhances the quality of contact and understanding of our client business models;
- ▶ **Robust risk & portfolio management** structure with long-term track record of limited provisions and loan losses supported by a Risk Management organisation embedded in the business.

### Private Equity, co-investing in Dutch medium-sized market

ABN AMRO provides equity financing (both majority and substantial minority shareholder stakes) to Dutch-based profitable mid-market ABN AMRO clients with solid market positions, clear growth potential (autonomously or by means of acquisitions) and actively involved and committed management teams that are prepared to co-invest. The private equity activities saw a rise in results in 2011, with a successful exit of KIWA, a testing and certification company, after five years of cooperation as a major shareholder.

### Markets, service round-the-clock

Markets serves a broad client base, ranging from corporates and financial institutions to retail and private banking clients. Its product portfolio includes foreign exchange, money market, bonds, equities, (interest rate) derivatives and structured products. Markets also offers its clients online services via ABN AMRO I-Markets. In the Netherlands, Markets has sales and trading activities in Amsterdam and desks in five locations throughout the country. Outside the Netherlands, its main sales and trading activities are based in Hong Kong, Frankfurt, London and New York.

Unfavourable market conditions impacted the results of Markets especially in the trading- and sales area of the bank. However, Markets grew its operating income in 2011 compared with 2010 by increasing its client base and generating value-added transactions in close cooperation with Retail & Private Banking, Commercial Banking and Merchant Banking.

ECT, Markets and ABN AMRO Clearing offer ECT clients a one-stop shop for financing, brokerage and clearing of commodities for the hedging of price volatility. They execute and clear futures and help finance margin obligations.

In addition to the product offering, Markets has two global businesses: Securities Financing and ABN AMRO Clearing.

### Securities Financing, a global player

ABN AMRO is a strong player in the Dutch securities borrowing and lending market – the only Dutch bank offering a complete product range. 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.

The Securities Financing team offers tailor-made solutions to financial institutions such as pension funds, asset managers, insurance companies, banks and clearing institutions. Securities Financing has a global presence, with offices in Amsterdam, London, Frankfurt, New York and Hong Kong, and consists of a Global Sales team and three trading units: Bond Financing, Equity Financing and Collateral Financing.

### ABN AMRO Clearing, providing access to 85 leading exchanges

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. 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 operations are carried out via ABN AMRO Clearing Bank N.V., which has a banking licence and is regulated and supervised by DNB.

### ABN AMRO Clearing, a global leader in derivative and equity clearing

- ▶ **Large global player** with international organisation;
- ▶ **Long history** and proven capabilities;
- ▶ **Innovative** Holland Clearing House and European Multilateral Clearing Facility;
- ▶ **Strong operational and risk controls** with a unique global multi-asset risk management model with real-time risk management systems. Clearing had zero client defaults in 2011;
- ▶ **Interplay with other businesses** of the bank, e.g. introduction of “one-stop banking” approach for ECT clients for the hedging and clearing of their physical assets (agriculture, metals and energy).

## Financial performance

### Underlying results of Merchant Banking

| (in millions)                        | Full year 2011 | Full year 2010 | Change      |
|--------------------------------------|----------------|----------------|-------------|
| Net interest income                  | 546            | 390            | 40%         |
| Net fee and commission income        | 364            | 318            | 14%         |
| Other non-interest income            | 420            | 302            | 39%         |
| <b>Operating income</b>              | <b>1,330</b>   | <b>1,010</b>   | <b>32%</b>  |
| <b>Operating expenses</b>            | <b>860</b>     | <b>963</b>     | <b>-11%</b> |
| <b>Operating result</b>              | <b>470</b>     | <b>47</b>      |             |
| Loan impairments                     | 27             | - 20           |             |
| <b>Operating profit before taxes</b> | <b>443</b>     | <b>67</b>      |             |
| Income tax expenses                  | 22             | - 48           | -146%       |
| <b>Profit for the period</b>         | <b>421</b>     | <b>115</b>     |             |

### Other indicators

|                                                 | 31 December 2011 | 31 December 2010 <sup>1</sup> |
|-------------------------------------------------|------------------|-------------------------------|
| Underlying cost/income ratio                    | 65%              | 95%                           |
| Loan-to-Deposit ratio                           | 137%             | 120%                          |
| Loans and receivables – customers (in billions) | 46.6             | 42.4                          |
| Due to customers (in billions)                  | 46.6             | 37.7                          |
| RWA (in billions)                               | 36.1             | 32.1                          |
| Return on average RWA (in bps)                  | 131              | 36                            |
| FTEs (end of period)                            | 1,998            | 1,836                         |

<sup>1</sup> The 2010 average figures are based on year-end 2010 position instead of average.

Net profit improved significantly to EUR 421 million as a result of higher operating income and the absence of large litigation provisions in 2011.

### Operating income

Operating income improved by 32% or EUR 320 million compared to 2010.

Net interest income increased by 40% to EUR 546 million, due mainly to higher revenue levels at LC&MB and stable income at Clearing<sup>1</sup> offset by lower income in Markets

(sales and trading) as a consequence of market circumstances.

Net fee and commission income remained stable and was generated mainly at Clearing and LC&MB.

Other non-interest income increased by 39% to EUR 420 million and was mainly driven by favourable Private Equity results. However, slow market circumstances and increased volatility brought down other non-interest income in Markets in the second half of 2011.

<sup>1</sup> Clearing refers to ABN AMRO Clearing Bank N.V.

## Operating expenses

Operating expenses decreased by EUR 103 million to EUR 860 million due to large litigation provisions taken in 2010. Internal cost allocation increased compared to 2010.

Personnel expenses increased by EUR 49 million to EUR 285 million due mainly to an increase in FTEs following the rebuilding and growth of the businesses.

Other expenses decreased by EUR 152 million to EUR 575 million. Adjusted for the large litigation provisions taken in 2010, other expenses increased mainly as a result of higher cost allocations from Group Functions.

## Operating result

The operating result increased and the cost/income ratio improved to 65% from 95% in 2010.

## Loan impairments

Loan impairments in 2011 amounted to EUR 27 million. Both in 2010 and in the first half of 2011, releases of loan impairments previously taken were recorded. However, this trend reversed in the second half of 2011, when several impairments were taken in the real estate portfolio. Risk costs (8bps in 2011), however, remained at very low levels.

## Risk-Weighted Assets

RWA increased from EUR 32.1 billion to EUR 36.1 mainly due to business growth.

## Loans and receivables – customers

An increase in Loans and receivables – customers of EUR 4.2 billion was driven by growth in the ECT loan portfolio, an increase in securities financing activities and small growth at Clearing. The growth of the loan portfolio was partly offset by a reduction in current accounts following a harmonisation of netting principles.

## Due to customers

Due to customers increased by almost EUR 8.9 billion to EUR 46.6 billion at the end of December 2011. This growth was predominantly the result of increased client flows at Clearing and securities financing activities.

## FTEs

The number of FTEs rose by 162 due to continued efforts to rebuild the capabilities and growth of the business.

# Group Functions

Group Functions supports ABN AMRO's businesses by delivering services in the areas of audit, corporate governance, finance, risk, human resources, legal, compliance, communication, change management, technology, operations, property management, sustainability, and housing. Group Functions is organised into four areas, each of them headed by a Managing Board member: Technology, Operations & Property Services (TOPS), Finance, Risk Management & Strategy (RM&S), and Integration, Communication & Compliance (ICC). Group Audit reports directly to the Chairman of the Managing Board and the Chairman of the Audit Committee. The Company Secretary holds an independent position under joint supervision of the Chairman of both the Managing Board and the Supervisory Board and also acts as the Chief Corporate Governance Officer.

## Technology, Operations & Property Services (TOPS)

Technology, Operations & Property Services (TOPS) supports the business by providing services in the areas of IT (software and hardware), project management, operations and property management and housing. TOPS also coordinates the integration activities of ABN AMRO and is responsible for the relocation of businesses, subsequent re-use of rental buildings and future business development.

## Finance

Finance is the primary supplier of management and reporting information to ABN AMRO's 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.

## Risk Management & Strategy

Risk Management & Strategy aims to ensure that ABN AMRO's moderate risk profile is translated into the "three lines of defence" risk management model. RM&S combines Risk Management, Group Economics, and Strategy and Corporate Development and 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 section 8, Risk management.

## Integration, Communication & Compliance

Integration, Communication & Compliance's primary responsibility is to help ABN AMRO's businesses put their clients centre stage. ICC consists of Change & Integration, Communications & Branding, Compliance, Human Resources, Legal and Sustainability.

## Financial performance

### Underlying results of Group Functions

| (in millions)                        | Full year 2011 | Full year 2010 | Change       |
|--------------------------------------|----------------|----------------|--------------|
| Net interest income                  | - 8            | - 111          | -93%         |
| Net fee and commission income        | 13             | - 83           | -116%        |
| Other non-interest income            | 268            | 413            | -35%         |
| <b>Operating income</b>              | <b>273</b>     | <b>219</b>     | <b>25%</b>   |
| <b>Operating expenses</b>            | <b>233</b>     | <b>517</b>     | <b>-55%</b>  |
| <b>Operating result</b>              | <b>40</b>      | <b>- 298</b>   | <b>-113%</b> |
| Loan impairments                     | 832            | - 23           |              |
| <b>Operating profit before taxes</b> | <b>- 792</b>   | <b>- 275</b>   |              |
| Income tax expenses                  | - 252          | 11             |              |
| <b>Profit for the period</b>         | <b>- 540</b>   | <b>- 286</b>   | <b>89%</b>   |

The operating results of the EC Remedy activities, the operating results and the transaction result upon the sale of Prime Fund Solutions have been included in the segment Group Functions.

### Other indicators

|                                                 | 31 December 2011 | 31 December 2010 <sup>1</sup> |
|-------------------------------------------------|------------------|-------------------------------|
| Loans and receivables – customers (in billions) | 5.0              | 5.2                           |
| Due to customers (in billions)                  | 6.7              | 9.6                           |
| RWA (in billions)                               | 7.8              | 5.3                           |
| FTEs (end of period)                            | 8,254            | 9,179                         |

<sup>1</sup> The 2010 average figures are based on year-end 2010 position instead of average.

The net result declined by EUR 254 million to a loss of EUR 540 million as a result of significant loan impairments on the Greek Government-Guaranteed Corporate Exposures and a restructuring provision.

## Operating income

Operating income in 2011 improved to EUR 273 million from EUR 219 million in 2010.

Net interest income improved significantly to EUR -8 million from a net interest cost of EUR 111 million in 2011. The improvement was due largely to the absence of interest cost for capital instruments<sup>1</sup> and a risk transfer from R&PB, partially offset by higher funding costs and the impact of divestments.

Net fee and commission income improved by EUR 96 million to EUR 13 million from 2010, largely driven by the absence of fees paid for a credit protection instrument<sup>1</sup> in 2010 and offset by the impact of divestments.

Other non-interest income dropped by EUR 145 million to EUR 268 million due mainly to a EUR 175 million gain on the buyback of a subordinated note in 2010.

## Operating expenses

Operating expenses in 2011 declined by 55% to EUR 233 million mainly due to the revised cost allocation.

Personnel expenses increased in 2011, as a EUR 181 million restructuring provision for further restructurings and staff reductions was taken in 2011. This increase was partly offset by the effect of the 2010 divestments.

Other expenses improved predominantly as a consequence of a change in cost allocations, which shifts costs from Group Functions to the businesses, partially offset by EUR 27 million additional charges for the deposit guarantee scheme relating to the subordinated deposits of DSB.

## Loan impairments

Loan impairments were up significantly to EUR 832 million in 2011 as a result of EUR 880 million of loan impairments on the Greek Government-Guaranteed Corporate Exposures.

## FTEs

The number of FTEs dropped by 925 to 8,254 FTEs.

The decrease in FTEs relates primarily to the divestment of PFS and the progressing integration in Group Functions.

<sup>1</sup> See Large Items and Divestments.



# Reconciliation from reported to underlying results

## Income Statement

| (in millions)                        | Reported       |                | Separation and integration-related costs |                | Underlying     |                |
|--------------------------------------|----------------|----------------|------------------------------------------|----------------|----------------|----------------|
|                                      | Full year 2011 | Full year 2010 | Full year 2011                           | Full year 2010 | Full year 2011 | Full year 2010 |
| Net interest income                  | 4,998          | 4,905          |                                          |                | 4,998          | 4,905          |
| Net fee and commission income        | 1,811          | 1,766          |                                          |                | 1,811          | 1,766          |
| Other non-interest income            | 985            | 126            |                                          | - 862          | 985            | 988            |
| <b>Operating income</b>              | <b>7,794</b>   | <b>6,797</b>   |                                          | - 862          | <b>7,794</b>   | <b>7,659</b>   |
| <b>Operating expenses</b>            | <b>5,357</b>   | <b>6,229</b>   | <b>362</b>                               | 894            | <b>4,995</b>   | <b>5,335</b>   |
| <b>Operating result</b>              | <b>2,437</b>   | <b>568</b>     | <b>- 362</b>                             | - 1,756        | <b>2,799</b>   | <b>2,324</b>   |
| Loan impairments                     | 1,757          | 837            |                                          |                | 1,757          | 837            |
| <b>Operating profit before taxes</b> | <b>680</b>     | <b>- 269</b>   | <b>- 362</b>                             | - 1,756        | <b>1,042</b>   | <b>1,487</b>   |
| Income tax                           | - 9            | 145            | - 91                                     | - 265          | 82             | 410            |
| <b>Profit for the period</b>         | <b>689</b>     | <b>- 414</b>   | <b>- 271</b>                             | - 1,491        | <b>960</b>     | <b>1,077</b>   |
| Attributable to:                     |                |                |                                          |                |                |                |
| Non-controlling interests            | 24             | 3              |                                          |                | 24             | 3              |
| Owners of the company                | 665            | - 417          | - 271                                    | - 1,491        | 936            | 1,074          |

## Separation and integration-related costs

| (in millions)                                       | Full year 2011 |            | Full year 2010 |              | Life to date |              |
|-----------------------------------------------------|----------------|------------|----------------|--------------|--------------|--------------|
|                                                     | Gross          | Net        | Gross          | Net          | Gross        | Net          |
| R&PB                                                | 28             | 22         | 39             | 29           | 80           | 60           |
| C&MB                                                | 23             | 17         | 10             | 7            | 39           | 28           |
| Group Functions<br>(incl. restructuring provisions) | 308            | 231        | 721            | 538          | 1,138        | 851          |
| <b>Integration costs</b>                            | <b>359</b>     | <b>270</b> | <b>770</b>     | <b>574</b>   | <b>1,257</b> | <b>939</b>   |
| <b>Separation costs</b>                             | <b>3</b>       | <b>1</b>   | <b>141</b>     | <b>105</b>   | <b>520</b>   | <b>387</b>   |
| <b>Closing EC Remedy</b>                            |                |            | <b>845</b>     | <b>812</b>   | <b>845</b>   | <b>812</b>   |
| <b>Total</b>                                        | <b>362</b>     | <b>271</b> | <b>1,756</b>   | <b>1,491</b> | <b>2,259</b> | <b>1,775</b> |

# Large items and divestments

## Impact of large items

In 2011:

- ▶ Loan impairments on the Greek Government-Guaranteed Corporate Exposures (total amount of EUR 880 million, EUR 660 million after tax) highly impacted the results in the second half of the year. An amount of EUR 380 million was taken in Q4;
- ▶ A EUR 187 million restructuring provision was recorded in 2011 for further restructurings and staff reductions;
- ▶ Several one-offs (totalling approximately EUR 150 million after tax), including items resulting from a further integration of systems and methodologies, gains on sales of participating interests and buildings and a release related to the Madoff provision, were recorded in the first half of 2011.

In 2010:

- ▶ 2010 included costs for capital instruments (EUR 195 million pre-tax, EUR 179 million after tax) and a credit protection instrument (EUR 140 million pre-tax, EUR 104 million after tax), which were called or converted in the course of 2010;
- ▶ A gain of EUR 175 million pre-tax (EUR 130 million after tax) was recorded on the buyback of an Upper Tier 2 capital instrument;
- ▶ In 2010, several large litigation provisions relating to international activities conducted in the past were taken by Private Banking and Merchant Banking (full net impact in 2010: EUR 265 million).

## Impact of divestments

During 2011 a number of divestments were completed. 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.

For comparison purposes, the following activities were divested in 2010:

- ▶ Under the EC Remedy, the activities of New HBU II N.V. and IFN Finance B.V. were sold in December 2009 and transferred on 1 April 2010. The results of these activities were included in Group Functions until the date of completion of the sale (total negative transaction result of EUR 812 million after tax).

# risk management 8

“2011 proved to be a challenging year, one with volatile markets and an adverse economic environment in the Netherlands and abroad. Risk perceptions increased as the euro strained under the weight of a sovereign debt crisis in a number of countries. In response, we have strengthened our credit and country risk management. We have also intensified our proactive management of the mortgages portfolio to deal effectively with the current market conditions. These efforts have also served to reinforce our focus on sustaining our moderate risk profile.”

**Wietze Reehoorn**, Member of the Managing Board

Certain information in the Risk Management section has been audited and is part of the Group's Financial Statements as permitted by IFRS 7. Other disclosures are unaudited and labelled with an asterisk (\*).

## Introduction

Risk management at ABN AMRO supports the corporate strategy by promoting a balanced approach to risk and return based on a moderate risk profile.

Sound governance plays an important role in supporting the moderate risk profile. The bank's financial position is safeguarded by clearly defined responsibilities and accountability for risk management. ABN AMRO manages and controls risk according to the three lines of defence approach: risk management starts at the front office and is independently controlled by functions such as Risk, and Finance, Compliance as the second line of defence and Group Audit as the third line.

A risk appetite framework is in place to promote transparent and coherent risk-related decision-making throughout the bank, taking into account all types of risk defined in the risk taxonomy.

## Key developments in 2011

Key developments in 2011 include:

- ▶ A review of government and government-guaranteed exposures. The bank took an impairment of EUR 880 million (pre-tax) on Greek Government-Guaranteed Corporate Exposures. Exposures to government bonds are limited;
- ▶ Impairment expenses for the period 2011 are EUR 1,757 million. Loan impairment allowances increased to EUR 5,546 million (31 December 2010: EUR 4,335 million), mainly due to the impairment on the Greek Government-Guaranteed Corporate Exposures and significantly higher loan impairments on the corporate loan book;

- Heightened attention to the retail mortgages portfolio. This is a large portfolio that consists predominantly of Dutch prime residential mortgages with an acceptable risk profile and collateral of good quality. The bank has intensified its proactive management of the portfolio in line with current market conditions.

### Status of the integration\*

Following the merger of ABN AMRO and FBN in 2010, ABN AMRO largely completed the integration in the risk management in the organisation in 2011 by harmonising risk policies and risk models. ABN AMRO has also reduced the risk in relation to transition and integration. More information on the status of the integration and the related risk management is provided in the Integration section.

### Risk profile

Under the corporate strategy, ABN AMRO continuously strives to maintain a moderate risk profile. The bank has defined a moderate risk appetite and adheres to a product approval procedure. The businesses, i.e. the first line of defence, are responsible for only taking risks that are understood by the bank, thus safeguarding ABN AMRO's reputation and serving the interests of customers and other stakeholders. The following characteristics of ABN AMRO indicate 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 in private banking, Commercial Finance (Factoring), Lease, Clearing and Energy, Commodity & Transportation (ECT). ABN AMRO has in-depth knowledge of these specialised activities. ABN AMRO serves foreign clients with operations in these specialised areas and Dutch clients with activities abroad;
- Trading activities are mainly client-facilitating in nature and have a limited scale in the bank's overall risk profile.

The bank's activities are largely asset-based. This, combined with the fact that ABN AMRO is mainly active in its domestic market and in markets in which it has a long-standing track record, helps the bank to maintain its moderate risk profile.

The bank's activities are continuously monitored against the risk appetite. This is reported to the Managing Board in the Enterprise Risk Management Report. The Managing Board frequently addresses the risk profile and reviews both the individual risk types as well as the integrated, enterprise-wide risk profile.

### Risk appetite

The enterprise-wide risk appetite is reviewed yearly in light of the continuously changing market environment, based on internal insight, best practices and new regulations. The Risk Appetite Statement was marginally refined in 2011 in relation to credit risk, operational risk and other enterprise risks. Risk limits remained in line with 2010; explanatory wording was adjusted to better reflect the bank's approved risk policies.

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. The risk appetite is in line with the bank's corporate strategy and with a moderate risk profile. The risk appetite is reviewed annually by the Managing Board and Supervisory Board and requires the approval of the General Meeting of Shareholders.

The bank has developed a risk appetite framework to ensure that the risk appetite is fully embedded in the business. 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. These limits are monitored in the Enterprise Risk Management Report.

### Product approval process

The Product and Activity Approval & Change Risk Assessment Policy sets out the process, activities and approval procedure for the development and introduction of new products and activities and changes to existing products and activities throughout the bank. ABN AMRO's product approval process adheres to the guidelines laid down in the Banking Code of the Dutch Banking Association and is in line with the bank's strategy, moderate risk profile and risk appetite.

Product Approval Committees are up and running in the business, scrutinising new and changed products in the first line of defence before they are offered.

### Stress testing

The main objective of stress testing is to ensure that ABN AMRO operates within its 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. Bank-wide stress testing is not an autonomous process, but is related to the entire scope of risk management activities.

ABN AMRO applies stress testing to assess the effect of potential plausible but unlikely events and developments on the bank. These events may be system-wide (external) or ABN AMRO-specific (internal). Bank-wide stress testing as applied by ABN AMRO takes into account all risks the entire bank is exposed to and executes different types of stress tests of various complexities. ABN AMRO has also taken part in stress tests initiated by Dutch and European regulatory bodies, such as the European Banking Authority (EBA).

Stress scenarios that were applied covered situations such as an extreme global worsening of economic circumstances and developments in the Dutch market for retail mortgages. These stress tests increase understanding of ABN AMRO's sensitivity to potential system-wide (or macro) economic circumstances and to circumstances specifically relevant for ABN AMRO and help the bank to maintain a moderate risk profile.

## Risk governance



Governance of banks is under scrutiny industry-wide in response to the financial turmoil and economic developments that have taken place in recent years. ABN AMRO's risk management organisation has a continued focus on the bank's risk governance, supported by the three lines of defence approach to risk management. 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 and is responsible for the risk appetite in accordance with the corporate strategy. The three lines of defence approach is a pivotal element of ABN AMRO's efforts to maintain a moderate risk profile.

### Three lines of defence

The bank manages and controls risks according to the three lines of defence approach.

The businesses are accountable for taking risks such that risk and return are balanced. The following illustration shows how this approach functions.

Risk Management has an overview of all risks to which the bank is exposed and monitors implementation of the three lines of defence approach.

| 1st Line of Defence<br>Business                                                                                                                                   | 2nd Line of Defence<br>Risk Control Functions                                                                                                                                                                                                                                                               | 3rd Line of Defence<br>Audit                                                                                                                                                                                                                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <b>Risk ownership</b>                                                           | <b>Risk control</b>                                                                                                                                                                                                                                                                                         | <b>Risk assurance</b>                                                                                                                                         |
| <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 has a coordinating role towards the external auditor and the Dutch supervisor.</p> |

## Risk decision framework

The Managing Board is ultimately responsible for risk and establishes and enforces clear lines of responsibility and authority within the bank.

The risk decision framework is broken down into three executive committees: Group Risk Committee, Central Credit Committee and Asset & Liability Committee, each chaired by a member of the Managing Board. The committees can delegate their authority to subsidiary risk committees.

The Managing Board itself takes decisions that are of material significance to the risk profile, capital allocation and liquidity of ABN AMRO.

### Group Risk Committee

The Group Risk Committee (GRC) is mandated by the Managing Board to monitor, assess and manage the bank's risk profile in relation to the risk appetite.

The GRC may delegate its approval authority 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. Product and Activity Approval & Change Risk Assessment Policy).

### Central Credit Committee

The Central Credit Committee (CCC) is mandated by the Managing Board to decide on credit proposals that have a significant impact on ABN AMRO's credit portfolio, above a certain threshold. Decision-making on other proposals is delegated to subsidiary committees, i.e. the Business Credit Committees, Central Risk Management Credit Committee and Financial Recovery & Restructuring Committee or to the business. In exceptional cases, CCC decisions require final approval by the Managing Board.

The business always decides first whether or not to grant a credit. The delegation model always requires the approval of a manager in the business (four eyes principle). Above a certain threshold, the approval of Risk Management is also required in addition (six eyes principle). Larger or more complex credit decisions are taken in the Central Credit Committee or one of its subsidiary committees.

The CCC has the authority to approve credit proposals, including provisions and/or write-offs, beyond the mandates of subsidiary risk committees or the business. Although authorised to decide on specific files, every

delegated person or mandated committee can still refer the decision authority to the next higher level, where the former credit decision can be revoked by the delegating hierarchy. No individual may take decisions alone or with someone else where there is a conflict of interest.

### Asset & Liability Committee

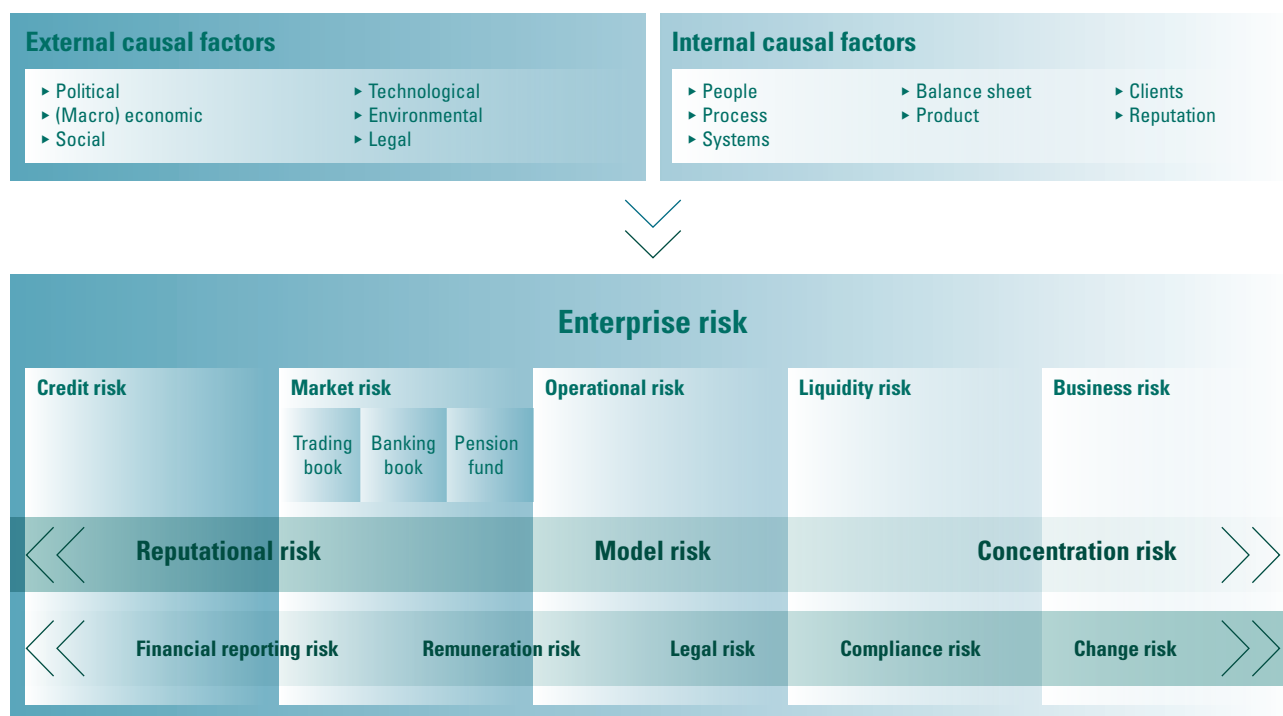
The Asset & Liability Committee (ALCO) is mandated to decide on the interest profile, liquidity profile and solvency position of ABN AMRO within the risk appetite as set by the Managing Board. The ALCO is responsible for the management of liquidity, market risk in the banking book and capital.

The ALCO may delegate its mandate to subsidiary committees, but retains responsibility on behalf of the Managing Board.

Proposals that go beyond the mandate of the ALCO are sent to the Managing Board for approval.

### Risk taxonomy

ABN AMRO's risk taxonomy includes all material risks. 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. ABN AMRO's risk taxonomy is summarised in the following chart:



The main risk types are credit, market, operational, liquidity and business risk. These risks are explained in the following sections.

Intersecting risk types, such as reputational risk and model risk, are risk types that emphasise specific aspects that apply to several risk types in the risk taxonomy. Part of the reputational risk that the bank runs is related to sustainability risk. This is described in detail in the Sustainability section of this report.

The main risk types as defined in the risk taxonomy are explained under each risk type in the following sections.

## 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 identifying, measuring, approving and reporting credit risk.

## Credit risk exposure

Total on-balance credit risk exposure is measured as the total of loans and receivables to customers and financial institutions, financial investments and assets held for trading, cash at central banks and selected other assets.

The amounts stated in the table below represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed to completely perform as contracted and any collateral or security proved to be of no value. These amounts significantly exceed expected loss in the event of counterparty default, as expected loss takes into account the likelihood of such an event and collateral or security. Credit risk exposure is presented based on the classification in the balance sheet to reflect the nature and characteristics of the exposure.

The following table presents the Group's maximum exposure to credit risk. The financial instruments subject to credit risk are presented in accordance with IFRS 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

| (in millions, outstanding)                                | Note | 31 December 2011 | 31 December 2010 |
|-----------------------------------------------------------|------|------------------|------------------|
| Cash and balances at central banks                        | 14   | 7,641            | 906              |
|                                                           |      | <b>7,641</b>     | <b>906</b>       |
| Financial assets held for trading                         | 15   | 29,523           | 24,300           |
| Less: equity securities                                   |      | 10,808           | 10,497           |
|                                                           |      | <b>18,715</b>    | <b>13,803</b>    |
| Financial investments                                     | 16   | 18,721           | 20,197           |
| Less: equity instruments                                  |      | 234              | 192              |
| Less: private equities and venture capital                |      | 133              | 122              |
|                                                           |      | <b>18,354</b>    | <b>19,883</b>    |
| Loans and receivables – banks                             | 17   | 61,319           | 41,117           |
|                                                           |      | <b>61,319</b>    | <b>41,117</b>    |
| Loans and receivables – customers <sup>1</sup>            | 18   | 272,008          | 273,944          |
|                                                           |      | <b>272,008</b>   | <b>273,944</b>   |
| Accrued income and prepaid expenses                       | 24   | 4,369            | 4,169            |
|                                                           |      | <b>4,369</b>     | <b>4,169</b>     |
| Other assets                                              | 26   | 6,845            | 8,312            |
| Less: Unit-linked investments                             |      | 2,060            | 2,093            |
| Less: Defined benefit assets                              |      | 734              | 508              |
| Less: Other                                               |      | 1,280            | 2,154            |
|                                                           |      | <b>2,771</b>     | <b>3,557</b>     |
| <b>On-balance sheet maximum exposure to credit risk</b>   |      | <b>385,177</b>   | <b>357,379</b>   |
| <b>Off-balance sheet</b>                                  |      |                  |                  |
| Committed credit facilities                               |      | 14,484           | 14,553           |
| Guarantees and other commitments                          |      | 18,056           | 23,193           |
| Add: Revocable credit facilities <sup>2</sup>             |      | 65,910           | 63,469           |
| <b>Off-balance sheet credit facilities and guarantees</b> |      | <b>98,450</b>    | <b>101,215</b>   |
| <b>Maximum exposure to credit risk</b>                    |      | <b>483,627</b>   | <b>458,594</b>   |

<sup>1</sup> In 2011 further refinement of accounting harmonisation led to a reclassification as a consequence of the netting of residential mortgages with demand deposits, which impacted the financial position of the line items Loans and receivables – customers and Due to customers retrospectively.

<sup>2</sup> 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 Annual Financial Statements.

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 Exposure at Default (EAD). The following table shows the reconciliation between outstanding and EAD.

## Reconciliation of maximum exposure to credit risk to EAD

| (in millions)                                                                                                        | Note | 31 December 2011 | 31 December 2010 |
|----------------------------------------------------------------------------------------------------------------------|------|------------------|------------------|
| <b>On balance sheet maximum exposure to credit risk</b>                                                              |      | <b>385,177</b>   | <b>357,379</b>   |
| <b>Scope differences</b>                                                                                             |      |                  |                  |
| Less: Effective asset securitisation programmes <sup>1</sup>                                                         |      | -51,244          | -57,318          |
| Less: Selected Financial assets held for trading <sup>2</sup>                                                        | 15   | -4,473           | -5,592           |
| Less: Fair value adjustment from hedge accounting                                                                    | 18   | -4,825           | -2,880           |
| Less: Other scope differences <sup>3</sup>                                                                           |      | -242             | -421             |
| <b>Total scope differences</b>                                                                                       |      | <b>-60,784</b>   | <b>-66,211</b>   |
| <b>Valuation differences</b>                                                                                         |      |                  |                  |
| Netting of total customer positions, including collateral received and pledged, on securities financing transactions |      | -33,196          | -30,012          |
| Potential future exposure add-on offset by netting against collateral for trading and non-trading derivative assets  |      | -6,279           | 811              |
| Netting of total customer positions on other items, mainly corporates                                                |      | -10,762          | -6,761           |
| Other valuation differences                                                                                          |      | 248              | -1,663           |
| <b>Total valuation differences</b>                                                                                   |      | <b>-49,989</b>   | <b>-37,625</b>   |
| Add: Off-balance sheet exposure fraction expected to be drawn prior to default (Credit Conversion Factors)           |      | 25,487           | 35,289           |
| <b>Total Exposure at Default</b>                                                                                     |      | <b>299,891</b>   | <b>288,832</b>   |

<sup>1</sup> Effective securitisation programmes only.

<sup>2</sup> Consists of: Treasury bills, Government bonds, Corporate debt securities, Trading book loans, Commodities.

<sup>3</sup> Consists of: Cash on hand and other cash equivalents, operating lease equipment where ABN AMRO acts as a lessor.

The table above excludes EUR 51.2 billion (31 December 2010: EUR 57.3 billion) of assets. EUR 37 billion EAD (31 December 2010: EUR 38 billion) concerns retained securitisations. The remaining EUR 14 billion (31 December 2010: EUR 19 billion) concerns securitisations effectively transferred to third parties. Of these retained securitisations, 75% (31 December 2010: 72%) concern residential mortgages, 25% (31 December 2010: 28%) are loans to corporates and SMEs. The retained securitisations mainly have investment grade credit quality.

Except for derivatives held for trading, all assets held for trading are excluded. These mainly have investment grade credit quality.

As already shown in the maximum exposure to credit risk table, equities not held for trading, amounting to an EAD of EUR 0.6 billion (2010: EUR 0.6 billion) are excluded, as well as other non-credit obligation assets.

### Credit risk developments

Loans and receivables – banks grew by EUR 20 billion to EUR 61 billion in 2011, due mainly to an increase in the liquidity buffer, collateral requirements for derivatives and an increase in securities financing activities. These are gross amounts outstanding, collateralised by equities and bonds, subject to daily margining and application of valuation haircuts.

Loans and receivables – customers decreased by EUR 1.9 billion to EUR 272.0 billion at the end of December 2011. Client driven securities financing volumes grew by EUR 2.1 billion. Loans and receivables – customers excluding securities financing decreased by EUR 4.0 billion. Growth in the loan portfolio of Commercial Banking and ECT was more than offset by a decrease in the residential mortgage loan portfolio predominantly as the result of accounting changes and lower new mortgage production, the divestment of the international division of Fortis Commercial Finance and a reduction in current accounts following a harmonisation of netting principles (negative impact of EUR 6.1 billion).

Financial investments recorded a EUR 1.5 billion decrease to EUR 18.7 billion, mainly due to active management of the liquidity buffer (2010: EUR 20.2 billion). An update on government and government-guaranteed exposures is provided in the Country risk section.

The decline in off-balance credit exposure was due mainly to a decrease in guarantees and other commitments. Further details on commitments and contingent liabilities are provided in note 38 to the Annual Financial Statements.

The EAD increased by EUR 11 billion in 2011. The increase in EAD is lower than the increase in outstanding, mainly due to netting of customer positions with collateral on securities financing transactions and increased collateral on our derivatives portfolios, and other netting.

## Credit risk measurement and ratings

The credit quality of the portfolio of financial assets can be assessed by using the bank's internal credit rating system, which reflects the probability of default of an obligor. The probability of default is the likelihood that a counterparty fails to pay interest and/or principal and/or other financial obligations to the bank.

Credit risk rating is the result of an analysis of each obligor's financial history and estimation of its ability to meet debt obligations in the future and the quality and safety of an asset.

Each counterparty to whom the bank grants any type of credit facility, or who has an exposure, is assigned a Uniform Counterparty Rating (UCR) on a scale of 1 to 8, whereby UCR 1 is of prime quality while UCR 6-8 is in default.

The following table provides an overview of the relationship between the internal ratings (UCR) and the counterparty's probability of default and an indication of how the internal ratings of ABN AMRO compares with the external rating agencies Standard & Poor's, Fitch and Moody's.

## ABN AMRO internal rating scale mapped to external ratings

| Grade Category            | UCR (internal rating) | Expected default rates 2011 | Standard & Poor's/<br>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%                        |                                        |                    |
| Default with provision    | 7-8                   | 100%                        |                                        |                    |

### 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.

They are used to measure the credit risk in exposures to individual clients and counterparties. The same parameters are also used to calculate the minimum regulatory capital requirements under the Basel II advanced internal ratings-based approach.

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. External Credit Assessment Institutions ratings are available for certain counterparties, these are used to benchmark internal model outcomes.

All internal models are validated by the independent Model Validation department. Models are tested and reviewed against historical loss data and supervisory regulations. Final internal approval for the (continued) use of a model is obtained from the Methodology Acceptance Group, a senior risk committee directly related to the Managing Board and the Group Risk Committee.

## Credit risk parameters

### Probability of Default (PD)

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 obligor is overdue more than 90 days;
- ▶ The bank considers that the obligor 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. In the other business segments, the credit risk is determined based on rating models, tailored to the specific characteristics of the counterparty.

### Loss Given Default (LGD)

LGD models estimate the economic loss that may result from a credit facility in the case that 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.

### Exposure at Default (EAD)

EAD models estimate the expected exposure at the time of a counterparty default. In the case that all or part of a facility is undrawn (outstanding 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 default. Actual exposures at default therefore might be higher than the current exposure. The parameters used in EAD calculations are calibrated on internal portfolio data.

Using the input variables, the Basel II parameters PD, LGD and EAD are computed. The commercial function calculates the PDs and LGDs, based on collected data needed as input for the appropriate selected model.

## Credit quality by Basel II exposure class

(in millions, Exposure at Default)

31 December 2011

|                                              | 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        | 37,682           | 901                  |                           |                        | 38,583                     | 1,984                                 | 40,567                  |
| Institutions <sup>1</sup>                    | 130              | 72                   |                           |                        | 202                        | 23,369                                | 23,571                  |
| Corporates                                   | 19,779           | 45,977               | 2,812                     | 5,808                  | 74,376                     | 20,203                                | 94,579                  |
| Retail                                       | 96,892           | 34,113               | 210                       | 2,758                  | 133,973                    | 7,201                                 | 141,174                 |
| <b>Total Exposure at Default<sup>2</sup></b> | <b>154,483</b>   | <b>81,063</b>        | <b>3,022</b>              | <b>8,566</b>           | <b>247,134</b>             | <b>52,757</b>                         | <b>299,891</b>          |

31 December 2010

|                                              |                |               |              |              |                |               |                |
|----------------------------------------------|----------------|---------------|--------------|--------------|----------------|---------------|----------------|
| Central Governments and Central Banks        | 4,928          | 404           |              | 1            | 5,333          | 21,531        | 26,864         |
| Institutions <sup>1</sup>                    | 11,712         | 492           | 92           | 20           | 12,316         | 17,042        | 29,358         |
| Corporates                                   | 30,991         | 41,989        | 3,394        | 4,281        | 80,655         | 7,483         | 88,138         |
| Retail                                       | 105,501        | 32,834        | 226          | 2,277        | 140,838        | 3,634         | 144,472        |
| <b>Total Exposure at Default<sup>2</sup></b> | <b>153,132</b> | <b>75,719</b> | <b>3,712</b> | <b>6,579</b> | <b>239,142</b> | <b>49,690</b> | <b>288,832</b> |

<sup>1</sup> Institutions: includes exposures to banks and investment undertakings, regional governments and local authorities.<sup>2</sup> For items excluded from EAD, please refer to the explanation provided with the reconciliation of maximum exposure to credit risk to EAD.

The credit quality, measured by changes of exposure in the rating distribution, deteriorated in 2011.

### Overrides

Decisions which determine the level of risks taken should not only be based on quantitative information or model outputs, but should also take into account the 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 as obtained by the business line with the rating model.

### Credit risk management

ABN AMRO applies credit risk management at both transaction and portfolio level, depending on the type of counterparty.

For its retail lending portfolios, including individual as well as small commercial clients, the bank uses the programme lending approach to manage risks and

exposures at product portfolio level rather than on an individual transaction basis. For other counterparties, ABN AMRO applies credit risk management at transaction level.

### Transaction approval

The lion's share of the bank's credit risk exposure consists of traditional loans to businesses and individuals.

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.

In a credit proposal, information such as the purpose, details and structure of the proposed credit facility, information about the obligor and other counterparties, the industry, management and owners, and a financial and non-financial analysis has to be provided. 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**

Risk in the credit portfolio is measured and managed at bank-wide level on a monthly basis and by quarterly and ad hoc portfolio reporting and analysis, with specific attention for risk deterioration and concentrations.

An important step in the credit process is the monitoring of credit facilities. Consistent monitoring allows the bank to identify at an early stage any deterioration 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.

The primary responsibility for managing and monitoring credit risk lies with the business (first line of defence). The business is required to identify, assess and manage, monitor and report 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.

Counterparties can be put on watch due to political, social, economic, legal or industry 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 an impaired credit or to increase the likelihood of final repayment.

### **Credit risk concentration**

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 amount of capital loss due to a failure to pay. Positively related counterparties in this case are those counterparties that have a tendency to default under similar circumstances. Limiting such concentrations is fundamental to the credit risk strategy. The bank aims to keep portfolios granular, liquid and diversified.

To avoid credit risk concentration, Central Risk Management aims to diversify the credit risk across single clients/groups of clients, industry sectors and countries, and may set maximum levels for subgroups in either category.

### **Residential mortgages\***

ABN AMRO's retail mortgage portfolio consists predominantly of Dutch prime residential mortgages.

Due to the financial crisis, market volume was decreasing. There were fewer transactions in the housing market and housing prices have gone down slightly. Housing prices are still relatively high, resulting in a growing problem for first-time homebuyers. This effect is amplified by the Mortgage Lending Code of Conduct, capping the loan amount. The government still stimulates the housing market by extending the period for tax deduction for double houses (three years) and keeping the maximum government-guaranteed level at EUR 350,000 (was EUR 265,000) until 31st July 2012 (government-guaranteed under NHG, Nationale Hypotheek Garantie).

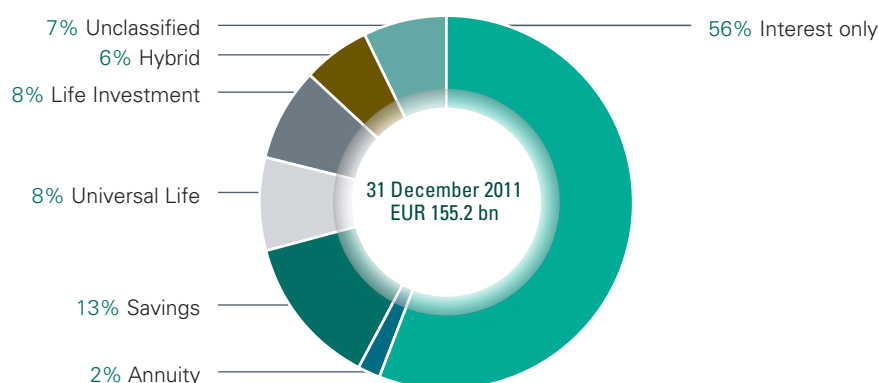
As a result of the Mortgage Lending Code of Conduct, the amount available for lending has been reduced in 2009, 2010 and 2011. There was a shift from interest-only mortgages to mortgages where repayment is accumulated in a separate pledged savings account.

House prices declined by 2.25% in 2011 compared to the 2010 average. The last quarter of 2011 showed a slight revival. Due to the large supply of houses and the limited activity, houses remained on the market for a longer period than before the crisis. The transaction volume remained under pressure as a result of low consumer confidence and uncertainty regarding the tax deductibility of interest in the future. The lack of confidence in the housing market was reflected in the transaction volume.

The retail mortgages portfolio is large and has an acceptable risk profile and good quality collateral. In line with current market circumstances, ABN AMRO has strengthened its management of the residential mortgages portfolio. The bank actively reviews the

portfolio for potential developments due in the near future that may affect the credit quality, such as the approach of an end of the interest rate term. Heightened attention is devoted to the redemption process in cases of default.

### Residential mortgages by loan type



About 21% of the mortgage book is NHG-guaranteed. In line with the renewed Mortgage Lending Code of Conduct, ABN AMRO only grants “interest-only” mortgages up to a maximum of 50% of the property value. Mortgage principles must adhere to a maximum amount of 106% of the market value of the property (104% of the property value plus the costs of stamp duty, currently 2%).

These renewed requirements have been in place since August 2011. The majority of ABN AMRO’s residential mortgages book was originated before August 2011. Risk-related costs in this portfolio are increasing, but are acceptable.

### Residential mortgages to indexed market value\*

(in millions, outstanding)

31 December 2011

|                                      | Residential mortgages | Total %     |
|--------------------------------------|-----------------------|-------------|
| <b>Loan to Market Value category</b> |                       |             |
| NHG                                  | 32,100                | 21%         |
| <50%                                 | 26,238                | 17%         |
| 50%-60%                              | 10,999                | 7%          |
| 60%-70%                              | 12,414                | 8%          |
| 70%-80%                              | 12,462                | 8%          |
| 80%-90%                              | 15,632                | 10%         |
| 90%-100%                             | 14,351                | 9%          |
| 100%-110%                            | 14,731                | 10%         |
| 110%-120%                            | 6,874                 | 4%          |
| 120%-130%                            | 270                   | 0%          |
| >130%                                | 258                   | 0%          |
| Other                                | 164                   | 0%          |
| Unclassified                         | 8,675                 | 6%          |
| <b>Total</b>                         | <b>155,168</b>        | <b>100%</b> |

### One obligor concentration

The bank also 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 to due to other relevant economic dependencies.

### Industry concentration

ABN AMRO further applies industry concentration limits for 21 industry or Industry Classification Benchmark (ICB) clusters (non-material industry clusters are aggregated in "other"). These concentration limits are proposed and regularly reviewed by Central Risk Management and approved by the Group Risk Committee. Industry concentration limits are a function of risk/reward and are closely monitored (by the businesses and Central Risk Management).

## Industry concentration of overall credit risk by Exposure at Default

| (in millions, Exposure at Default)                            | 31 December 2011    |               | 31 December 2010    |               |
|---------------------------------------------------------------|---------------------|---------------|---------------------|---------------|
|                                                               | Exposure at Default | Total %       | Exposure at Default | Total %       |
| <b>Industry sector</b>                                        |                     |               |                     |               |
| Banks                                                         | 50,380              | 16.8%         | 42,570              | 14.7%         |
| Financial services                                            | 8,532               | 2.8%          | 9,519               | 3.3%          |
| Industrial goods and services                                 | 19,563              | 6.5%          | 28,009              | 9.7%          |
| Real Estate                                                   | 9,510               | 3.2%          | 11,189              | 3.9%          |
| Oil and gas                                                   | 6,442               | 2.1%          | 5,531               | 1.9%          |
| Food and beverage                                             | 5,872               | 2.0%          | 6,209               | 2.1%          |
| Retail                                                        | 5,505               | 1.8%          | 8,293               | 2.9%          |
| Basic Resources                                               | 4,503               | 1.5%          | 1,723               | 0.6%          |
| Healthcare                                                    | 3,428               | 1.1%          | 5,554               | 1.9%          |
| Other <sup>1</sup>                                            | 25,561              | 8.6%          | 22,915              | 8.0%          |
| <b>Subtotal Industry Classification Benchmark</b>             | <b>139,296</b>      | <b>46.4%</b>  | <b>141,512</b>      | <b>49.0%</b>  |
| Private individuals non-Industrial Classification Benchmark   | 141,080             | 47.1%         | 140,931             | 48.8%         |
| Public administration non-Industrial Classification Benchmark | 19,515              | 6.5%          | 6,389               | 2.2%          |
| <b>Subtotal non-Industry Classification Benchmark</b>         | <b>160,595</b>      | <b>53.6%</b>  | <b>147,320</b>      | <b>51.0%</b>  |
| <b>Total Exposure at Default<sup>2</sup></b>                  | <b>299,891</b>      | <b>100.0%</b> | <b>288,832</b>      | <b>100.0%</b> |

<sup>1</sup> Consists of various industry sectors with individual EAD of less than 1%.

<sup>2</sup> For items excluded from EAD, please refer to the explanation provided with the reconciliation of maximum exposure to credit risk to EAD.

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.

ABN AMRO concentrates on financing prime well-rented real estate at good locations and professional counterparties. Present market conditions have enabled ABN AMRO to realise relatively low Loan-To-Value and a good margin on these exposures.



## Credit Risk Management at specialised activities

ABN AMRO has extensive knowledge of the Energy, Commodities & Transportation (ECT), Clearing and Private Banking International businesses and has long-standing experience and a track record of low losses in these markets.

The majority of ECT deals are secured. These deals are either asset-backed or cash flow/transaction-based. Once approved, risk monitoring of deals is tight, with proactive follow-up of credit risk signals. Sector-related credit risk policies are the basis for disciplined deal intake.

ABN AMRO Lease is the second largest leasing company in the Netherlands and belongs to the top of the equipment lease segment. By nature, ABN AMRO Lease has asset-based exposures.

ABN AMRO Commercial Finance offers receivables financing and asset-based lending and is one of the biggest West European players in working capital financing.

ABN AMRO Clearing monitors its credit exposure on a daily basis as part of its risk management policies and procedures under which client positions are fully collateralised. Credit risk at Clearing only arises if a client has an increased market risk due to limit violation. Default rates are typically very low.

Private Banking International's credit risk is based on collateralised lending. Exposures and collateral positions are monitored daily and top-up and close-out rules are applicable. Both relationship managers and Risk Management manage credit risk as stipulated in private banking-specific credit risk policies.

## 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. Cross-border risk is defined as the risk that funds or goods/services cannot be transferred out of a risk country as a result of actions by the authorities of the country or by other events impeding the transfer or ability to pay. ABN AMRO's credit exposure is concentrated primarily in the Netherlands, complemented by a limited amount of credit exposure in other countries.

To avoid a major loss as a result of events that affect these cross-border exposures, effective country risk management is required involving continuous assessment of the risk profile of countries and the quantum and nature of the bank's exposure to such countries.

The bank manages country risks through its country risk control framework, comprising individual country analysis and the managing of exposure concentration. Decision-making rests with authorised individuals and senior credit committees, informed by the opinions and advice of country risk/macroeconomic specialists through the bank's Country Risk Committee. The country risk exposure profile is presented to senior management. Countries where evolving risks are being seen are subject to additional risk assessment/controls. The following table provides information on the geographic distribution by exposure class.

## Geographic concentration by exposure at default

(in millions, Exposure at Default)

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 <sup>1</sup>                    | 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        |
| <b>Total Exposure at Default<sup>2</sup></b> | <b>241,099</b>  | <b>36,477</b>  | <b>6,028</b> | <b>8,985</b> | <b>7,302</b>      | <b>299,891</b> |

31 December 2010

|                                              |                |               |              |              |               |                |
|----------------------------------------------|----------------|---------------|--------------|--------------|---------------|----------------|
| Central Governments and Central Banks        | 16,310         | 9,109         | 378          | 271          | 796           | 26,864         |
| Institutions <sup>1</sup>                    | 9,768          | 12,100        | 4,651        | 1,323        | 1,516         | 29,358         |
| Corporates                                   | 56,357         | 14,146        | 2,245        | 3,632        | 11,758        | 88,138         |
| Retail                                       | 143,782        | 508           | 5            | 6            | 171           | 144,472        |
| <b>Total Exposure at Default<sup>2</sup></b> | <b>226,217</b> | <b>35,863</b> | <b>7,279</b> | <b>5,232</b> | <b>14,241</b> | <b>288,832</b> |

<sup>1</sup> Institutions: includes, amongst others, exposures to banks and investment undertakings, regional governments and local authorities.

<sup>2</sup> For items excluded from EAD, please refer to the explanation provided with the reconciliation of maximum exposure to credit risk to EAD.

### Government and government-guaranteed exposures

The next table shows an overview of the book values of the largest consolidated exposures to European governments and government-related entities as at 31 December 2011. 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 do include corporate loans that are Dutch State guaranteed.

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 recognising the benefit of risk mitigation such as hedges, collateral, and short positions across issuers.

## European government and government-guaranteed exposures

| (in billions, outstanding)     |             | 31 December 2011      |             | 31 December 2010        |
|--------------------------------|-------------|-----------------------|-------------|-------------------------|
|                                | Government  | Government-guaranteed | Book value  | Book value <sup>1</sup> |
| Netherlands                    | 11.7        | 1.4                   | 13.1        | 8.9                     |
| France                         | 2.4         |                       | 2.4         | 2.3                     |
| Belgium                        | 0.5         | 0.1                   | 0.6         | 2.6                     |
| Greece                         |             | 1.3                   | 1.3         | 1.4                     |
| Germany                        | 2.8         | 0.5                   | 3.3         | 2.1                     |
| Italy                          | 0.3         |                       | 0.3         | 1.3                     |
| United Kingdom <sup>2</sup>    | 0.5         |                       | 0.5         | 0.9                     |
| Austria                        | 1.3         |                       | 1.3         | 0.9                     |
| Poland                         | 0.2         |                       | 0.2         | 0.3                     |
| Portugal                       |             |                       |             | 0.2                     |
| Ireland                        |             |                       |             | 0.1                     |
| Spain                          | 0.1         |                       | 0.1         | 0.1                     |
| Finland                        | 0.3         |                       | 0.3         | 0.1                     |
| EU                             | 0.7         |                       | 0.7         |                         |
| <b>Total European exposure</b> | <b>20.8</b> | <b>3.3</b>            | <b>24.1</b> | <b>21.2</b>             |

<sup>1</sup> The comparative exposures have been adjusted to exclude deposits with central banks.

<sup>2</sup> GBP denominated exposure.

The majority of the government and government-guaranteed exposures are government bonds, part of financial investments available-for-sale. See note 16 of the Annual Financial Statements for a breakdown by country of the fair values and respective unrealised gains or losses. These government bonds are mainly held for liquidity management purposes, see the liquidity and funding section for further details.

In addition, the exposures to Greece and a large part of the Netherlands were issued for the purpose of providing credit and are therefore recorded in Loans and receivables – customers at amortised cost. The exposures that are part of assets held for trading mainly consist of government bonds that are client-facilitating in nature. Financial assets held for trading are recorded at fair value.

Due to ongoing market turbulence surrounding government finances and debt levels, particularly within the euro zone, ABN AMRO actively has taken measures deemed necessary to mitigate country risk throughout 2011. Part of the Italian government bonds were sold and part matured during the year. The proceeds were largely reinvested in Dutch and German government bonds. In addition, part of the exposures to Belgium was reduced following a rebalancing of the liquidity portfolio.

The table on the next shows the consolidated government and government-related exposures to Greece, Ireland, Portugal, Spain and Italy as at 31 December 2011. The exposures are presented on a gross basis before impairments, without recognising the benefit of risk mitigation such as hedges, collateral, and short positions across issuers.

## Government and government-guaranteed exposures to Greece, Ireland, Portugal, Spain and Italy

(in billions, outstanding)

31 December 2011 31 December 2010

|                                                         | Held for trading | Loans and receivables – customers | Financial investments available-for-sale | Financial investments held at fair value through profit or loss | Total book value | Total book value |
|---------------------------------------------------------|------------------|-----------------------------------|------------------------------------------|-----------------------------------------------------------------|------------------|------------------|
| <b>Greece</b>                                           |                  |                                   |                                          |                                                                 |                  |                  |
| Government                                              |                  |                                   |                                          |                                                                 |                  |                  |
| Government-guaranteed                                   |                  | 1.3                               |                                          |                                                                 | 1.3              | 1.4              |
| <b>Ireland</b>                                          |                  |                                   |                                          |                                                                 |                  |                  |
| Government                                              |                  |                                   |                                          |                                                                 |                  | 0.1              |
| Government-guaranteed                                   |                  |                                   |                                          |                                                                 |                  |                  |
| <b>Portugal</b>                                         |                  |                                   |                                          |                                                                 |                  |                  |
| Government                                              |                  |                                   |                                          |                                                                 |                  | 0.2              |
| Government-guaranteed                                   |                  |                                   |                                          |                                                                 |                  |                  |
| <b>Spain</b>                                            |                  |                                   |                                          |                                                                 |                  |                  |
| Government                                              |                  |                                   |                                          | 0.1                                                             | 0.1              | 0.1              |
| Government-guaranteed                                   |                  |                                   |                                          |                                                                 |                  |                  |
| <b>Italy</b>                                            |                  |                                   |                                          |                                                                 |                  |                  |
| Government                                              |                  |                                   | 0.3                                      |                                                                 | 0.3              | 1.3              |
| Government-guaranteed                                   |                  |                                   |                                          |                                                                 |                  |                  |
| <b>Total Greece, Ireland, Portugal, Spain and Italy</b> |                  | <b>1.3</b>                        | <b>0.3</b>                               | <b>0.1</b>                                                      | <b>1.7</b>       | <b>3.1</b>       |

In the context of a deteriorating outlook in Europe and in particular Greece, ABN AMRO's exposures on the total of Greece, Ireland, Portugal, Spain and Italy decreased significantly. Outstanding debt with Ireland and Portugal were collected in full according to scheduled maturities.

ABN AMRO holds EUR 1.3 billion of Greek Government-Guaranteed Corporate Exposures. The exposures were allocated to ABN AMRO during the separation process in 2010 and are the result of transactions entered into

around 2000. The exposures are recorded in loans and receivables at amortised cost. As these exposures are not quoted in an active market, fair values have been determined by applying a present value approach. Future cash flows have been discounted using a risk-adjusted interest rate which is based on market observable information for similar debt exposures. The fair values reduced significantly to 21% of the gross book value at 31 December 2011 (31 December 2010: 81%).

## Fair value determination of Greek Government-Guaranteed Corporate Exposures

| (in billions, outstanding) | 31 December 2011        |            | 31 December 2010 |            |
|----------------------------|-------------------------|------------|------------------|------------|
|                            | Book value <sup>1</sup> | Fair Value | Book value       | Fair Value |
| Greece                     | 1.3                     | 0.3        | 1.4              | 1.2        |

<sup>1</sup> The book value of 1.3 billion is stated on a gross basis, and therefore excludes EUR 880 million in impairments recorded during 2011.

On 24 February 2012 the Ministry of Finance of Greece issued a press release regarding the revised Private Sector Involvement (PSI) programme. The majority of the exposures held by ABN AMRO appear on this list. ABN AMRO's exposures fall into the category 'Foreign Law Guaranteed Titles' as these were issued by Greek corporates with a guarantee provided by the Greek government and are governed by UK law.

At this moment ABN AMRO is examining the current PSI programme, as there seems to be no consistency in the corporate government-guaranteed loans and notes appearing on the list.

To date, all obligations have been met. Redemptions of a total amount of EUR 190 million were made in 2011 reducing the total gross exposure to EUR 1.3 billion. We have impaired those exposures included in the list to 25% of notional value. This resulted in an additional impairment of EUR 380 million in the fourth quarter, bringing the total amount of impairments in 2011 to EUR 880 million.

With an ongoing focus on the risks attached to certain eurozone governments, and the potential for impact on other regions and non-government credit exposures, these risks continue to be managed closely by the bank's senior credit committees, informed by opinions and advice from country risk and macroeconomics specialists and its Country Risk Committee.

### Credit risk mitigation

The bank primarily mitigates credit risk by obtaining security/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. Obtaining collateral is seen as a complement to credit analysis of the counterparty.

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 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.

## Collateral and guarantees received as security

(in millions, outstanding)

31 December 2011

|                                                                          | Carrying amount | Collateral received   |                             |                          |                                 |                           | Surplus collateral | Net exposure   |
|--------------------------------------------------------------------------|-----------------|-----------------------|-----------------------------|--------------------------|---------------------------------|---------------------------|--------------------|----------------|
|                                                                          |                 | Financial instruments | Property, plant & equipment | Master netting agreement | Other collateral and guarantees | Total Collateral received |                    |                |
| <b>Loans and receivables – banks</b>                                     | <b>61,319</b>   | <b>21,255</b>         |                             | <b>4,819</b>             | <b>2,798</b>                    | <b>28,872</b>             | <b>2,153</b>       | <b>34,600</b>  |
| <b>Loans and receivables – customers</b>                                 |                 |                       |                             |                          |                                 |                           |                    |                |
| Residential mortgage (incl. fair value adjustment from hedge accounting) | 158,750         | 657                   | 175,222                     |                          | 3,545                           | 179,424                   | 26,915             | 6,241          |
| Other consumer loans                                                     | 15,931          | 1,631                 | 6,239                       |                          | 50                              | 7,920                     |                    | 8,011          |
| <b>Total consumer loans</b>                                              | <b>174,681</b>  | <b>2,288</b>          | <b>181,461</b>              |                          | <b>3,595</b>                    | <b>187,344</b>            | <b>26,915</b>      | <b>14,252</b>  |
| Commercial loans (incl. fair value adjustment from hedge accounting)     | 78,620          | 6,241                 | 27,036                      | 11,210                   | 5,764                           | 50,251                    | 1,145              | 29,514         |
| Other commercial loans                                                   | 17,275          | 18,614                |                             |                          | 35                              | 18,649                    | 5,847              | 4,473          |
| <b>Total commercial loans</b>                                            | <b>95,895</b>   | <b>24,855</b>         | <b>27,036</b>               | <b>11,210</b>            | <b>5,799</b>                    | <b>68,900</b>             | <b>6,992</b>       | <b>33,987</b>  |
| Government and official institutions                                     | 1,432           | 7                     | 1                           |                          | 205                             | 213                       |                    | 1,219          |
| <b>Total Loans and receivables – customers</b>                           | <b>272,008</b>  | <b>27,150</b>         | <b>208,498</b>              | <b>11,210</b>            | <b>9,599</b>                    | <b>256,457</b>            | <b>33,907</b>      | <b>49,458</b>  |
| Accrued income and prepaid expenses                                      | 4,369           |                       |                             |                          |                                 |                           |                    | 4,369          |
| <b>Total accrued income and prepaid expenses</b>                         | <b>4,369</b>    |                       |                             |                          |                                 |                           |                    | <b>4,369</b>   |
| <b>Other assets</b>                                                      | <b>2,771</b>    | <b>2</b>              |                             |                          | <b>32</b>                       | <b>34</b>                 |                    | <b>2,737</b>   |
| <b>Total on-balance</b>                                                  | <b>340,467</b>  | <b>48,407</b>         | <b>208,498</b>              | <b>16,029</b>            | <b>12,429</b>                   | <b>285,363</b>            | <b>36,060</b>      | <b>91,164</b>  |
| <b>Total off-balance</b>                                                 | <b>98,450</b>   | <b>3,100</b>          | <b>2,455</b>                |                          | <b>249</b>                      | <b>5,804</b>              | <b>553</b>         | <b>93,199</b>  |
| <b>Total credit exposure</b>                                             | <b>438,917</b>  | <b>51,507</b>         | <b>210,953</b>              | <b>16,029</b>            | <b>12,678</b>                   | <b>291,167</b>            | <b>36,613</b>      | <b>184,363</b> |

(in millions, outstanding)

31 December 2010

|                                                                          | Carrying amount | Collateral received   |                             |                          |                                 |                           | Surplus collateral | Net exposure   |
|--------------------------------------------------------------------------|-----------------|-----------------------|-----------------------------|--------------------------|---------------------------------|---------------------------|--------------------|----------------|
|                                                                          |                 | Financial instruments | Property, plant & equipment | Master netting agreement | Other collateral and guarantees | Total Collateral received |                    |                |
| <b>Loans and receivables – banks</b>                                     | <b>41,117</b>   | <b>23,379</b>         |                             | <b>144</b>               | <b>2,715</b>                    | <b>26,238</b>             |                    | <b>14,879</b>  |
| <b>Loans and receivables – customers</b>                                 |                 |                       |                             |                          |                                 |                           |                    |                |
| Residential mortgage (incl. fair value adjustment from hedge accounting) | 161,576         | 578                   | 185,447                     |                          | 703                             | 186,728                   | 29,858             | 4,706          |
| Other consumer loans                                                     | 13,859          | 1,790                 | 518                         |                          | 3,820                           | 6,128                     |                    | 7,731          |
| <b>Total consumer loans</b>                                              | <b>175,435</b>  | <b>2,368</b>          | <b>185,965</b>              |                          | <b>4,523</b>                    | <b>192,856</b>            | <b>29,858</b>      | <b>12,437</b>  |
| Commercial loans (incl. fair value adjustment from hedge accounting)     | 79,244          | 3,724                 | 21,668                      | 7,830                    | 14,800                          | 48,022                    | 303                | 31,525         |
| Other commercial loans                                                   | 16,008          | 16,547                |                             |                          |                                 | 16,547                    | 2,021              | 1,482          |
| <b>Total commercial loans</b>                                            | <b>95,252</b>   | <b>20,271</b>         | <b>21,668</b>               | <b>7,830</b>             | <b>14,800</b>                   | <b>64,569</b>             | <b>2,324</b>       | <b>33,007</b>  |
| Government and official institutions                                     | 3,257           |                       |                             |                          | 216                             | 216                       |                    | 3,041          |
| <b>Total Loans and receivables – customers<sup>1</sup></b>               | <b>273,944</b>  | <b>22,639</b>         | <b>207,633</b>              | <b>7,830</b>             | <b>19,539</b>                   | <b>257,641</b>            | <b>32,182</b>      | <b>48,485</b>  |
| Accrued income and prepaid expenses                                      | 4,169           |                       |                             |                          |                                 |                           |                    | 4,169          |
| <b>Total accrued income and prepaid expenses</b>                         | <b>4,169</b>    |                       |                             |                          |                                 |                           |                    | <b>4,169</b>   |
| <b>Other assets</b>                                                      | <b>3,557</b>    | <b>2</b>              |                             |                          | <b>276</b>                      | <b>278</b>                |                    | <b>3,279</b>   |
| <b>Total on-balance</b>                                                  | <b>322,787</b>  | <b>46,020</b>         | <b>207,633</b>              | <b>7,974</b>             | <b>22,530</b>                   | <b>284,157</b>            | <b>32,182</b>      | <b>70,812</b>  |
| <b>Total off-balance</b>                                                 | <b>101,215</b>  | <b>192</b>            | <b>537</b>                  |                          | <b>7</b>                        | <b>736</b>                | <b>155</b>         | <b>100,634</b> |
| <b>Total credit exposure</b>                                             | <b>424,002</b>  | <b>46,212</b>         | <b>208,170</b>              | <b>7,974</b>             | <b>22,537</b>                   | <b>284,893</b>            | <b>32,337</b>      | <b>171,446</b> |

<sup>1</sup> In 2011 further refinement of accounting harmonisation led to a reclassification as a consequence of the netting of residential mortgages with demand deposits, which impacted the financial position of the line items Loans and receivables – customers and Due to customers retrospectively.

## 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 Uniform

Counterparty Rating (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 exposure

A financial asset is past due if a counterparty has failed to make a payment when contractually due or if it has

exceeded an advised limit or has been advised of a limit lower than its current outstanding. Financial assets that have reached the “90 days past due” trigger are automatically classified as being in default (UCR 6, 7 or 8). The table below provides information on the ageing of past due financial assets not classified as defaulted (financial assets that have reached the “90 days past due” trigger are therefore not included).

## Financial assets that are past due but not impaired

(in millions, outstanding)

31 December 2011

|                                                                          | Carrying amount of assets (not classified as impaired) | Past due           |                                |                                | Total        |
|--------------------------------------------------------------------------|--------------------------------------------------------|--------------------|--------------------------------|--------------------------------|--------------|
|                                                                          |                                                        | ≤ 30 days past due | > 30 days & ≤ 60 days past due | > 60 days & < 90 days past due |              |
| <b>Loans and receivables – banks</b>                                     | <b>61,321</b>                                          | <b>2</b>           |                                |                                | <b>2</b>     |
| <b>Loans and receivables – customers</b>                                 |                                                        |                    |                                |                                |              |
| Residential mortgage (incl. fair value adjustment from hedge accounting) | 157,639                                                | 1,885              | 671                            | 730                            | 3,286        |
| Other consumer loans                                                     | 15,761                                                 | 33                 | 17                             | 9                              | 59           |
| <b>Total consumer loans</b>                                              | <b>173,400</b>                                         | <b>1,918</b>       | <b>688</b>                     | <b>739</b>                     | <b>3,345</b> |
| Commercial loans (incl. fair value adjustment from hedge accounting)     | 76,877                                                 | 831                | 76                             | 183                            | 1,090        |
| Other commercial loans                                                   | 17,277                                                 | 6                  | 1                              | 1                              | 8            |
| <b>Total commercial loans</b>                                            | <b>94,154</b>                                          | <b>837</b>         | <b>77</b>                      | <b>184</b>                     | <b>1,098</b> |
| Government and official institutions                                     | 1,432                                                  | 1                  |                                |                                | 1            |
| <b>Total Loans and receivables – customers</b>                           | <b>268,986</b>                                         | <b>2,756</b>       | <b>765</b>                     | <b>923</b>                     | <b>4,444</b> |
| Accrued income and prepaid expenses                                      | 4,369                                                  |                    |                                |                                |              |
| <b>Total accrued income and prepaid expenses</b>                         | <b>4,369</b>                                           |                    |                                |                                |              |
| <b>Other assets</b>                                                      | <b>2,771</b>                                           | <b>43</b>          | <b>2</b>                       |                                | <b>45</b>    |
| <b>Total</b>                                                             | <b>337,447</b>                                         | <b>2,801</b>       | <b>767</b>                     | <b>923</b>                     | <b>4,491</b> |



(in millions, outstanding)

31 December 2010

|                                                                          | Carrying amount of assets (not classified as impaired) | Past due           |                                |                                | Total        |
|--------------------------------------------------------------------------|--------------------------------------------------------|--------------------|--------------------------------|--------------------------------|--------------|
|                                                                          |                                                        | ≤ 30 days past due | > 30 days & ≤ 60 days past due | > 60 days & < 90 days past due |              |
| <b>Loans and receivables – banks</b>                                     | <b>41,117</b>                                          | <b>1</b>           |                                |                                | <b>1</b>     |
| <b>Loans and receivables – customers</b>                                 |                                                        |                    |                                |                                |              |
| Residential mortgage (incl. fair value adjustment from hedge accounting) | 160,639                                                | 1,965              | 569                            | 390                            | 2,924        |
| Other consumer loans                                                     | 13,635                                                 | 128                | 14                             | 16                             | 158          |
| <b>Total consumer loans</b>                                              | <b>174,274</b>                                         | <b>2,093</b>       | <b>583</b>                     | <b>406</b>                     | <b>3,082</b> |
| Commercial loans (incl. fair value adjustment from hedge accounting)     | 78,228                                                 | 1,076              | 79                             | 670                            | 1,825        |
| Other commercial loans                                                   | 16,010                                                 | 7                  | 1                              | 6                              | 14           |
| <b>Total commercial loans</b>                                            | <b>94,238</b>                                          | <b>1,083</b>       | <b>80</b>                      | <b>676</b>                     | <b>1,839</b> |
| Government and official institutions                                     | 3,256                                                  | 123                | 4                              | 171                            | 298          |
| <b>Total Loans and receivables – customers<sup>1</sup></b>               | <b>271,768</b>                                         | <b>3,299</b>       | <b>667</b>                     | <b>1,253</b>                   | <b>5,219</b> |
| Accrued income and prepaid expenses                                      | 4,169                                                  |                    |                                |                                |              |
| <b>Total accrued income and prepaid expenses</b>                         | <b>4,169</b>                                           |                    |                                |                                |              |
| <b>Other assets</b>                                                      | <b>3,543</b>                                           | <b>459</b>         | <b>46</b>                      | <b>65</b>                      | <b>570</b>   |
| <b>Total</b>                                                             | <b>320,597</b>                                         | <b>3,759</b>       | <b>713</b>                     | <b>1,318</b>                   | <b>5,790</b> |

<sup>1</sup> In 2011 further refinement of accounting harmonisation led to a reclassification as a consequence of the netting of residential mortgages with demand deposits, which impacted the financial position of the line items Loans and receivables – customers and Due to customers retrospectively.

### Impaired credit exposure

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).

Judgemental triggers include, but are not limited to, elements such as negative equity, regular payment problems, improper use of credit lines and legal action by other creditors. They could – but do not necessarily – result in the counterparty being classified as impaired.

Impaired credit exposures are in default and are assigned UCR 7 or 8.

Loan or debt restructuring is the change of one or more terms of an existing loan or debt agreement for economic or legal reasons related to the debtor's financial difficulties. A loan or debt restructuring process in itself does not constitute a trigger for changing a loan's status from in default to normal; restructured loans or debts may therefore retain their in default status after restructuring. If the loan or debt returns to the normal portfolio, the regular credit approval process must be followed.

Impairment for specific credit risk is established if there is objective evidence that the bank will not be able to collect all amounts due in accordance with contractual terms. The amount of the impairments is the difference between the carrying amount and the recoverable amount, i.e. the

present value of expected cash flows and the collateral value less selling costs, if the loan is secured.

To indicate the impaired portfolio (in percentages) against the total portfolio, ABN AMRO uses the impaired ratio. The impaired portfolio consists of Non-Performing Loans

(more than 90 days past due) and loans that are less than 90 days past due for which an impairment has been taken.

The table below provides information on impairments and impaired credit risk exposure as at 31 December.

## Impaired credit risk exposure

| (in millions, outstanding)                                                        |                       |                      |                                      |                |                |                               |                      |                                      |                |                |
|-----------------------------------------------------------------------------------|-----------------------|----------------------|--------------------------------------|----------------|----------------|-------------------------------|----------------------|--------------------------------------|----------------|----------------|
| 31 December 2011                                                                  |                       |                      |                                      |                |                | 31 December 2010 <sup>3</sup> |                      |                                      |                |                |
|                                                                                   | Gross carrying amount | Impaired outstanding | Impairments for specific credit risk | Coverage ratio | Impaired ratio | Gross carrying amount         | Impaired outstanding | Impairments for specific credit risk | Coverage ratio | Impaired ratio |
| <b>Loans and receivables – banks</b>                                              | <b>61,345</b>         | <b>24</b>            | <b>-24</b>                           | <b>100.0%</b>  | <b>0.0%</b>    | <b>41,166</b>                 | <b>49</b>            | <b>-49</b>                           | <b>100.0%</b>  | <b>0.1%</b>    |
| <b>Loans and receivables – customers</b>                                          |                       |                      |                                      |                |                |                               |                      |                                      |                |                |
| Residential mortgages (incl. fair value adjustment from hedge accounting)         | 159,031               | 1,392                | -239                                 | 17.2%          | 0.9%           | 161,838                       | 1,199                | -252                                 | 21.0%          | 0.7%           |
| Other consumer loans                                                              | 16,275                | 514                  | -288                                 | 56.0%          | 3.2%           | 14,210                        | 575                  | -274                                 | 47.7%          | 4.0%           |
| <b>Total consumer loans</b>                                                       | <b>175,306</b>        | <b>1,906</b>         | <b>-527</b>                          | <b>27.6%</b>   | <b>1.1%</b>    | <b>176,048</b>                | <b>1,774</b>         | <b>-526</b>                          | <b>29.7%</b>   | <b>1.0%</b>    |
| Commercial loans (incl. fair value adjustment from hedge accounting) <sup>1</sup> | 83,487                | 6,610                | -4,606                               | 69.7%          | 7.9%           | 82,882                        | 4,654                | -3,392                               | 72.9%          | 5.6%           |
| Other commercial loans                                                            | 17,303                | 26                   | -26                                  | 100.0%         | 0.2%           | 16,041                        | 31                   | -30                                  | 96.8%          | 0.2%           |
| <b>Total commercial loans</b>                                                     | <b>100,790</b>        | <b>6,636</b>         | <b>-4,632</b>                        | <b>69.8%</b>   | <b>6.6%</b>    | <b>98,923</b>                 | <b>4,685</b>         | <b>-3,422</b>                        | <b>73.0%</b>   | <b>4.7%</b>    |
| Government and official institutions                                              | 1,432                 |                      |                                      |                |                | 3,259                         | 3                    | -2                                   | 66.7%          | 0.1%           |
| <b>Total Loans and receivables – customers<sup>2</sup></b>                        | <b>277,528</b>        | <b>8,542</b>         | <b>-5,159</b>                        | <b>60.4%</b>   | <b>3.1%</b>    | <b>278,230</b>                | <b>6,462</b>         | <b>-3,950</b>                        | <b>61.1%</b>   | <b>2.3%</b>    |
| <b>Other assets</b>                                                               | <b>2,772</b>          | <b>1</b>             | <b>-1</b>                            | <b>100.0%</b>  |                | <b>3,561</b>                  | <b>18</b>            | <b>-4</b>                            | <b>22.2%</b>   | <b>0.5%</b>    |
| <b>Total on-balance</b>                                                           | <b>341,645</b>        | <b>8,567</b>         | <b>-5,184</b>                        | <b>60.5%</b>   | <b>2.5%</b>    | <b>322,957</b>                | <b>6,529</b>         | <b>-4,003</b>                        | <b>61.3%</b>   | <b>2.0%</b>    |
| <b>Total off-balance</b>                                                          | <b>98,466</b>         | <b>18</b>            | <b>-7</b>                            | <b>38.9%</b>   |                | <b>101,248</b>                | <b>125</b>           | <b>-22</b>                           | <b>17.6%</b>   | <b>0.1%</b>    |
| <b>Total impaired credit risk exposure</b>                                        | <b>440,111</b>        | <b>8,585</b>         | <b>-5,191</b>                        | <b>60.5%</b>   | <b>2.0%</b>    | <b>424,205</b>                | <b>6,654</b>         | <b>-4,025</b>                        | <b>60.5%</b>   | <b>1.6%</b>    |

<sup>1</sup> Includes impairments on Madoff and the Greek Government-Guaranteed Corporate Exposures.

<sup>2</sup> In 2011 further refinement of accounting harmonisation led to a reclassification as a consequence of the netting of residential mortgages with demand deposits, which impacted the financial position of the line items Loans and receivables – customers and Due to customers retrospectively.

<sup>3</sup> The figures have been restated retrospectively for comparison purposes. Due to further harmonisation the defaulted but not impaired loans and IBNI are no longer included for all portfolios.

The total level of impairments for specific credit risk in 2011 amounted to EUR 5,191 million against EUR 4,025 million in 2010. Impairments for credit risk for loans to banks decreased to EUR 24 million (31 December 2010: EUR 49 million). Impairments for specific credit risk for loans to customers increased by EUR 1,209 million to EUR 5,159 million (31 December 2010: EUR 3,950 million), due mainly to the large impairment taken on Greek Government-Guaranteed Corporate Exposures. Overall, loan impairments over 2011 were much higher than the impairments over 2010. This was due to higher new impairments, partially offset by lower releases of impairments no longer required.

The impaired outstanding of commercial loans includes the Madoff exposure of EUR 888 million (31 December 2010: EUR 966 million), while the Greek Government-Guaranteed Corporate Exposures decreased from EUR 1.4 billion in 2010 to EUR 1.3 billion in 2011 due to scheduled redemptions in 2011.

The overall coverage ratio for 2011 equalled 61%, remaining within acceptable parameters (31 December 2010: 61%). The coverage ratio for 2011 of ECT equalled 93% (31 December 2010: 36%) due to recovery to the normal portfolio of loans previously impaired, with a relatively small impairment. The impaired ratio equalled 0.4% in 2011 (31 December 2010: 2.2%). The coverage ratio for 2011 of residential mortgages equalled 17% (31 December 2010: 21%). The impaired ratio for residential mortgages equalled 0.9% in 2011 (31 December 2010: 0.7%).

Where possible, ABN AMRO seeks to restructure loans rather than to take possession of collateral. The carrying value of collateral obtained during 2011 as well as 2010 is therefore not material.

#### **Incurred but not identified (IBNI)**

Incurred but not identified (IBNI) impairments on loans represents losses inherent in components of the non-impaired portfolio that have not yet been specifically identified. The scope of the calculation of the IBNI impairments covers all financial assets. 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 with intrinsic elements such as loss identification period (LIP), cycle adjustment factor and expert views.

The IBNI increased to EUR 372 million (31 December 2010: EUR 350 million).

## **Market risk**

ABN AMRO is exposed to market risk in its trading book, banking book and through its pension fund liability.

### **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. ABN AMRO is mainly exposed to market risk through client-facilitating and arbitrage activities carried out by the Markets business. Within the overall risk mandate of the bank, dedicated risk committees approve mandates and set limits for each trading desk and for the combined trading activities and monitor the limits.

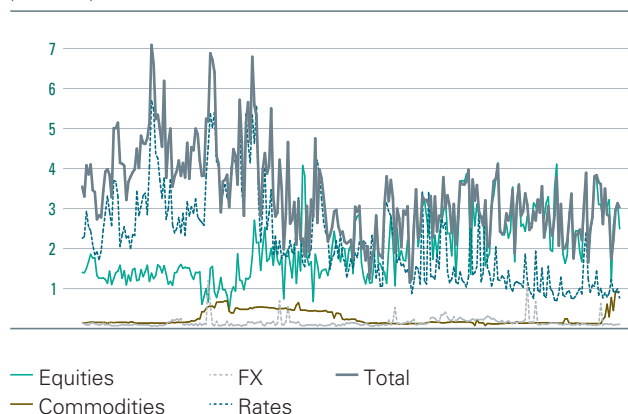
### **Value-at-Risk**

For internal purposes, ABN AMRO manages market risk daily, on a portfolio basis. The key indicators used are Value-at-Risk (VaR) and a wide array of stress tests. The VaR model is based on historical simulation and assumes a 1-day holding period and at a 99% confidence level. In addition to VaR and stress tests, ABN AMRO uses indicators that are characteristic for the specific portfolio or risk factor. Counterparty credit exposure limits are set as part of the overall credit risk limits and measured for each specific counterparty.

The VaR models were aligned and integrated in April 2011. Prior to that date, the diversification effects across the pre-integration FBN and pre-integration ABN AMRO portfolios could not be taken into account properly. For the period up to April 2011, ABN AMRO has taken a conservative approach by adding up the VaR figures for former FBN and former ABN AMRO models.

## VaR per risk factor 2011

(in millions)



Please note that the total VaR is not an addition of the VaR values for equities, commodities, FX and Rates, due to diversification effects. The individual VaRs represent the Value at Risk due to possible changes in the prices and volatilities of the underlying values belonging to the different asset classes.

## VaR summary

|                    | 2011 | 2010 |
|--------------------|------|------|
| VaR at 31 December | 3.0  | 4.4  |
| Highest VaR        | 7.2  | 8.1  |
| Lowest VaR         | 1.2  | 2.6  |
| Average VaR        | 3.4  | 4.9  |

ABN AMRO's VaR is mainly driven by interest rate risk and equity risk. During the market turmoil in 2011, the market risk exposures were reduced in order to avoid possible large losses due to unexpected large market moves. ABN AMRO's trading activities are client-driven. Temporary increases in VaR are mainly attributable to the need to accommodate temporary increases in client flows.

### Back testing

Value-at-Risk forecasts are compared with the calculated marked-to-market changes using daily market data variations. The number of outliers is benchmarked with statistical metrics to determine the reliability of the VaR model.

Back-testing measures – on a one-year rolling window – the number of losses exceeding the VaR prediction given a confidence interval of 99%. Such losses should occur only

once every 100 business days. In 2011 the number of outliers did not exceed the 1%, indicating that the VaR model works as required.

### Regulatory capital

ABN AMRO uses a combination of standardised and internal model approaches to calculate regulatory capital. ABN AMRO intends to implement the Internal Models Method (IMM) for calculating market risk capital 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 implementation is completed, ABN AMRO will submit the application for IMM to the regulator, DNB.

### The limits framework

Market risk limits are strategic restrictions reflecting the bank's risk appetite, the nature of trading activities, and perceived trading and management skills. 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 should be consistent with the appetite statement for Markets, in line with the bank's risk taxonomy. 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 and stress tests and delegates certain limit-setting authority to the Trading and Clearing Risk Committee (TCRC);
- ▶ TCRC sets other limits, as necessary.

Primary limits are defined as the trading mandate, an approved product list and VaR, stress and scenario limits. Each trading activity must fall under primary 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, tenor limits on interest rate risk and vega risks (sensitivity of market values to changes in implied volatilities) as well as various basis limits. Limits are managed actively to address specific business and market developments.

During the market turmoil, certain specific limits were reduced in order to cap the exposure to potentially large market moves.

### **Stress and scenario testing**

Stress and scenario testing is designed to focus specifically on tail events, i.e. events outside the VaR confidence interval.

ABN AMRO runs daily stress tests for large moves in single risk factors. In addition, the impacts of extreme market events covering multiple risk factors simultaneously are run. These extreme scenarios can either be historical or hypothetical. The historical ones can replicate past scenarios and account for situations that were recorded further in the past, e.g. the 2008 liquidity and credit crisis. The hypothetical scenarios allow the bank to simulate new shocks of unforeseen magnitude. The different scenarios are assessed on a regular basis and, when appropriate, are updated and extended.

### **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).

Significant steps were taken in 2011 to further integrate interest rate risk measurement and reporting. In line with

several systems integration programmes, the bank completed harmonisation of the measurement and methodologies. The Funds Transfer Price (FTP) methodology, processes and policy were completed for the integrated bank. FTP is the methodology to transfer interest rate risk from the business to ALM/Treasury. To further improve interest rate risk management "absolute sensitivity" has been introduced as an additional indicator, in addition to "net interest income at risk" (NII-at-risk), duration of equity and Value-at-Risk (VaR).

### **Interest rate risk measurement, monitoring and reporting**

In ABN AMRO's banking book, interest rate risk translates into the potential negative impact of interest rate changes on net interest income or market value of ABN AMRO's financial assets, other than those categorised as trading assets, and the bank's liabilities. Interest rate risk arises primarily from the fact that the maturity of the bank's assets typically exceeds the maturity of the bank's liabilities (a so-called maturity mismatch) and comes from (non-trading) activities such as retail banking and lending in our commercial and private banking businesses.

The management of interest rate risk follows the Asset & Liability Management (ALM) framework as approved by the ALCO. The purpose of this framework is to transfer interest rate risk out of commercial business lines in order to manage it centrally, allowing for a clear demarcation between commercial business results and results on non-hedged interest rate positions.

## Interest rate parameters

### NII-at-Risk

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 net interest income is negatively impacted when rates rise.

### 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.

### Absolute sensitivity

During 2011, ABN AMRO introduced absolute sensitivity as an additional indicator to measure for the mismatch. 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.

ABN AMRO's position is managed to ensure these metrics are within defined limits under the pre-defined scenarios.

## Interest rate risk metrics

|                                 | 31 December<br>2011 | 31 December<br>2010 |
|---------------------------------|---------------------|---------------------|
| NII-at-risk (in %)              | 3.8                 | 2.2                 |
| Duration of equity (in years)   | 3.0                 | 4.2                 |
| Absolute sensitivity (in EUR m) | 26.9                | 15.4                |
| VaR banking book (in EUR m)     | 756                 | 673                 |

The main objective is to manage current and future earnings sensitivity due to interest rate risk mainly through the use of swaps (steering the portfolio). The interest rate risk management for the banking book is the responsibility of ALCO and is executed and monitored by ALM/Treasury.

During 2011 the interest rates decreased at the long end of the curve, at the short end the rates increased little. This resulted in a flattening of the yield curve. The long end of the yield curve is inverted. In line with the flattening and the outlook for interest rate developments, the duration position decreased during 2011. Along with this decrease, certain positions have been taken to profit from the inverse shape of the long end of the yield curve. These positions increase the absolute sensitivity and the VaR. The increase in the NII-at-Risk partially originates in improved measurement and harmonisation.

## Market risk (pension fund)

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. ABN AMRO sponsors a number of pension schemes for its employees, under which it has an obligation to pay contributions 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 in relation to the participants' rights under these defined benefit plans. Additional contributions to cover its pension obligations to current and former employees may be required 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, investment risks and increases in life expectancy, which are outside of ABN AMRO's control.

More information on pension funds is included in note 32 to the Consolidated Financial Statements.

## Operational risk\*

All companies – including banks – are subject 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. This definition includes legal and compliance risk, but excludes strategic/business and reputation risk. Some examples of operational risk are wrongful execution of an order, fraud, litigation for non-compliance with law, natural disasters and terrorism. Responses to risk can be avoidance, transfer or improving control.

## Framework for Operational Risk Management and Control

The framework for operational risk management and control covers all dimensions of operational risk and supports the organisation in managing and overseeing operational risks and in monitoring the bank's operational risk profile. Management control is an integrated part of the framework through which all management teams up to the Managing Board assess the risks that could jeopardise their business objectives, resulting in Management Control Statements.

Appropriate governance has been established according to the three lines of defence approach, making line management primarily responsible for managing operational risks as the first line of defence, challenged and supported by the risk function as the second line and having group audit, as the third line of defence, providing assurance on the proper implementation of the risk governance and policies.

## Instruments

ABN AMRO has a variety of instruments in place to prevent operational losses and to manage operational risk consistently across the organisation:

- ▶ Risk assessments at strategic and operational levels form a key instrument for operational risk management. An intensive risk assessment programme was implemented bank-wide to uncover operational risks, which was especially important during the integration. The use of change risk assessments and risk self-assessments is a key element in ensuring embedding and use of the framework for operational risk management and control at all levels in the organisation;
- ▶ Scenario analysis is used to generate and assess potential scenarios of rare and extreme operational risk events that may threaten the bank's business activities;
- ▶ Risk event management is a process of systematically collecting and analysing operational risk events on a bank-wide basis;
- ▶ Key risk indicators have a detection function regarding changes in the operational risk profile;
- ▶ Issue tracking provides a consolidated view of the status of the operational risk issues uncovered.

## Mitigation techniques

To respond appropriately to any operational risks uncovered, the bank has established a number of centrally coordinated mitigation techniques.



### Management control

In line with industry practice, ABN AMRO has a process in place with which the bank's senior management reviews and reports on the effectiveness of internal controls and defines necessary actions to remedy any significant failings or weaknesses. Various risk categories and business objectives are assessed, on the basis of which management teams sign a Management Control Statement and formulate action plans, if necessary, to improve management and control. Risk monitors the follow-up to the actions plans. ABN AMRO's Management Control Statement is included under 8.1 at the end of this section.

### Information security

For financial services providers such as ABN AMRO, knowledge and information is critical. To protect the bank's information from a wide range of threats, ABN AMRO has established an information security approach to ensure confidentiality, integrity and availability of the information in the bank's systems.

### Business continuity management

Business continuity management (BCM) is a management process that identifies potential threats to an organisation and the impacts on business operations that those threats, if realised, might have. BCM ensures a framework for building organisational resilience and the ability to respond effectively to threats, thus safeguarding stakeholders' interests and the organisation's reputation, brand and value-creating activities.

### Risk transfer (insurance)

ABN AMRO has group-wide insurance programmes in place to mitigate losses of specific event risks and to transfer event risks to the external market. 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.

### Regulatory capital

The bank's own funds for operational risks in 2011 were calculated based on The Standardised Approach (TSA). Under TSA, gross income figures 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 total TSA capital is calculated based upon the results per line of business. The TSA capital is increased by an internal add-on to cover, among others, separation and integration activities.

ABN AMRO currently implements the Advanced Measurement Approach to calculate own funds for operational risk for the whole bank for regulatory capital. This approach is already in use for the calculation of economic capital.

### Operational risk related to the integration

With various integration milestones achieved in 2011, the integration risks have been reduced significantly and can now be addressed on a business-as-usual basis. For more information, see chapter 11 Integration.

### Liquidity risk

Liquidity risk is the risk that actual (and potential) payments or collateral posting obligations cannot be met when they are due.

More information is provided in the Liquidity and funding section of this report.

### Business risk\*

Business risk is the risk of lower-than-expected pre-tax earnings, through changes in volumes, margins and costs as a result of reputation risks, strategic risks and sensitivity to external business risk drivers. This includes changes in the competitive and economic environment and political risks.



Risks that ABN AMRO reviews and calculates as part of business risk are:

- ▶ External events impacting revenues such as GDP growth, market trend, new market participants/products, changes in tax environment, changes in regulations and political decisions;
- ▶ Internal decisions impacting revenues such as choice of markets/products, market share and pricing;
- ▶ The risk that funding costs are higher than expected due to deterioration of creditworthiness of ABN AMRO;
- ▶ Higher-than-expected costs as a result of an unexpected change in regulations requiring employees to follow additional training;
- ▶ Internal decisions impacting cost structure (outsourcing, performance-related pay, investments, etc);
- ▶ The negative opinion of any stakeholder, regardless of whether this is based on fact or perceived (reputation risk);
- ▶ Adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to changes in the business environment (strategic risk).

Sensitivity to business risk drivers can be 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.

## Basel framework\*

### Basel II

#### Basel II Pillar 1

Since the Legal Merger in 2010, ABN AMRO has worked on harmonising its Advanced Internal Ratings Based (AIRB) models and policies and finalised harmonisation of the AIRB policy framework in 2011.

A roll-out plan is currently being executed to migrate several credit risk portfolios from the Standardised Approach (SA) to the Internal Rating Based Approach (IRB). The bank is also preparing implementation of the Internal Models Method for market risk (trading book) and the Advanced Measurement Approach for operational risk.

The major technical integration took place in November 2011 (TIGA) for a large part of the lending portfolio, with that the integration is on track. Prior to the technical integration, the applicable risk models were approved.

#### Basel II Pillar 2

ABN AMRO's capital requirement under Pillar 2 is based on internal models for economic capital and the view of the regulator, as expressed in the Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review and Evaluation Process (SREP). The economic capital models were integrated in 2011 to ensure suitability for the merged bank. Economic capital requirements are monitored monthly and reported in quarterly Capital Adequacy Assessments Reports and in the yearly ICAAP statement. ABN AMRO also delivered an Internal Liquidity Adequacy Assessment Process (ILAAP) report to the regulator in 2011.

Economic capital is an important risk measure defined as the amount of capital required to guarantee economic solvency. Economic capital is compared to the Available Financial Resources of the bank, to monitor if sufficient capital is available to meet the internal capital requirements. Economic capital is reviewed and reported on a monthly basis.

Economic capital is also used as a parameter for risk aggregation, capital allocation, and performance and limit steering. Economic capital figures are used at the transactional level in transaction forecasting or loan pricing tools. These tools act as a decision-making mechanism for assessing the attractiveness of a new transaction, within the given portfolio of ABN AMRO. Economic capital is the quantification metric for ABN AMRO's risk profile.

The ICAAP includes an assessment of future capital adequacy. A stress-testing framework is in place to execute integrated bank-wide stress tests.

### Basel II Pillar 3

ABN AMRO publishes the Pillar 3 report shortly after the Annual Report.

### New Basel regulation

The bank has implemented CRD III (the European Union implementation of Basel 2.5). The impact on capital has been limited as the bank currently applies the standardised approach to the large majority of market risk.

CRD IV (the European Union implementation of Basel III) currently has the status of draft regulation. CRD IV is expected to cause a rise in RWA, mainly due to an increase in the capital requirement for the treatment of mark-to-market counterparty risk losses through the Credit Value Adjustment (CVA) capital charge. More quantitative information about CRD IV is provided in the Capital management section.

## 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 main risks related to the strategy of the 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 reporting; (iii) compliance with laws and regulations and (iv) high-level goals of ABN AMRO. It has been adjusted and improved during the year under review, to reflect changes resulting from transition of the ABN AMRO businesses.

Different parts of section 8, 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 financial reporting does not contain any material inaccuracies;
- ▶ ABN AMRO's internal controls functioned properly in 2011;
- ▶ There are no indications to suggest that ABN AMRO's internal controls will not continue to function properly in 2012.

The 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, 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 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 risk management and internal control, the Managing Board will focus especially on the following themes:

- ▶ Negative development of economic climate; there is a serious possibility of a deep recession in the eurozone, mainly due to the ongoing uncertainty on a structural solution for the debt problems of several countries. A deep recession will have a substantial negative impact on the bank – in 2012 and beyond. The effects will be seen most notably in increased credit risk (as both commercial and retail clients suffer the negative consequences of the recession), increased business risk (as both volume and margins will be under pressure), a decrease in valuation of assets and a considerable increase in pension costs;
- ▶ Unusual circumstances limit capital and funding possibilities; Illiquid financial markets as a result of the uncertainty of the sovereign crisis may hamper ABN AMRO in optimally funding or capitalising its activities, possibly limiting business opportunities. This, combined with an increasing competition for consumer deposits and stricter regulatory capital requirements, could lead to a further increase in the cost of funding and capital;

- ▶ Increased fraud attacks via electronic channels; all banks are faced with rising attempts by organised criminals to commit fraud via electronic channels. These attacks may lead to a reputational and financial threat for all banks. ABN AMRO continuously monitors the results and status of its anti-fraud programmes. Though current actions are sufficient at keeping the risk at an acceptable level for the moment within ABN AMRO, continuous attention is needed to keep up with and ahead of the heightened threat level;
- ▶ Increasing regulatory pressure; there is a significant increase in the number of national and international regulatory requirements that are being imposed on the banking sector. Following on this, there is increased workload for (key) staff in responding to these requirements and to the more assertive and persistent monitoring of supervisors on compliance. These regulatory pressures are only expected to increase further in the near future. The impact of these changes in laws and regulations on the bank, which are substantial and of which the interpretation cannot always be anticipated, includes:

- ▶ much higher levels of capital and liquidity required, resulting in a higher liquidity premium;
- ▶ pressure on profitability of the earning model of various products;
- ▶ substantial costs to implement regulatory change, especially with regards to systems and procedures;
- ▶ added reputational risk due to an increased risk of compliance breaches (including duty of care) or sanctions by supervisors;
- ▶ possible extra taxation on banks.

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, control processes being deliberately circumvented by employees and others, management overriding controls, and the occurrence of unforeseeable circumstances) ABN AMRO's internal risk management and internal control do not provide certainty on the realisation of business objectives, and can not at all times prevent misstatements, inaccuracies, fraud and non-compliance with rules and regulations.

# capital management 9

ABN AMRO is relatively well capitalised with a core Tier 1 ratio of 10.7% at year-end 2011. Based on current insights, ABN AMRO is relatively well positioned to meet the upcoming Basel III requirements in January 2013.

## Capital management framework

The primary objectives of the capital management framework 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 allocated to businesses in line with the bank's long-term strategic objectives. Capital allocation is based on risk-adjusted performance measures to ensure that return targets are met and to achieve a moderate risk profile aligned with the bank's risk appetite.

The assessment of capital requirements combines a variety of views, e.g. an internal perspective, a regulatory perspective and expectations and views of market participants such as investors and rating agencies. Capital adequacy is assessed against capital adequacy targets, derived from the bank's overall strategy and risk appetite. In the capital management framework, various scenarios are analysed to ensure that the capital adequacy targets are met at all times. Furthermore, the capital position is extensively tested using both macroeconomic and

company-specific stress scenarios. Contingency plans are in place to address capital issues, if any.

The capital structure consists mainly of highly loss-absorbing capital to cover unexpected losses, while the subordination in specific capital elements provides further protection for the interests of senior creditors.

ABN AMRO also applies credit risk mitigation techniques to manage capital by transferring credit exposure on own originated assets, including in the form of securitisations. Furthermore, a foreign exchange capital management strategy is applied to limit capital ratio volatility due to exchange rate movements.

## Capital adequacy

At year-end 2011, the core Tier 1 and Tier 1 ratios were 10.7% (up from 10.4% at year-end 2010) and 13.0% (up from 12.8% at year-end 2010) respectively and the total capital adequacy ratio was 16.8% (up from 16.6% at year-end 2010). These capital ratios are well above the regulatory minimum requirements.

The increase in capital was partly offset by an increase in credit risk and market risk RWA, causing capital ratios to rise compared with year-end 2010 ratios.

## Regulatory capital

| (in millions)                               | 31 December 2011 | 31 December 2010 |
|---------------------------------------------|------------------|------------------|
| <b>Total equity (IFRS)</b>                  | <b>11,420</b>    | <b>12,112</b>    |
| Participations in financial institutions    | -299             | -301             |
| Other regulatory adjustments                | 1,484            | 273              |
| <b>Core Tier 1 capital</b>                  | <b>12,605</b>    | <b>12,084</b>    |
| Non-innovative hybrid capital instruments   | 1,750            | 1,750            |
| Innovative hybrid capital instruments       | 994              | 1,000            |
| <b>Tier 1 capital</b>                       | <b>15,349</b>    | <b>14,834</b>    |
| Subordinated liabilities Upper Tier 2 (UT2) | 178              | 173              |
| Subordinated liabilities Lower Tier 2 (LT2) | 4,709            | 4,747            |
| Participations in financial institutions    | -299             | -301             |
| Other regulatory adjustments <sup>1</sup>   | -80              | -117             |
| <b>Total regulatory capital</b>             | <b>19,857</b>    | <b>19,336</b>    |
| <b>Risk-weighted assets (Basel II)</b>      |                  |                  |
| Credit risk (RWA)                           | 101,609          | 99,577           |
| Operational risk (RWA)                      | 13,010           | 14,461           |
| Market risk (RWA)                           | 3,667            | 2,290            |
| <b>Total Basel II risk-weighted assets</b>  | <b>118,286</b>   | <b>116,328</b>   |
| <b>Capital ratios (Basel II)</b>            |                  |                  |
| Core Tier 1 ratio                           | 10.7%            | 10.4%            |
| Tier 1 ratio                                | 13.0%            | 12.8%            |
| Total capital ratio                         | 16.8%            | 16.6%            |

<sup>1</sup> Other regulatory adjustments consist mainly of prudential filters for the Special Component of Equity (available-for-sale unrealised gains/losses and cash flow hedge reserve), goodwill and intangible assets, securitisation first loss positions and IRB provision shortfall.

ABN AMRO reports under the Basel II Advanced-IRB approach for the majority of the credit risk portfolios, the standardised approach for operational risk and mainly the standardised approach for market risk. The following table shows the amount of RWA reported under the

standardised and advanced approach per risk type. The RWA calculations under the standardised approach are predefined in the Basel II framework, while internal models which are approved by the regulator are used under the advanced approach.

## Risk-weighted assets

| (in millions)          | Advanced      | Standardised  | Total          |
|------------------------|---------------|---------------|----------------|
| Credit risk (RWA)      | 70,779        | 30,830        | 101,609        |
| Operational risk (RWA) |               | 13,010        | 13,010         |
| Market risk (RWA)      | 1,413         | 2,254         | 3,667          |
| <b>Total RWA</b>       | <b>72,192</b> | <b>46,094</b> | <b>118,286</b> |

## Main changes in capital position

### Capital

#### Core Tier 1 capital

The net reported profit attributable to shareholders in 2011 amounted to EUR 665 million, of which EUR 402 million, or 60%, 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 263 million (including preferred dividend) is proposed for 2011, of which EUR 200 million was paid out as interim dividend on the ordinary shares in September 2011. Proposed dividends are excluded from the capital calculation.

Equity (EU-IFRS) decreased to EUR 11,420 million, from EUR 12,112 million at year-end 2010. This decrease was due mainly to a change in the special component of equity (SCE, impact of EUR -1.2 billion), partly offset by the retained part of the net profit. The SCE records, among other things, the effective portion of fair market value fluctuations of interest rate derivatives used for macro cash flow hedge accounting. These relate to assets and liabilities that are not reported at fair market value. In the regulatory capital calculation, the change in the SCE is eliminated in the line item Other regulatory adjustments.

#### Tier 2 capital

At year-end 2010, most of the existing Lower Tier 2 (LT2) capital instruments were not expected to qualify for grandfathering under the currently known Basel III rules. ABN AMRO launched a LT2 exchange transaction combined with a new issuance in April 2011 targeted to increase the eligible portion of LT2 instruments. As a result of the exchange and issuance, new subordinated LT2 notes were issued in euros amounting to EUR 1.2 billion maturing on 27 April 2021 and in USD amounting to USD 0.6 billion maturing on 27 April 2022. The new notes are expected to be eligible under the Basel III transitional capital rules and are expected to increase the eligible amount of LT2 capital on 1 January 2013 from EUR 0.5 billion to EUR 2.2 billion<sup>1</sup> taking into account the CRD IV draft of 20 July 2011.

Furthermore, in June 2011 ABN AMRO executed an exchange and tender offer for outstanding USD 250 million subordinated deposit notes. These notes were economically owned by ABN AMRO but legally owned by RBS N.V. and therefore could not be taken into account in ABN AMRO's regulatory capital position. The purpose of this transaction was to facilitate a transfer from RBS to ABN AMRO, in accordance with arrangements made in connection with the Legal Demerger, and to offer investors the opportunity to transfer their investment to ABN AMRO. As a result of this transaction, Tier 2 capital increased by USD 113 million (EUR 87 million at year-end 2011).

### Risk-weighted assets

The EUR 2.0 billion increase in RWA in 2011 was caused mainly by business growth (EUR 6.3 billion) and model changes (EUR 2.2 billion). The increase was partly offset by ongoing data quality improvements (EUR -2.8 billion), combined with a decrease in operational risk RWA (EUR -1.5 billion). Furthermore, the capital requirement for the Credit Umbrella with Deutsche Bank decreased (EUR -0.9 billion) due to a decline of the portfolio covered by this Credit Umbrella since the end of 2010 and changes in regulatory requirements in relation to the Credit Umbrella. The impact of CRD III (Basel 2.5) was an increase in RWA of EUR 0.8 billion related to the implementation of a stressed Value-at-Risk model for market risk.

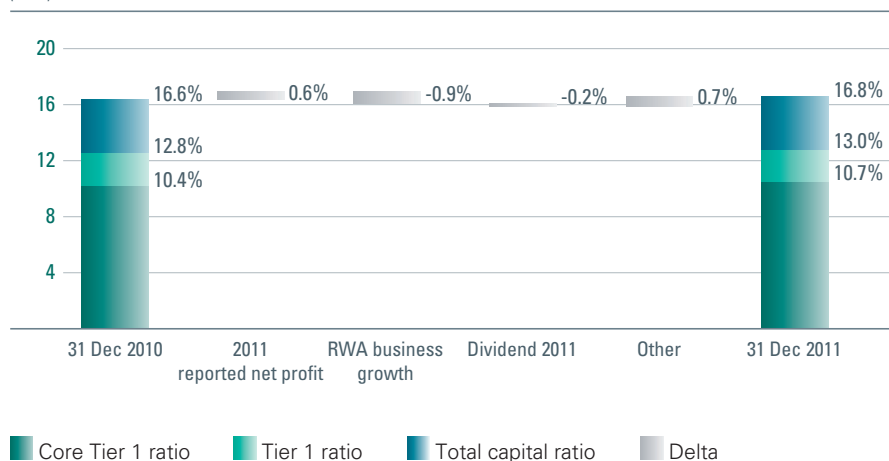
RWA are relatively low compared with ABN AMRO's total assets due to the relatively large mortgage portfolio and securities financing business, which both have low risk weights.

A graphical representation of the main items impacting the capital ratios in 2011 is given in the following graph.

<sup>1</sup> This corresponds to an amount of EUR 2.0 billion eligible Lower Tier 2 capital after applying the portfolio cap of 90% on 1 January 2013.

## Developments impacting capital ratios in 2011

(in %)



## Further information on share capital, dividend and capital instruments

### Share capital

As at 31 December 2011, 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 the class B preference shares have a nominal value of EUR 0.01 each.

As at 31 December 2011, 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 35 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 will remain 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.

The dividend policy targets a dividend payout of 40% of the net reported annual profit to all shareholders. A total dividend of EUR 263 million is proposed for 2011, of which EUR 200 million was paid out as interim dividend on 1 September 2011 as described in the Interim Financial Report 2011. 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 abovementioned coupon/dividend triggers due to the interim dividend payment, the coupon on the Upper Tier 2 GBP instrument was paid on 17 February 2012 and the next coupon for the Perpetual Bermudan Callable Securities will be paid on 10 March 2012.

### ABN AMRO Preferred Investments

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 is 5.85% until 31 December 2012.



## Perpetual Bermudan Callable Securities

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. Further information is provided in note 30 to the Annual Financial Statements. The last annual coupon was paid on 10 March 2011.

## Liability related to the former Mandatory Convertible Securities

On 7 December 2010, EUR 2 billion of Mandatory Convertible Securities matured and converted into shares issued by Ageas pursuant to the applicable terms and conditions. In consideration herewith, Ageas claims the

delivery of ABN AMRO shares to Ageas for a total amount of EUR 2 billion. The Dutch State, the current holder of ABN AMRO's ordinary shares, strongly contests the purported obligation towards Ageas (further information is provided in note 30 to the Annual Financial Statements).

Until it is certain that ABN AMRO is legally released from the obligations, if any, derecognition of the liability from the balance sheet is not permitted under IFRS. In accordance with IFRS requirements, the liability has therefore been retained in the balance sheet as at 31 December 2011 and of the total amount EUR 1,750 million continues to qualify as Tier 1 capital.

## Tier 2 capital instruments

ABN AMRO has the following Tier 2 capital instruments outstanding:

## Tier 2 capital instruments

|                                                |                               |               |                                       |          | 31 Dec 2011    | 31 Dec 2010    |
|------------------------------------------------|-------------------------------|---------------|---------------------------------------|----------|----------------|----------------|
| (in millions)                                  | ISIN <sup>1</sup>             | Maturity date | First possible call date <sup>2</sup> | Currency | Nominal amount | Nominal amount |
| <b>Upper Tier 2</b>                            |                               |               |                                       |          |                |                |
| GBP 150 million (originally GBP 750 million)   | XS0244754254                  | Perpetual     | Feb 2016                              | GBP      | 150            | 150            |
| <b>Lower Tier 2</b>                            |                               |               |                                       |          |                |                |
| EUR 377 million (originally EUR 499 million)   | XS0221514879                  | 22 Jun 2015   | Mar 2013                              | EUR      | 377            | 499            |
| EUR 440 million (originally EUR 1,000 million) | XS0267063435                  | 14 Sep 2016   | Mar 2013                              | EUR      | 441            | 1,000          |
| USD 457 million (originally USD 1,000 million) | XS0282833184                  | 17 Jan 2017   | Apr 2013                              | USD      | 457            | 1,000          |
| EUR 1,650 million                              | -                             | 16 Oct 2017   | Oct 2012                              | EUR      | 1,650          | 1,650          |
| EUR 238 million (originally EUR 500 million)   | XS0256778464                  | 31 May 2018   | May 2013                              | EUR      | 238            | 500            |
| EUR 1,228 million 6.375% per annum             | XS0619548216                  | 27 Apr 2021   |                                       | EUR      | 1,228          |                |
| USD 595 million 6.250% per annum               | XS0619547838                  | 27 Apr 2022   |                                       | USD      | 595            |                |
| USD 113 million 7.75% per annum                | US00080QAD79/<br>USN0028HAP03 | 15 May 2023   |                                       | USD      | 113            |                |
| Various smaller instruments                    |                               | 2015-2017     |                                       | EUR      | 109            | 334            |
| Various smaller instruments                    |                               | 2015          |                                       | USD      | 83             | 136            |

<sup>1</sup> EUR 1,650 million instrument is owned by the Dutch State, acquired from Fortis Bank SA/NV in Belgium in October 2008; see related parties.

<sup>2</sup> 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.

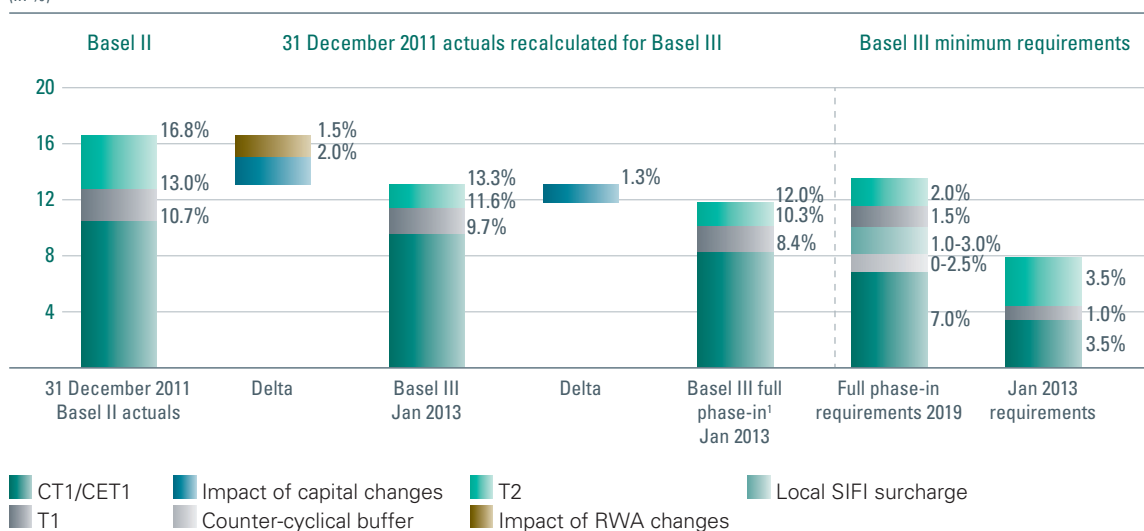
## Basel III/CRD IV

The introduction of Basel III in a European regulation (CRD IV) is expected to translate the current Basel II capital ratios into lower Basel III capital ratios as of 2013. 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 must be implemented using a phased-in approach.

ABN AMRO already manages its regulatory capital adequacy position towards expected Basel III requirements. Based on the current insights, ABN AMRO believes it is relatively well positioned to meet the January 2013 minimum capital requirements.

### Basel III estimates capital ratios

(in %)



<sup>1</sup> Basel III full phase-in scenario with transitional arrangements for capital instruments.

The graph compares the 31 December 2011 actual capital ratios under Basel II adjusted for the transitional arrangements as expected to be applicable in January 2013 and a full phase-in scenario with January 2013 transitional arrangements for capital instruments only. Transitional arrangements for capital instruments consist of a portfolio cap in 2013 of 90% of the nominal value of capital instruments eligible for grandfathering on 31 December 2012, which further amortises by 10% each subsequent year.

### Basel III/CRD IV in January 2013

Under the new rules as set out in the CRD IV draft of 20 July 2011 and the current interpretation thereof, RWA are expected to increase resulting in a 1.5% 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. In line with the proposed CRD IV amendments made by the Danish Presidency, the CVA capital charge has been adjusted taking into account the exemption for sovereign counterparties.

Total capital is expected to decrease resulting in a 3.3% lower total capital ratio (2.0% under the January 2013 rules and 1.3% under the full phase-in rules). This decrease consists of the following building blocks:

- ▶ Common Equity Tier 1 capital will replace core Tier 1 capital. Common Equity Tier 1 capital is EUR 1.6 billion lower than core Tier 1 capital due to the deduction of deferred tax assets, defined benefit pension fund assets, and a different treatment of capital deductions and prudential filters. The amended IAS 19 Employee Benefits, expected effective date 1 January 2013, does not have an impact on Common Equity Tier 1 capital under the full phase-in rules due to the deduction of the defined benefit pension fund assets;
- ▶ Under the transitional rules, the eligibility of EUR 0.3 billion of Tier 1 instruments (including preference shares) and EUR 2.6 billion of Tier 2 instruments will be lost on 1 January 2013 (also shown in the graph below).

The decrease in total capital is partly offset by the different treatment of capital deductions and prudential filters, which increases Tier 2 capital by EUR 0.4 billion.

As a result, when applying the January 2013 full phase-in rules with transitional arrangements for capital instruments only to the year-end 2011 capital position:

- ▶ the Common Equity Tier 1 ratio is expected to decrease from 10.7% to 8.4%, exceeding the proposed Common Equity requirement of 7% under Basel III<sup>1, 2</sup>;
- ▶ the Tier 1 ratio is expected to decrease from 13.0% to 10.3%, exceeding the proposed minimum Basel III Tier 1 requirement of 8.5%;
- ▶ the total capital ratio is expected to decrease from 16.8% to 12.0%, exceeding the proposed minimum Basel III total capital requirement of 10.5%.

## Impact of Basel III on capital ratios

| 31 December 2011                       | Basel II | Basel III<br>Jan 2013 | Basel III<br>full phase-in<br>Jan 2013 |
|----------------------------------------|----------|-----------------------|----------------------------------------|
| Core Tier 1/Common Equity Tier 1 ratio | 10.7%    | 9.7%                  | 8.4%                                   |
| Tier 1 ratio                           | 13.0%    | 11.6%                 | 10.3%                                  |
| Total capital ratio                    | 16.8%    | 13.3%                 | 12.0%                                  |

Furthermore, Basel III proposes a minimum leverage ratio of 3% by 2018. ABN AMRO's leverage ratio based on the draft rules was 3.3% at year-end 2011 (unchanged compared to year-end 2010), using current Basel II Tier 1 capital as a basis.

## Eligibility of capital instruments

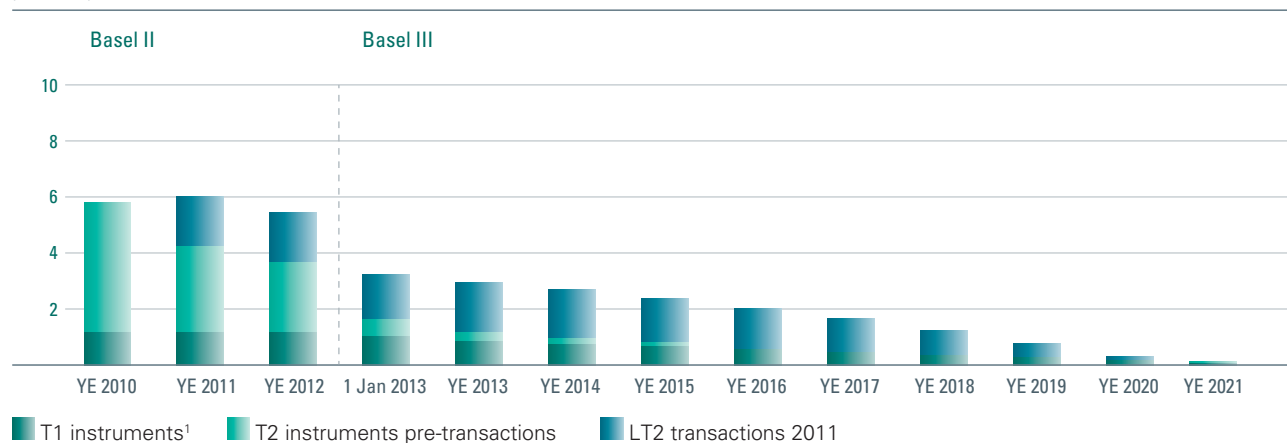
The amortisation of the eligible amount of capital instruments is shown in the following graph, assuming grandfathering over a ten-year period. The impact of the Lower Tier 2 transactions in 2011 is shown separately.

<sup>1</sup> January 2013 Basel III rules including transitional arrangements for capital instruments combined with the application of full phase-in rules for capital deductions, prudential filters and RWA adjustments.

<sup>2</sup> The full phase-in Common Equity Tier 1 capital requirement includes a capital conservation buffer of 2.5% (as per CRD IV directive). Several uncertainties still exist regarding the treatment of the counter-cyclical buffer and the requirements for systemically important financial institutions in the Netherlands (local SIFIs). The counter-cyclical buffer is shown as a range from 0% to 2.5% (as per CRD IV directive). ABN AMRO is currently classified as a local SIFI, for which the surcharge will be in the range from 1% to 3% (at the discretion of the local regulator).

## Eligibility of capital instruments

(in billions)



<sup>1</sup> The liability related to the former Mandatory Convertible Securities is not included in Tier 1 instruments.

Several Tier 2 capital instruments with a call or step-up option between 20 July 2011 and 1 January 2013<sup>1</sup> are to be derecognised as of 1 January 2013, while other Tier 2

instruments<sup>2</sup> with a call or step-up option after 1 January 2013 are to be derecognised as of the call or step-up date.

<sup>1</sup> This applies to the EUR 1,650 million, the EUR 441 million and the USD 457 million capital instruments. In the Tier 2 capital instruments table, the first possible call dates taking into account the EC call restriction are shown.

<sup>2</sup> This applies to the EUR 238 million capital instrument which is to be derecognised after 31 May 2013.

# liquidity and funding 10

Liquidity risk disclosures provided in line with the requirements of IFRS 7 form part of the Group Financial Statements and have therefore been audited by the external editor. Other disclosures are unaudited and labelled with an asterisk (\*).

## Liquidity

### Liquidity risk

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 financial condition of the firm. Market liquidity risk is the risk that the bank cannot sell an asset 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 a portfolio due to changes in the applicable haircuts and market value. It also concerns uncertainty about the time required to realise the liquidity value of the assets.

### Liquidity risk management approach

The ALCO is responsible for liquidity risk management and hence decides on the governance structure with regard to liquidity risk, which includes policy-setting and liquidity risk procedures. Liquidity risk is managed centrally in Group Functions (ALM/Treasury). The businesses are subject to

liquidity incentives through, among other things, the inclusion of liquidity costs in the funds transfer pricing framework. The bank takes 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 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 used within the bank are:

- ▶ Stress test: The objective of stress-testing is to evaluate the liquidity buffer size, the risk appetite and limits. The behaviour of present and future cash outflows and inflows (including inflows from asset sale and/or the use of assets as collateral) under unlikely but plausible crisis scenarios (both market-wide and company-specific) is 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 the scenario of a severe and short stress as defined by DNB. It requires the one-month liquidity position to always exceed the minimum required regulatory level of zero. In the course of 2011, DNB changed the specifications of the regulatory liquidity, mainly related to a change of haircuts applied to retained RMBS<sup>1</sup>. The outcome of the regulatory liquidity requirement at 31 December 2011 was EUR 25.2 billion, which is comfortably above the minimum regulatory requirement;

<sup>1</sup> Because DNB changed the specifications of the regulatory liquidity, with changes mainly related to adjusted prescribed haircuts on assets in the liquidity buffer, the outcome of 31 December 2011 cannot fully be compared with 31 December 2010, when the outcome totalled EUR 44.0 billion.

- **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. The survival period was >365 days at 31 December 2011 (equal to the outcome at 31 December 2010<sup>1</sup>) and is comfortably above the internally set minimum requirement;
- **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). The SF/NLA improved to 106.4% on 31 December 2011 compared with 104.2%<sup>2</sup> on 31 December 2010. The increase in this indicator is mainly due to an increase in term funding and subordinated debt and a decrease in long-term loans to customers;
- **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). This 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. The Dutch retail market is characterised by mortgage loans outweighing client's savings balances, thereby driving up the LtD. The LtD ratio was 130.3% on 31 December 2011, down from 135.2% on 31 December 2010. The following table shows the development of the LtD ratio in 2011.

## Loan-to-Deposit ratio

| (in millions)                                                   | 31 December 2011 | 31 December 2011 –<br>former methodology | 31 December 2010 |
|-----------------------------------------------------------------|------------------|------------------------------------------|------------------|
| <b>Loans and Receivables Customers<sup>1</sup></b>              | <b>272,008</b>   | <b>272,008</b>                           | <b>273,944</b>   |
| -/- Reverse repos                                               | 8,857            | 8,857                                    | 12,096           |
| -/- Securities borrowing                                        | 7,592            | 7,592                                    | 2,243            |
| -/- Selected current accounts related to ABN AMRO Clearing Bank | n/a              | 4,911                                    | 5,213            |
| -/- Fair value adjustments from hedge accounting                | 4,825            | n/a                                      | n/a              |
| + Gross up saving part of savings mortgages                     | 4,950            | n/a                                      | n/a              |
| <b>Total Loans</b>                                              | <b>255,684</b>   | <b>250,648</b>                           | <b>254,392</b>   |
| <b>Due to customers<sup>1</sup></b>                             | <b>213,616</b>   | <b>213,616</b>                           | <b>209,466</b>   |
| -/- Repurchase agreements                                       | 20,885           | 20,885                                   | 16,471           |
| -/- Securities Lending Transactions                             | 4,509            | 4,509                                    | 1,968            |
| -/- Deposits from Dutch State Treasury Agency (DSTA)            | 2,100            | 2,100                                    | 2,925            |
| + Gross up saving part of savings mortgages                     | 4,950            | n/a                                      | n/a              |
| + Debt certificates issued through Groenbank NV                 | 436              | n/a                                      | n/a              |
| + Fiduciary deposits <sup>2</sup>                               | 4,700            | 2,800                                    | n/a              |
| <b>Total deposits</b>                                           | <b>196,208</b>   | <b>188,922</b>                           | <b>188,102</b>   |
| <b>Loan-to-Deposit ratio (LtD)</b>                              | <b>130.3%</b>    | <b>132.7%</b>                            | <b>135.2%</b>    |

<sup>1</sup> In 2011 further refinement of accounting harmonisation led to a reclassification as a consequence of the netting of residential mortgages with demand deposits, which impacted the financial position of the line items loans and receivables – customers and due to customers retrospectively.

<sup>2</sup> This volume of fiduciary deposits was booked in Due to customers in 2010. Although the accounting classification was changed to Due to banks, this volume is represented in the Loan-to-deposit calculation for comparison reasons.

<sup>1</sup> Deviates from survival period published in Interim Financial Statement.

<sup>2</sup> Deviates from previously reported SF/NLA. In 2011 further refinement of accounting harmonisation led to a reclassification as a consequence of the netting of residential mortgages with demand deposits, which impacted the financial position of the line items loans and receivables – customers and due to customers retrospectively.

At the end of 2011 a further refinement of methodology took place. The client's savings in the Dutch saving mortgages were grossed up to properly incorporate the liquidity characteristics of saving mortgages. The FV hedge adjustment is no longer part of the LtD calculation as it does not have a liquidity impact. A uniform approach towards inclusion of fiduciary deposits was taken. Selected current accounts from ABN AMRO Clearing Bank are included after methodology adjustment. Without the adjustment in methodology, the LtD would have been reported 2.4-percentage points higher than the current outcome for December 2011.

To ensure sound liquidity management, these indicators are considered in combination with funding diversification in terms of funding sources and types, currencies, geographies and investor bases and the maturity profile, which is described in the funding section in this chapter.

### 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. Contingency liquidity risk management makes use of the following tools:

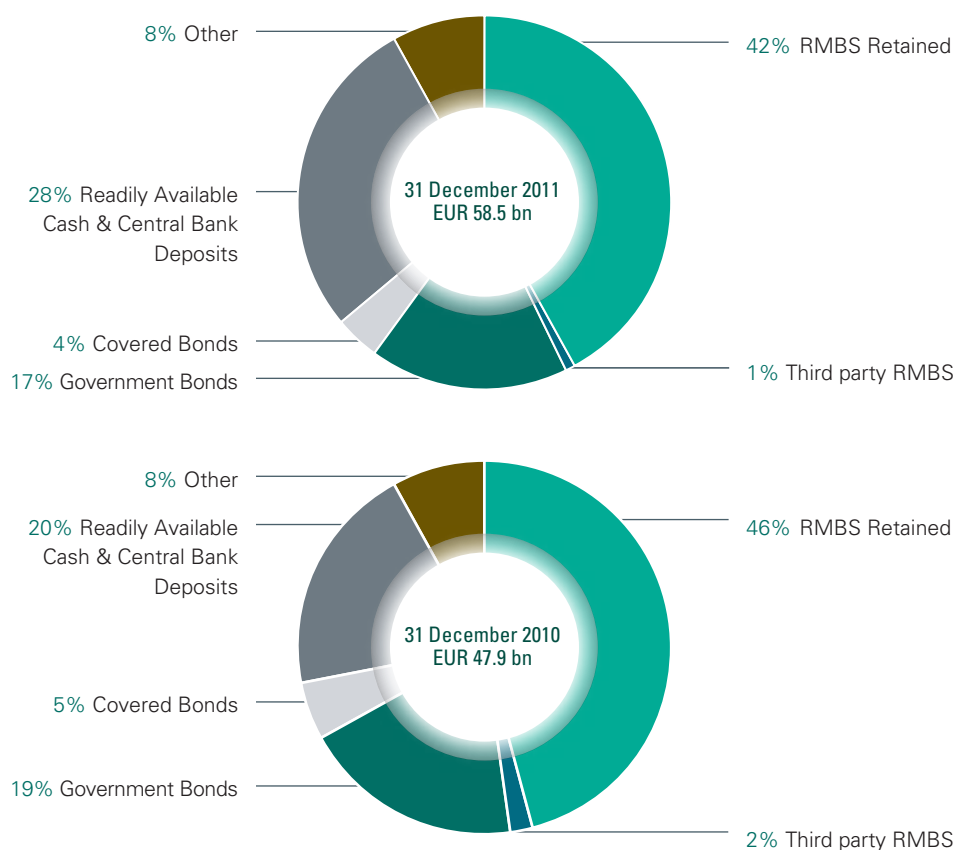
- ▶ **Contingency Funding Plan (CFP):** The CFP, which is aligned with the Recovery Plan as required by DNB, comes into effect in the event the bank's liquidity position is threatened by internal or external circumstances which could lead to a liquidity crisis. The CFP is designed to enable the bank to continue to manage its liquidity sources without unnecessarily jeopardising the businesses, while limiting excessive funding costs in severe market circumstances. The CFP defines several stages which describe the seriousness of liquidity threats. The CFP stage is determined based on the internal liquidity risk profile and external market developments;

- ▶ **Liquidity buffer<sup>1</sup>:** A liquidity buffer with sufficient collateral is retained as a safety cushion in the event of severe liquidity stress, for example, for participation in ECB tenders. The liquidity buffer portfolio mainly consists of retained RMBS, government bonds and cash, all unencumbered. The liquidity buffer amounted to EUR 58.5 billion on 31 December 2011, up from EUR 47.9 billion on 31 December 2010. The composition of the liquidity buffer is shown in the following graph. Part of the liquidity buffer comprises government bonds, further information on the composition of the government bond portfolio is provided in note 16 to the Annual Financial Statements. The liquidity buffer was intentionally enlarged to guard against any unforeseen circumstances in the volatile markets of 2011 and early 2012. This liquidity buffer was partly financed with funding raised through the CP/CD programmes. The portion of readily available cash and central bank deposits was considerably higher at year-end 2011 compared with year-end 2010, and included an amount of excess cash in short-term USD. The liquidity buffer includes deposits at central banks. ABN AMRO participated in the one-week liquidity absorbing tender of ECB, for a total amount of EUR 10 billion per year-end 2011 (total size of the ECB tender EUR 211 billion). ABN AMRO securitises its in-house originated prime Dutch mortgages into ECB-eligible RMBS notes for liquidity purposes. In March 2011, certain tranches of retained RMBSs became ECB-ineligible as a consequence of new legislation. In the course of 2011 these notes were cancelled and restructured. New notes were issued under the latest master issuer technology: new Fishbowl RMBS notes were issued and retained in July 2011 (liquidity value of EUR 7.1 billion at 31 December 2011) and new Oceanarium RMBS notes were issued and retained in October 2011 (liquidity value of EUR 9.1 billion at 31 December 2011).

<sup>1</sup> All amounts stated in this paragraph are liquidity values.

## Composition of liquidity buffer (in billions, liquidity value)

### Liquidity buffer



### Regulatory developments\*

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.

At present, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are reported to regulators as part of the Basel III observation period, during which these indicators will be further fine-tuned by the regulatory authorities. Initiatives are being taken to prepare the

business and the product portfolio for the transition to Basel III. ABN AMRO targets compliance with Basel III liquidity regulation by 2013 at the latest.

Regulatory minimum requirements for both the LCR and NSFR are expected to be 100% under Basel III. The LCR for ABN AMRO was 69%<sup>1</sup> at 31 December 2011. In the run-up to full Basel III implementation, ABN AMRO intends to actively manage both current regulatory liquidity requirements, as imposed by DNB, and the LCR. The LCR can be managed relatively easily by for instance increasing the size of the pool of highly liquid assets. At 31 December 2011, the NSFR was 100%<sup>1</sup> as a result of the successful implementation of the funding strategy in the last two years, under which the volume of long-term funding increased in comparison to the volume of short-term funding.

<sup>1</sup> Calculated based on current information, assumptions, and regulatory guidance.



The Dutch central bank focuses strongly on effective liquidity risk management and introduced ILAAP (internal liquidity adequacy assessment process) in 2011, under which banks are required to thoroughly evaluate their individual liquidity risk management.

### Maturity analysis of assets and liabilities

The following table shows an analysis of the assets and liabilities according to when they are to be recovered or settled. This is not consistent with how ABN AMRO views liquidity, because the table does not take expected client behaviour and other factors into account.

### Maturity of assets and liabilities at 31 December 2011

| (in millions)                          |                         |                         |                         | 31 December 2011 |
|----------------------------------------|-------------------------|-------------------------|-------------------------|------------------|
|                                        | Less than twelve months | More than twelve months | Maturity not applicable | Total            |
| <b>Assets</b>                          |                         |                         |                         |                  |
| 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           |
| <b>Total assets</b>                    | <b>136,289</b>          | <b>261,741</b>          | <b>6,652</b>            | <b>404,682</b>   |
| <b>Liabilities</b>                     |                         |                         |                         |                  |
| 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           |
| <b>Total liabilities</b>               | <b>297,569</b>          | <b>91,351</b>           | <b>4,342</b>            | <b>393,262</b>   |
| <b>Total equity</b>                    |                         |                         | <b>11,420</b>           | <b>11,420</b>    |
| <b>Total liabilities and equity</b>    | <b>297,569</b>          | <b>91,351</b>           | <b>15,762</b>           | <b>404,682</b>   |

## Maturity of assets and liabilities at 31 December 2010

| (in millions)                          |                            |                            |                            | 31 December 2010 |
|----------------------------------------|----------------------------|----------------------------|----------------------------|------------------|
|                                        | Less than<br>twelve months | More than<br>twelve months | Maturity<br>not applicable | Total            |
| <b>Assets</b>                          |                            |                            |                            |                  |
| Cash and balances at central banks     | 906                        |                            |                            | 906              |
| Financial assets held for trading      | 24,300                     |                            |                            | 24,300           |
| Financial investments                  | 3,607                      | 16,469                     | 121                        | 20,197           |
| Loans and receivables – banks          | 40,695                     | 311                        | 111                        | 41,117           |
| Loans and receivables – customers      | 46,098                     | 223,963                    | 3,883                      | 273,944          |
| Other assets                           | 4,226                      | 4,387                      | 8,205                      | 16,818           |
| <b>Total assets</b>                    | <b>119,832</b>             | <b>245,130</b>             | <b>12,320</b>              | <b>377,282</b>   |
| <b>Liabilities</b>                     |                            |                            |                            |                  |
| Financial liabilities held for trading | 19,982                     |                            |                            | 19,982           |
| Due to banks                           | 21,125                     | 411                        |                            | 21,536           |
| Due to customers                       | 204,084                    | 5,382                      |                            | 209,466          |
| Issued debt                            | 23,939                     | 62,652                     |                            | 86,591           |
| Subordinated liabilities               |                            | 6,085                      | 2,000                      | 8,085            |
| Other liabilities                      | 8,712                      | 7,128                      | 3,670                      | 19,510           |
| <b>Total liabilities</b>               | <b>277,842</b>             | <b>81,658</b>              | <b>5,670</b>               | <b>365,170</b>   |
| <b>Total equity</b>                    |                            |                            | <b>12,112</b>              | <b>12,112</b>    |
| <b>Total liabilities and equity</b>    | <b>277,842</b>             | <b>81,658</b>              | <b>17,782</b>              | <b>377,282</b>   |

The next table provides a maturity analysis of the earliest contractual undiscounted cash flows for assets and liabilities. Financial assets and liabilities held for trading are recorded within on demand at fair value. ABN AMRO

believes this best represents the short-term nature and the cash flows of these activities. The contractual maturity of the instruments may however extend over significantly longer periods.

**Maturity based on contractual undiscounted cash flows at 31 December 2011**

(in millions)

31 December 2011

[illegible]

**Maturity based on contractual undiscounted cash flows at 31 December 2010**

(in millions)

31 December 2010

[illegible]

## Funding

ABN AMRO raises most of its funding through its R&PB and C&MB networks. Limited access to wholesale funding in 2011 heightened competition in the retail and private banking market for savings accounts. Moreover, given the mechanics of the current Dutch deposit guarantee scheme, clients with savings amounts below the coverage ceiling of EUR 100,000 became more price-sensitive. Clients with funds over this amount became more sensitive to the creditworthiness of their bank. These developments changed the dynamics in savings markets. A consequence for ABN AMRO is that the margin on savings products is under pressure.

The wholesale funding markets in 2011 were highly turbulent, due to factors such as a lack of confidence in solving the European debt crisis, fear of potential contagion effects, sovereign rating changes, discussions on the debt ceiling and subsequent downgrading of the US, and several regulatory changes (more information is provided in the Economic and regulatory environment section). Short-term funding markets were also impacted by the financial turmoil. US money market fund investors were especially reluctant to buy commercial paper issued by European financials in general or in maturities beyond one month specifically. ABN AMRO's funding abilities were not materially impacted by the market circumstances and ABN AMRO was able to successfully

roll its short-term funding positions in several currencies (including USD).

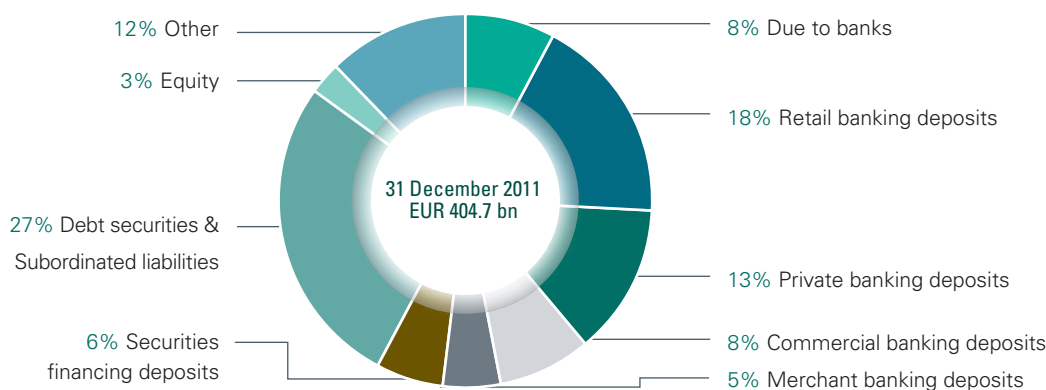
In the course of 2011, the ECB made available several liquidity facilities with tenors up to three years. At the same time, the central banks received significant sums of overnight cash indicating a continued malfunctioning of the interbank market. Furthermore, six central banks – including the ECB – provided liquidity support in USD to the global financial system in order to ease constraints of European financials in attracting USD funding.

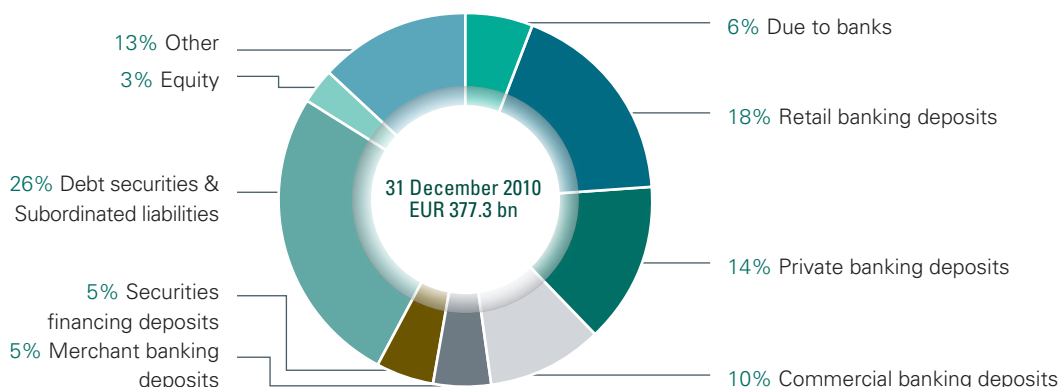
ABN AMRO did not use any liquidity-providing instruments of central banks.

## Liability breakdown

The bank benefits from core retail 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 45% of the balance sheet total as at 31 December 2011. Total due to customers increased to EUR 213.6 billion at 31 December 2011, up from EUR 209.5 billion at 31 December 2010. ABN AMRO also attracts and places money market deposits and issues debt instruments through wholesale markets.

### Liability and equity breakdown at year-end 2011 and 2010





### Funding strategy

The wholesale funding strategy is designed to strengthen the bank's funding profile by extending maturities and diversification and is hence an important instrument in mitigating liquidity risks. The funding strategy is based on the following principles:

- ▶ Manage and control the maturity profile and corresponding debt issuance;
- ▶ Remain active in strategic issuance in core funding markets in Europe, the United States and the Asia-Pacific region;
- ▶ Establish strong relationships with investor base and strengthen investor base through active marketing and issuance;
- ▶ Be ready to enter capital markets at any time;
- ▶ Build and manage the credit curve and issuance levels.

### Available funding programmes for new issuances

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. Continuous assessment of this toolkit is performed to determine the optimal use of funding sources. New funding instruments were added to the portfolio of funding sources in 2011, such as the Australian Dollar MTN programme and the London CD programme. A full description of the available funding sources is provided in note 29 on Issued Debt of the Annual Financial Statements, while further information on secured funding tools is provided at the end of this chapter.

### Funding issuance in 2011

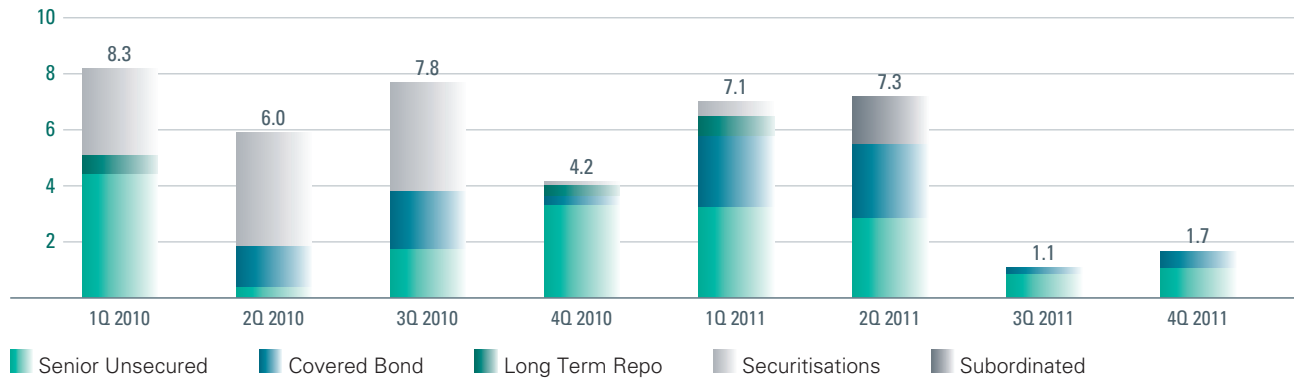
In accordance with the funding plan, most of the 2011 funding was issued in the first half of the year. ABN AMRO raised EUR 14.7 billion of long-term funding among a widespread investor base in 2011, and EUR 2.5 billion of funding maturity was extended (termed out) in 2011. Although markets for term funding were largely closed in the second half of 2011, ABN AMRO issued a successful small benchmark transaction in October, raising EUR 0.5 billion of 2-year funding.

Of the raised funding in 2011, 65% was attracted through benchmark transactions and taps on existing benchmarks. The benchmarks include the inaugural senior unsecured transaction under the 144A MTN programme targeted at US investors (USD 2.0 billion), which improved geographical diversification. The remainder of funding was attracted through private placements. Furthermore, EUR 1.6 billion of subordinated loans qualifying as Lower Tier 2 capital were issued, constituting a combination of new funding and terming out already existing funding, thereby further improving the maturity profile.

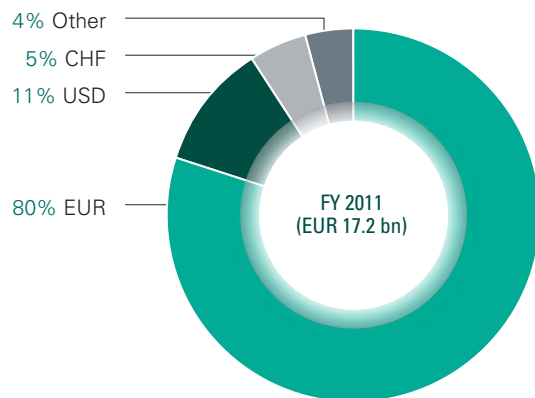
The amount of long-term funding issued in 2011 exceeded the EUR 8.2 billion of 2011 maturities in long term-funding by EUR 9.0 billion and improved ABN AMRO's funding profile. The excess is applied to prefund part of the 2012 refinancing requirement and to finance a buyback of EUR 2.7 billion of Dutch government-guaranteed bonds conducted in April 2011. This contributed to the reduced outstanding of government-guaranteed bonds (EUR 4.8 billion) at 31 December 2011.

### Long-term funding raised in 2011 and 2010

(in billions)

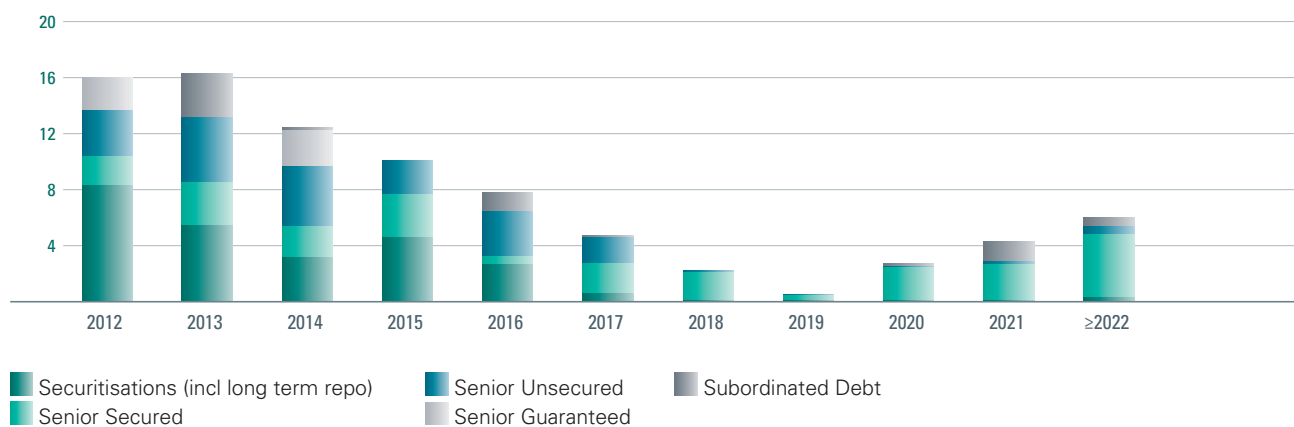


### Currency Diversification of funding raised in 2011

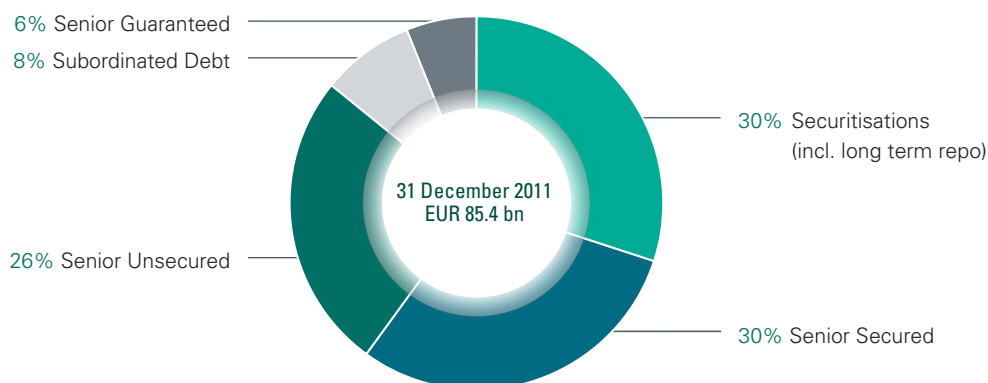


### Maturity calendar at 31 December 2011

(in billions)



### Total outstanding long-term funding at 31 December 2011



The maturity profile improved due to an increase in the average maturity of long-term funding and successful liability management transactions.

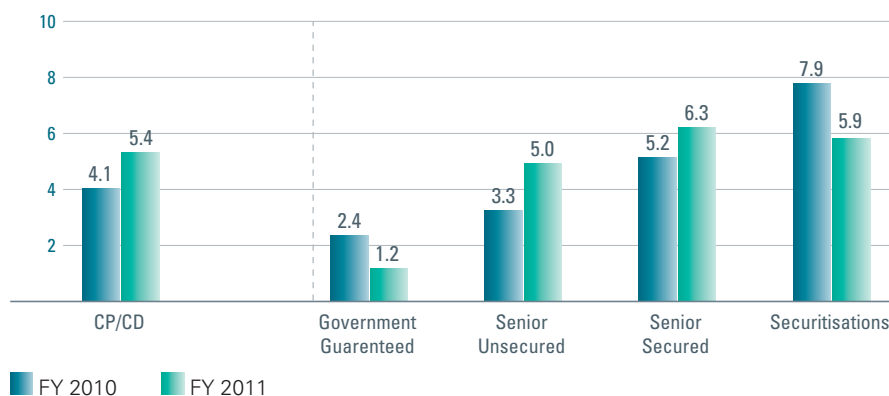
This maturity graph assumes the redemption on the earliest possible call date or otherwise the legal maturity date, subject to the EC restrictions put upon ABN AMRO that last up to and including 10 March 2013. This redemption assumption does not imply the automatic exercise of early call options.

### Funding vs balance sheet total

(in %)

Short-term programme funding vs balance sheet total – Total: 5.4% at 31 December 2011

Long-term funding vs balance sheet total  
Total: 18.4% at 31 December 2011



The graph above shows the development of wholesale funding types relative to the balance sheet total. In 2011 ABN AMRO did not participate in ECB liquidity-providing operations.

Details on outstanding balances in commercial paper (CP) and certificates of deposits (CD) are shown in the table on

the next page. Towards year-end 2011, the bank attracted more funding through its CP/CD programmes in order to build up extra liquidity buffers to guard against any unforeseen consequences arising from volatile market conditions. A description of the short-term funding programmes is available in note 29 on Issued Debt of the Annual Financial Statements.



## Short-term funding programmes

| Programme<br>(in billions)     | Size of programme | Outstanding balance |                  | Average original maturity |                  |
|--------------------------------|-------------------|---------------------|------------------|---------------------------|------------------|
|                                |                   | 31 December 2011    | 31 December 2010 | 31 December 2011          | 31 December 2010 |
| Euro Commercial Paper          | EUR 25            | EUR 7.9             | EUR 7.6          | 114 days                  | 135 days         |
| French Certificats de Dépôt    | EUR 25            | EUR 4.6             | EUR 4.3          | 126 days                  | 137 days         |
| US Commercial Paper            | USD 5             | USD 4.4             | USD 4.9          | 62 days                   | 129 days         |
| London Certificates of Deposit | EUR 10            | EUR 6.0             | n/a              | 54 days                   | n/a              |

## Secured medium to long-term funding tools

### Covered bond programme

The covered bond programme allows the bank to attract secured long-term funding and contributes to the diversification of funding sources. Covered bonds are secured by a pool of first-ranking Dutch residential mortgage loans originated by ABN AMRO or any of its subsidiaries in the Netherlands, where the underlying real estate is owner-occupied. Further detailed information on the covered pool is provided in periodic investor reports at [abnamro.com/cb](http://abnamro.com/cb). The covered bond programme is registered with DNB. All outstanding issues under the programme are CRD-compliant and are eligible for Undertakings for Collective Investment in Transferable Securities Directives (UCITS). At year-end 2011, the covered bond programme had AAA (or AAA-equivalent) ratings from Moody's, Standard & Poor's and Fitch Ratings. On 31 December 2011, the total amount outstanding of the covered bond programme was EUR 22.0 billion, with an average original maturity of 9.9 years. At 31 December 2010, the total outstanding was EUR 16.7 billion, with an average original maturity of 9.6 years.

### Residential Mortgage Backed Securitisations

Securitisation of mortgages has been a cornerstone of funding mortgage activities in the Netherlands. The public market for RMBS (Residential Mortgage Backed Securitisation) was at a standstill between 2007 and 2009, but revived in 2010, then slowed again in 2011. Securitisations have been an important source of funding for ABN AMRO, allowing ABN AMRO to convert its prime Dutch mortgage receivables into RMBS paper. Further information on arrears and losses on the underlying mortgages of the RMBS notes is provided at [abnamro.com/securitisations](http://abnamro.com/securitisations).

On 31 December 2011, the total outstanding of RMBS notes backed by ABN AMRO-originated mortgages was EUR 70.8 billion issued under different platforms (EUR 71.4 billion in 2010). 31% of this total volume of outstanding RMBS paper was backed by NHG<sup>1</sup> residential mortgages. At year-end 2011, EUR 45.6 billion of the RMBS notes was retained (EUR 41.9 billion in 2010) and EUR 22.5 billion was placed externally (EUR 26.8 billion in 2010).

The following table shows the total volume of externally placed and retained notes, and includes the volume of encumbered assets for attracting secured funding and underlying assets for maintaining a liquidity buffer. The volume of retained notes is displayed at its nominal value. In the liquidity buffer information, these notes are included at their liquidity value, i.e. after application of the ECB haircut.

## Encumbered/underlying assets in funding transactions and retained RMBS 2011

| (in billions)                                                 |               | Externally placed |                              | Retained notes               |                   |
|---------------------------------------------------------------|---------------|-------------------|------------------------------|------------------------------|-------------------|
| Type of instrument                                            | Nominal value | Pledged assets    | ECB Eligible – nominal value | Non Eligible – nominal value | Underlying Assets |
| <b>Senior Secured Bonds (excl. Asset Backed Securities)</b>   |               |                   |                              |                              |                   |
| Covered Bonds (at notional value)                             | 22.0          | 31.7              | n/a                          | n/a                          |                   |
| Other Senior Secured Bonds (at notional value)                | 1.9           | 3.1               | n/a                          | n/a                          |                   |
| <b>Asset Backed Securities (excl. synthetic transactions)</b> |               |                   |                              |                              |                   |
| Residential Mortgage Backed Securities (includes LT repo)     | 25.2          | 24.8              | 41.2                         | 4.4                          | 45.0              |
| Other Asset Backed Securities                                 | 0.2           | 0.2               | 1.6                          |                              | 1.5               |
| <b>Total</b>                                                  | <b>49.3</b>   | <b>59.8</b>       | <b>42.8</b>                  | <b>4.4</b>                   | <b>46.5</b>       |

## Encumbered/underlying assets in funding transactions and retained RMBS 2010

| (in billions)                                                 |               | Externally placed |                              | Retained notes               |                   |
|---------------------------------------------------------------|---------------|-------------------|------------------------------|------------------------------|-------------------|
| Type of instrument                                            | Nominal value | Pledged assets    | ECB Eligible – nominal value | Non Eligible – nominal value | Underlying Assets |
| <b>Senior Secured Bonds (excl. Asset Backed Securities)</b>   |               |                   |                              |                              |                   |
| Covered Bonds (at notional value)                             | 16.7          | 24.8              | n/a                          | n/a                          |                   |
| Other Senior Secured Bonds (at notional value)                | 2.6           | 3.4               | n/a                          | n/a                          |                   |
| <b>Asset Backed Securities (excl. synthetic transactions)</b> |               |                   |                              |                              |                   |
| Residential Mortgage Backed Securities (includes LT repo)     | 29.5          | 28.9              | 37.9                         | 3.9                          | 41.0              |
| Other Asset Backed Securities                                 | 0.8           | 0.7               | 2.0                          |                              | 1.8               |
| <b>Total</b>                                                  | <b>49.6</b>   | <b>57.8</b>       | <b>39.9</b>                  | <b>3.9</b>                   | <b>42.8</b>       |

<sup>1</sup> NHG: Dutch government-guaranteed mortgages which is further explained in the Risk management section.

# integration 11

“The integration is well on track and even ahead of schedule. I am confident that we will be succesful in completing the remaining steps of the integration in 2012.”

**Johan van Hall**, Member of the Managing Board

## Background

### Introduction

ABN AMRO was formed as a result of various legal and operational separation and integration activities which resulted in the Legal Merger of ABN AMRO Bank and FBN in July 2010.

### Governance

A special sub-committee of the Managing Board, under the leadership of Johan van Hall, is responsible for overseeing the integration, and monitors overall planning, critical issues and costs and synergies relating to the integration.

## Highlights

- ▶ Commercial & Merchant Banking and Private Banking clients were successfully migrated from the former FBN IT platforms to the ABN AMRO IT platforms in the fourth quarter of 2011;
- ▶ Following the merger of the Markets dealing rooms of the former FBN and ABN AMRO, most technical integration activities were completed in the fourth quarter of 2011. The remaining integrations are scheduled to be finalised in 2012;
- ▶ With the completion of the migration and integration of head office functions, Retail Banking, Private Banking and Commercial & Merchant Banking, including the Markets infrastructure, the integration is now largely completed;
- ▶ The dismantlement of non-target head offices is almost completed. The remaining four offices will be dismantled in 2012;
- ▶ Synergies are on track and integration costs remain within budget;
- ▶ With various milestones achieved in 2011, integration risks have been reduced significantly and can now be addressed on a business-as-usual basis.

## Integration

### Retail Banking

Retail Banking began integrating branches, systems and staff in 2010 and finalised the operation in the first quarter of 2011. ABN AMRO achieved considerable synergies following the integration, reducing its branch network in the Netherlands from 654 to 470 branches.

### Commercial & Merchant Banking and Private Banking

The migration to a single IT platform of almost all commercial and all private banking clients in the Netherlands was completed in November 2011, when around 100,000 clients were successfully transferred from the former FBN systems to the ABN AMRO IT systems. To minimise inconvenience to clients, the bank ensured that clients kept the same relationship managers, where possible.

This migration marks a major integration milestone. More than 99% of all former FBN clients have now been transferred, including the successful migration of 1.6 million retail clients in 2010. The remaining integration activities, which are much smaller in size, are on track and are expected to be finalised by 2012, as planned.

### Markets

ABN AMRO finalised the organisational integration of Markets in 2011. After merging the dealing rooms in 2010, the bank integrated systems for the commodities and derivatives asset classes. With the integration of Equity

Derivatives and Securities Financing, the systems integration is expected to be completed in 2012.

### Office space

As part of the integration, a total of 114 buildings (including 30 regional and head offices) will be divested and 144 rental contracts will be terminated by the end of 2012. By the end of December 2011, 76 buildings had been divested and 124 rental contracts terminated. In addition, 25,000 employees moved to other locations within the Netherlands.

## Synergies, costs and risks

### Integration costs

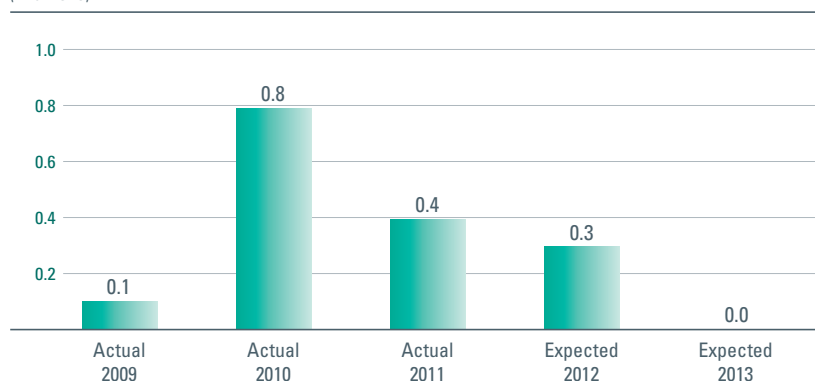
Total identified integration costs amounted to EUR 359 million in 2011. They consisted of EUR 381 million in project costs and a partial release of EUR 22 million related to the integration restructuring provision, which was booked in 2010.

Integration project costs in 2011 were mainly attributable to programmes concerning the merger of the Markets dealing rooms and the migration of Commercial & Merchant Banking and Private Banking clients to the ABN AMRO systems.

Total integration costs in the period 2009-2011 amounted to EUR 1.2 billion and are expected to remain within the overall budget of EUR 1.6 billion.

### Integration costs

(in billions)



## Synergies

Additional integration-related synergies amounted to approximately EUR 400 million in 2011. Identified synergies realised during the course of 2011 have not been annualised; the full effect of these synergies is expected to be realised in 2012.

Synergies in 2011 were generated by office space savings, workforce reductions, IT platform decommissioning and the full-year effect of FTE reductions realised in 2010.

Only synergies that were produced by integration projects have been identified; other cost reductions, such as containments, and lower-than-expected costs have not yet been identified as synergies.

Cumulative integration-related synergies in the period 2009-2011 amounted to approximately EUR 750 million. The full synergy benefits of the legal merger of ABN AMRO and Fortis Bank Nederland are expected to be realised in 2013.

## Integration synergies

(in billions)



## Managing integration risks

Several categories of key risks related to the integration have been identified and are being monitored closely. Key risks include loss of income, understaffing and lack of qualified staff, decline in staff morale, cost increases, disruption of core processes and/or systems, confidentiality and integrity issues, availability of data, quality of management information and communication to internal and external stakeholders. Mitigating measures have been formulated to address these risks.

A risk-monitoring structure is in place, whereby the key risks are monitored at Managing Board level. With various integration milestones achieved in 2011, the integration risks have been reduced significantly and can now be addressed on a business-as-usual basis.

## Workforce

As a consequence of the integration, the number of FTEs is expected to decrease by approximately 4,500 over the period 2009-2012. The bank helps employees find new jobs in order to minimise forced redundancies. Further information is provided in the Human resources section. ABN AMRO employed 24,225 FTEs at year-end 2011 compared with 26,161 FTEs at year-end 2010.

## Integration in 2012

The main goals for 2012 are to finalise compliance with the EC Remedy (migration to Deutsche Bank), to complete the separation of RBS N.V. (contingent upon receiving a banking licence in India) and to migrate ECT clients in the Netherlands and ABN AMRO Clearing Bank clients to target IT platforms. In addition, C&MB (including Markets) and the support departments are each scheduled to be fully integrated in 2012.

# human resources 12

“Our employees are key for ensuring the success of our clients – so we need to be able to attract and retain the best professionals who fully understand the business and the needs of our clients. We have made great progress at HR this past year, devising a sound package of HR products and services. Looking ahead, we will continue to strengthen our service proposition by developing sound leadership and trainee programmes, transparent performance management and strategic workforce planning processes, and effective New World of Work and diversity initiatives.”

**Caroline Princen**, Member of the Managing Board

|                                   | 2011   | 2010   |
|-----------------------------------|--------|--------|
| Number of FTEs                    | 24,225 | 26,161 |
| Percentage of part-time employees | 23.5%  | 23.7%  |
| Percentage of female employees    | 48.5%  | 48.7%  |

## Introduction

The Human Resources department devoted its efforts in 2011 to optimising its own organisation and service model and to implementing a bank-wide people strategy framework. Within this framework, each business maps out its own people plan as part of its overall business plan. In addition, embedding Customer Excellence in the organisation involves an HR component, the focus of which is twofold: mindsets and behaviour on the one hand, and capabilities and organisation on the other.

## People strategy

ABN AMRO is ambitious when it comes to sustainable long-term growth. To this end, the bank has implemented a people strategy based on the bank's commitment to client focus and its corporate values of Trusted, Professional and Ambitious. The people strategy aims to achieve the following goals:

- ▶ To translate the corporate values Trusted, Professional and Ambitious into a corporate culture which puts clients first and employees at the heart of the organisation;
- ▶ To advance the bank's reputation as an employer of choice. ABN AMRO is investing in training and coaching its professionals while creating a challenging and inspiring work environment;
- ▶ To make ABN AMRO a more dynamic organisation that anticipates a constantly changing environment. To this end, the bank implements strategic workforce planning, a process which links the corporate and

strategic objectives with their associated workforce implications;

- ▶ To boost employee commitment and involvement. ABN AMRO encourages staff to feel fully committed to achieving sustainable results for the bank's clients. Rewarding employees for their successes and results is part of the performance management policy.

The people strategy provides staff with the tools they need to deliver the best possible service.

## Corporate culture

### Approach

ABN AMRO faces the challenge of shaping the new organisation according to the business strategy, corporate values and people strategy. To meet this challenge from a cultural perspective, Human Resources, Change & Integration and Communications & Sustainability departments are working together to support the businesses by offering culture interventions and leadership development programmes designed to promote the desired company culture in the coming years.

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 also at the heart of the bank's external positioning. Successful implementation and recognition of these values should help the bank to build a strong culture and corporate identity and to raise company pride and engagement among staff. The goal is for all employees to live the same values.

### Leadership development

ABN AMRO revitalised its leadership programmes in 2011 based on the corporate values, leadership vision and leadership competencies. The leadership programmes together with personal assessments are designed to assist the bank's leaders in bringing about the culture change.

The Management Group (the company's top 100 managers) participated in an intensive Business School Programme in 2011. To equip the rest of the bank's managers to lead the organisation through future changes, the bank has started designing programmes for direct reports and all other managers.

## Monitoring

ABN AMRO has introduced two methods to monitor progress in cultural change, enabling it to make timely adjustments as necessary: the quarterly Mood Monitor and the annual Culture Scan.

### Mood Monitor

The Mood Monitor gives an impression of the mood among ABN AMRO staff. The results of the December 2011 survey showed an across-the-board improvement compared with the results of the survey held in June 2011: engagement, pride and satisfaction with the bank were on the rise, and staff were less concerned about the culture and had more confidence in the future of the bank and in the Managing Board. Management's efforts to engage staff in an ongoing dialogue were greatly appreciated and helped raise morale. The six Mood Monitor surveys in total show that timely and transparent communication helps keep the mood among staff positive.

The December survey was the last Mood Monitor the bank will administer. This does not mean, however, that it will stop monitoring employee commitment to the bank. "Engagement" will be one element measured in the Culture Scan in 2012, and HR is currently developing an engagement survey, to be held bank-wide in 2013.

### Culture Scan

The results of the Culture Scan provide an insight into how all ABN AMRO employees view the bank's culture and how they see themselves. It takes time for a culture to develop, and so the scan held in 2011 measures the state of play in what will be a long-term process towards achieving the desired culture. An understanding of the results will help ABN AMRO decide which steps to take in the year ahead.

How employees view ABN AMRO as a whole was found to be similar to how they felt in 2010, although there were major shifts at business level. With respect to putting the customer centre stage, the bank scored somewhat lower than in 2010, and the 2011 poll revealed big differences between the business lines and support departments. The business lines and Risk Management & Strategy scored better than or equal to the high-performing benchmark, unlike the other support functions.

The Culture Scan also measures satisfaction, pride and retention. This enables the bank to draw conclusions about the level of commitment, or engagement, of staff. These elements developed favourably in 2011.

The results show that management should continue to give culture its undivided attention and to focus on key elements of the corporate strategy such as “customer centre stage”, “teamwork”, and “clear goals”. These elements will continue to drive both engagement and the bank’s operating results. “Teamwork” continues to require attention as it is an important driver of engagement and is seen as a key success factor for the bank. For the bank as a whole, aspects of leadership behaviour that influence the bank’s culture were rated better in 2011 than in 2010, confirming that managers are important enablers of culture change. Culture and engagement scores increased in tandem with scores for leadership behaviour.

The results of both of these surveys are reported to the Supervisory and Managing Boards and to the Management Group. Management works with the support departments to develop and implement plans for improvement.

### Employer of choice

Statistics Netherlands (CBS), the national statistics office, predicts shortages on the labour market in the coming decades in the Netherlands, causing demand for talent to exceed supply. The bank is therefore enhancing its people development efforts.

ABN AMRO expects its employees to take their profession and their talents seriously. The bank aims to advance its reputation as an attractive employer by offering staff coaching and on-the-job training. A great deal of effort in 2011 was devoted to guiding redundant employees from job to job and to strengthening the ABN AMRO brand in relevant segments.

ABN AMRO strives to be an employer of choice in the Dutch labour market in its efforts to get the best professionals on board. It was ranked the number 11 employer in the Netherlands in both the Intermediair Image Survey 2011 and the Intelligence Group barometer – two leading Dutch employment indicators. In the latter case, the bank’s ranking improved compared with 2010, when it came in 14<sup>th</sup> place.

### New trainee programme: Next Generation Professionals

The bank’s new trainee programme, Next Generation Professionals, was named Best Traineeship in the Netherlands in 2011. The programme’s unique set-up allows candidates to choose from 22 career tracks and to design their own programme. Three thousand people applied for one hundred vacancies in this programme in 2011.

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 for generation Y.

### New World of Work

ABN AMRO promotes the New World of Work to help staff work more flexibly, boosting efficiency and effectiveness. Employees decide themselves – within the limits set by their business lines and in consultation with their managers – where and when they work. This new way of working should help raise employee and customer satisfaction, improve the bank’s image in the labour market and enhance diversity. At the same time, it should help the bank achieve various other objectives, such as reducing its ecological footprint.

By the end of 2011, more than 40 departments had started implementing the New World of Work, directly affecting 4,800 employees and more than 600 managers.

### Dynamic organisation

Strategic workforce planning provides insight into the future needs and development of the ABN AMRO workforce, allowing the bank to respond alertly to the rapidly changing environment. Based on the outcome of this yearly process, HR and the businesses together define interventions to equip the workforce for future challenges. Below are a few results of their efforts:

- ▶ Greater insight into the quantity and quality of the current and future workforce;
- ▶ Tooling and processes to execute strategic workforce planning (e.g. forecasting model);
- ▶ A set of interventions that can often be used across business lines.



## Reward philosophy and performance management

ABN AMRO takes an integrated approach to performance management and reward by linking it to talent management and learning and development, thus aligning the business strategy with the people strategy. 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.

The performance management framework therefore specifies that clear and specific objectives are set which take account of individual, business unit and organisation objectives that are translated into financial and non-financial performance targets, both divided across quantitative and qualitative targets, and always including customer satisfaction at a relevant level.

The performance assessment process for the members of the Management Group and other Identified Staff members (more details can be found in the Supervisory Board Remuneration Report) also includes a so-called gatekeeper procedure under which Risk, Compliance and Audit annually assess whether individual behaviour, including customer interest-related behaviour, has been in line with ABN AMRO's guidelines.

## Collective labour agreement

Both the collective labour agreement (CAO) and the redundancy scheme, known as the Social Plan, are in force until 1 January 2013. All employees received a salary increase of 1% as from January 2011, and another 2% will follow in July 2012.

## Diversity

ABN AMRO recognises that diversity leads to a more creative, flexible and innovative organisation and enhances the bank's operational and financial performance. The bank centres its diversity efforts around gender, ethnicity, age, disability and sexual orientation, devoting special attention to promoting attitudes and behaviour that support diversity and inclusion.

ABN AMRO's Diversity Board consists of seven members from the different business lines and is chaired by a

member of the Managing Board. The Board aims to promote awareness of diversity and tracks and evaluates progress of implementation of the diversity policy.

## Gender

In 2011 the Talent to the Top Monitoring Committee – which monitors progress made by various companies in achieving diversity targets – identified ABN AMRO's successful diversity policy as a best practice for the industry. The following results underpin this conclusion:

- ▶ One member of the Managing Board and two members of the Supervisory Board are women;
- ▶ ABN AMRO has various mentoring programmes in place: cross-company, in-company and one in which the Managing Board members participate;
- ▶ In 2011, the bank adopted and implemented the policy that at least two women should be part of every Management Development Committee;
- ▶ Though the number of women in senior and middle-management positions decreased marginally in 2011, the bank will continue to pursue its ambitious 2014 targets of placing women in 20% of senior positions (15% in 2011) and in 25% of middle-management positions (20% in 2011).

## Ethnicity

ABN AMRO focuses on recruiting employees from different cultural backgrounds and offers them various programmes to help them advance their careers:

- ▶ The Diversity Network promotes the bank's cultural diversity ambitions;
- ▶ ABN AMRO teamed up with Shell, Dutch Railways, KPN and Echo to offer a mentoring programme under which 80 students with non-Western backgrounds are mentored by 80 young graduates from the participating companies.

## Age

Along with the rest of society, the bank is ageing: more than 45% of ABN AMRO employees are over 45 years old. The bank strives to involve and 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.

## Disability

ABN AMRO acknowledges the importance of the participation of people with a physical disability in the

workforce and is committed to hiring and retaining disabled employees. ABN AMRO signed a covenant to support CAP 100, an initiative that aims to connect 100 disabled high potentials with companies in the Netherlands.

### **GLBT (Gay, Lesbian, Bisexual, Transgender)**

ABN AMRO is a member of the Company Pride Platform, a Dutch platform that connects, empowers and represents GLBT employee networks.

## **Mobility and redeployment**

In accordance with the collective labour agreement, the Mobility & Redeployment Centre seeks to limit the number of redundancies and to coach redundant staff from job to job by promoting mobility. The department works to redeploy staff within and outside the bank, assigning designated Mobility Advisors to each redundant employee and offering support in finding a job. To ensure that the objectives laid down in the collective labour agreement are met, the bank's senior management must meet stringent mobility targets. Furthermore, 95% of vacancies within the organisation are open exclusively to internal staff, with redundant employees having priority.

In 2011, approximately 25% of the employees who had been given notice of redundancy were placed in internal jobs and 30% were placed in temporary jobs within the bank. The transfer period – during which redundant employees are given priority status for internal vacancies and are obliged to accept suitable, internal positions – is standard for all employees, as described in the bank's redundancy scheme known as the Social Plan.

A total of 400 employees sought coaching from the Redeployment Centre in 2011, 55% of which found permanent internal or external jobs.

## **Company health services**

Beter is the health and safety services provider for ABN AMRO. As an expert in working conditions, Beter advises the bank on health and safety issues at both individual and organisational level. In 2011, it provided support to both management and staff on integration issues and heightened collaboration with management and HR at different levels of the organisation. According to Beter, ABN AMRO's absenteeism percentage rose slightly in the year under review (4.6% at year-end 2011), though this figure is comparable with other banking institutions in the Netherlands.

## **Workforce figures**

Natural attrition rose slightly, from 2.5% in 2010 (after consolidation) to 4.5% in 2011.

At 31 December 2011, ABN AMRO employed 24,225 FTEs (excluding agency staff) in 23 countries, down by more than 1,935 FTEs compared with year-end 2010 (26,161 FTEs). The reduction was mainly the result of the ongoing integration and the divestment of Prime Fund Solutions in the second quarter of 2011. ABN AMRO is on schedule to meet its FTE integration reduction targets.

As announced in the Interim Financial Report of 2011, ABN AMRO expects an additional reduction of 2,350 FTEs between 2011 and the end of 2014, 1,500 of which are expected to be redundancies and 850 to be achieved through natural attrition. At the same time, the bank expects to create 450 new jobs.

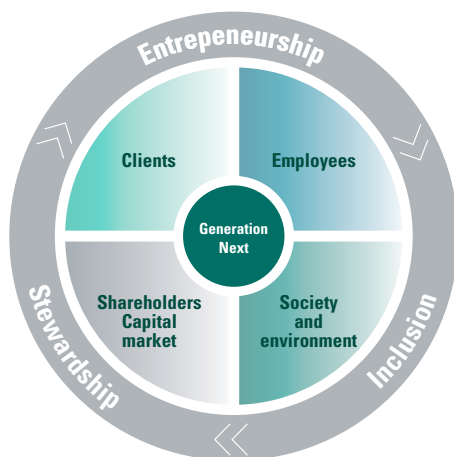
# sustainability 13

"I strongly believe sustainability is a key element in ABN AMRO's ability to gain long-term success."

**Caroline Princen**, Member of the Managing Board

ABN AMRO is firmly committed to being a good corporate citizen and to helping clients and other key stakeholders achieve sustainable success. The Group's central sustainability theme, Generation Next, reflects the

essence of its ambition: ABN AMRO is here for the long term and takes into account the legitimate interests of its stakeholders – not only for today's world, but for future generations too. Three key elements shape this theme:



## ► Entrepreneurship

A sustainable business model is based on the pursuit of socially responsible and environmentally friendly market opportunities and on supporting clients in becoming more sustainable themselves;

## ► Stewardship

Taking responsibility for clients, suppliers, employees and reducing the environmental impact;

## ► Inclusion

ABN AMRO encourages community involvement.

With its sights set on becoming a leader in these areas, ABN AMRO is in the process of embedding sustainability in its core processes. In this respect, 2011 was a transitional year. ABN AMRO's objectives for 2012 are to

further expand sustainable development group-wide and to advance transparent reporting on sustainability.

ABN AMRO will publish a separate Sustainability Report at [abnamro.com](http://abnamro.com) in the first half of 2012.

## Entrepreneurship

### Retail & Private Banking

An important element of ABN AMRO's approach to sustainability involves promoting financial education and raising awareness. The bank believes it is important for clients to make well-informed decisions and to understand the impact of buying a financial product, and is therefore committed to providing clear, straightforward information. As part of its drive to promote transparency, the bank has rewritten its product brochures and terms and conditions in plain language, ensuring that 95% of all Dutch citizens will be able to understand the bank's information on savings, loans and mortgage products.

ABN AMRO is committed to social responsibility on other fronts as well: it promoted the New World of Work among staff bank-wide in 2011 (see Human resources section) and launched the Capital4Change project to heighten Private Banking's focus on sustainability. The project, initially aimed at the Dutch market, involves the following three activities:

- ▶ Assessing opportunities for providing philanthropy advisory services to clients;
- ▶ Introducing social impact investing (see case below);
- ▶ Expanding Socially Responsible Investments (SRI).

ABN AMRO's sustainable investment mandate is attracting attention. Bethmann Bank, ABN AMRO's private bank in Germany, launched two sustainable investment funds in 2011 whose investment criteria include sustainability, corporate governance and business ethics. Neuflyze OBC, ABN AMRO's French subsidiary, has firmly anchored sustainability in its organisation, as evidenced by voluntary employee commitment to the internal policy institute (think tank). At least 12% of Neuflyze OBC's employees participate in this sustainability think tank, representing staff from all levels of the company.

### SoCap Europe

To underscore its commitment to socially responsible entrepreneurship and to emphasise the role it aims to play in fostering this development, ABN AMRO sponsored the SoCap Europe conference. SoCap is a globally leading platform, where social entrepreneurs and social investors meet to facilitate capital flows from wealth owners and managers to socially responsible projects and ventures. The presence of ABN AMRO at the conference marked the start of promising partnerships for the sourcing of new deals and clients, and strengthened the bank's visibility in the social impact market.

### Commercial & Merchant Banking

In their efforts to boost efficiency and competitiveness, ABN AMRO's commercial clients implement innovative solutions, many of which are energy-reducing or sustainable. ABN AMRO supports clients in these efforts by providing advice and relevant financial solutions. An example is ABN AMRO's EnergySavingCredit, which enables clients to save up to 20-30% on energy costs in a budget-neutral or even budget-positive way. The bank's technical partners implement the energy-reducing adjustments, and the interest expenses of any funding required for the investment are amply offset by lower energy costs.

ABN AMRO advises clients on profit-boosting strategies and investments based on in-depth knowledge of its clients' markets, often incorporating sustainability into its advice.

ABN AMRO is committed to the renewable energy markets and strives to:

- ▶ Become a long-term business partner with structuring skills and market knowledge for renewable energy projects;
- ▶ Be a provider of integrated transaction solutions;
- ▶ Focus on the following sub-sectors: onshore wind, offshore wind, solar PV, carbon capture & storage and carbon.

The bank participated in the financing of a portfolio of wind parks in the United Kingdom in 2011 (see below).

### Renewable energy

In November 2011, ABN AMRO participated in the financing of a portfolio of wind parks in the United Kingdom. The deal provides clients with a platform of trusted lenders, including ABN AMRO, to finance the development of new wind farms. The energy produced from the wind farms comes from natural resources and is renewable. This transaction demonstrates ABN AMRO's commitment to the renewable energy markets and underscores its strategy of becoming a long-term business partner with structured skills and market knowledge.

## Stewardship

### Governance

ABN AMRO takes into account sustainability issues – including Environmental, Social and Ethical (ESE) aspects – when considering clients, credit proposals and other transactions. The bank's sustainability policies address the ESE aspects. Policies are implemented and applied using developed tools, instruments and through communication with the client about sustainability risks. The client response is taken into account in the credit proposal review. If, for instance, a client does not meet the bank's sustainability criteria, the credit proposal may be denied until the client has made the necessary adjustments.

ABN AMRO's sustainability policies include various aspects of sustainability risk, which ABN AMRO has defined as the risk that the operations of the Group or of its clients' clients or service providers will damage ABN AMRO's image in the perception of its stakeholders. The bank's sustainability policies define guiding principles, explaining how ABN AMRO identifies, analyses, mitigates, manages, monitors and reports sustainability risks. For instance, a country risk assessment tool was introduced in early 2011 which rates countries based on their sustainability performance and on acknowledged external indices. A sector sustainability rating tool is expected to

be introduced in 2012. The bank's sector sustainability policies are available at [abnamro.com](http://abnamro.com).

ABN AMRO participates in different international conventions and has signed principles and, where applicable, specific action plans to support clients in becoming more sustainable. ABN AMRO endorses the United Nations Guiding Principles for Business and Human Rights, the Equator Principles and Global Compact.

### Stakeholders

Stakeholders are at the heart of ABN AMRO's approach to sustainability and are consulted on a regular basis. In the second half of 2011, the bank conducted an extensive analysis to gain a more in-depth understanding of stakeholders' sustainability issues. The outcome of the analysis was used to enhance sustainability reporting.

Stakeholder engagement took place through client committee dialogues, employee surveys, and discussions with non-governmental organisations and the Sustainability Advisory Board, which was established in March 2011. This forum meets at least three times a year to discuss high-level sustainability issues and trends and other social issues that affect ABN AMRO's sustainability strategy. Members of the Sustainability Advisory Board include Managing Board members and senior market experts. The latest Sustainability Advisory Board meeting resolved to enhance communication with stakeholders on ABN AMRO's activities and achievements in this area.

### Environmental impact

ABN AMRO is committed to reducing the environmental impact of its operations, including severely reducing its energy consumption. The bank aims to cut back its total energy consumption by 20% in 2012 compared with 2009. To reduce consumption by 20%, low-energy LED and TL lighting tubes with daylight detection are used. ABN AMRO has launched several projects, one of which involves assigning recognised ISO energy labels to all of its buildings. All energy used in the Netherlands is generated by renewable sources. The bank launched EnergyCareSystem in 2011, a project which involves organisational, technical and behavioural measures that help reduce energy consumption while promoting the use of sustainable energy.

Besides saving energy, ABN AMRO aims to reduce paper use by 20% in 2012 compared with 2009 and introduced various initiatives to this end, including digital pay slips for all employees. It also installed recyclable cup bins at all coffee machines, and all waste disposal is transported and processed in a carbon-neutral manner by Sita Green Label.

ABN AMRO works to reduce its environmental footprint not only within the company, but externally as well. The bank is a founding partner of FIRA, an independent third party which assures that suppliers, customers and stakeholders are as sustainable as they claim to be. By the end of 2011, at least 40 suppliers signed up to FIRA for a sustainability rating.

### Sustainable building industry

ABN AMRO won the Dutch Green Building Council (DGBC) award in 2011. DGBC is a Dutch industry initiative, with 350 participants, to develop a sustainability label allowing a uniform rating of buildings throughout the Netherlands.

its successful programmes in 2012, focusing on enhancing self-reliance and reducing social isolation.

### Lessons in money

How can I handle my money responsibly? Some 10,000 children received answers to this question during the 2011 Money Week, when more than 500 ABN AMRO volunteers taught 300 lessons at primary schools in the Netherlands. ABN AMRO Foundation worked with the National Institute for Family Finance Information to define goals for children 10-12 years of age.

## Inclusion

ABN AMRO Foundation was established to strengthen the social engagement of ABN AMRO and its employees within the local communities in which it operates. The Foundation encourages employees to participate in volunteer projects to help the underprivileged and physically disabled, and facilitated volunteer work for 9,172 employees in 400 different projects in 2011, a sharp rise compared with 2010, when 3,313 employees took part in 241 projects. Under another project, which encourages children to start reading, employees collected 20,000 used books. In the employee introduction programme, 218 employees cooked a meal in disadvantaged neighbourhoods with Resto VanHarte (a social-interest organisation devoted to increasing regional quality of life and dynamic community spirit), to help residents break through social isolation. In cooperation with Qredits, 42 employees coached starting entrepreneurs who had applied for a micro credit. To support the Food Bank, 6,300 employees gave up all or part of their Christmas Packages for less fortunate Dutch citizens. The Foundation will continue to pursue

# responsibility statement 14

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 2011 of ABN AMRO Group N.V. and of its affiliated companies, of which data is included in its Annual Financial Statements; and
- ▶ The Annual Report describes the material risks with which ABN AMRO Group N.V. is faced.

Amsterdam, 8 March 2012

## **The Managing Board**

**Gerrit Zalm**, Chairman

**Jan van Rutte**, Vice-Chairman

**Johan van Hall**, Member

**Caroline Princen**, Member

**Wietze Reehorn**, Member

**Chris Vogelzang**, Member

**Joop Wijn**, Member



# cautionary statement on forward-looking statements

# 15

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 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 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 conditions in the Netherlands and in other countries in which ABN AMRO Bank has significant business activities or investments, including the impact of recessionary economic conditions on ABN AMRO’s revenues, liquidity and balance sheet;
- ▶ Actions taken by governments and their agencies to support individual banks and the banking system;
- ▶ Monetary and interest rate policies of the European Central Bank and G7 central banks;
- ▶ Inflation or deflation;
- ▶ Unanticipated turbulence in interest rates, foreign currency exchange rates, commodity prices and equity prices;
- ▶ Potential losses associated with an increase in the level of substandard loans or non-performance by counterparties to other types of financial instruments;
- ▶ Changes in Dutch and foreign laws, regulations and taxes;
- ▶ Changes in competition and pricing environments;
- ▶ Inability to hedge certain risks economically;
- ▶ Adequacy of loss reserves;
- ▶ Technological changes;
- ▶ Changes in consumer spending, investment and saving habits; and
- ▶ 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.





# annual financial statements

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## Consolidated income statement for the year ended 31 December 2011

| (in millions)                                                   | Note | 2011         | 2010         |
|-----------------------------------------------------------------|------|--------------|--------------|
| <b>Income</b>                                                   |      |              |              |
| Interest income                                                 |      | 13,223       | 12,952       |
| Interest expense                                                |      | 8,225        | 8,047        |
| <b>Net interest income</b>                                      | 4    | <b>4,998</b> | <b>4,905</b> |
| Fee and commission income                                       |      | 2,548        | 2,550        |
| Fee and commission expense                                      |      | 737          | 784          |
| <b>Net fee and commission income</b>                            | 5    | <b>1,811</b> | <b>1,766</b> |
| Net trading income                                              | 6    | 224          | 304          |
| Results from financial transactions                             | 7    | 274          | 330          |
| Share of result in equity accounted investments                 |      | 84           | 91           |
| Other income                                                    | 8    | 403          | -599         |
| <b>Operating income</b>                                         |      | <b>7,794</b> | <b>6,797</b> |
| <b>Expenses</b>                                                 |      |              |              |
| Personnel expenses                                              | 9    | 2,517        | 2,846        |
| General and administrative expenses                             | 10   | 2,439        | 2,847        |
| Depreciation and amortisation of tangible and intangible assets | 11   | 401          | 536          |
| <b>Operating expenses</b>                                       |      | <b>5,357</b> | <b>6,229</b> |
| Loan impairment and other credit risk provisions                | 19   | 1,757        | 837          |
| <b>Total expenses</b>                                           |      | <b>7,114</b> | <b>7,066</b> |
| <b>Operating profit/(loss) before taxation</b>                  |      | <b>680</b>   | <b>-269</b>  |
| Income tax expenses                                             | 12   | -9           | 145          |
| <b>Profit/(loss) for the year</b>                               |      | <b>689</b>   | <b>-414</b>  |
| <i>Attributable to:</i>                                         |      |              |              |
| Owners of the company                                           |      | 665          | -417         |
| Non-controlling interests                                       |      | 24           | 3            |

The notes to the consolidated financial statements are an integral part of these statements.

## Consolidated statement of comprehensive income for the year ended 31 December 2011

| (in millions)                                                             | Note | 2011          | 2010        |
|---------------------------------------------------------------------------|------|---------------|-------------|
| <b>Profit/(loss) for the period</b>                                       |      | <b>689</b>    | <b>-414</b> |
| <i>Other comprehensive income:</i>                                        |      |               |             |
| Currency translation reserve                                              |      | -9            | 13          |
| Available for sale financial assets                                       |      | -535          | 139         |
| Cash flow hedging reserves                                                |      | -954          | -6          |
| Other changes                                                             |      | 16            |             |
| <b>Other comprehensive income for the period before taxation</b>          |      | <b>-1,482</b> | <b>146</b>  |
| Income tax relating to components of other comprehensive income           |      | -343          | -4          |
| <b>Other comprehensive income for the period after taxation</b>           | 13   | <b>-1,139</b> | <b>150</b>  |
| <b>Total comprehensive income/(expense) for the period after taxation</b> |      | <b>-450</b>   | <b>-264</b> |
| <i>Total comprehensive income attributable to:</i>                        |      |               |             |
| Owners of the company                                                     |      | -474          | -267        |
| Non-controlling interests                                                 |      | 24            | 3           |

The notes to the consolidated financial statements are an integral part of these statements.

## Consolidated statement of financial position as at 31 December 2011

| (in millions)                                                  | Note | 31 December 2011 | 31 December 2010 <sup>1</sup> |
|----------------------------------------------------------------|------|------------------|-------------------------------|
| <b>Assets</b>                                                  |      |                  |                               |
| Cash and balances at central banks                             | 14   | 7,641            | 906                           |
| Financial assets held for trading                              | 15   | 29,523           | 24,300                        |
| Financial investments                                          | 16   | 18,721           | 20,197                        |
| Loans and receivables – banks                                  | 17   | 61,319           | 41,117                        |
| Loans and receivables – customers                              | 18   | 272,008          | 273,944                       |
| Equity accounted investments                                   | 20   | 920              | 1,159                         |
| Property and equipment                                         | 21   | 1,609            | 1,679                         |
| Goodwill and other intangible assets                           | 22   | 276              | 412                           |
| Assets held for sale                                           | 23   | 68               | 85                            |
| Accrued income and prepaid expenses                            | 24   | 4,369            | 4,169                         |
| Current tax assets                                             | 25   | 244              | 443                           |
| Deferred tax assets                                            | 25   | 1,139            | 559                           |
| Other assets                                                   | 26   | 6,845            | 8,312                         |
| <b>Total assets</b>                                            |      | <b>404,682</b>   | <b>377,282</b>                |
| <b>Liabilities</b>                                             |      |                  |                               |
| Financial liabilities held for trading                         | 15   | 22,779           | 19,982                        |
| Due to banks                                                   | 27   | 30,962           | 21,536                        |
| Due to customers                                               | 28   | 213,616          | 209,466                       |
| Issued debt                                                    | 29   | 96,310           | 86,591                        |
| Subordinated liabilities                                       | 30   | 8,697            | 8,085                         |
| Provisions                                                     | 31   | 1,646            | 1,716                         |
| Accrued expenses and deferred income                           | 33   | 5,986            | 6,602                         |
| Current tax liabilities                                        | 25   | 241              | 323                           |
| Deferred tax liabilities                                       | 25   | 41               | 58                            |
| Other liabilities                                              | 34   | 12,984           | 10,811                        |
| <b>Total liabilities</b>                                       |      | <b>393,262</b>   | <b>365,170</b>                |
| <b>Equity</b>                                                  |      |                  |                               |
| Share capital                                                  |      | 1,015            | 1,015                         |
| Share premium                                                  |      | 11,505           | 11,505                        |
| Other reserves (incl. retained earnings/profit for the period) |      | 818              | 362                           |
| Other components of equity                                     |      | -1,938           | -783                          |
| <b>Equity attributable to owners of the parent company</b>     | 35   | <b>11,400</b>    | <b>12,099</b>                 |
| Equity attributable to non-controlling interests               |      | 20               | 13                            |
| <b>Total equity</b>                                            |      | <b>11,420</b>    | <b>12,112</b>                 |
| <b>Total liabilities and equity</b>                            |      | <b>404,682</b>   | <b>377,282</b>                |
| Committed credit facilities                                    | 38   | 14,484           | 14,553                        |
| Guarantees and other commitments                               | 38   | 18,056           | 23,193                        |

<sup>1</sup> Further refinement of accounting harmonisation occurred during 2011, leading to netting adjustments and reclassification of line items in the statements of financial position. The effects of these harmonisations have been adjusted retrospectively. See page 182.

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 2011 and 31 December 2010

| (in millions)                      | Share capital  | Share premium reserve | Other reserves including retained earnings | Currency translation reserve | Available for sale reserve | Cash flow hedges reserve | Net profit attributable to shareholders | Total  | Non-controlling interests | Total equity |
|------------------------------------|----------------|-----------------------|--------------------------------------------|------------------------------|----------------------------|--------------------------|-----------------------------------------|--------|---------------------------|--------------|
| <b>Balance at 31 December 2009</b> | 0 <sup>1</sup> |                       | 9,394                                      | -19                          | 49                         | -963                     | 272                                     | 8,733  | 222                       | 8,955        |
| Total comprehensive income         |                |                       |                                            | 27                           | 136                        | -13                      | -417                                    | -267   | 3                         | -264         |
| Transfer                           |                |                       | 272                                        |                              |                            |                          | -272                                    |        |                           |              |
| Dividend                           |                |                       |                                            |                              |                            |                          |                                         |        | -2                        | -2           |
| Increase of capital                | 1,015          | 11,505                | -9,068                                     |                              |                            |                          |                                         | 3,452  | -210                      | 3,242        |
| Other changes in equity            |                |                       | 181                                        |                              |                            |                          |                                         | 181    |                           | 181          |
| <b>Balance at 31 December 2010</b> | 1,015          | 11,505                | 779                                        | 8                            | 185                        | -976                     | -417                                    | 12,099 | 13                        | 12,112       |
| Total comprehensive income         |                |                       | 16                                         | -2                           | -438                       | -715                     | 665                                     | -474   | 24                        | -450         |
| Transfer                           |                |                       | -417                                       |                              |                            |                          | 417                                     |        |                           |              |
| Dividend                           |                |                       | -225                                       |                              |                            |                          |                                         | -225   | -11                       | -236         |
| Increase of capital                |                |                       |                                            |                              |                            |                          |                                         |        | -6                        | -6           |
| Other changes in equity            |                |                       |                                            |                              |                            |                          |                                         |        |                           |              |
| <b>Balance at 31 December 2011</b> | 1,015          | 11,505                | 153                                        | 6                            | -253                       | -1,691                   | 665                                     | 11,400 | 20                        | 11,420       |

<sup>1</sup> The share capital at 31 December 2009 amounted to EUR 0.1 million.

The notes to the consolidated financial statements are an integral part of these statements.

### 2011

In September an interim dividend of EUR 200 million was paid to the ordinary shareholders. The class A non-cumulative preference shareholders received a dividend related to 2010 and 2009 of EUR 25 million.

Transfer includes the allocation of the profit/loss of the prior period to the other reserves.

### 2010

During 2010, issued and paid-up ordinary share capital of ABN AMRO Group N.V. increased by EUR 940 million, following the issuance of new shares on 1 April 2010. Payment on the shares was fully effected through a contribution in kind by the Dutch State.

The shares in ABN AMRO Bank N.V. and Fortis Bank (Nederland) N.V. were transferred into ABN AMRO Group N.V. on 1 April 2010. Mainly as a result of the transfer, share premium reserves increased by EUR 11.5 billion. The net asset value of both banks amounting to EUR 9.1 billion has been transferred by the Dutch State to ABN AMRO Group N.V. as a share premium contribution on the shares issued by ABN AMRO Group N.V. (EUR 8.2 billion) plus a contribution on ordinary shares issued (EUR 0.9 billion). This is also reflected by EUR -9.1 billion movement in other reserves.

Following the Legal Merger of Fortis Bank (Nederland) N.V. and ABN AMRO Bank N.V., ABN AMRO Group N.V. issued 75,000,000 class A non-cumulative preference shares to 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 Fortis Bank (Nederland) N.V. on 1 July 2010. These preference shares were issued for a total amount of EUR 210 million. The preference share dividend over 2009 has been included in a dedicated preference share dividend reserve. Both the preference shares and the dedicated dividend reserve are recognised as Tier 1 capital. Until 31 December 2012, the preferred dividend on the class A preference shares is 5.85%. 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 NLF. The priority shares held by NLF effectively allow NLF to control ABN AMRO Preferred Investments B.V.

Due to the conversion of the EUR 2.6 billion Mandatory Convertible Notes, the share premium reserve increased EUR 2.7 billion (of which EUR 0.1 billion relates to capitalised interest). The remaining increase in the share premium reserve is attributable to the completion of the capitalisation of ABN AMRO Bank N.V. by the Dutch State (EUR 0.5 billion) in accordance with the letter to Parliament of 19 November 2009 and a settlement related to the separation of ABN AMRO Bank N.V. from RBS N.V.



## Consolidated statement of cash flows for the years ended 31 December 2011

| (in millions)                                                                     | Note | 2011          | 2010 <sup>1</sup> |
|-----------------------------------------------------------------------------------|------|---------------|-------------------|
| <b>Profit/(loss) for the year</b>                                                 |      | <b>689</b>    | <b>-414</b>       |
| <i>Adjustments on non-cash items included in profit:</i>                          |      |               |                   |
| (Un)realised gains (losses)                                                       |      | -117          | 663               |
| Share of profits in associates and joint ventures                                 |      | -84           | -100              |
| Depreciation, amortisation and accretion                                          |      | 660           | 363               |
| Provisions and impairments                                                        |      | 2,105         | 1,916             |
| Income tax expense                                                                |      | -9            | 145               |
| <i>Changes in operating assets and liabilities:</i>                               |      |               |                   |
| Assets held for trading                                                           |      | -5,021        | -4,712            |
| Liabilities held for trading                                                      |      | 2,763         | -6,645            |
| Loans and receivables – banks                                                     |      | -23,231       | 4,755             |
| Loans and receivables – customers                                                 |      | -698          | -6,014            |
| Other assets                                                                      |      | -441          | -185              |
| Due to banks                                                                      |      | 12,143        | -14,201           |
| Due to customers                                                                  |      | 7,652         | 8,319             |
| Liabilities arising from insurance and investment contracts                       |      | -317          |                   |
| Net changes in all other operational assets and liabilities                       |      | 1,804         | -2,611            |
| Dividend received from associates                                                 |      | 47            | 44                |
| Income tax paid                                                                   |      | -135          | -247              |
| <b>Cash flow from operating activities</b>                                        |      | <b>-2,190</b> | <b>-18,924</b>    |
| <i>Investing activities:</i>                                                      |      |               |                   |
| Purchases of financial investments                                                |      | -8,805        | -8,883            |
| Proceeds from sales and redemptions of financial investments                      |      | 10,851        | 11,144            |
| Acquisition of subsidiaries (net of cash acquired), associates and joint ventures |      | 45            | -122              |
| Divestments of subsidiaries (net of cash sold), associates and joint ventures     |      | -1,259        | 752               |
| Purchases of property and equipment                                               |      | -229          | -196              |
| Proceeds from sales of property and equipment                                     |      | 105           | 12                |
| Purchases of intangible assets                                                    |      | -26           | -125              |
| Proceeds from sales of intangible assets                                          |      | 6             |                   |
| <b>Cash flow from investing activities</b>                                        |      | <b>688</b>    | <b>2,582</b>      |

continued &gt;

| (in millions)                                                      | Note | 2011          | 2010 <sup>1</sup> |
|--------------------------------------------------------------------|------|---------------|-------------------|
| <b>Financing activities:</b>                                       |      |               |                   |
| Proceeds from the issuance of debt                                 |      | 82,913        | 35,342            |
| Repayment of issued debt                                           |      | -75,268       | -21,158           |
| Proceeds from subordinated liabilities issued                      |      | 353           |                   |
| Repayment of subordinated liabilities issued                       |      | -28           | -976              |
| Proceeds from shares issued                                        |      |               | 490               |
| Dividends paid to the owners of the parent company                 |      | -225          |                   |
| Dividends paid to non-controlling interests                        |      | -11           | -2                |
| <b>Cash flow from financing activities</b>                         |      | <b>7,734</b>  | <b>13,696</b>     |
| <b>Net increase (decrease) of cash and cash equivalents</b>        |      | <b>6,232</b>  | <b>-2,646</b>     |
| Cash and cash equivalents as at 1 January                          |      | 5,066         | 7,560             |
| Effect of exchange rate differences on cash and cash equivalents   |      | 99            | 152               |
| <b>Cash and cash equivalents as at 31 December</b>                 | 36   | <b>11,397</b> | <b>5,066</b>      |
| <b>Supplementary disclosure of operating cash flow information</b> |      |               |                   |
| Interest paid                                                      |      | -8,439        | -8,572            |
| Interest received                                                  |      | 13,462        | 12,954            |
| Dividends received from investments                                |      | 70            | 27                |

<sup>1</sup> Further refinement of accounting harmonisation occurred during 2011, leading to netting adjustments and reclassification of line items in the consolidated statement of cash flows. The effects of these harmonisations have been adjusted retrospectively. See page 182.

The notes to the consolidated financial statements are an integral part of these statements.

# notes to the annual financial statements

## 1 Accounting policies

### Corporate information

ABN AMRO Group N.V. (referred to as “ABN AMRO Group” or “the Company”) is the parent company of the 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. Until 29 September 2011 the Dutch State held all ordinary shares in ABN AMRO Group. On this date the Dutch State transferred its share capital in both ABN AMRO Group and ABN AMRO Preferred Investments B.V. to NLF. NLF 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. NLF 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 economic interest in ABN AMRO.

ABN AMRO provides a broad range of financial services, including Retail & Private Banking and Commercial & Merchant Banking. 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 2011 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 8 March 2012.

### Statement of compliance

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

## Basis of presentation

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

- ▶ Fair value is used for:
  - ▶ Derivative financial instruments;
  - ▶ Financial assets and liabilities held for trading or designated as measured at fair value through income;
  - ▶ 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.

Risk disclosures under IFRS 7, “Financial Instruments: Disclosures” about the nature and extent of risks arising from financial instruments are incorporated herein by reference to the audited section 8 Risk management and section 10 Liquidity & funding of the Managing Board report.

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

### IAS 24 Related Party Disclosures

The amended IAS 24 standard clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduced a partial exemption of disclosure requirements for government-related entities. In 2010, ABN AMRO early adopted the partial exemption for government-related entities. As per 1 January 2011, ABN AMRO implemented the entire amended standard. This amendment did not have a significant impact on the financial statements.

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

The amendment to IAS 32 changed the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity’s non-derivative equity instruments, or to acquire a fixed number of the entity’s own equity instruments for a fixed amount in any currency. This amendment did not have a significant impact on the financial statements.

### IFRIC 14 Prepayments of a minimum funding requirement (pension assets)

The amendment of IFRIC 14 provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. This amendment did not have a significant impact on the financial statements.

### IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this value cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. This amendment did not have a significant impact on the financial statements.

### Improvements to IFRSs

Amendments resulting from improvements to IFRSs to the following standards did not have a material impact on the accounting policies, financial position or performance of ABN AMRO during this financial year:

- ▶ IFRS 7 Financial Instruments: Disclosures;
- ▶ IAS 1 Presentation of Financial Statements;
- ▶ IAS 27 Consolidated and Separate Financial Statements;
- ▶ IFRIC 13 Customer Loyalty Programmes.

### New accounting standards and interpretations

Standards issued but not yet effective up to the date of issuance of the ABN AMRO financial statements are listed below. This listing comprises standards and interpretations issued, which the bank reasonably expects to be applicable at a future date with the knowledge of today. ABN AMRO intends to adopt the below standards when they become effective and have been endorsed by the European Union.

### 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 is not yet 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 projects is expected in 2012. ABN AMRO is currently assessing the impact of both the first phase and the second phase on its financial statements.

### IFRS 10 Consolidated Financial Statements

IFRS 10 replaces all of the consolidation guidance of IAS 27 Consolidated and separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. Consolidation is required when there is control that is defined as a combination of power, exposure to variability in returns and a link between the two. IAS 28, Investments in Associates and Joint Ventures is also amended for conforming changes based on the issuance of IFRS 10. IFRS 10 is effective for annual periods beginning on or after 1 January 2013. ABN AMRO is currently reviewing this new IFRS 10 and will assess the impact on its financial statements.

### IFRS 11 Joint Arrangements

IFRS 11 overhauls the accounting for joint ventures and replaces IAS 31 Interest in Joint ventures and SIC 13 Jointly controlled Entities. It uses the principles of control in IFRS 10 in defining joint control and whether joint control exists may change. The new standard does not allow proportional consolidation of joint ventures and the equity method must be applied. IFRS 11 is effective in annual periods beginning on or after 1 January 2013. ABN AMRO will make an assessment of IFRS 11,

however since ABN AMRO has only a limited number of joint arrangements and the fact that ABN AMRO already accounts for joint ventures as equity accounted investments no significant impact is expected.

### **IFRS 12 Disclosure of Interests in Other Entities**

IFRS 12 includes all of the disclosure requirements for subsidiaries, joint arrangements, associated and structured entities. Changes include the requirement to disclose the judgements made to determine whether ABN AMRO controls another entity. IFRS 12 is effective in annual periods beginning on or after 1 January 2013. ABN AMRO is currently reviewing this new IFRS 12 and will assess the impact on its financial statements.

Early adoption of IFRS 10, 11 and 12 is permitted but is required to take place simultaneously. Only IFRS 12 can be early adopted without IFRS 10 and 11. However, the European Union has not yet endorsed IFRS 10, 11 and 12 and the Standards are therefore not yet available for early adoption.

### **IFRS 13 Fair Value Measurement**

IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosure on fair value measurements. It is applicable for all assets and liabilities that require a fair value based on IFRS. Disclosures for fair values are extended. In the coming period ABN AMRO will assess whether this new standard has any impact on existing fair value policies and disclosures. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. This standard has not yet been endorsed by the European Commission and is therefore not yet available for early adoption.

### **IAS 1 Presentation of Financial Statements**

IAS 1 addresses changes in the presentation of Other Comprehensive Income. The amended standard emphasizes that profit or loss and Other Comprehensive Income should be grouped together, i.e. either as a single "statement of profit or loss and comprehensive income", or as a separate "statement of profit or loss" and a "statement of comprehensive income". This last option is existing practice for ABN AMRO. ABN AMRO will assess if it will continue this practice or convert to the other option included in the amended IAS 1. This standard is applicable for annual periods beginning on or after 1 July 2012, with early adoption permitted. Endorsement by the European Commission has not taken place yet, and is therefore not yet available for early adoption.

### **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. The amendment introduces a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. This standard is applicable for annual periods beginning on or after 1 January 2012, with early adoption permitted. Endorsement by the European Commission has not taken place yet, and is therefore not yet available for early adoption.

### IAS 19 Employee Benefits

The amended IAS 19 states that changes in the defined benefit obligation and fair value of plan assets are recognised in the period as 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, affecting both the net defined benefit liability/asset and the amounts recognised in profit or loss are affected.

The amended standard splits changes in defined benefit liabilities/assets in:

- ▶ 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;
- ▶ Remeasurement of the defined benefit liability/asset – 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. The amendment of the standard will have a positive impact of approximately EUR 1.9 billion net of tax on total equity of ABN AMRO, based on the situation as per 31 December 2011, mainly due to the direct recognition of actuarial gains and losses.

The actuarial gains and losses are, because of its nature, highly volatile.

Therefore, this amended standard has a significant impact on the financial position of ABN AMRO. In the coming period the impact of this amended standard will be reviewed further. The European Commission has not endorsed this standard yet, and is therefore not yet available for early adoption.

### IFRS 7 Financial Instruments: Disclosures

In October 2010 IFRS 7 Financial Instruments: Disclosures has been amended to enhance the derecognition disclosure requirements for transfer transactions of financial assets. This amendment is effective for periods beginning on or after 1 July 2011 and is endorsed by the European Union. ABN AMRO expects no significant impact from the adoption of the amendments on its financial position or performance in 2012.

### 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. The allowances for loan losses is 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 could produce 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 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 information.



### **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.

### **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 being 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 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 interest, held by third parties, in both equity and results of group companies are stated separately in the consolidated financial statements.

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, other than those associated with the issuance of debt and equity securities, incurred by the acquirer in connection with the business combination 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 comprises 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 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 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 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 a funding transaction with customers, such as the issuance of loans are included in the calculation of the effective interest rate and are included in interest income and expense.

#### **Fees 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 it impacts 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.

### 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.

The 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. The 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 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 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 like 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 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.

### 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 loan impairment and other credit risk provisions. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that are likely to result from foreclosure less costs for obtaining and selling the collateral, 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 Loan impairment and other credit risk provisions. 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 loan impairment and other credit risk provisions. Assets acquired in exchange for loans to achieve an orderly realisation are reflected in the balance sheet as a disposal of the loan and an acquisition of a new asset, initially booked at fair value.

Although the decrease in estimated future cash flows from a portfolio of loans cannot 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 consists 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 (sales) of investments with agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans and receivables to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet. The proceeds from the sale of the investments are reported as liabilities to either banks or customers. The difference between the sale and repurchase price is recognised over the period of the transaction and recorded as interest income or interest expense, 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 forecast 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 risk being hedged (the "hedged risk") is 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 on components of a derivative 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. Although 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 re-measurement 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.

#### **Hedge of a net investment in a foreign operation**

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 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 an expense 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 customer 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 the estimates include, among others, competitive forces, customer behaviours and attrition, changes in revenue growth trends, cost structures and technology, and changes in discount rates and specific industry or market sector conditions.

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

### 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 substantially all the risks and rewards resulting from ownership of an asset to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, using the implicit interest rate, including any guaranteed residual value, is recognised. Finance lease receivables are included in loans and receivables to customers.

### 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, accrual 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 its sponsor 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, 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 provide post retirement benefits, like long-term service benefits, discount on banking products and post retirement healthcare, to their retirees. 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 either deliver cash or another financial asset or to satisfy the obligation other than by the exchange of a fixed number of equity shares. Preference shares that carry a non-discretionary coupon or are redeemable on a specific date or at the option of the holder are classified as liabilities. The dividends and fees on preference shares classified as a liability are recognised as interest expense.

Issued financial instruments, or their components, are classified as equity when they do not qualify as a liability and represent a residual interest in the assets of 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 of 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 inter bank deposits are included in the cash flow from operating activities. Investment activities are comprised of acquisitions, sales and redemptions in respect of financial investments, as well as investments in, and sales of, subsidiaries and associates, property and equipment. The issuing of shares and the borrowing and repayment of long term funds are treated as financing activities.

### Harmonisations

As a consequence of harmonisations, refinement of the accounting practices occurred in 2011, leading to minor netting adjustments and reclassifications in the consolidated statement of financial position, the statement of cash flows and the notes to the financial statements. The effects have been adjusted retrospectively. An overview of these adjustments is given below.

- ▶ As a consequence of the netting of residential mortgages with demand deposits EUR 1.9 billion has been netted (2010: EUR 1.8 billion) which impacts the consolidated statement of financial position for the line items loans and receivables – customers and due to customers;
- ▶ The netting of tax which impacts the current and deferred tax assets and current and deferred tax liabilities for EUR 40 million for current tax (2010: EUR 432 million) and EUR 139 million for deferred tax (2010: EUR 74 million).

# 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 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 Managing Board adopted in 2011 a further refinement of the segment reporting as follows: Retail Banking, Private Banking, Commercial Banking, Merchant Banking and Group Functions.

Measurement of segment assets, liabilities, income and results is 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.

As from 2011, cost allocation has been refined further. The majority of Group Functions costs are now allocated to business segments. The year-on-year comparison of the results of the business segments is impacted by this further refinement in cost allocation. Comparative figures are not restated. Costs that are not allocated to the businesses include the operating income from ALM/Treasury, general restructuring charges, certain integration costs, and costs for the Dutch Deposit Guarantee System.

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 2011 or 2010.

## 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.

## 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 2011

### Income Statement

| (in millions)                                                   | 2011                     |                 |                               |                  |                 |                                |              |
|-----------------------------------------------------------------|--------------------------|-----------------|-------------------------------|------------------|-----------------|--------------------------------|--------------|
|                                                                 | Retail & Private Banking |                 | Commercial & Merchant Banking |                  | Group Functions | Reconciling items <sup>1</sup> | 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          |
| <b>Operating income</b>                                         | <b>3,212</b>             | <b>1,302</b>    | <b>1,677</b>                  | <b>1,330</b>     | <b>273</b>      |                                | <b>7,794</b> |
| 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          |                                |              |
| <b>Operating expenses</b>                                       | <b>1,776</b>             | <b>1,010</b>    | <b>1,147</b>                  | <b>883</b>       | <b>541</b>      |                                | <b>5,357</b> |
| Loan impairment and other credit risk provisions                | 276                      | 16              | 606                           | 27               | 832             |                                | 1,757        |
| <b>Total expenses</b>                                           | <b>2,052</b>             | <b>1,026</b>    | <b>1,753</b>                  | <b>910</b>       | <b>1,373</b>    |                                | <b>7,114</b> |
| <b>Operating profit/(loss) before taxation</b>                  | <b>1,160</b>             | <b>276</b>      | <b>-76</b>                    | <b>420</b>       | <b>-1,100</b>   |                                | <b>680</b>   |
| Income tax expenses                                             | 280                      | 36              | -12                           | 16               | -329            |                                | -9           |
| <b>Profit/(loss) for the year</b>                               | <b>880</b>               | <b>240</b>      | <b>-64</b>                    | <b>404</b>       | <b>-771</b>     |                                | <b>689</b>   |
| <i>Attributable to:</i>                                         |                          |                 |                               |                  |                 |                                |              |
| Owners of the company                                           | 880                      | 240             | -64                           | 381              | -772            |                                | 665          |
| Non-controlling interests                                       |                          |                 |                               | 23               | 1               |                                | 24           |

<sup>1</sup> Segments are stated as they are reviewed by management.

An explanation of the numbers is provided in the Business, Operating & Financial review of this Annual Report.



## 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 |                 |                  |
| <b>Assets</b>                          |                          |                 |                               |                  |                 |                  |
| 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          |
| <b>Total assets</b>                    | <b>164,603</b>           | <b>21,361</b>   | <b>43,255</b>                 | <b>123,460</b>   | <b>52,003</b>   | <b>404,682</b>   |
| <b>Liabilities</b>                     |                          |                 |                               |                  |                 |                  |
| 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          |
| <b>Total liabilities<sup>1</sup></b>   | <b>164,603</b>           | <b>21,361</b>   | <b>43,255</b>                 | <b>123,460</b>   | <b>40,583</b>   | <b>393,262</b>   |

<sup>1</sup> Total liabilities per segment are after elimination of Intercompany transactions and may therefore be lower than the line item Due to customers.

## Segment information for the year 2010

### Income Statement

| (in millions)                                                   |                          |                 |                               |                  |                 |                                | 2010         |
|-----------------------------------------------------------------|--------------------------|-----------------|-------------------------------|------------------|-----------------|--------------------------------|--------------|
|                                                                 | Retail & Private Banking |                 | Commercial & Merchant Banking |                  | Group Functions | Reconciling items <sup>1</sup> | Total        |
|                                                                 | Retail Banking           | Private Banking | Commercial Banking            | Merchant Banking |                 |                                |              |
| Net interest income                                             | 2,945                    | 485             | 1,199                         | 390              | -111            | -3                             | 4,905        |
| Net fee and commission income                                   | 504                      | 652             | 375                           | 318              | -83             |                                | 1,766        |
| Net trading income                                              | 4                        | 54              | 5                             | 234              | 4               | 3                              | 304          |
| Results from financial transactions                             | 13                       | -1              | 2                             | 52               | 264             |                                | 330          |
| Share of result in equity accounted investments                 | 55                       | 26              | 1                             | -1               | 10              |                                | 91           |
| Other income                                                    | 18                       | 10              | 83                            | 17               | -727            |                                | -599         |
| <b>Operating income</b>                                         | <b>3,539</b>             | <b>1,226</b>    | <b>1,665</b>                  | <b>1,010</b>     | <b>-643</b>     |                                | <b>6,797</b> |
| Personnel expenses                                              | 557                      | 513             | 339                           | 236              | 871             | 330                            | 2,846        |
| General and administrative expenses                             | 394                      | 355             | 80                            | 343              | 1,191           | 484                            | 2,847        |
| Depreciation and amortisation of tangible and intangible assets | 7                        | 51              | 102                           | 11               | 268             | 97                             | 536          |
| Separation and integration-related items <sup>2</sup>           | 32                       | 43              |                               | 9                | 827             | -911                           |              |
| Intersegment revenues/expenses                                  | 809                      | 135             | 513                           | 373              | -1,830          |                                |              |
| <b>Operating expenses</b>                                       | <b>1,799</b>             | <b>1,097</b>    | <b>1,034</b>                  | <b>972</b>       | <b>1,327</b>    |                                | <b>6,229</b> |
| Loan impairment and other credit risk provisions                | 271                      | 71              | 538                           | -20              | -23             |                                | 837          |
| <b>Total expenses</b>                                           | <b>2,070</b>             | <b>1,168</b>    | <b>1,572</b>                  | <b>952</b>       | <b>1,304</b>    |                                | <b>7,066</b> |
| <b>Operating profit/(loss) before taxation</b>                  | <b>1,469</b>             | <b>58</b>       | <b>93</b>                     | <b>58</b>        | <b>-1,947</b>   |                                | <b>-269</b>  |
| Income tax expenses                                             | 366                      | 26              | 36                            | -50              | -233            |                                | 145          |
| <b>Profit/(loss) for the period</b>                             | <b>1,103</b>             | <b>32</b>       | <b>57</b>                     | <b>108</b>       | <b>-1,714</b>   |                                | <b>-414</b>  |
| <i>Attributable to:</i>                                         |                          |                 |                               |                  |                 |                                |              |
| Owners of the company                                           | 1,103                    | 32              | 57                            | 108              | -1,717          |                                | -417         |
| Non-controlling interests                                       |                          |                 |                               |                  | 3               |                                | 3            |

<sup>1</sup> Segments are stated as they are reviewed by management. Intercompany transactions are shown as external balances in the segments and eliminated as a reconciling item.

<sup>2</sup> Excluding the net loss of the EC Remedy, amounting to EUR 812 million, which is recorded as a loss in Other income of 862 million, a tax credit of EUR 33 million and a pension curtailment gain of EUR 17 million in Personnel expenses in the segment Group Functions.

## Selected Statement of financial position

| (in millions)                          |                          |                 |                               |                  | 31 December 2010 <sup>1</sup> |                |
|----------------------------------------|--------------------------|-----------------|-------------------------------|------------------|-------------------------------|----------------|
|                                        | Retail & Private Banking |                 | Commercial & Merchant Banking |                  | Group Functions               | Total          |
|                                        | Retail Banking           | Private Banking | Commercial Banking            | Merchant Banking |                               |                |
| <b>Assets</b>                          |                          |                 |                               |                  |                               |                |
| Financial assets held for trading      | 52                       | 171             | 411                           | 23,603           | 63                            | 24,300         |
| Loans and receivables – customers      | 167,547                  | 16,424          | 42,373                        | 42,372           | 5,228                         | 273,944        |
| <b>Total assets</b>                    | <b>169,790</b>           | <b>23,875</b>   | <b>45,471</b>                 | <b>102,368</b>   | <b>35,778</b>                 | <b>377,282</b> |
| <b>Liabilities</b>                     |                          |                 |                               |                  |                               |                |
| Financial liabilities held for trading | 50                       | 167             | 3                             | 19,599           | 163                           | 19,982         |
| Due to customers                       | 69,690                   | 53,510          | 39,016                        | 37,663           | 9,587                         | 209,466        |
| <b>Total liabilities<sup>2</sup></b>   | <b>168,600</b>           | <b>21,924</b>   | <b>45,195</b>                 | <b>102,412</b>   | <b>27,039</b>                 | <b>365,170</b> |

<sup>1</sup> As a consequence of harmonisations, refinement of accounting practices occurred during 2011, leading to minor netting adjustments and reclassification of line items in the statements of financial position. The effects of these harmonisations have been adjusted retrospectively (see page 182).

<sup>2</sup> Total liabilities per segment are after elimination of Intercompany transactions and may therefore be lower than the line item Due to customers.

## Geographical segments

| (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          |
| <b>Operating income</b>                                         | <b>6,359</b>    | <b>1,096</b>   | <b>82</b> | <b>206</b> | <b>51</b>         | <b>7,794</b> |
| 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         |                   |              |
| <b>Operating expenses</b>                                       | <b>4,328</b>    | <b>791</b>     | <b>70</b> | <b>144</b> | <b>24</b>         | <b>5,357</b> |
| Loan impairment and other credit risk provisions                | 1,799           | -28            | -7        | -7         |                   | 1,757        |
| <b>Total expenses</b>                                           | <b>6,127</b>    | <b>763</b>     | <b>63</b> | <b>137</b> | <b>24</b>         | <b>7,114</b> |
| <b>Operating profit/(loss) before taxation</b>                  | <b>232</b>      | <b>333</b>     | <b>19</b> | <b>69</b>  | <b>27</b>         | <b>680</b>   |
| Income tax expenses                                             | -79             | 49             | 1         | 13         | 7                 | -9           |
| <b>Profit/(loss) for the year</b>                               | <b>311</b>      | <b>284</b>     | <b>18</b> | <b>56</b>  | <b>20</b>         | <b>689</b>   |
| <i>Attributable to:</i>                                         |                 |                |           |            |                   |              |
| Owners of the company                                           | 287             | 284            | 18        | 56         | 20                | 665          |
| Non-controlling interests                                       | 24              |                |           |            |                   | 24           |

| (in millions)                                                   |                 |                |           |            |                   | 2010         |
|-----------------------------------------------------------------|-----------------|----------------|-----------|------------|-------------------|--------------|
|                                                                 | The Netherlands | Rest of Europe | USA       | Asia       | Rest of the world | Total        |
| Net interest income                                             | 4,453           | 379            | 15        | 48         | 10                | 4,905        |
| Net fee and commission income                                   | 1,168           | 452            | 32        | 81         | 33                | 1,766        |
| Net trading income                                              | 194             | 88             | 1         | 21         |                   | 304          |
| Results from financial transactions                             | 327             | 3              |           |            |                   | 330          |
| Share of result in equity accounted investments                 | 62              | 27             |           |            | 2                 | 91           |
| Other income                                                    | -626            | 17             |           | 8          | 2                 | -599         |
| <b>Operating income</b>                                         | <b>5,578</b>    | <b>966</b>     | <b>48</b> | <b>158</b> | <b>47</b>         | <b>6,797</b> |
| Personnel expenses                                              | 2,319           | 408            | 29        | 69         | 21                | 2,846        |
| General and administrative expenses                             | 2,346           | 429            | 8         | 45         | 19                | 2,847        |
| Depreciation and amortisation of tangible and intangible assets | 463             | 61             | 2         | 9          | 1                 | 536          |
| Intercountry revenues/expenses                                  | -6              | 3              |           | 3          |                   |              |
| <b>Operating expenses</b>                                       | <b>5,122</b>    | <b>901</b>     | <b>39</b> | <b>126</b> | <b>41</b>         | <b>6,229</b> |
| Loan impairment and other credit risk provisions                | 763             | 70             |           | 1          | 3                 | 837          |
| <b>Total expenses</b>                                           | <b>5,885</b>    | <b>971</b>     | <b>39</b> | <b>127</b> | <b>44</b>         | <b>7,066</b> |
| <b>Operating profit/(loss) before taxation</b>                  | <b>-307</b>     | <b>-5</b>      | <b>9</b>  | <b>31</b>  | <b>3</b>          | <b>-269</b>  |
| Income tax expenses                                             | 84              | 56             | -2        | 4          | 3                 | 145          |
| <b>Profit/(loss) for the year</b>                               | <b>-391</b>     | <b>-61</b>     | <b>11</b> | <b>27</b>  |                   | <b>-414</b>  |
| <i>Attributable to:</i>                                         |                 |                |           |            |                   |              |
| Owners of the company                                           | -394            | -61            | 11        | 27         |                   | -417         |
| Non-controlling interests                                       | 3               |                |           |            |                   | 3            |

### 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)                                                 | 2011         |               | 2010         |               |
|---------------------------------------------------------------|--------------|---------------|--------------|---------------|
|                                                               | Acquisitions | Divestments   | Acquisitions | Divestments   |
| <b>Assets and liabilities of acquisitions and divestments</b> |              |               |              |               |
| Cash and balances at central banks                            | 5            | -40           |              | -15           |
| Financial assets held for trading                             |              | -128          |              | -744          |
| Financial investments                                         |              | -235          |              |               |
| Loans and receivables – banks                                 | 227          | -648          |              | -232          |
| Loans and receivables – customers                             | 328          | -2,019        |              | -10,512       |
| Equity accounted investments                                  | 78           | -330          | 122          | -83           |
| Property and equipment                                        | 1            | -17           |              | -1            |
| Goodwill and other intangible assets                          |              | -17           |              |               |
| Accrued and other assets                                      | 6            | -2,267        |              | -186          |
| Financial liabilities held for trading                        |              | 123           |              | 720           |
| Due to banks                                                  | -29          | 2,711         |              | 1,694         |
| Due to customers                                              | -427         | 2,773         |              | 8,148         |
| Subordinated liabilities                                      |              | 39            |              |               |
| Provisions                                                    | -5           | 8             |              | 3             |
| Accrued expenses and deferred income                          | -1           | 43            |              | 132           |
| Tax liabilities                                               |              | 12            |              | 3             |
| Other liabilities                                             | -13          | 1,031         |              | 27            |
| Non-controlling interests                                     | 5            | 1             |              | 1             |
| <b>Net assets acquired/Net assets divested</b>                | <b>175</b>   | <b>1,040</b>  | <b>122</b>   | <b>-1,045</b> |
| Negative goodwill                                             |              |               |              |               |
| Result on divestments, gross                                  |              | 188           |              | -860          |
| Less: non cash items                                          |              | -19           |              | 603           |
| <i>Cash used for acquisitions/received from divestments:</i>  |              |               |              |               |
| Total purchase consideration/Proceeds from sale               | -175         | -871          | -122         | 788           |
| Less: Cash and cash equivalents acquired/divested             | 220          | -388          |              | -36           |
| <b>Cash used for acquisitions/received for divestments</b>    | <b>45</b>    | <b>-1,259</b> | <b>-122</b>  | <b>752</b>    |

### Acquisitions 2011

On 7 December 2011, ABN AMRO completed the acquisition of LGT Bank Deutschland. LGT Bank Deutschland has become part of Bethmann Bank, a fully owned subsidiary of ABN AMRO in Germany.

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. These assets and liabilities were part of the RBS N.V. business acquired by the Dutch State but could not be transferred in 2010 due to regulatory constraints. These assets and liabilities were transferred at fair value. No goodwill was recognised.

Acquisitions contain increases in the investments in several equity accounted investments for both 2011 and 2010.

### Divestments 2011

In May 2010, ABN AMRO and Credit Suisse AG signed a sale and purchase agreement on the sale of certain assets and liabilities of Prime Fund Solutions. The sale of the majority of the Prime Fund Solutions activities to Credit Suisse AG 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 assets and liabilities were sold at a book value of EUR 287 million. The balance sheet was mostly impacted by a transfer of EUR 2 billion credit client balances and a transfer of EUR 268 million in loans. ABN AMRO remains the owner of the Prime Fund Solutions legal entities.

On 3 October 2011, ABN AMRO completed the sale of the international division of Fortis Commercial Finance (FCF) to BNP Paribas. The Dutch part of FCF remained with ABN AMRO and was integrated into ABN AMRO's factoring business, ABN AMRO Commercial Finance. The sale led to a 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 ABN AMRO's Swiss Private Banking activities to Union Bancaire Privée, UBP SA was finalised on 31 October 2011. The Swiss Private Banking activities included approximately EUR 11 billion client assets. The sale of these activities led to a substantial book gain.

In addition, gains were realised on private equity divestments.

### Divestments 2010

Under the EC Remedy, the activities of the new HBU II N.V. and IFN Finance B.V. were sold in December 2009 and transferred on 1 April 2010. The results of these activities were included in Group Functions until the date of the sale (total negative transaction result of EUR 812 million after tax).

## 4 Net interest income

| (in millions)              | 2011         | 2010         |
|----------------------------|--------------|--------------|
| Interest income            | 13,223       | 12,952       |
| Interest expense           | 8,225        | 8,047        |
| <b>Net interest income</b> | <b>4,998</b> | <b>4,905</b> |

### Net interest income

The increase in net interest income was strongly driven by volume growth in Commercial & Merchant Banking (especially in ECT). This increase was partly offset by a combination of a decline in mortgage volumes, margin pressure due to increased competition for savings and higher funding spreads paid for wholesale funding.

### Interest income

The breakdown of Interest income by type of product for the years ended 31 December is shown below.

| (in millions)                            | 2011          | 2010          |
|------------------------------------------|---------------|---------------|
| <i>Interest income from:</i>             |               |               |
| Cash and balances at central banks       | 32            | 102           |
| Financial investments available-for-sale | 344           | 745           |
| Loans and receivables – banks            | 590           | 338           |
| Loans and receivables – customers        | 11,487        | 10,900        |
| Other                                    | 770           | 867           |
| <b>Total interest income</b>             | <b>13,223</b> | <b>12,952</b> |

Interest on impaired loans amounted to EUR 54 million in 2011 (2010: EUR 39 million) which is included in Interest income.

The decrease in the interest earned on Financial investments available-for-sale is due to the replacement of high-yield government bonds by German and Dutch government bonds.

### Interest expense

The breakdown of Interest expense by type of product for the years ended 31 December is shown below.

| (in millions)                 | 2011         | 2010         |
|-------------------------------|--------------|--------------|
| <i>Interest expense from:</i> |              |              |
| Due to banks                  | 686          | 592          |
| Due to customers              | 3,280        | 3,041        |
| Issued debt                   | 2,068        | 2,088        |
| Subordinated liabilities      | 203          | 343          |
| Other                         | 1,988        | 1,983        |
| <b>Total interest expense</b> | <b>8,225</b> | <b>8,047</b> |



As the final coupon of the high-yield Mandatory Convertible Securities (MCS) was paid in December 2010, the interest expense on Subordinated liabilities decreased (see note 30).

## 5 Net fee and commission income

| (in millions)                        | 2011         | 2010         |
|--------------------------------------|--------------|--------------|
| Fee and commission income            | 2,548        | 2,550        |
| Fee and commission expense           | 737          | 784          |
| <b>Net fee and commission income</b> | <b>1,811</b> | <b>1,766</b> |

Net fee and commission income were higher in 2011 due to lower costs for a credit protection instrument. Net fees and commissions were under pressure in 2011, due to lower transaction volumes as a consequence of adverse market conditions.

### Fee and commission income

Fee and commission income for the years ended 31 December is specified in the table below.

| (in millions)                          | 2011         | 2010         |
|----------------------------------------|--------------|--------------|
| <i>Fee and commission income from:</i> |              |              |
| Securities and custodian services      | 1,106        | 1,095        |
| Insurance and investment fees          | 110          | 113          |
| Portfolio management and trust fees    | 392          | 437          |
| Payment services                       | 597          | 583          |
| Guarantees and commitment fees         | 148          | 92           |
| Other service fees                     | 195          | 230          |
| <b>Total fee and commission income</b> | <b>2,548</b> | <b>2,550</b> |

Portfolio management and trust fees decreased due to the sale of the majority of the Prime Fund Solutions activities to Credit Suisse A.G.

Guarantees and commitment fees increased due mainly to a release of a provision provided in previous years in Fee and commission income.

### Fee and commission expense

The components of Fee and commission expense for the years ended 31 December are as follows:

| (in millions)                           | 2011       | 2010       |
|-----------------------------------------|------------|------------|
| <i>Fee and commission expense from:</i> |            |            |
| Securities and custodian services       | 549        | 510        |
| Insurance and investment fees           | 20         | 19         |
| Portfolio management and trust fees     | 51         | 5          |
| Payment services                        | 70         | 76         |
| Guarantees and commitment fees          | 14         | 166        |
| Other service fees                      | 33         | 8          |
| <b>Total fee and commission expense</b> | <b>737</b> | <b>784</b> |

The decrease in Guarantees and commitment fee expense is due to the termination in October 2010 of a EUR 34.5 billion credit protection instrument, through a guarantee, which the Dutch State issued to reduce the credit risk on part of the Dutch residential mortgage portfolio (year-on-year difference of EUR 138 million).

## 6 Net trading income

| (in millions)                        | 2011       | 2010       |
|--------------------------------------|------------|------------|
| Interest instruments trading         | 170        | 43         |
| Equity trading                       | -40        | 91         |
| Foreign exchange transaction results | 177        | 162        |
| Other                                | -83        | 8          |
| <b>Total net trading income</b>      | <b>224</b> | <b>304</b> |

Foreign exchange transactions results include gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities.

The decrease of Net trading income was mainly due to losses in trading-index derivatives of EUR 131 million, losses on other trading derivatives of EUR 51 million and higher Credit Value Adjustment losses (counterparty risk related to interest rate derivatives) of EUR 40 million (2010: loss of EUR 12 million) in Merchant Banking. The decrease is only partly offset by the increase in Interest instrument trading, which was mainly due to a higher volume and the increase in market value of derivatives held for trading during 2011 (see note 15).

## 7 Results from financial transactions

| (in millions)                                                    | 2011       | 2010       |
|------------------------------------------------------------------|------------|------------|
| <i>Net result on the sale of:</i>                                |            |            |
| Available-for-sale debt securities                               | -40        | 92         |
| Available-for-sale equity investments                            | 9          | 1          |
| <i>Impairments of:</i>                                           |            |            |
| Available-for-sale equity investments                            | -4         | -4         |
| <i>Other net results:</i>                                        |            |            |
| Other equity investments                                         | 22         | 49         |
| Government bonds designated through profit or loss               |            | -30        |
| Dividends                                                        | 57         | 9          |
| Fair value changes in own credit risk and repurchase of own debt | 44         | 182        |
| Net result on risk mitigants                                     | 26         | 9          |
| Other                                                            | 160        | 22         |
| <b>Total result from financial transactions</b>                  | <b>274</b> | <b>330</b> |

Replacement of high-yield government bonds resulted in a loss of EUR 40 million during 2011 (2010: gain of EUR 92 million).

Fair value changes of other equity investments held at fair value through profit or loss are included in Other equity investments for an amount of EUR 8 million (2010: EUR 34 million).

During 2011 ABN AMRO recorded a profit of EUR 25 million (2010: EUR 175 million) related to the buy back of own issued covered bonds recorded in Fair value changes in own credit risk and repurchase of own debt.

Net result on risk mitigants comprises the ineffectiveness of the various hedge accounting programmes and the unwinding of capital management-related guarantee transactions. Further disclosure is included in note 40 Hedge accounting.

Other mainly includes economic hedges (e.g. hedges not qualified for hedge accounting) amounting to EUR 95 million (2010: EUR 22 million).

## 8 Other income

| (in millions)                                                     | 2011       | 2010        |
|-------------------------------------------------------------------|------------|-------------|
| Leasing activities                                                | 96         | 86          |
| Disposal of operating activities and equity accounted investments | 188        | -860        |
| Other                                                             | 119        | 175         |
| <b>Total other income</b>                                         | <b>403</b> | <b>-599</b> |

Disposal of operating activities and equity accounted investments in 2011 consists mainly of a gain on the sale of Swiss Private Banking activities (see note 3) and private equity divestments.

### EC Remedy

In 2010 ABN AMRO sold New HBU II N.V. and IFN Finance B.V. (under the EC Remedy). The sale price agreed for the EC Remedy was EUR 700 million. The net loss of the transaction in 2010, amounting to EUR 812 million, was recorded as a loss in Other income of EUR 862 million, a tax credit of EUR 33 million in Income tax expense and a pension curtailment gain of EUR 17 million in Personnel expenses.

### Credit Umbrella valuation

In 2011 the obligation for the Credit Umbrella increased from EUR 293 million to EUR 309 million due to the deteriorated credit quality of the underlying portfolio (see note 34). This movement is included in Other income and can be explained as follows:

| (in millions)                           | 2011      | 2010       |
|-----------------------------------------|-----------|------------|
| Fee amortisation                        | -62       | -119       |
| Change in expected cash outflow pattern | 79        | 69         |
| Payments                                | -1        |            |
| <b>Total increase/(decrease)</b>        | <b>16</b> | <b>-50</b> |

## 9 Personnel expenses

| (in millions)                                      | 2011         | 2010         |
|----------------------------------------------------|--------------|--------------|
| Salaries and wages                                 | 1,763        | 1,901        |
| Social security charges                            | 201          | 232          |
| Pension expenses relating to defined benefit plans | 223          | 118          |
| Defined contribution plan expenses                 | 41           | 46           |
| Other                                              | 289          | 549          |
| <b>Total personnel expenses</b>                    | <b>2,517</b> | <b>2,846</b> |

Salaries and wages and Social security charges decreased due to a reduction in the number of employees resulting from the integration and divestments. The variance in Pension expenses relating to the defined benefit plans is caused by a decrease in current service costs and a positive amount of EUR 23 million (2010: EUR 116 million) for curtailments. Note 32 contains further details on post-employment benefits and other long-term employee benefits, including pension costs related to defined benefit plans and defined contribution plans.

Other personnel expenses include medical costs, termination benefits and restructuring costs. In 2011, EUR 177 million was due to the movements in the restructuring provision (2010: EUR 409 million).

## 10 General and administrative expenses

| (in millions)                                    | 2011         | 2010         |
|--------------------------------------------------|--------------|--------------|
| Agency staff, Contractors and Consultancy costs  | 675          | 742          |
| Staff related costs                              | 87           | 91           |
| Information technology costs                     | 938          | 828          |
| Housing                                          | 258          | 315          |
| Post, telephone and transport                    | 105          | 92           |
| Marketing and public relations costs             | 154          | 149          |
| Other                                            | 222          | 630          |
| <b>Total General and administrative expenses</b> | <b>2,439</b> | <b>2,847</b> |

ABN AMRO revised the presentation of General and administrative expenses in 2011. Certain line items have been reclassified retrospectively to align 2010 with the revised presentation.

General and administrative expenses include integration and separation costs for specific cost categories. Integration and separation costs amounted to EUR 380 million (2010: EUR 484 million), which are mainly recorded under Information technology costs and Agency staff, Contractors and Consultancy costs.

In 2011 Other includes a release of EUR 23 million in the legal provisions (2010: addition of EUR 305 million).

Fees paid to KPMG are part of Agency staff, Contractors and Consultancy costs. These fees are specified in the table below.

|                                 | 2011      | 2010      |
|---------------------------------|-----------|-----------|
| Financial statements audit fees | 6         | 6         |
| Audit related fees              | 5         | 3         |
| Tax advisory fees               |           | 2         |
| Other fees                      | 1         | 4         |
| <b>Total fees</b>               | <b>12</b> | <b>15</b> |

## 11 Depreciation and amortisation

|                                               |            |            |
|-----------------------------------------------|------------|------------|
| (in millions)                                 | 2011       | 2010       |
| <i>Depreciation on tangible assets</i>        |            |            |
| Land and buildings held for own use           | 49         | 52         |
| Leasehold improvements                        | 24         | 37         |
| Equipment                                     | 163        | 171        |
| Other                                         | 1          | 5          |
| <i>Amortisation on intangible assets</i>      |            |            |
| Purchased software                            | 89         | 102        |
| Internally developed software                 | 18         | 29         |
| Other intangible assets                       | 3          | 4          |
| <i>Impairment losses on tangible assets</i>   |            |            |
| Land and buildings held for own use           | 6          | 12         |
| Leasehold improvements                        |            | 60         |
| Equipment                                     | 1          | 9          |
| <i>Impairment losses on intangible assets</i> |            |            |
| Goodwill                                      | 28         | 54         |
| Purchased software                            | 4          |            |
| Internally developed software                 | 15         | 1          |
| <b>Total depreciation and amortisation</b>    | <b>401</b> | <b>536</b> |

The total depreciation and amortisation in 2011 decreased mainly due to lower impairments losses on tangible assets of EUR 7 million (2010: EUR 81 million).

More information on the impairment of goodwill is provided in note 22 Goodwill and other intangible assets.

## 12 Income tax expenses

| (in millions)                                                                                                        | 2011        | 2010       |
|----------------------------------------------------------------------------------------------------------------------|-------------|------------|
| <i>Recognised in income statement:</i>                                                                               |             |            |
| Current tax expenses for the current period                                                                          | 295         | 147        |
| Adjustments recognised in the period for current tax of prior periods                                                | -27         | -19        |
| Previously unrecognised tax losses, tax credits and temporary differences increasing (reducing) current tax expenses | 1           | -2         |
| <b>Total current tax expense</b>                                                                                     | <b>269</b>  | <b>126</b> |
| Deferred tax arising from the current period                                                                         | -293        | -20        |
| 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                         | 15          | 30         |
| Previously unrecognised tax losses, tax credits and temporary differences reducing deferred tax expense              | 1           | 9          |
| <b>Total deferred tax expense</b>                                                                                    | <b>-278</b> | <b>19</b>  |
| <b>Total income tax expense</b>                                                                                      | <b>-9</b>   | <b>145</b> |

### Reconciliation of the total tax charge

The effective rate was -1.3% in 2011 (2010: -53.9%) and differs from the theoretical rate that would arise using the statutory tax rate of the Netherlands. This difference can be explained as follows:

| (in millions)                                                | 2011      | 2010       |
|--------------------------------------------------------------|-----------|------------|
| Profit/(loss) before taxation                                | 680       | -269       |
| Applicable tax rate                                          | 25.0%     | 25.5%      |
| Expected income tax expense                                  | 170       | -68        |
| <i>Increase/(decrease) in taxes resulting from:</i>          |           |            |
| Tax exempt income                                            | -138      | 98         |
| Share in result of associates and joint ventures             | -10       | -1         |
| Disallowed expenses                                          | -3        | 20         |
| Previously unrecognised tax losses and temporary differences | -24       | 41         |
| Write-down and reversal of write-down of deferred tax assets | 15        | 52         |
| Impact of changes in tax rates on temporary differences      | 4         |            |
| Foreign tax rate differential                                | 13        | -23        |
| Adjustments for current tax of prior years                   | -27       | 24         |
| Other                                                        | -9        | 2          |
| <b>Actual income tax expense</b>                             | <b>-9</b> | <b>145</b> |

The increase of the effective tax rate was primarily due to tax exempt income and adjustments related to tax settlements.

Details on tax assets and tax liabilities are available in note 25.

## 13 Other comprehensive income

| (in millions)                                                             | 31 December 2011 | 31 December 2010 |
|---------------------------------------------------------------------------|------------------|------------------|
| <i>Other comprehensive income/(expense):</i>                              |                  |                  |
| <b>Currency translation reserve</b>                                       | <b>-9</b>        | <b>13</b>        |
| <i>Available-for-sale financial assets:</i>                               |                  |                  |
| Gains/(losses) arising during the period                                  | -551             | 218              |
| Less: Realised (gains)/losses included in profit or loss                  | -16              | 79               |
|                                                                           | <b>-535</b>      | <b>139</b>       |
| <b>Other comprehensive income/(expense)</b>                               | <b>16</b>        |                  |
| <i>Cash flow hedging reserve:</i>                                         |                  |                  |
| Gains/(losses) arising during the period                                  | -811             | 99               |
| Less: Realised (gains)/losses included in profit or loss                  | 143              | 105              |
|                                                                           | <b>-954</b>      | <b>-6</b>        |
| <b>Other comprehensive income/(expense)</b>                               | <b>-1,482</b>    | <b>146</b>       |
| Income tax relating to components of other comprehensive expense/(income) | -343             | -4               |
| <b>Other comprehensive income/(expense) for the year, net of taxation</b> | <b>-1,139</b>    | <b>150</b>       |

| (in millions)                               | 31 December 2011 |             |               | 31 December 2010 |           |            |
|---------------------------------------------|------------------|-------------|---------------|------------------|-----------|------------|
|                                             | Gross amount     | Taxation    | Net amount    | Gross amount     | Taxation  | Net amount |
| Currency translation reserve                | -9               | -7          | -2            | 13               | -14       | 27         |
| Available for sale financial assets         | -535             | -97         | -438          | 139              | 3         | 136        |
| Cash flow hedging reserve                   | -954             | -239        | -715          | -6               | 7         | -13        |
| Other comprehensive income/(expense)        | 16               |             | 16            |                  |           |            |
| <b>Other comprehensive income/(expense)</b> | <b>-1,482</b>    | <b>-343</b> | <b>-1,139</b> | <b>146</b>       | <b>-4</b> | <b>150</b> |

The decrease in Available-for-sale financial assets is mainly due to a decrease in the fair value of government bonds of EUR 335 million and a decrease in mortgage backed securities of EUR 155 million.

# notes to the consolidated statement of financial position

## 14 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 2011 | 31 December 2010 |
|-----------------------------------------------------------------------------------------------|------------------|------------------|
| Cash on hand and other cash equivalents                                                       | 605              | 580              |
| Balances with central banks readily convertible in cash other than mandatory reserve deposits | 7,036            | 326              |
| <b>Total cash and balances at central banks</b>                                               | <b>7,641</b>     | <b>906</b>       |

Cash and balances with central banks rose by EUR 6.7 billion to EUR 7.6 billion, predominantly due to overnight deposits placed at Dutch central bank.

Mandatory reserve deposits are recorded in note 17 Loans and receivables – banks.



## 15 Financial assets and liabilities held for trading

### Financial assets held for trading

The table below shows the composition of assets held for trading.

| (in millions)                        | 31 December 2011 | 31 December 2010 |
|--------------------------------------|------------------|------------------|
| <i>Trading securities:</i>           |                  |                  |
| Treasury bills                       |                  | 75               |
| Government bonds                     | 2,355            | 2,822            |
| Corporate debt securities            | 333              | 813              |
| Equity securities                    | 10,808           | 10,497           |
| <b>Total trading securities</b>      | <b>13,496</b>    | <b>14,207</b>    |
| <i>Derivatives held for trading:</i> |                  |                  |
| Over the counter (OTC)               | 13,479           | 7,998            |
| Exchange traded                      | 763              | 213              |
| <b>Total trading derivatives</b>     | <b>14,242</b>    | <b>8,211</b>     |
| Trading book loans                   | 1,255            | 1,716            |
| Commodities                          | 530              | 166              |
| <b>Total assets held for trading</b> | <b>29,523</b>    | <b>24,300</b>    |

The fair value of assets pledged as security is shown in note 37 Assets pledged as security.

The Financial assets held for trading increased by EUR 5.2 billion. This is due to the increase of the volume and the fair value of derivatives OTC.

The other assets held for trading fully relate to commodity positions held by ABN AMRO.

### Financial liabilities held for trading

The table below shows the composition of liabilities held for trading.

| (in millions)                             | 31 December 2011 | 31 December 2010 |
|-------------------------------------------|------------------|------------------|
| Short security positions                  | 8,858            | 10,584           |
| <i>Derivative financial instruments:</i>  |                  |                  |
| Over the counter (OTC)                    | 13,150           | 8,351            |
| Exchange traded                           | 316              | 257              |
| <b>Total derivatives held for trading</b> | <b>13,466</b>    | <b>8,608</b>     |
| Other liabilities held for trading        | 455              | 790              |
| <b>Total liabilities held for trading</b> | <b>22,779</b>    | <b>19,982</b>    |

The financial liabilities held for trading increased by EUR 2.8 billion, mainly due to an increase in the fair value of Derivatives held for trading of EUR 4.9 billion and a decrease in the Short security positions of EUR 1.7 billion.

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.

## Derivatives held for trading

The derivatives held for trading comprise the following:

| (in millions)                     |          | 31 December 2011 |               |               | 31 December 2010 |              |              |
|-----------------------------------|----------|------------------|---------------|---------------|------------------|--------------|--------------|
|                                   |          | Notional amount  | Fair values   |               | Notional amount  | Fair values  |              |
|                                   |          |                  | Assets        | Liabilities   |                  | Assets       | Liabilities  |
| <i>Interest rate derivatives:</i> |          |                  |               |               |                  |              |              |
| OTC                               | Swaps    | 629,725          | 10,822        | 10,487        | 543,592          | 6,070        | 6,174        |
|                                   | Forwards | 61,577           | 13            | 13            | 23,665           |              |              |
|                                   | Options  | 20,361           | 1,196         | 1,271         | 27,620           | 888          | 854          |
| Exchange                          | Futures  | 463              | 133           | 132           | 41               | 40           | 45           |
|                                   | Options  | 152              |               | 7             | 259              |              |              |
| <b>Subtotal</b>                   |          | <b>712,278</b>   | <b>12,164</b> | <b>11,910</b> | <b>595,177</b>   | <b>6,998</b> | <b>7,073</b> |
| <i>Currency derivatives:</i>      |          |                  |               |               |                  |              |              |
| OTC                               | Swaps    | 30,478           | 655           | 366           | 21,685           | 82           | 82           |
|                                   | Forwards | 18,508           | 450           | 345           | 52,227           | 184          | 217          |
|                                   | Options  | 4,219            | 80            | 120           | 5,374            | 20           | 24           |
| Exchange                          | Futures  | 117              |               | 5             | 339              | 3            |              |
| <b>Subtotal</b>                   |          | <b>53,322</b>    | <b>1,185</b>  | <b>836</b>    | <b>79,625</b>    | <b>289</b>   | <b>323</b>   |
| <i>Other:</i>                     |          |                  |               |               |                  |              |              |
| OTC                               | Swaps    | 14,577           | 180           | 452           | 15,870           | 138          | 376          |
|                                   | Forwards | 730              | 5             | 3             | 2,082            | 23           | 29           |
|                                   | Options  | 1,168            | 68            | 64            | 4,389            | 579          | 581          |
| Exchange                          | Swaps    |                  |               |               | 4                |              |              |
|                                   | Futures  | 739              |               |               | 241              | 1            | 1            |
|                                   | Options  | 2,364            | 630           | 172           | 3,269            | 169          | 211          |
| <b>Subtotal</b>                   |          | <b>19,578</b>    | <b>883</b>    | <b>691</b>    | <b>25,855</b>    | <b>910</b>   | <b>1,198</b> |
| <b>Other</b>                      |          | <b>80</b>        | <b>10</b>     | <b>29</b>     | <b>161</b>       | <b>14</b>    | <b>14</b>    |
| <b>Balance as at 31 December</b>  |          | <b>785,258</b>   | <b>14,242</b> | <b>13,466</b> | <b>700,818</b>   | <b>8,211</b> | <b>8,608</b> |
| Over the counter (OTC)            |          | 781,423          | 13,479        | 13,150        | 696,665          | 7,998        | 8,351        |
| Exchange traded                   |          | 3,835            | 763           | 316           | 4,153            | 213          | 257          |
| <b>Total</b>                      |          | <b>785,258</b>   | <b>14,242</b> | <b>13,466</b> | <b>700,818</b>   | <b>8,211</b> | <b>8,608</b> |

The notional amount increased mainly in the Derivatives OTC Swaps. This is mainly due to the increase in volume and new trades and positions in 2011.

## 16 Financial investments

The composition of Financial investments is as follows:

| (in millions)                             | 31 December 2011 | 31 December 2010 |
|-------------------------------------------|------------------|------------------|
| <i>Investments:</i>                       |                  |                  |
| Available-for-sale                        | 18,360           | 19,840           |
| Held at fair value through profit or loss | 377              | 368              |
| <b>Total, gross</b>                       | <b>18,737</b>    | <b>20,208</b>    |
| <i>Impairments:</i>                       |                  |                  |
| On investments available-for-sale         | -16              | -11              |
| <b>Total impairments</b>                  | <b>-16</b>       | <b>-11</b>       |
| <b>Total financial investments</b>        | <b>18,721</b>    | <b>20,197</b>    |

The fair value of assets pledged as security is shown in note 37 Assets pledged as security.

Financial investments decreased by EUR 1.5 billion, mainly due to active management of the liquidity buffer.

### Investments available-for-sale

The fair value of ABN AMRO available-for-sale investments including gross unrealised gains and losses are as follows:

| (in millions)                              | 31 December 2011 | 31 December 2010 |
|--------------------------------------------|------------------|------------------|
| <i>Interest-earning securities:</i>        |                  |                  |
| Dutch government                           | 4,538            | 2,287            |
| US Treasury and US government              | 4                | 393              |
| Other OECD government                      | 7,404            | 8,598            |
| Non-OECD government                        | 164              | 58               |
| Mortgage and other asset-backed securities | 3,512            | 3,596            |
| Financial institutions                     | 2,371            | 4,270            |
| Non financial institutions                 | 128              | 442              |
| <b>Subtotal</b>                            | <b>18,121</b>    | <b>19,644</b>    |
| Equity instruments                         | 239              | 196              |
| <b>Total</b>                               | <b>18,360</b>    | <b>19,840</b>    |

Most of these instruments are part of the liquidity buffer and are held for liquidity contingency purposes.

## Government bonds by country of origin

The government bonds by country of origin for 2011 and 2010 were as follows as at 31 December:

| (in millions)                           |                                                                                   |             | 31 December 2011 |  |  | 31 December 2010                                                                  |             |               |
|-----------------------------------------|-----------------------------------------------------------------------------------|-------------|------------------|--|--|-----------------------------------------------------------------------------------|-------------|---------------|
|                                         | Gross unrealised gains (losses) and fair value hedges gains (losses) <sup>1</sup> | Impairments | Fair value       |  |  | Gross unrealised gains (losses) and fair value hedges gains (losses) <sup>1</sup> | Impairments | Fair value    |
| Dutch national government               | 490                                                                               |             | 4,538            |  |  | 101                                                                               |             | 2,287         |
| French national government              | 147                                                                               |             | 1,927            |  |  | 107                                                                               |             | 2,001         |
| Belgian national government             |                                                                                   |             | 126              |  |  | 38                                                                                |             | 1,502         |
| Italian national government             | -62                                                                               |             | 294              |  |  | -10                                                                               |             | 1,276         |
| German national government              | 289                                                                               |             | 1,832            |  |  | 162                                                                               |             | 1,306         |
| Great Britain national government       | 105                                                                               |             | 464              |  |  | 69                                                                                |             | 939           |
| Austrian national government            | 188                                                                               |             | 1,321            |  |  | 113                                                                               |             | 723           |
| USA national government                 |                                                                                   |             | 4                |  |  | 18                                                                                |             | 393           |
| Irish national government               |                                                                                   |             |                  |  |  | -2                                                                                |             | 128           |
| Finnish national government             | 22                                                                                |             | 253              |  |  | 2                                                                                 |             | 102           |
| Greek national government               |                                                                                   |             |                  |  |  |                                                                                   |             |               |
| Portuguese national government          |                                                                                   |             |                  |  |  |                                                                                   |             |               |
| Spanish national government             |                                                                                   |             | 7                |  |  |                                                                                   |             |               |
| Other national governments <sup>2</sup> | -21                                                                               |             | 1,344            |  |  | 4                                                                                 |             | 679           |
| <b>Total</b>                            | <b>1,158</b>                                                                      |             | <b>12,110</b>    |  |  | <b>602</b>                                                                        |             | <b>11,336</b> |

<sup>1</sup> Of the total gross unrealised gains (losses), fair value hedge accounting was applied for an amount of EUR 1,468 million as at 31 December 2011 (2010: EUR 578 million) and losses of EUR 310 million (2010: gain EUR 24 million) through Available-for-sale financial assets within Other comprehensive income (see note 13).

<sup>2</sup> Other national governments of EUR 1,344 million included EU bonds (EUR 688 million), Polish bonds (EUR 231 million with gross unrealised losses and fair value hedges losses of EUR 46 million), Japanese bonds (EUR 247 million) and Singapore bonds (EUR 149 million).

No impairment charges were recorded on these government bonds.

For more information on country risk positions, see page 90 of this Annual Report.

## Impairments on investments available-for-sale

| (in millions)                                      | 2011      | 2010      |
|----------------------------------------------------|-----------|-----------|
| <b>Balance as at 1 January</b>                     | <b>11</b> | <b>9</b>  |
| Increase in impairments                            | 4         | 4         |
| Foreign exchange differences and other adjustments | 1         | -2        |
| <b>Balance as at 31 December</b>                   | <b>16</b> | <b>11</b> |

### 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 2011 | 31 December 2010 |
|--------------------------------------------------------------------|------------------|------------------|
| Government bonds                                                   | 183              | 246              |
| Corporate debt securities                                          | 61               |                  |
| Private equities and venture capital                               | 133              | 122              |
| <b>Total investments held at fair value through profit or loss</b> | <b>377</b>       | <b>368</b>       |

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. Some other investments with embedded derivatives are also designated at fair value through profit or loss, reducing an accounting mismatch.

## 17 Loans and receivables – banks

| (in millions)                                 | 31 December 2011 | 31 December 2010 |
|-----------------------------------------------|------------------|------------------|
| Interest-bearing deposits                     | 15,294           | 7,312            |
| Loans and advances                            | 14,195           | 5,379            |
| Reverse repurchase agreements                 | 8,483            | 2,856            |
| Securities borrowing transactions             | 19,342           | 21,162           |
| Mandatory reserve deposits with central banks | 3,648            | 4,187            |
| Other                                         | 383              | 270              |
| <b>Total</b>                                  | <b>61,345</b>    | <b>41,166</b>    |
| Less: loan impairment                         | 26               | 49               |
| <b>Loans and receivables – banks</b>          | <b>61,319</b>    | <b>41,117</b>    |

In 2011, further refinement of accounting harmonisation led to a reclassification in Loans and receivable – banks from Other to Interest-bearing deposits retrospectively.

Loans and receivables – banks rose sharply by EUR 20.2 billion, due mainly to a steady increase in client flows in securities financing activities, higher collateral requirements for the derivatives activities and the expansion of the liquidity buffer.

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 note 19 and the Risk management section.

## 18 Loans and receivables – customers

| (in millions)                               | 31 December 2011 | 31 December 2010 |
|---------------------------------------------|------------------|------------------|
| Government and official institutions        | 1,432            | 3,259            |
| Residential mortgage                        | 155,168          | 159,494          |
| Fair value adjustment from hedge accounting | 4,825            | 2,880            |
| Consumer loans                              | 16,275           | 14,210           |
| Commercial loans                            | 82,525           | 82,346           |
| Reverse repurchase agreements               | 8,857            | 12,096           |
| Securities borrowing transactions           | 7,592            | 2,243            |
| Financial lease receivables                 | 213              | 162              |
| Factoring                                   | 641              | 1,540            |
| <b>Total</b>                                | <b>277,528</b>   | <b>278,230</b>   |
| Less: loan impairment                       | 5,520            | 4,286            |
| <b>Loans and receivables customers</b>      | <b>272,008</b>   | <b>273,944</b>   |

In 2011 further refinement of accounting harmonisation led to a reclassification as a consequence of the netting of residential mortgages with demand deposits which impacted the financial position of the line items Loans and receivables – customers and Due to customers retrospectively.

Loans and receivables – customers decreased by EUR 1.9 billion. Although the volume of client-driven securities financing increased and the loan portfolios of Commercial Banking and ECT grew, this was more than offset by the divestment of the international division of Fortis Commercial Finance and a reduction in current accounts following refinement of accounting harmonisation of netting principles.

The bulk of the loan book is generated in the Netherlands (more than 90%), reflecting the fact that the majority of ABN AMRO's business mix is located in the Netherlands.

Details on loan impairments are provided in note 19 and the Risk management section. See note 40 for details on 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 |            |
|-----------------------------------------------|------------------------|------------|--------------------------------------------------------|------------|
|                                               | 2011                   | 2010       | 2011                                                   | 2010       |
| <i>Gross investment in financial leases:</i>  |                        |            |                                                        |            |
| Not later than 3 months                       | 12                     | 2          | 12                                                     | 2          |
| Later than 3 months and not later than 1 year | 9                      | 9          | 9                                                      | 9          |
| Later than 1 year and not later than 5 years  | 109                    | 135        | 96                                                     | 121        |
| Later than 5 years                            | 96                     | 30         | 96                                                     | 30         |
| <b>Total</b>                                  | <b>226</b>             | <b>176</b> | <b>213</b>                                             | <b>162</b> |
| Unearned finance income                       | 13                     | 14         |                                                        |            |

## 19 Loan impairment charges and allowances

### Loan impairments

Both commercial and consumer loans are categorised as programme lending, where loan loss impairments are determined on a portfolio basis, or non-programme lending where loans are assessed for impairment on an individual basis. Both quantitative thresholds and qualitative customer characteristics are used to assess the loan loss impairment.

### Programme lending

For programme lending, loan loss impairments are determined on a portfolio basis for loans with similar credit risk, based on historical loss experience. Examples of the programmes are personal loans, residential mortgages, credit cards, home improvement loans and overdraft facilities for small and medium-sized enterprises (SME).

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.

Loan or debt restructuring is the change of one or more terms of an existing loan or debt agreement for economic or legal reasons related to the debtor's financial difficulties. A loan or debt restructuring process in itself does not constitute a trigger for changing a loan's status from default to normal; restructured loans or debts may therefore retain their in default status after restructuring. If the loan or debt returns to the normal portfolio, the regular credit approval process must be followed.

### Non-programme lending

The status of credit facilities is reviewed every three or six months, depending on the rating of the facility. Additionally, credit officers continually monitor the quality of the credit facilities, the client and adherence to contractual conditions. 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).

The Central Credit Committee 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.

### Allowance for incurred but not identified losses

In addition to loan loss impairments for individual loans or portfolios of loans, ABN AMRO also maintains an allowance to cover undetected impairments existing within loans due to delays in obtaining information that would indicate that losses exist at the balance sheet date. The IBNI calculation combines the Basel II concept of expected losses on a one year time horizon with intrinsic elements such as loss identification period, cycle adjustment factor and expert review.

### Allowances

| (in millions)                 | 31 December 2011 | 31 December 2010 |
|-------------------------------|------------------|------------------|
| On balance                    | 1,755            | 834              |
| Off balance                   | 2                | 3                |
| <b>Total loan impairments</b> | <b>1,757</b>     | <b>837</b>       |

| (in millions)                                                    | Banks     | Commercial loans | Consumer loans         | Total        |
|------------------------------------------------------------------|-----------|------------------|------------------------|--------------|
| <b>Balance as at 1 January 2011</b>                              | <b>49</b> | <b>3,673</b>     | <b>613</b>             | <b>4,335</b> |
| Impairments for the period                                       | 4         | 1,713            | 393                    | 2,110        |
| Acquisitions                                                     |           |                  |                        |              |
| Reversal of impairment allowances no longer required             | -11       | -234             | -56                    | -301         |
| Recoveries of amounts previously written off                     |           | -7               | -47                    | -54          |
| <b>Total loan impairments</b>                                    | <b>-7</b> | <b>1,472</b>     | <b>290<sup>1</sup></b> | <b>1,755</b> |
| 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           |
| <b>Balance as at 31 December 2011</b>                            | <b>26</b> | <b>4,895</b>     | <b>625</b>             | <b>5,546</b> |

<sup>1</sup> In consumer loans in the Total loan impairments an amount of EUR 157 million was included for residential mortgages.

ABN AMRO holds EUR 1.3 billion of Greek Government-Guaranteed Corporate Exposures. The exposures were allocated to ABN AMRO during the separation process in 2010 and are the result of transactions entered into around 2000. The exposures are recorded in Loans and receivables at amortised cost. As these exposures are not quoted in an active market, fair values have been determined by applying a present value approach. Future cash flows have been discounted using a risk-adjusted interest rate which is based on market observable information for similar debt exposures. The fair values reduced significantly to 21% of the notional amounts at 31 December 2011 (31 December 2010: 81%).



On 24 February 2012 the Ministry of Finance of Greece issued a press release regarding the revised Private Sector Involvement (PSI) programme. The majority of the exposures held by ABN AMRO appear on this list. ABN AMRO's exposures fall into the category "Foreign Law Guaranteed Titles" as these were issued by Greek corporates with a guarantee provided by the Greek government and are governed by UK law. At this moment ABN AMRO is examining the current PSI programme, as there seems to be no consistency in the corporate government – guaranteed loans and notes appearing on the list.

To date, all obligations have been met. Redemptions of a total amount of EUR 190 million were made in 2011, reducing the total gross exposure to EUR 1.3 billion. We have impaired those exposures included in the list to 25% of notional value. This resulted in an additional impairment of EUR 380 million in the fourth quarter, bringing the total amount of impairments in 2011 to EUR 880 million.

Excluding the Greek loan impairments, the increase would have been caused by higher impairments in Commercial & Merchant Banking – predominantly registered in SMEs, commercial real estate and contracting. Loan impairments in Private Banking decreased sharply. The impairment levels in mortgages increased marginally.

Commercial loans included the loan impairment on the Madoff affair of EUR 877 million (2010: EUR 958 million).

More information on impairments is provided in the Risk management section of this report.

| (in millions)                                                    | Banks     | Commercial loans | Consumer loans         | Total        |
|------------------------------------------------------------------|-----------|------------------|------------------------|--------------|
| <b>Balance as at 1 January 2010</b>                              | <b>60</b> | <b>3,479</b>     | <b>642</b>             | <b>4,181</b> |
| Impairments for the period                                       | 7         | 965              | 386                    | 1,358        |
| Reversal of impairment allowances no longer required             | -16       | -379             | -85                    | -480         |
| Recoveries of amounts previously written off                     |           | -3               | -41                    | -44          |
| <b>Total loan impairments</b>                                    | <b>-9</b> | <b>583</b>       | <b>260<sup>1</sup></b> | <b>834</b>   |
| Amount recorded in interest income from unwinding of discounting |           | -23              | -9                     | -32          |
| Currency translation differences                                 | 5         | 28               | 2                      | 35           |
| Amounts written off (net)                                        | -8        | -247             | -237                   | -492         |
| Effect of (de)consolidating entities                             |           | -295             | -41                    | -336         |
| Reserve for unearned interest accrued on impaired loans          |           | 26               | 2                      | 28           |
| Other adjustments                                                | 1         | 122              | -6                     | 117          |
| <b>Balance as at 31 December 2010</b>                            | <b>49</b> | <b>3,673</b>     | <b>613</b>             | <b>4,335</b> |

<sup>1</sup> In consumer loans in the Total loan impairments an amount of EUR 204 million was included for residential mortgages.

The following table shows the breakdown of the allowances in individual and collective impairments.

| (in millions)                                                                                                                     |           |              |            |                |                            | 2011         |
|-----------------------------------------------------------------------------------------------------------------------------------|-----------|--------------|------------|----------------|----------------------------|--------------|
|                                                                                                                                   | Banks     | Commercial   |            | Personal loans | Consumer<br>Other consumer | Total        |
|                                                                                                                                   |           |              | Mortgages  |                |                            |              |
| Individual impairment                                                                                                             | 24        | 4,375        | 44         |                | 88                         | 4,531        |
| Collective impairment                                                                                                             | 2         | 520          | 236        |                | 257                        | 1,015        |
| <b>Balance at 31 December</b>                                                                                                     | <b>26</b> | <b>4,895</b> | <b>280</b> |                | <b>345</b>                 | <b>5,546</b> |
| Carrying amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance | 24        | 6,636        | 1,392      |                | 514                        | 8,566        |

| (in millions)                                                                                                                     |           |              |            |                |                            | 2010         |
|-----------------------------------------------------------------------------------------------------------------------------------|-----------|--------------|------------|----------------|----------------------------|--------------|
|                                                                                                                                   | Banks     | Commercial   |            | Personal loans | Consumer<br>Other consumer | Total        |
|                                                                                                                                   |           |              | Mortgages  |                |                            |              |
| Individual impairment                                                                                                             | 49        | 3,237        | 109        | 1              | 143                        | 3,539        |
| Collective impairment                                                                                                             |           | 436          | 153        |                | 207                        | 796          |
| <b>Balance at 31 December</b>                                                                                                     | <b>49</b> | <b>3,673</b> | <b>262</b> | <b>1</b>       | <b>350</b>                 | <b>4,335</b> |
| Carrying amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance | 49        | 4,685        | 1,199      | 1              | 577                        | 6,511        |

## 20 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 2011 |                 | 31 December 2010 |                 |
|---------------------------------------------------------------|------------------|-----------------|------------------|-----------------|
|                                                               | % of ownership   | Carrying amount | % of ownership   | Carrying amount |
| <i>Joint ventures:</i>                                        |                  |                 |                  |                 |
| Neuflize Vie S.A.                                             | 60%              | 191             | 60%              | 189             |
| Car Carriers Management B.V.                                  | 50%              | 39              | 50%              | 37              |
| CM Bulk Ltd.                                                  | 50%              | 15              |                  |                 |
| <i>Associates:</i>                                            |                  |                 |                  |                 |
| Delta Lloyd ABN AMRO verzekeringen Holding B.V.               | 49%              | 238             | 49%              | 262             |
| Alma Maritime Ltd.                                            | 38%              | 79              | 44%              | 56              |
| Equens N.V.                                                   | 18%              | 67              | 21%              | 58              |
| Alcover A.G.                                                  | 34%              | 48              | 34%              | 53              |
| Safe Ship Inv. Comp. S.C.A. SICAR                             | 49%              | 31              | 49%              | 24              |
| Nederlandse Financieringsmij<br>voor Ontwikkelingslanden N.V. | 20%              | 26              | 20%              | 8               |
| PJW 3000 LLC                                                  | 33%              | 25              | 33%              | 23              |
| Qinvest – ABN AMRO NL Shipping Fund                           | 47%              | 19              | 47%              | 18              |
| European Merchant Services B.V.                               | 49%              | 12              | 49%              | 10              |
| Edda Accomodations DIS                                        | 20%              | 12              |                  |                 |
| Geldservice Nederland B.V.                                    | 33%              | 11              |                  |                 |
| Cofiloisirs S.A.                                              | 45%              | 10              | 45%              | 10              |
| Debra International Finance Cooperatieve UA                   |                  |                 | 25%              | 210             |
| Caipora International Finance Cooperatieve UA                 |                  |                 | 25%              | 107             |
| Graig MCI Ltd.                                                |                  |                 | 50%              | 10              |
| Private Equity Investments                                    |                  | 41              |                  | 53              |
| Other                                                         |                  | 56              |                  | 31              |
| <b>Total</b>                                                  |                  | <b>920</b>      |                  | <b>1,159</b>    |

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.

## Impairments on Equity accounted investments

The following table shows the changes in impairments on equity accounted investments.

| (in millions)                                      | 2011       | 2010       |
|----------------------------------------------------|------------|------------|
| <b>Balance as at 1 January</b>                     | <b>-11</b> |            |
| Increase in impairments                            |            | -11        |
| Release of impairments                             |            |            |
| Foreign exchange differences and other adjustments | -1         |            |
| <b>Balance as at 31 December</b>                   | <b>-12</b> | <b>-11</b> |

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 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)                               | 2011         |                    | 2010         |                    |
|---------------------------------------------|--------------|--------------------|--------------|--------------------|
|                                             | Associates   | Jointly controlled | Associates   | Jointly controlled |
| <b>Assets</b>                               |              |                    |              |                    |
| Financial assets held for trading           |              | 4                  |              |                    |
| Financial investments                       | 2,298        | 3,242              | 1,793        | 3,094              |
| Loans and receivables – banks and customers | 239          | 57                 | 62           | 24                 |
| Property and equipment                      | 361          | 30                 | 401          | 162                |
| Accrued income and prepaid expenses         | 36           | 0                  | 1            | 63                 |
| Other assets                                | 3,182        | 2,308              | 3,443        | 2,379              |
| <b>Total</b>                                | <b>6,116</b> | <b>5,641</b>       | <b>5,700</b> | <b>5,722</b>       |
| <b>Liabilities</b>                          |              |                    |              |                    |
| Financial liabilities held for trading      | 11           |                    | 54           |                    |
| Due to banks and customers                  | 2,381        | 54                 | 538          | 92                 |
| Provisions                                  | 90           | 3,064              |              | 3,023              |
| Other Liabilities                           | 2,916        | 2,270              | 2,851        | 2,325              |
| <b>Total</b>                                | <b>5,398</b> | <b>5,388</b>       | <b>3,443</b> | <b>5,440</b>       |
| Total operating income                      | 682          | 39                 | 894          | 57                 |
| Operating expenses                          | 590          | 25                 | 732          | 23                 |
| <b>Operating profit/(loss)</b>              | <b>92</b>    | <b>14</b>          | <b>162</b>   | <b>34</b>          |
| Income tax expenses                         | 15           | 6                  | 9            | -15                |
| <b>Profit for the period</b>                | <b>77</b>    | <b>8</b>           | <b>153</b>   | <b>49</b>          |

## 21 Property and equipment

The table below shows the carrying amount for each category of Property and equipment as at 31 December.

| (in millions)                       | 31 December 2011 | 31 December 2010 |
|-------------------------------------|------------------|------------------|
| Land and buildings held for own use | 952              | 1,000            |
| Leasehold improvements              | 86               | 110              |
| Equipment                           | 539              | 530              |
| Other                               | 32               | 39               |
| <b>Total</b>                        | <b>1,609</b>     | <b>1,679</b>     |

The book value of Property and equipment changed as follows for the years 2011 and 2010.

| (in millions)                                              | 2011                                      |                           |               |                                    |               |
|------------------------------------------------------------|-------------------------------------------|---------------------------|---------------|------------------------------------|---------------|
|                                                            | Land and<br>Buildings held<br>for own use | Leasehold<br>improvements | Equipment     | Other<br>property and<br>equipment | Total         |
| <b>Acquisition costs as at 1 January</b>                   | <b>1,847</b>                              | <b>323</b>                | <b>1,749</b>  | <b>43</b>                          | <b>3,962</b>  |
| 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          |
| <b>Acquisition costs as at 31 December</b>                 | <b>1,817</b>                              | <b>232</b>                | <b>1,393</b>  | <b>34</b>                          | <b>3,476</b>  |
| <b>Accumulated depreciation as at 1 January</b>            | <b>-813</b>                               | <b>-178</b>               | <b>-1,216</b> | <b>-4</b>                          | <b>-2,211</b> |
| Acquisitions/divestments of subsidiaries                   | 5                                         | 6                         | 33            |                                    | 44            |
| Depreciation expense                                       | -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           |
| <b>Accumulated depreciation as at 31 December</b>          | <b>-833</b>                               | <b>-141</b>               | <b>-851</b>   | <b>-2</b>                          | <b>-1,827</b> |
| <b>Impairments as at 1 January</b>                         | <b>-34</b>                                | <b>-35</b>                | <b>-3</b>     |                                    | <b>-72</b>    |
| Increase of impairments charged to the income statement    | -6                                        |                           | -1            |                                    | -7            |
| Other                                                      | 8                                         | 30                        | 1             |                                    | 39            |
| <b>Impairments as at 31 December</b>                       | <b>-32</b>                                | <b>-5</b>                 | <b>-3</b>     |                                    | <b>-40</b>    |
| <b>Property, plant and equipment<br/>as at 31 December</b> | <b>952</b>                                | <b>86</b>                 | <b>539</b>    | <b>32</b>                          | <b>1,609</b>  |

| (in millions)                                              |                                           |                           |               |                                    | 2010          |
|------------------------------------------------------------|-------------------------------------------|---------------------------|---------------|------------------------------------|---------------|
|                                                            | Land and<br>Buildings held<br>for own use | Leasehold<br>improvements | Equipment     | Other<br>property and<br>equipment | Total         |
| <b>Acquisition costs as at 1 January</b>                   | <b>2,001</b>                              | <b>375</b>                | <b>1,714</b>  | <b>38</b>                          | <b>4,128</b>  |
| Acquisitions/divestments of subsidiaries                   |                                           |                           |               |                                    |               |
| Additions                                                  | 11                                        | 12                        | 169           | 4                                  | 196           |
| Reversal of cost due to disposals                          | -8                                        | -65                       | -136          |                                    | -209          |
| Foreign exchange differences                               | 3                                         | 3                         | 9             | 1                                  | 16            |
| Other                                                      | -160                                      | -2                        | -7            |                                    | -169          |
| <b>Acquisition costs as at 31 December</b>                 | <b>1,847</b>                              | <b>323</b>                | <b>1,749</b>  | <b>43</b>                          | <b>3,962</b>  |
| <b>Accumulated depreciation as at 1 January</b>            | <b>-835</b>                               | <b>-180</b>               | <b>-1,149</b> | <b>-3</b>                          | <b>-2,167</b> |
| Acquisitions/divestments of subsidiaries                   |                                           |                           |               | -1                                 | -1            |
| Depreciation expense                                       | -52                                       | -37                       | -171          | -5                                 | -265          |
| Reversal of depreciation due to disposals                  |                                           | 37                        | 111           |                                    | 148           |
| Foreign exchange differences                               | -1                                        | -1                        | -3            |                                    | -5            |
| Other                                                      | 75                                        | 3                         | -4            | 5                                  | 79            |
| <b>Accumulated depreciation as at 31 December</b>          | <b>-813</b>                               | <b>-178</b>               | <b>-1,216</b> | <b>-4</b>                          | <b>-2,211</b> |
| <b>Impairments as at 1 January</b>                         | <b>-23</b>                                |                           | <b>-1</b>     |                                    | <b>-24</b>    |
| Increase of impairments charged to the income statement    | -12                                       | -60                       | -9            |                                    | -81           |
| Reversal of impairments due to disposals                   |                                           | 26                        | 7             |                                    | 33            |
| Other                                                      | 1                                         | -1                        |               |                                    |               |
| <b>Impairments as at 31 December</b>                       | <b>-34</b>                                | <b>-35</b>                | <b>-3</b>     |                                    | <b>-72</b>    |
| <b>Property, plant and equipment<br/>as at 31 December</b> | <b>1,000</b>                              | <b>110</b>                | <b>530</b>    | <b>39</b>                          | <b>1,679</b>  |

### Lessor

In its capacity as lessor, ABN AMRO leases out various assets, included in Other, under operating leases. Future minimum lease receipts under non-cancellable operating lease are as follows:

| (in millions)                                | 31 December 2011 | 31 December 2010 |
|----------------------------------------------|------------------|------------------|
| Not later than 1 year                        | 64               | 32               |
| Later than 1 year and not later than 5 years | 267              | 223              |
| Later than 5 years                           | 45               | 48               |
| <b>Total</b>                                 | <b>376</b>       | <b>303</b>       |

During the year ended 31 December 2011, EUR 96 million (2010: EUR 87 million) was recognised as rental income in the income statement and EUR 73 million (2010: EUR 66 million) in respect of directly related expenses.

## 22 Goodwill and other intangible assets

Goodwill and other intangible assets as at 31 December were as follows:

| (in millions)                 | 31 December 2011 | 31 December 2010 |
|-------------------------------|------------------|------------------|
| Goodwill                      | 132              | 178              |
| Purchased software            | 102              | 166              |
| Internally developed software | 25               | 48               |
| Other intangible assets       | 17               | 20               |
| <b>Total</b>                  | <b>276</b>       | <b>412</b>       |

Goodwill is tested for impairment at least annually by comparing the recoverable amount to the carrying value. Other intangible assets are amortised in accordance with the expected life of the assets.

Other intangible assets include intangible assets with definite useful lives, such as concessions, patents, licences, trademarks and other similar rights. In general, software is amortised over a maximum of 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.

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 2011 and 2010 were as follows:

| (in millions)                                                 |            |                    |                               |                         | 2011          |
|---------------------------------------------------------------|------------|--------------------|-------------------------------|-------------------------|---------------|
|                                                               | Goodwill   | Purchased software | Internally developed software | Other intangible assets | Total         |
| <b>Acquisition costs as at 1 January</b>                      | <b>239</b> | <b>806</b>         | <b>384</b>                    | <b>25</b>               | <b>1,454</b>  |
| 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             |
| <b>Acquisition costs as at 31 December</b>                    | <b>159</b> | <b>785</b>         | <b>372</b>                    | <b>20</b>               | <b>1,336</b>  |
| <b>Accumulated amortisation as at 1 January</b>               |            | <b>-640</b>        | <b>-332</b>                   | <b>-5</b>               | <b>-977</b>   |
| 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             |
| <b>Accumulated amortisation as at 31 December</b>             |            | <b>-679</b>        | <b>-332</b>                   | <b>-3</b>               | <b>-1,014</b> |
| <b>Impairments as at 1 January</b>                            | <b>-61</b> |                    | <b>-4</b>                     |                         | <b>-65</b>    |
| 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            |
| <b>Impairments as at 31 December</b>                          | <b>-27</b> | <b>-4</b>          | <b>-15</b>                    |                         | <b>-46</b>    |
| <b>Goodwill and other intangible assets as at 31 December</b> | <b>132</b> | <b>102</b>         | <b>25</b>                     | <b>17</b>               | <b>276</b>    |

Fortis Commercial Finance (Atradius Factoring) and Fortis Commercial Finance were sold in 2011, resulting in a decrease of EUR 51 million in goodwill and a decrease of EUR 39 million in impairments of goodwill.



(in millions)

2010

|                                                               | Goodwill   | Purchased software | Internally developed software | Other intangible assets | Total        |
|---------------------------------------------------------------|------------|--------------------|-------------------------------|-------------------------|--------------|
| <b>Acquisition costs as at 1 January</b>                      | <b>237</b> | <b>709</b>         | <b>374</b>                    | <b>17</b>               | <b>1,337</b> |
| Acquisitions/divestments of subsidiaries                      | -1         | -4                 | -1                            |                         | -6           |
| Additions                                                     |            | 107                | 10                            | 8                       | 125          |
| Reversal of cost due to disposals                             |            | -1                 |                               |                         | -1           |
| Foreign exchange differences                                  | 3          | 5                  | 1                             |                         | 9            |
| Other                                                         |            | -10                |                               |                         | -10          |
| <b>Acquisition costs as at 31 December</b>                    | <b>239</b> | <b>806</b>         | <b>384</b>                    | <b>25</b>               | <b>1,454</b> |
| <b>Accumulated amortisation as at 1 January</b>               |            | <b>-551</b>        | <b>-302</b>                   | <b>-2</b>               | <b>-855</b>  |
| Acquisitions/divestments of subsidiaries                      |            | 5                  | 1                             |                         | 6            |
| Amortisation expense                                          |            | -102               | -29                           | -4                      | -135         |
| Reversal of amortisation due to disposals                     |            | 1                  |                               |                         | 1            |
| Foreign exchange differences                                  |            | -4                 | -1                            | 1                       | -4           |
| Other                                                         |            | 11                 | -1                            |                         | 10           |
| <b>Accumulated amortisation as at 31 December</b>             |            | <b>-640</b>        | <b>-332</b>                   | <b>-5</b>               | <b>-977</b>  |
| <b>Impairments as at 1 January</b>                            | <b>-6</b>  | <b>-1</b>          | <b>-3</b>                     |                         | <b>-10</b>   |
| Divestments of subsidiaries                                   |            |                    |                               |                         |              |
| Increase in impairments charged to the income statement       | -54        |                    | -1                            |                         | -55          |
| Reversal of impairments credited to the income statement      |            |                    |                               |                         |              |
| Other                                                         | -1         | 1                  |                               |                         |              |
| <b>Impairments as at 31 December</b>                          | <b>-61</b> |                    | <b>-4</b>                     |                         | <b>-65</b>   |
| <b>Goodwill and other intangible assets as at 31 December</b> | <b>178</b> | <b>166</b>         | <b>48</b>                     | <b>20</b>               | <b>412</b>   |

## 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:

- ▶ Generates 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 table below, calculation of the value in use was also based on cash flows, projected on past experience, actual operating results and the 5-year budget plan. Cash flows for a further 5-year period were extrapolated using the long-term growth rate stated for the CGU.

| (in millions)                                  |                    | 31 December 2011                   |               |                       |             | 31 December 2010 |          |
|------------------------------------------------|--------------------|------------------------------------|---------------|-----------------------|-------------|------------------|----------|
| Entity                                         | Segment            | Method used for recoverable amount | Discount rate | Long term growth rate | Impairments | Goodwill         | Goodwill |
| Bethmann Bank                                  | Private Banking    | Fair value less cost to sell       | 11.0%         | 2.5%                  |             | 64               | 64       |
| ABN AMRO (Guernsey)                            | Private Banking    | Value in use                       | 11.0%         | 2.5%                  | 18          | 48               | 65       |
| Fortis Commercial Finance (Atradius Factoring) | Commercial Banking | Value in use                       | 11.0%         | 2.0%                  | 1           |                  | 14       |
| ABN AMRO Commercial Finance Holding            | Commercial Banking | Value in use                       | 11.0%         | 2.0%                  |             | 9                | 9        |
| Fortis Commercial Finance                      | Commercial Banking | Value in use                       | 11.0%         | 2.0%                  | 9           |                  | 9        |
| ABN AMRO MeesPierson Private & Trust Holding   | Private Banking    | Value in use                       | 11.0%         | 2.0%                  |             |                  | 6        |
| Banque Neuflyze                                | Private Banking    | Value in use                       | 11.0%         | 2.0%                  |             | 6                | 6        |
| Other                                          |                    |                                    |               |                       |             | 5                | 5        |
| Total                                          |                    |                                    |               |                       | 28          | 132              | 178      |

Fortis Commercial Finance (Atradius Factoring) and Fortis Commercial Finance were sold in 2011, resulting in an impairment of EUR 1 million and EUR 9 million respectively, due to adjustment to the sale price. The goodwill impairment test of ABN AMRO (Guernsey) resulted in an impairment of EUR 18 million. The goodwill at ABN AMRO MeesPierson Private & Trust Holding has been reversed due to a disposal.

## 23 Assets held for sale

As part of the integration, several bank premises and bank shops were put up for sale in 2011 and 2010. The held for sale property is valued at the lower of fair value less cost to sell and the carrying value. Efforts to sell this property have commenced and the buildings are expected to be sold by the end of 2012.

At 31 December 2011, the total held for sale amount was EUR 68 million (2010: EUR 85 million). A total impairment of EUR 5 million (2010: EUR 7 million) was charged to the income statement. In 2011 the sale of held for sale offices resulted in a EUR 16 million gain (2010: gain of EUR 1 million).

## 24 Accrued income and prepaid expenses

The table below shows the components of Accrued income and prepaid expenses at 31 December.

| (in millions)                              | 31 December 2011 | 31 December 2010 |
|--------------------------------------------|------------------|------------------|
| Accrued interest income                    | 3,376            | 3,429            |
| Accrued other income                       | 958              | 717              |
| Prepaid expenses                           | 35               | 23               |
| <b>Accrued income and prepaid expenses</b> | <b>4,369</b>     | <b>4,169</b>     |

## 25 Tax assets and tax liabilities

The table below summarises the tax position as at 31 December.

| (in millions) | 31 December 2011 |             | 31 December 2010 |             |
|---------------|------------------|-------------|------------------|-------------|
|               | Assets           | Liabilities | Assets           | Liabilities |
| Current tax   | 244              | 241         | 443              | 323         |
| Deferred tax  | 1,139            | 41          | 559              | 58          |
| <b>Total</b>  | <b>1,383</b>     | <b>282</b>  | <b>1,002</b>     | <b>381</b>  |

In 2011 further refinement of accounting harmonisation led to netting of tax which impacted the current and deferred tax assets and current and deferred tax liabilities retrospectively.

The components of deferred tax assets and deferred tax liabilities as at 31 December are shown below.

| (in millions)                                                                                                               | Balance sheet |            | Income statement |            | Equity      |            |
|-----------------------------------------------------------------------------------------------------------------------------|---------------|------------|------------------|------------|-------------|------------|
|                                                                                                                             | 2011          | 2010       | 2011             | 2010       | 2011        | 2010       |
| <i>Deferred tax assets:</i>                                                                                                 |               |            |                  |            |             |            |
| Assets held for trading (trading securities/derivative financial instruments/other assets held for trading) and derivatives | 558           | 337        | -3               | 9          | -239        | 7          |
| Liabilities held for trading (short security sales/derivative financial instruments/other liabilities held for trading)     |               |            |                  |            |             |            |
| Investments (Held to maturity/Available-for-sale)                                                                           | 126           | 34         |                  | -1         | -96         |            |
| Investment property                                                                                                         |               |            |                  |            |             |            |
| Property and equipment                                                                                                      | 16            | 8          | -8               | -7         |             |            |
| Intangible assets (excluding goodwill)                                                                                      | 2             |            | -2               |            |             |            |
| Loans and receivables – customers                                                                                           | 6             | 1          | -4               | 1          |             |            |
| Impairments on loans                                                                                                        | 32            | 31         | -2               | -10        |             |            |
| Provisions for pensions and post-retirement benefits                                                                        | 19            | 14         | -7               | 22         |             |            |
| Accrued expenses and deferred income                                                                                        | 6             | 1          | -5               | 1          |             |            |
| Unused tax losses and unused tax credits                                                                                    | 582           | 252        | -330             | -46        |             |            |
| Other                                                                                                                       | -69           | -45        | 24               | 6          | -1          | 9          |
| <b>Total deferred tax assets before offsetting</b>                                                                          | <b>1,278</b>  | <b>633</b> | <b>-337</b>      | <b>-25</b> | <b>-336</b> | <b>16</b>  |
| Offsetting DTA                                                                                                              | 139           | 74         |                  |            |             |            |
| <i>Deferred tax liabilities related to:</i>                                                                                 |               |            |                  |            |             |            |
| Assets held for trading (trading securities/derivative financial instruments/other assets held for trading)                 |               |            |                  |            |             |            |
| Liabilities held for trading (short security sales/derivative financial instruments/other liabilities held for trading)     |               |            |                  |            |             |            |
| Investments (Held to maturity/Available-for-sale)                                                                           | 29            | 29         | -2               | -40        | -1          | 3          |
| Property and equipment                                                                                                      | 2             | 9          | -8               | -8         |             |            |
| Loans and receivables – customers                                                                                           | 15            | 24         | -2               | -7         |             |            |
| Impairments on loans                                                                                                        | 3             | 17         | -14              |            |             | -1         |
| Issued debt and subordinated liabilities                                                                                    | 9             |            | 9                |            |             |            |
| Provisions for pensions and post-retirement benefits                                                                        | 86            |            | 86               |            |             |            |
| Deferred policy acquisition costs                                                                                           | 2             |            |                  |            | 2           |            |
| Deferred expense and accrued income                                                                                         | 2             | 2          |                  |            |             |            |
| Tax exempt realised reserves                                                                                                |               |            |                  |            |             |            |
| Other                                                                                                                       | 32            | 51         | -10              | 99         | -8          | -22        |
| <b>Total deferred tax liabilities before offsetting</b>                                                                     | <b>180</b>    | <b>132</b> | <b>59</b>        | <b>44</b>  | <b>-7</b>   | <b>-20</b> |
| <b>Deferred tax expense</b>                                                                                                 |               |            | <b>-380</b>      | <b>19</b>  | <b>-343</b> | <b>-4</b>  |
| Offsetting DTL                                                                                                              | -139          | -74        |                  |            |             |            |
| <b>Net deferred tax</b>                                                                                                     | <b>1,098</b>  | <b>501</b> |                  |            |             |            |

Results on financial instruments are fiscally recognised in accordance with IFRS based.

Deferred taxes are therefore recognised on fair value movements reported directly in OCI.

The increase in the unused tax losses and unused tax credits is partly related to a reclassification between current and deferred tax.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority. The amounts after offsetting in the balance sheet are shown below.

| (in millions)           | 31 December 2011 | 31 December 2010 |
|-------------------------|------------------|------------------|
| Deferred tax asset      | 1,139            | 559              |
| Deferred tax liability  | 41               | 58               |
| <b>Net deferred tax</b> | <b>1,098</b>     | <b>501</b>       |

### Deferred tax assets

The total accumulated losses available for carry forward at 31 December 2011 amounted to EUR 2,965 million (2010: EUR 2,660 million) of which EUR 1,870 million (2010: EUR 1,629 million) could be recognised for future tax benefits. The recorded deferred tax asset for tax losses carried forward amounted to EUR 472 million (2010: EUR 252 million).

The expiration of the total accumulated losses is presented in the table below.

| (in millions)                | 31 December 2011 | 31 December 2010 |
|------------------------------|------------------|------------------|
| Within one year              |                  |                  |
| Between one and two years    |                  |                  |
| Between two and three years  |                  |                  |
| Between three and four years |                  |                  |
| Between four and five years  | 1                |                  |
| After five years             | 1,862            | 1,638            |
| No expiration                | 1,102            | 1,022            |
| <b>Total</b>                 | <b>2,965</b>     | <b>2,660</b>     |

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 taxable income by jurisdiction in which ABN AMRO operates, available tax planning opportunities, and the period over which deferred tax assets are recoverable. 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.

At 31 December 2011 ABN AMRO had tax credits carry forward of EUR 380 million (2010: EUR 238 million) which are available to offset future tax benefits. The recorded deferred tax assets amounted to EUR 110 million. Unrecognised tax credits, where offset to future tax benefits is not expected, amounted to EUR 3 million.

| (in millions)                | 31 December 2011 | 31 December 2010 |
|------------------------------|------------------|------------------|
| 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                |                  |
| No expiration                | 378              | 238              |
| <b>Total</b>                 | <b>380</b>       | <b>238</b>       |

### 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 19.6 million (2010: EUR 47.3 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 2.9 million (2010: EUR 7.1 million).

## 26 Other assets

Other assets can be specified as follows:

| (in millions)                                 | 31 December 2011 | 31 December 2010 |
|-----------------------------------------------|------------------|------------------|
| Non-trading derivative assets                 | 2,415            | 1,512            |
| Unit-linked investments                       | 2,060            | 2,093            |
| Defined benefit assets                        | 734              | 508              |
| Reinsurers share, trade and other receivables | 354              | 1,872            |
| Other                                         | 1,282            | 2,327            |
| <b>Other assets</b>                           | <b>6,845</b>     | <b>8,312</b>     |

Non-trading derivative assets contain 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 held to offset the financial risk related to asset 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.

More details on defined benefit assets are provided in note 32 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 client under a contract of non-recourse factoring. Due to the sale of Fortis Commercial Finance this amount decreased by EUR 1.4 billion.

Other assets in 2011 include a net receivable of EUR 442 million related to the bankruptcy of the DSB Bank (2010: EUR 585 million). During 2011 an additional amount of EUR 19 million was paid to DNB related to the subordinated deposits. This led to total advance payment of EUR 729 million whereas an amount of EUR 135 million was received back from DNB in 2011. This resulted in a total advance payment of EUR 594 million offset by a provision of EUR 152 million related to the estimated costs of the deposit guarantee system.

## 27 Due to banks

This item is comprised of amounts due to banking institutions, including central banks and multilateral development banks.

| (in millions)                   | 31 December 2011 | 31 December 2010 |
|---------------------------------|------------------|------------------|
| <i>Deposits from banks:</i>     |                  |                  |
| Demand deposits                 | 3,343            | 2,711            |
| Time deposits                   | 9,796            | 6,743            |
| Other deposits                  | 3,209            | 3,199            |
| <b>Total deposits</b>           | <b>16,348</b>    | <b>12,653</b>    |
| Repurchase agreements           | 6,222            | 3,473            |
| Securities lending transactions | 6,407            | 3,439            |
| Advances against collateral     | 700              | 700              |
| Other                           | 1,285            | 1,271            |
| <b>Total due to banks</b>       | <b>30,962</b>    | <b>21,536</b>    |

In 2011 further refinement of accounting harmonisation led to a reclassification in Due to banks from Other to Other deposits retrospectively.

Time deposits increased mainly caused by a shift of deposits due to clients to deposits due to banks related to the sale of Swiss Private Banking activities (see note 28).

The increase in securities lending transactions is the result of higher securities financing deposits.

## 28 Due to customers

This item is comprised of amounts due to non banking customers.

| (in millions)                   | 31 December 2011 | 31 December 2010 |
|---------------------------------|------------------|------------------|
| Demand deposits                 | 72,428           | 80,669           |
| Saving deposits                 | 74,481           | 69,763           |
| Time deposits                   | 23,676           | 26,473           |
| Other deposits                  | 17,212           | 13,593           |
| <b>Total deposits</b>           | <b>187,797</b>   | <b>190,498</b>   |
| Repurchase agreements           | 20,885           | 16,471           |
| Securities lending transactions | 4,509            | 1,968            |
| Other borrowings                | 425              | 529              |
| <b>Total due to customers</b>   | <b>213,616</b>   | <b>209,466</b>   |

In 2011, further refinement of accounting harmonisation led to a reclassification as a consequence of the netting of residential mortgages with demand deposits which impacted the financial position of the line items Due to customers and Loans and receivables – customers. In addition a reclassification was made from time deposits to other deposits retrospectively.

Due to customers increased by 2% as a result of growth in Retail and Private Banking deposits which were offset by the sale of Prime Fund Solutions (PFS) and the Swiss Private Banking activities (see note 27) and a reduction in current accounts. In addition, a rise in securities financing deposits as a result of increased client flows was partly neutralised by a harmonisation of netting principles.

## 29 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 2011 | 31 December 2010 |
|-------------------------------------------------|------------------|------------------|
| Bonds and notes issued                          | 72,879           | 69,535           |
| Certificates of deposit and commercial paper    | 21,921           | 15,570           |
| Saving certificates                             | 1,004            | 770              |
| <b>Total at amortised cost</b>                  | <b>95,804</b>    | <b>85,875</b>    |
| Designated at fair value through profit or loss | 506              | 716              |
| <b>Total issued debt</b>                        | <b>96,310</b>    | <b>86,591</b>    |



Issued debt showed an increase of EUR 9.7 billion, driven by continued financing initiatives undertaken to further lengthen the maturity profile of wholesale funding and liquidity management. The main funding programmes can be specified as follows:

| (in millions)                                        | 31 December 2011 | 31 December 2010 |
|------------------------------------------------------|------------------|------------------|
| Saving certificates                                  | 1,004            | 770              |
| Designated at fair value through profit or loss      | 506              | 716              |
| Funding programme:                                   |                  |                  |
| Euro Commercial Paper (unguaranteed)                 | 7,940            | 7,563            |
| London Certificats of Deposits                       | 6,044            |                  |
| French Certificats de Dépôt                          | 4,576            | 4,313            |
| US Commercial paper                                  | 3,361            | 3,694            |
| Medium Term Notes:                                   |                  |                  |
| - Unguaranteed                                       | 18,584           | 11,132           |
| - Dutch State guaranteed                             | 4,834            | 9,000            |
| Senior Secured Bonds (excl. Asset Backed Securities) | 25,368           | 19,727           |
| Asset Backed Securities:                             |                  |                  |
| - Residential Mortgage Backed Securities (Dutch)     | 22,545           | 26,844           |
| - Other Asset-backed securities                      | 1,548            | 2,832            |
| <b>Total</b>                                         | <b>96,310</b>    | <b>86,591</b>    |

### Saving certificates

Saving certificates are non-exchange traded instruments with an annual coupon payment and have the same characteristics as bonds.

### Euro Commercial Paper

This EUR 25 billion funding programme for the issuance of Euro Commercial Paper (ECP) allows for unsecured issuances with maturities up to one year.

### London Certificates of Deposit:

This EUR 10 billion funding programme became available in July 2011 as a new funding instrument, further improving the diversification in short-term funding tools. It targets British and American money market funds.

### French Certificats de Dépôt

This EUR 25 billion funding programme allows for the issuance of unsecured French Certificats de Dépôt (FCD) with maturities up to and including one year, targeting French institutional investors.

### US Commercial Paper

To improve diversification of short-term funding sources, this USD 5 billion funding programme was set up to allow ABN AMRO Bank to attract US dollars from local investors in the United States. It permits unsecured issuances with maturities up to 270 days from the date of issue.

**Euro Medium-Term Notes**

This programme allows for the issuance of capital securities and medium-term notes (MTN) in several currencies including EUR, GBP, NOK, JPY, CHF and AUD. Due to the multitude of transactions, the programme is key in the construction of the credit curve. At 31 December 2011, the amount outstanding in the EMTN programme was EUR 16.9 billion with an average original maturity of 4.4 years, compared with EUR 11.6 billion and 4.9 years per 31 December 2010.

**Government guaranteed bonds**

In 2009, the bank publicly and privately issued notes under the Dutch State's EUR 200 billion Credit Guarantee Scheme, which has been inactive since year-end 2010. A total amount of EUR 4.8 billion of State guaranteed notes was outstanding at year-end 2011 (year-end 2010 EUR 9.0 billion). This balance will mature between 2012 and mid 2014.

**Covered bond programme**

The bank has a covered bond programme available to attract secured long-term funding. This programme contributes to the diversification of funding instruments and is important in the building of the credit curve. On 31 December 2011, the total amount outstanding of the active covered bond programme was EUR 22.0 billion with an average original maturity of 9.9 years. At 31 December 2010, the total outstanding was EUR 16.7 billion with an average original maturity of 9.6 years. The Senior Secured Bonds mainly consists of covered bonds and the remainder of EUR 1.9 billion Bouwfonds secured notes (2010: EUR 2.6 billion).

**Residential Mortgage Backed Securitisations**

Securitisation of mortgages is a cornerstone of funding mortgage lending in the Netherlands.

**USD MTN Programme (144a)**

This USD 25 billion programme enables the bank to attract long-term senior and subordinated medium-term notes unsecured funding in the USD market and hence improve funding diversification. The bank raised USD 2 billion of 3-year funding in January 2011 in a successful inaugural benchmark-size transaction.

**AUD MTN Programme**

In 2011, ABN AMRO added this AUD 10 billion programme to its set of funding instruments in order to further diversify funding sources. No issuances have yet taken place.

**Private Investor Programmes (PIP launch pad)**

The PIP programmes allow ABN AMRO to raise unsecured funding through the retail and private banking investor base and hence promotes diversification of funding sources. This programme was revised in 2010 and has allowed the bank to attract EUR 387 million of long-term funding. At 31 December 2011, the amount outstanding was EUR 770 million with an average original maturity of 5.6 years, compared with EUR 387 million and 6.5 years per 31 December 2010.

### Financial liabilities designated at fair value through profit or loss

| (in millions)                                                                                       | 31 December 2011 | 31 December 2010 |
|-----------------------------------------------------------------------------------------------------|------------------|------------------|
| Cumulative change in fair value of the structured notes attributable to changes in credit risk      | 39               | 20               |
| Change during the year in fair value of the structured notes attributable to changes in credit risk | 19               | 7                |

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 639 million (2010: EUR 732 million). This is EUR 133 million (2010: EUR 16 million) more than the carrying amount at 31 December 2011.

## 30 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 2011 | 31 December 2010 |
|------------------------------------------------------------|------------------|------------------|
| Liability component of subordinated convertible securities | 2,000            | 2,000            |
| Other subordinated liabilities                             | 6,697            | 6,085            |
| <b>Total subordinated liabilities</b>                      | <b>8,697</b>     | <b>8,085</b>     |

In April 2011, ABN AMRO issued EUR 1.2 billion and USD 0.6 billion of revised long dated lower Tier 2 subordinated notes, predominantly in an exchange for subordinated notes that were not expected to be grandfathered under the Basel III transitional rules. The newly issued subordinated notes are expected to qualify for grandfathering to increase the qualifying amount for grandfathering on 1 January 2013. Along with the exchange transaction EUR 0.3 billion of new subordinated notes were issued.

Furthermore in June 2011, ABN AMRO issued USD 113 million (EUR 97 million) of new subordinated notes under an exchange and tender offer for subordinated deposit notes originally issued by RBS N.V., which could not be transferred from RBS N.V. to ABN AMRO at the time of the Legal Demerger.

ABN AMRO's outstanding subordinated debt increased by a total amount of EUR 0.4 billion. Total subordinated liabilities include EUR 2,743 million (2010: EUR 2,799 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)

On 7 December 2007, Fortis Bank Nederland (Holding) N.V. (FBNH) (which was legally succeeded by ABN AMRO Bank N.V. on 1 July 2010), Fortis Bank SA/NV, Fortis SA/NV (renamed ageas SA/NV) and Fortis N.V. (renamed ageas N.V.) issued EUR 2 billion of mandatory convertible securities (MCS). The MCS matured on 7 December 2010 and converted into shares issued by ageas SA/NV and ageas N.V. (hereinafter jointly "ageas") pursuant to the applicable terms and conditions.

Prior to the issuance of the MCS, the four co-issuers entered into a Four Party Agreement, which describes the former intercompany obligations of the different parties with regard to the MCS. This includes – in ambiguous language – the contractual obligation for FBNH to issue to Fortis SA/NV and Fortis N.V. an undetermined number of shares in its ordinary capital in consideration for the issue of shares by the latter parties to the holders of the securities upon conversion of the MCS. According to ageas, the aforesaid contractual obligation has become enforceable due to the conversion of the MCS on 7 December 2010. On 3 October 2008 the Dutch State acquired a controlling interest in FBNH. The Dutch State is of the opinion that the terms and conditions of the Term Sheet of 3 October 2008 includes a full and final release of the obligations, if any, of FBNH (and therefore also of ABN AMRO Bank as its legal successor) under the Four Party Agreement. In addition, the Dutch State argues that the issue of shares to ageas would not be consistent with the clear objective of the parties to the Term Sheet to transfer 100% ownership of FBNH to the Dutch State. On 3 December 2010, the Dutch State lodged an attachment on the purported claim of ageas under the Four Party Agreement. As evidenced by the attachment, the Dutch State strongly contests ageas' position on the purported claim. On 28 December 2010, ageas initiated court proceedings in the Netherlands in which ageas has claimed from ABN AMRO Group and ABN AMRO Bank ordinary shares with a value of EUR 2 billion. Alternatively, ageas has claimed monetary damages in the amount of EUR 2 billion. The Dutch State has joined the court proceedings as a party.

Since ageas and the Dutch State have a different opinion on whether the 3 October 2008 transaction included a full and final release of ageas' purported claim, ABN AMRO Group and ABN AMRO Bank will contest in court the ageas' claim. Moreover, since the wording of the Four Party Agreement fails to unambiguously support (the value of) ageas' purported claim, both ABN AMRO entities have adopted alternative defences under which the purported claim of ageas, if upheld, could be satisfied by the issue of either (i) one ordinary share to each of ageas SA/NV and ageas N.V., or (ii) the issue of ordinary shares to ageas up to a value equal to the market value of the shares issued by ageas upon conversion (approximately EUR 200 million). ABN AMRO Group and ABN AMRO Bank continue to strongly contest the purported obligation to pay ageas any compensation in cash. The proceedings are still pending, without any material changes in 2011.

Given the complexity of this matter, it is impossible for ABN AMRO to predict the outcome of the pending court case, although the risk that the purported claim, if upheld, would be awarded in cash is in any event deemed small. For the same reason it is impossible to determine the fair value of this liability in a reliable way. The liability under the Four Party Agreement does not qualify for derecognition from ABN AMRO's balance sheet under IFRS. This is a consequence of some uncertainty that remains after the 3 October 2008 transaction.

Until it is certain that ABN AMRO is legally released from the obligations, if any, under the Four Party Agreement as part of the agreements in respects of this transaction, derecognition of the liability from the balance sheet as a result of extinguishment of aforementioned obligations is not permitted by IFRS.

Under IFRS these obligations are required to be classified as a liability instead of equity since the number of shares to be issued by ABN AMRO Group or ABN AMRO Bank, if any, for conversion of the liability is unclear as the contract does not stipulate a fixed amount of shares to be delivered.

In accordance with IFRS requirements the liability has therefore been retained in the balance sheet for an amount of EUR 2 billion as at 31 December 2011.

The MCS is recorded in the balance sheet as at 31 December as follows:

| (in millions)                    | 31 December 2011 | 31 December 2010 |
|----------------------------------|------------------|------------------|
| <b>Liability component</b>       |                  |                  |
| <b>Balance as at 1 January</b>   | <b>2,000</b>     | <b>2,034</b>     |
| Issued                           |                  |                  |
| Interest expense                 |                  | 129              |
| Interest paid                    |                  | -163             |
| <b>Balance as at 31 December</b> | <b>2,000</b>     | <b>2,000</b>     |

The following table lists the subordinated liabilities.

| (in millions)                                                                                               | 31 December 2011 | 31 December 2010 |
|-------------------------------------------------------------------------------------------------------------|------------------|------------------|
| 4.31% perpetual Bermudan callable subordinated tier 1 notes (callable March 2016)                           | 1,078            | 1,049            |
| Floating rate Bermudan callable subordinated lower tier 2 loans 2015 (callable April 2013)                  | 91               | 167              |
| Floating rate Bermudan callable subordinated lower tier 2 notes 2016 (callable June 2013)                   | 439              | 997              |
| Floating rate Bermudan callable subordinated lower tier 2 notes 2017 (callable April 2013)                  | 351              | 746              |
| Floating Bermudan callable subordinated lower tier 2 notes 2018 (callable May 2013)                         | 377              | 498              |
| Subordinated loans 2015 (callable June 2013)                                                                | 237              | 499              |
| Bermudan callable perpetual subordinated upper tier 2 notes issued for an indefinite period (callable 2016) | 200              | 188              |
| Subordinated loan 2017 (callable April 2013)                                                                | 1,650            | 1,650            |
| Floating rate subordinated loans 2017                                                                       | 82               | 82               |
| Floating rate subordinated lower tier 2 notes 2020                                                          | 103              | 103              |
| 6.375% subordinated lower tier 2 notes 2021                                                                 | 1,363            |                  |
| 6.25% subordinated lower tier 2 notes 2022                                                                  | 522              |                  |
| 7.75% subordinated lower tier 2 notes 2023                                                                  | 97               |                  |
| Other loans                                                                                                 | 107              | 106              |
| <b>Total other subordinated liabilities</b>                                                                 | <b>6,697</b>     | <b>6,085</b>     |

Changes in subordinated liabilities are shown below.

|                                                           |               |
|-----------------------------------------------------------|---------------|
| (in millions)                                             |               |
| <b>Balance as at 1 January 2010</b>                       | <b>11,747</b> |
| Issuance                                                  |               |
| Redemption                                                | -1,151        |
| Conversion mandatory convertible notes into common equity | -2,600        |
| Other                                                     | 89            |
| <b>Balance as at 31 December 2010</b>                     | <b>8,085</b>  |
| Issuance                                                  | 353           |
| Redemption                                                | -28           |
| Other                                                     | 287           |
| <b>Balance as at 31 December 2011</b>                     | <b>8,697</b>  |

### Perpetual Bermudan Callable

EUR 1 billion in Perpetual Bermudan Callable Capital Securities 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.

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 or if 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.

Deferred coupons will be satisfied using the Alternative Coupon Satisfaction Mechanism (ACSM). Under this mechanism the relevant payment is satisfied from the proceeds of the public or private issue by ABN AMRO Group N.V. of such amount of ordinary shares for cash as required to make the relevant payment. Investors will always receive payments made in respect of the capital securities in cash.

The last annual coupon was paid on 10 March 2011. Assuming no regulatory event takes place, the next coupon payment on 10 March 2012 will be paid due to a dividend payment made by ABN AMRO Group in September 2011.

The Capital Securities are listed and traded on Euronext Amsterdam by NYSE Euronext.

### ABN AMRO Capital Finance Ltd (former Fortis Capital Company Ltd.)

The ABN AMRO Capital Finance Ltd preference shares were issued in 1999. ABN AMRO Capital Finance Ltd is a wholly-owned subsidiary. Since the cash settlement of 29 June 2009, 87,489 of remaining class A1 preference shares were outstanding with a total nominal value of EUR 87,489,000.

On 1 July 2010, the class A1 preference shares were reclassified from Tier 1 to upper Tier 2 capital. On 16 August 2010 an announcement was made to call for redemption of all remaining outstanding class A1 preference shares on the dividend payment date of 29 September 2010.

Ageas initiated legal proceedings against ABN AMRO Capital Finance Ltd, ABN AMRO Bank N.V. and the Dutch State, claiming EUR 363 million in compensation which ageas was liable for on the cash settlement date. These proceedings are pending. In an initial summary hearing on 25 June 2009 the court ruled in favour of all claims against ageas. ABN AMRO Capital Finance Ltd and ABN AMRO Bank N.V. continue to hold the opinion that ageas is not entitled to any compensation.

### 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 1.935% and matures in 2017. During 2010 another loan (EUR 250 million) held by the Dutch State (interest rate of 6.525%) matured. These subordinated loans are also part of the related parties mentioned in note 43.

## 31 Provisions

The table below shows the breakdown of Provisions as at 31 December.

| (in millions)                     | 31 December 2011 | 31 December 2010 |
|-----------------------------------|------------------|------------------|
| Insurance fund liabilities        | 363              | 378              |
| Provision for pension commitments | 60               | 101              |
| Restructuring                     | 467              | 400              |
| Other staff provision             | 191              | 186              |
| Other                             | 565              | 651              |
| <b>Total provisions</b>           | <b>1,646</b>     | <b>1,716</b>     |

In 2011 further refinement of accounting harmonisation led to a reclassification from Other to Restructuring retrospectively.

Insurance fund liabilities include the actuarial reserves, the premium and claims reserves of insurance companies. The expected cash outflow for 2012 is approximately EUR 30 million and for the period 2013 – 2016 approximately EUR 120 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 the 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 32.

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 based on 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 16 million (2010: EUR 33 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        |
|--------------------------------------------|---------------|------------------------|--------------|--------------|
| <b>At 1 January 2010</b>                   | <b>126</b>    | <b>221</b>             | <b>981</b>   | <b>1,328</b> |
| Acquisition and divestment of subsidiaries |               | 1                      | 19           | 20           |
| Increase of provisions                     | 480           | 1                      | 482          | 963          |
| Reversal of unused provisions              | -49           |                        | -48          | -97          |
| Utilised during the year                   | -151          |                        | -181         | -332         |
| Accretion of interest                      | 2             | -10                    |              | -8           |
| Foreign exchange differences               |               |                        | 3            | 3            |
| Other                                      | -8            | -27                    | -126         | -161         |
| <b>At 31 December 2010</b>                 | <b>400</b>    | <b>186</b>             | <b>1,130</b> | <b>1,716</b> |
| 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          |
| <b>At 31 December 2011</b>                 | <b>467</b>    | <b>191</b>             | <b>988</b>   | <b>1,646</b> |

The increase of provisions in 2011 is mainly due to the restructuring provision as a result of the Customer Excellence programme which will have an impact on staff levels.



## 32 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 charged directly to the income statement in the year to which they relate. There are two pension funds in the Netherlands: the ABN AMRO Pension Fund for the average salary plan of all Dutch employees and the Fortis Bank Nederland Pension Fund. The latter contains the accrued rights until 31 December 2010 of former Fortis Bank Nederland employees. The average salary plan in the Netherlands is partly funded by means of employee contributions. Plans in all countries comply with applicable local regulations concerning investments and minimum funding levels.

The separation and integration resulted in a number of curtailments in 2011 and 2010. In addition, a restructuring programme has been set up leading to a reduction of headcount. This reduction affected ABN AMRO's pension scheme as employees who will leave the company will earn no further pension benefits. These occurrences were reflected as curtailments and settlements totalling EUR 22 million in 2011 and EUR 116 million in 2010. This had an impact on the plan assets and defined benefit obligations. The amounts were recognised in the line item Other.

Under the collective labor agreement effective as from 1 January 2011, future rights for all ABN AMRO employees will accrue in the ABN AMRO scheme. This has resulted in an increase of the unrecognised past service cost of EUR 180 million in 2010. The amortisation effect for 2011 is EUR 16 million. This amount is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested.

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.

### Amounts recognised in the income statement

| (in millions)                                             | 2011       | 2010       |
|-----------------------------------------------------------|------------|------------|
| Current service cost                                      | 128        | 208        |
| Interest cost                                             | 657        | 618        |
| Expected return on plan assets                            | -564       | -593       |
| Net actuarial losses recognised during the year           |            | 9          |
| Administrative expenses paid                              | 30         | 30         |
| Past service cost                                         | 7          | 2          |
| Losses/(gains) on settlements and curtailment             | -22        | -116       |
| Other                                                     | -13        | -40        |
| <b>Pension expenses relating to defined benefit plans</b> | <b>223</b> | <b>118</b> |
| Defined contribution plans                                | 41         | 46         |
| <b>Total Pension expenses</b>                             | <b>264</b> | <b>164</b> |

In 2011 plan participants' contributions amounted to EUR 60 million. The compensating employer contribution of EUR 44 million is included in Salaries and wages. In 2010 both amounts were netted in the line item Other.

## Reconciliation to the statement of financial position

| (in millions)                                      | 2011          | 2010        |
|----------------------------------------------------|---------------|-------------|
| Present value of funded obligations                | 12,009        | 12,688      |
| Fair value of plan assets                          | 15,022        | 12,946      |
|                                                    | <b>-3,013</b> | <b>-258</b> |
| Present value of unfunded obligations              | 6             | 52          |
| Unrecognised actuarial gains (losses)              | 2,503         | 58          |
| Unrecognised past service cost                     | -170          | -259        |
| <b>Net Defined benefit liabilities (assets)</b>    | <b>-674</b>   | <b>-407</b> |
| Provisions for pension commitments (in Provisions) | 60            | 101         |
| Less: pension assets (in Other assets)             | 734           | 508         |
| <b>Net Defined benefit liabilities (assets)</b>    | <b>-674</b>   | <b>-407</b> |

## Change in defined benefit obligations

| (in millions)                                          | 2011          | 2010          |
|--------------------------------------------------------|---------------|---------------|
| <b>Defined benefit obligation as at 1 January</b>      | <b>12,740</b> | <b>11,910</b> |
| Current service cost                                   | 128           | 208           |
| Interest cost                                          | 657           | 618           |
| Actuarial losses (gains) on defined benefit obligation | -859          | 255           |
| Participants' contributions                            | 60            | 3             |
| Benefits paid                                          | -436          | -420          |
| Curtailments/Settlements                               | -23           | -325          |
| Acquisitions and disposals of subsidiaries             | -254          |               |
| Foreign exchange differences                           | 4             | 35            |
| Other                                                  | -2            | 456           |
| <b>Defined benefit obligation as at 31 December</b>    | <b>12,015</b> | <b>12,740</b> |

In 2010 the effect of the new pension plan for former Fortis Bank Nederland employees was treated as unrecognised past service costs for an amount of EUR 180 million.

The Acquisition and disposals of subsidiaries in the Defined benefit obligation and Plan assets is related to the sale of Fortis Commercial Finance and the Swiss Private Banking activities.

## Change in fair value of plan assets

| (in millions)                                      | 2011          | 2010          |
|----------------------------------------------------|---------------|---------------|
| <b>Fair value of plan assets as at 1 January</b>   | <b>12,946</b> | <b>11,479</b> |
| Expected return on plan assets                     | 564           | 593           |
| Actuarial gains on plan assets                     | 1,608         | 697           |
| Employer's contributions                           | 498           | 430           |
| Administrative expenses paid                       | -30           | -30           |
| Participants' contributions                        | 60            |               |
| Benefits paid                                      | -436          | -359          |
| Curtailments/Settlements                           |               | -194          |
| Acquisitions and disposals of subsidiaries         | -192          | -7            |
| Foreign exchange differences                       | 3             | 28            |
| Other                                              | 1             | 309           |
| <b>Fair value of plan assets as at 31 December</b> | <b>15,022</b> | <b>12,946</b> |

## Principal actuarial assumptions

|                                                  | 2011 | 2010 |
|--------------------------------------------------|------|------|
| Discount rate                                    | 5.6% | 5.3% |
| Inflation rate                                   | 0.9% | 1.8% |
| Expected return on plan assets as at 31 December | 3.6% | 4.4% |
| Future salary increases                          | 2.5% | 2.5% |

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

| (in millions)                                           |               |               | 2011                    |               |               | 2010                    |        |            |
|---------------------------------------------------------|---------------|---------------|-------------------------|---------------|---------------|-------------------------|--------|------------|
|                                                         | Amount        | Percentage    | Expected rate of return | Amount        | Percentage    | Expected rate of return | Amount | Percentage |
| Equity securities                                       | 4,717         | 31.4%         | 5.55%                   | 3,505         | 27.1%         | 6.46%                   |        |            |
| Debt securities                                         | 13,189        | 87.8%         | 2.55%                   | 10,331        | 79.8%         | 3.46%                   |        |            |
| Real estate                                             | 421           | 2.8%          | 4.55%                   | 405           | 3.1%          | 5.46%                   |        |            |
| Other                                                   | -3,305        | -22.0%        | 2.53%                   | -1,295        | -10.0%        | 2.82%                   |        |            |
| <b>Expected return on plan assets as at 31 December</b> | <b>15,022</b> | <b>100.0%</b> | <b>3.60%</b>            | <b>12,946</b> | <b>100.0%</b> | <b>4.40%</b>            |        |            |

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 return experienced in the respective markets.

The negative amount on the line Other relates to the fair value of financial instruments used primarily for mitigating the interest rate risk. This class is made of swaps and the rate of return adopted of 2.53%. This rate is the average return over the past ten years of 3-month Euribor, reflecting the long-term return on swaps.

Expected contributions by the employer to post employment benefit plans for the year ended 31 December 2012 are EUR 571 million (estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) non-cash contributions).

### Actuarial gains and losses

| (in millions)                               | 2011         | 2010       |
|---------------------------------------------|--------------|------------|
| Fair value of plan assets                   | 15,022       | 12,946     |
| Present value of defined benefit obligation | 12,015       | 12,740     |
| <b>Net liability</b>                        | <b>3,007</b> | <b>206</b> |

ABN AMRO Group does not have contingent liabilities as a result of pension plans.

The assumption change gain on defined benefit obligation for 2011 is EUR 707 million (2010: loss of EUR 220 million). The experience adjustments made on defined benefit obligation for 2011 are a gain of EUR 151 million (2010: loss of EUR 34 million). The actuarial gain and loss on fair value of plan assets for 2011 is a gain of EUR 2,179 million (2010: gain of EUR 1,291 million).

At 31 December 2011, a provision of EUR 95 million for post-employee benefits relating to healthcare and banking products was recorded (2010: EUR 99 million). This provision is recognised in Other provisions.

## 33 Accrued expenses and deferred income

The composition of Accrued expenses and deferred income as at 31 December was as follows:

| (in millions)            | 31 December 2011 | 31 December 2010 |
|--------------------------|------------------|------------------|
| Accrued interest expense | 4,523            | 4,817            |
| Accrued other expenses   | 1,463            | 1,785            |
| <b>Total</b>             | <b>5,986</b>     | <b>6,602</b>     |

Accrued interest expense in the amount of EUR 2,228 million relates to interest rate swaps (2010: EUR 1,402 million) and EUR 904 million relates to Issued debt securities (2010: EUR 743 million).

Accrued other expenses contain deferred income amounting to EUR 220 million (2010: EUR 512 million).

## 34 Other liabilities

The composition of Other liabilities as at 31 December was as follows:

| (in millions)                          | 31 December 2011 | 31 December 2010 |
|----------------------------------------|------------------|------------------|
| Non-trading derivative liabilities     | 8,481            | 4,738            |
| Liability to unit-linked policyholders | 2,060            | 2,093            |
| Other borrowings                       | 4                | 99               |
| Sundry liabilities and other payables  | 2,439            | 3,881            |
| <b>Total</b>                           | <b>12,984</b>    | <b>10,811</b>    |

Non-trading derivatives mainly contains the negative fair value of all derivatives qualifying as hedging instruments in fair value and in cash flow hedges as well as the negative fair value of derivatives related to assets and liabilities designated at fair value through profit and loss. The hedging strategies are further explained in note 40.

A large part of the line Sundry liabilities and other payables consists of cash and trades to be settled. The decrease in the line Sundry liabilities and other payables is caused mainly by the sale of the non-Dutch part of Fortis Commercial Finance. Factoring outstandings are part of the sundry liabilities and other payables.

Sundry liabilities include an accrual of EUR 309 million (2010: EUR 293 million) relating to a financial guarantee (the Credit Umbrella, see note 8) that was part of the sale under the EC Remedy. This accrual covers part of the potential credit losses of the portfolio at the time of closing of the transaction. The cover is capped to an amount in euros equal to 10% of the notional amount of the referenced credit portfolio as per 1 April 2010. The portfolio covered by the Credit Umbrella will amortise over time. Per 31 December 2011 around 69% of the notional amount has been amortised (31 December 2010: around 17%).

ABN AMRO estimated the potential loss under the Credit Umbrella based on fair value. Basel II data such as probability of default, exposure at default and loss given default were used. Based on these parameters, expectations for future periods were developed. The guarantee fee is amortised and periodically tested for sufficiency with valuation at the highest of either amortised cost or the present value of the expenditure required to settle the obligation.

### 35 Equity attributable to shareholders of the parent company

The following table shows the composition of Issued capital and reserves as at 31 December 2011 and 31 December 2010.

| (in millions)                                                    | 31 December 2011 | 31 December 2010 |
|------------------------------------------------------------------|------------------|------------------|
| Share capital                                                    | 1,015            | 1,015            |
| Share premium                                                    | 11,505           | 11,505           |
| Other reserves (incl. retained earnings/profit for the period)   | 818              | 362              |
| Other components of equity                                       | -1,938           | -783             |
| <b>Equity attributable to shareholders of the parent company</b> | <b>11,400</b>    | <b>12,099</b>    |

As at 31 December 2011, the authorised share capital of ABN AMRO Group N.V. amounted to EUR 4,000 million distributed over 3,750,000,000 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 2011, issued and paid-up capital by ABN AMRO Group N.V. amounted to EUR 1,015 million distributed over 940,000,000 class A ordinary shares and 75,000,000 class A non-cumulative preference shares (5.85%).

In 2011, there were no movements in Share capital and Share premium.

In September 2011 an interim dividend of EUR 200 million was paid to the 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.

On 1 April 2010 the shares in ABN AMRO Bank N.V. and Fortis Bank (Nederland) N.V. were transferred into ABN AMRO Group N.V. This resulted in share premium of EUR 8.2 billion and a contribution in ordinary shares of EUR 0.9 billion totalling the net asset value of both banks. Furthermore in 2010, the share premium reserve increased by a further EUR 2.7 billion (of which EUR 0.1 billion relates to capitalised interest) due to the conversion of 2.6 billion Mandatory Convertible Notes by the Dutch State. The remaining increase of share premium reserve was attributable to the completion of the capitalisation of ABN AMRO Bank N.V. by the Dutch State (EUR 0.5 billion) in accordance with the letter to Parliament of 19 November 2009 and a settlement related to the separation of ABN AMRO Bank N.V. from RBS N.V.

The following table shows the number of outstanding shares:

|                                                      | Class A ordinary<br>shares | Class A<br>Non-cumulative<br>preference shares | Total shares<br>outstanding |
|------------------------------------------------------|----------------------------|------------------------------------------------|-----------------------------|
| <b>Number of shares at 31 December 2009</b>          | <b>100,000</b>             |                                                | <b>100,000</b>              |
| Issued during the year                               | 939,900,000                |                                                | 939,900,000                 |
| Conversion preference shares (Fortis Bank Nederland) |                            | 75,000,000                                     | 75,000,000                  |
| <b>Number of shares at 31 December 2010</b>          | <b>940,000,000</b>         | <b>75,000,000</b>                              | <b>1,015,000,000</b>        |
| Issued during the year                               |                            |                                                |                             |
| <b>Number of shares at 31 December 2011</b>          | <b>940,000,000</b>         | <b>75,000,000</b>                              | <b>1,015,000,000</b>        |

## 36 Additional cash flow information

The following table shows the determination of cash and cash equivalents at 31 December:

| (in millions)                                                 | 31 December 2011 | 31 December 2010 |
|---------------------------------------------------------------|------------------|------------------|
| Cash and balances at central banks                            | 7,641            | 906              |
| Loans and receivables banks (less than 3 months) <sup>1</sup> | 3,756            | 4,160            |
| <b>Total</b>                                                  | <b>11,397</b>    | <b>5,066</b>     |

<sup>1</sup> Loans and receivables banks with a maturity of less than 3 months is included in Loans and receivables – banks, see note 17.

## 37 Assets pledged as security

ABN AMRO trades in debt investments, equity investments and derivatives. These transactions are conducted under terms that are usual and customary to market standards for lending and stock borrowing activities. Financial assets have therefore been pledged as security to third parties for liabilities.

Financial assets pledged to secure liabilities are as follows:

| (in millions)                                                   | 31 December 2011 | 31 December 2010 |
|-----------------------------------------------------------------|------------------|------------------|
| Cash and balances at central banks                              | 292              | 374              |
| Financial assets held for trading                               | 1,945            | 1,496            |
| Financial investments available-for-sale                        | 456              | 644              |
| Financial investments held at fair value through profit or loss |                  |                  |
| Financial investments held to maturity                          |                  |                  |
| Loans and receivables – Banks                                   | 2                | 2                |
| Loans and receivables – Customers                               | 66,091           | 64,431           |
| Other financial assets                                          |                  | 317              |
| <b>Total</b>                                                    | <b>68,786</b>    | <b>67,264</b>    |

Note 41 provides an overview of assets charged as security for liabilities relating to securitisations.

Under reverse repurchase, securities borrowing and other collateralised arrangements, ABN AMRO obtains securities on terms which permit it to repledge or resell the securities to others. The Group 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 Group when deemed necessary.

These transactions are conducted under terms that are usual and customary to standard securities borrowing and reverse repurchase agreements.

For December 2011 a fair value amount of EUR 28,385 million (2010: EUR 19,636 million) has either been pledged or otherwise transferred to others in connection with ABN AMRO's financing activities or to satisfy its commitments under short sale transactions. ABN AMRO has an obligation to return the securities to its counterparties.

The sale under the EC remedy resulted in collateral pledged as security to mitigate the risk arising under the cross liabilities arising as a result of the sale. Note 38 Commitments and contingent liabilities provides information on disclosure of cross liabilities.

## 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 the 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 2011 and 2010 are summarised below.

| (in millions)                                 |               | Payments due by period |                             |                              |                  |
|-----------------------------------------------|---------------|------------------------|-----------------------------|------------------------------|------------------|
|                                               | Total         | Less than one year     | Between one and three years | Between three and five years | After five years |
| <b>31 December 2011</b>                       |               |                        |                             |                              |                  |
| Committed credit facilities                   | 14,484        | 9,080                  | 1,712                       | 757                          | 2,935            |
| <i>Guarantees and other commitments:</i>      |               |                        |                             |                              |                  |
| Guarantees granted                            | 7,292         | 4,331                  | 548                         | 470                          | 1,943            |
| Irrevocable letters of credit                 | 4,644         | 3,814                  | 293                         | 150                          | 387              |
| Recourse risks arising from discounted bills  | 6,120         | 4,082                  | 1,969                       | 69                           |                  |
| <b>Total guarantees and other commitments</b> | <b>18,056</b> | <b>12,227</b>          | <b>2,810</b>                | <b>689</b>                   | <b>2,330</b>     |
| <b>Total</b>                                  | <b>32,540</b> | <b>21,307</b>          | <b>4,522</b>                | <b>1,446</b>                 | <b>5,265</b>     |
| <b>31 December 2010</b>                       |               |                        |                             |                              |                  |
| Committed credit facilities                   | 14,553        | 7,848                  | 2,632                       | 1,096                        | 2,977            |
| <i>Guarantees and other commitments:</i>      |               |                        |                             |                              |                  |
| Guarantees granted                            | 15,852        | 8,301                  | 1,227                       | 2,144                        | 4,180            |
| Irrevocable letters of credit                 | 2,262         | 1,117                  | 221                         | 130                          | 794              |
| Recourse risks arising from discounted bills  | 5,079         | 4,515                  | 413                         | 150                          | 1                |
| <b>Total guarantees and other commitments</b> | <b>23,193</b> | <b>13,933</b>          | <b>1,861</b>                | <b>2,424</b>                 | <b>4,975</b>     |
| <b>Total</b>                                  | <b>37,746</b> | <b>21,781</b>          | <b>4,493</b>                | <b>3,520</b>                 | <b>7,952</b>     |

Guarantees have decreased by EUR 9 billion mainly due to the Credit Umbrella. Other liabilities includes an amount of EUR 309 million that covers expected losses on this portfolio.

## 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 payables. ABN AMRO also leases equipment under non-cancellable lease arrangements.

Where ABN AMRO is the lessee, the future minimum lease payment under non-cancellable operating leases are as follows:

| (in millions)                                 | 2011       | 2010       |
|-----------------------------------------------|------------|------------|
| Not more than one year                        | 115        | 67         |
| Longer than 1 year and not later than 5 years | 261        | 162        |
| Longer than 5 years                           | 110        | 22         |
| <b>Total</b>                                  | <b>486</b> | <b>251</b> |

### 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 1 and 5 years. The total amount of the lease payments were EUR 533 million for 2011.

### 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 legal 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:

- ▶ Ageas initiated legal proceedings against ABN AMRO Capital Finance Ltd, ABN AMRO Bank N.V. and the Dutch State claiming EUR 363 million compensation which ageas was liable for on the cash settlement date. These proceedings are pending. In an initial summary hearing on 25 June 2009, the court ruled in favour of all claims against ageas. ABN AMRO Capital Finance Ltd and ABN AMRO Bank N.V. continue to hold the opinion that ageas is not entitled to any compensation;
- ▶ 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 claims it is entitled to receive EUR 2 billion of ABN AMRO ordinary shares. ABN AMRO has been given formal notice that the Dutch State – which disputes ageas's claim – has seized the aforementioned claim. This (third-party) seizure will not affect ABN AMRO's capital position or its activities;
- ▶ The MCS related Hedge Fund Claims of EUR 1.75 billion plus 8.75% coupon till 7 December 2030 for which ABN AMRO believes that it is not probable that a present obligation exists;
- ▶ As previously reported, ABN AMRO Bank N.V, 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 N.V. 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 N.V. 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 N.V. 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 N.V. 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 N.V.'s 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 N.V. 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 2011, ABN AMRO Bank N.V. and its subsidiaries were 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 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 2011 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 582 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 2011, this contingent liability was estimated at EUR 289 million (2010: EUR 454 million).

In the event that RBS N.V. or ABN AMRO Bank N.V. fail to meet their 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 5 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 2011, ABN AMRO Bank N.V. had placed collateral with a fair value of EUR 162 million with New HBU II N.V. and New HBU II N.V. had placed collateral with a fair value of EUR 56 million with ABN AMRO Bank N.V.

At 31 December 2011, 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 6 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 e.g. 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 G10 government 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 2011 |
|----------------------------------------------------------|----------------------------------------|------------------------------------------|--------------------------------------------------------|------------------|
|                                                          | Quoted market prices in active markets | Valuation techniques – observable inputs | Valuation techniques – significant unobservable inputs | Total fair value |
| <b>Assets</b>                                            |                                        |                                          |                                                        |                  |
| 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            |
| <b>Total financial assets</b>                            | <b>25,204</b>                          | <b>27,336</b>                            | <b>179</b>                                             | <b>52,719</b>    |
| <b>Liabilities</b>                                       |                                        |                                          |                                                        |                  |
| 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            |
| <b>Total financial liabilities</b>                       | <b>9,382</b>                           | <b>24,444</b>                            |                                                        | <b>33,826</b>    |

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 included mainly OTC derivatives.

(in millions)

31 December 2010

|                                                          | Quoted market<br>prices in active<br>markets | Valuation<br>techniques –<br>observable inputs | Valuation<br>techniques<br>– significant<br>unobservable<br>inputs | Total fair value |
|----------------------------------------------------------|----------------------------------------------|------------------------------------------------|--------------------------------------------------------------------|------------------|
| <b>Assets</b>                                            |                                              |                                                |                                                                    |                  |
| Financial assets held for trading                        | 13,994                                       | 10,306                                         |                                                                    | 24,300           |
| Available-for-sale interest earning securities           | 13,369                                       | 6,274                                          |                                                                    | 19,643           |
| Available-for-sale equities                              | 132                                          | 40                                             | 23                                                                 | 195              |
| Equities designated at fair value through profit or loss | 257                                          | 3                                              | 99                                                                 | 359              |
| Derivatives not held for trading                         |                                              | 1,512                                          |                                                                    | 1,512            |
| Unit-linked investments                                  | 404                                          | 1,689                                          |                                                                    | 2,093            |
| <b>Total financial assets</b>                            | <b>28,156</b>                                | <b>19,824</b>                                  | <b>122</b>                                                         | <b>48,102</b>    |
| <b>Liabilities</b>                                       |                                              |                                                |                                                                    |                  |
| Financial liabilities held for trading                   | 10,861                                       | 9,121                                          |                                                                    | 19,982           |
| Issued debt                                              |                                              | 259                                            |                                                                    | 259              |
| Derivatives not held for trading                         |                                              | 4,738                                          |                                                                    | 4,738            |
| Unit-linked investments                                  | 404                                          | 1,689                                          |                                                                    | 2,093            |
| <b>Total financial liabilities</b>                       | <b>11,265</b>                                | <b>15,807</b>                                  |                                                                    | <b>27,072</b>    |

### Transfers between level 1 and 2

During 2011 there were no transfers between level 1 and level 2.

### Transfers from level 1 and 2 into 3

During 2011 there were no material transfers from level 1 and 2 into 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)                                         | 2011                                                           |                                | 2010                                                           |                                |
|-------------------------------------------------------|----------------------------------------------------------------|--------------------------------|----------------------------------------------------------------|--------------------------------|
|                                                       | Equities designated<br>at fair value through<br>profit or loss | Available for sale<br>equities | Equities designated<br>at fair value through<br>profit or loss | Available for sale<br>equities |
| <b>Balance at 1 January</b>                           | <b>99</b>                                                      | <b>23</b>                      | <b>239</b>                                                     | <b>23</b>                      |
| Purchases                                             | 14                                                             | 30                             | 0                                                              |                                |
| Sales                                                 | -7                                                             |                                | -102                                                           |                                |
| Settlements                                           |                                                                |                                | -1                                                             |                                |
| Gains/losses recorded in profit and loss <sup>1</sup> | -4                                                             |                                | 15                                                             |                                |
| Unrealised gains/losses                               | 11                                                             |                                | 9                                                              |                                |
| Other movements                                       |                                                                | 13                             | -61                                                            |                                |
| <b>Balance at 31 December</b>                         | <b>113</b>                                                     | <b>66</b>                      | <b>99</b>                                                      | <b>23</b>                      |

<sup>1</sup> Included in Results from financial transactions. All assets were held at balance sheet date.



### Level 3 sensitivity information

The tables below 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 2011 and 2010, ABN AMRO performed a sensitivity analysis to assess the range of reasonably possible alternative assumptions that would have a significant impact (i.e. increase and 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 |
| <b>2011</b>   |                                       |                  |                |                                             |                        |
| Equity shares | Private equity – valuation statements | EBITDA multiples | 179            | 21                                          | -21                    |
| <b>2010</b>   |                                       |                  |                |                                             |                        |
| Equity shares | Private equity – valuation statements | EBITDA multiples | 122            | 21                                          | -21                    |

For the portfolio category 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 profit of loss

Equities designated at fair value through profit of loss classified as level 3 include mainly 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 guidelines (EVCA).

## 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 29).

## 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 6 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 values<sup>1</sup>.

| (in millions)                      | 31 December 2011             |                |              | 31 December 2010             |                |             |
|------------------------------------|------------------------------|----------------|--------------|------------------------------|----------------|-------------|
|                                    | Carrying amount <sup>2</sup> | Fair value     | Difference   | Carrying amount <sup>2</sup> | Fair value     | Difference  |
| <b>Assets:</b>                     |                              |                |              |                              |                |             |
| Cash and balances at central banks | 7,641                        | 7,641          |              | 906                          | 906            |             |
| Loans and receivables – banks      | 61,319                       | 61,319         |              | 40,957                       | 40,986         | 29          |
| Loans and receivables – customers  | 204,194                      | 206,310        | 2,116        | 203,217                      | 203,676        | 459         |
| <b>Total financial assets</b>      | <b>273,154</b>               | <b>275,270</b> | <b>2,116</b> | <b>245,080</b>               | <b>245,568</b> | <b>488</b>  |
| <b>Liabilities:</b>                |                              |                |              |                              |                |             |
| Due to banks                       | 30,962                       | 30,962         |              | 21,536                       | 21,522         | 14          |
| Due to customers                   | 213,616                      | 213,671        | -55          | 209,466                      | 209,639        | -173        |
| Issued debt                        | 66,451                       | 67,018         | -567         | 63,333                       | 63,774         | -441        |
| Subordinated liabilities           | 5,533                        | 4,940          | 593          | 6,848                        | 6,603          | 245         |
| <b>Total financial liabilities</b> | <b>316,562</b>               | <b>316,591</b> | <b>-29</b>   | <b>301,183</b>               | <b>301,538</b> | <b>-355</b> |

<sup>1</sup> Positive amounts represent an increase to net assets. Negative amounts represent a reduction to net assets.

<sup>2</sup> Excluding the balances designated at fair value through profit or loss and 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

In the results from financial transactions, the following results are recognised:

| (in millions)          | 2011      | 2010      |
|------------------------|-----------|-----------|
| Fair value hedges      | -4        | 7         |
| Cash flow hedges       | 1         |           |
| Net investment hedging | 29        | -10       |
| <b>Total</b>           | <b>26</b> | <b>-3</b> |

## 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)                                                                       | 2011      | 2010      |
|-------------------------------------------------------------------------------------|-----------|-----------|
| Gains/(losses) on the hedged assets attributable to the fair value hedged risk      | 1,318     | -429      |
| Gains/(losses) on hedging instruments used for the hedged assets                    | -1,320    | 427       |
| Gains/(losses) on the hedged liabilities attributable to the fair value hedged risk | -1,586    | -531      |
| Gains/(losses) on hedging instruments used for the hedged liabilities               | 1,587     | 528       |
| <b>Net effect fair value hedge</b>                                                  | <b>-1</b> | <b>-5</b> |

### 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 de-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)                                                                  | 2011      | 2010      |
|--------------------------------------------------------------------------------|-----------|-----------|
| Gains/(losses) on the hedged assets attributable to the fair value hedged risk | 1,526     | 587       |
| Gains/(losses) on hedging instruments used for the hedged assets               | -1,529    | -575      |
| <b>Net effect fair value hedge</b>                                             | <b>-3</b> | <b>12</b> |

### Cash flow hedge accounting

ABN AMRO applies macro cash flow hedge accounting by which it designates interest rate 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.

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         |
|---------------------------|-----------------|--------------------------------------|-------------------------------------|---------------------------------------|--------------------|---------------|
| <b>31 December 2011</b>   |                 |                                      |                                     |                                       |                    |               |
| <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         |
| <b>Expected cash flow</b> | <b>-20</b>      | <b>-62</b>                           | <b>-446</b>                         | <b>-423</b>                           | <b>-1,489</b>      | <b>-2,440</b> |

| (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         |
|---------------------------|-----------------|--------------------------------------|-------------------------------------|---------------------------------------|--------------------|---------------|
| <b>31 December 2010</b>   |                 |                                      |                                     |                                       |                    |               |
| <i>Expected cash flow</i> |                 |                                      |                                     |                                       |                    |               |
| Inflows (assets)          | 79              | 238                                  | 1,119                               | 952                                   | 409                | 2,797         |
| Outflows (liabilities)    | 109             | 326                                  | 1,657                               | 1,518                                 | 1,915              | 5,525         |
| <b>Expected cash flow</b> | <b>-30</b>      | <b>-88</b>                           | <b>-538</b>                         | <b>-566</b>                           | <b>-1,506</b>      | <b>-2,728</b> |

Net gain (loss) on cash flow hedges transferred from equity to the income statement are as follows:

| (in millions)    | 2011        | 2010        |
|------------------|-------------|-------------|
| Interest income  | 162         | 276         |
| Interest expense | 305         | 381         |
| <b>Subtotal</b>  | <b>-143</b> | <b>-105</b> |
| Tax expense      | -36         | -26         |
| <b>Total</b>     | <b>-107</b> | <b>-79</b>  |

### 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 2011 ABN AMRO recorded a profit of EUR 29 million relating to terminating of the hedged position. In 2010 ABN AMRO recorded a loss of EUR 10 million for ineffectiveness of these hedges.

### Overview of the fair value of hedging instruments

| (in millions)                                 | 2011         |              | 2010         |              |
|-----------------------------------------------|--------------|--------------|--------------|--------------|
|                                               | Positive     | Negative     | Positive     | Negative     |
| <b>Hedges Qualifying for hedge accounting</b> |              |              |              |              |
| <b>Fair value hedges</b>                      |              |              |              |              |
| <i>Interest rate contracts:</i>               |              |              |              |              |
| Swaps                                         | 1,015        | 5,940        | 692          | 3,652        |
| Options                                       | 7            | 518          | 10           | 321          |
| <b>Total</b>                                  | <b>1,022</b> | <b>6,458</b> | <b>702</b>   | <b>3,973</b> |
| <i>Foreign currency contracts:</i>            |              |              |              |              |
| Interest and currency swaps                   | 467          | 59           | 352          |              |
| <b>Cash flow hedges</b>                       |              |              |              |              |
| <i>Interest rate contracts:</i>               |              |              |              |              |
| Swaps                                         | 693          | 1,924        | 367          | 716          |
| <b>Net investment hedges</b>                  |              |              | 17           |              |
| <b>Subtotal as at 31 December</b>             | <b>2,182</b> | <b>8,441</b> | <b>1,438</b> | <b>4,689</b> |
| Hedges not qualifying for hedge accounting    | 233          | 40           | 74           | 49           |
| <b>Balance as at 31 December</b>              | <b>2,415</b> | <b>8,481</b> | <b>1,512</b> | <b>4,738</b> |

## Notional amounts

| (in millions)         | 2011    | 2010    |
|-----------------------|---------|---------|
| Interest rate risk    | 104,538 | 102,870 |
| Foreign currency risk | 381     | 2,203   |
| Net investment hedge  | 132     | 364     |

## 41 Special purpose entities

ABN AMRO holds some Special Purpose Entities (SPEs) related to securitisation and to other funding transactions.

### Securitisations

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 own originated transactions. Virtually all financial assets included in these transactions are residential mortgages and loans to small and medium-sized enterprises (SME). In these transactions, if neither virtually all risks and rewards nor control over the financial assets has been transferred, the entire portfolio of asset continues to be recognised in the consolidated balance sheet.

The extent of the bank's continuing involvement in these financial assets varies by transaction.

The bank distinguishes the following types of structures:

#### ► True Sale (traditional) Securitisation

A foundation (Stichting) incorporates a Special Purpose Entity 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.

ABN AMRO participates in transactions where financial assets and consequently the related cash flows are sold to a SPE. In the case of transactions involving a consolidated SPE, the retained risks and rewards are usually an exposure on first credit losses, prepayment risk and/or an interest-related spread. In the event of a credit downgrade of ABN AMRO, ABN AMRO may be required to post additional collateral in respect of these transactions

#### ► Synthetic Securitisation

A foundation (Stichting) incorporates a Special Purpose Entity (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.

ABN AMRO has protected assets for the full notional amount or partially through synthetic securitisations and credit derivatives for an amount of EUR 28.9 billion (2010: EUR 28.6 billion). Through a synthetic securitisation ABN AMRO is able to buy protection without actual transfer of any assets to an SPE. As a result, ABN AMRO as the owner of the assets buys protection to transfer the credit risk on a portfolio of assets to another entity that sells the protection. Although a substantial part of the credit risk related to these loan portfolios is transferred, actual ownership of the portfolio of assets remains with ABN AMRO. If securities are issued by an SPE, the third-party investors have recourse only to the assets of the SPE and not to ABN AMRO.



The following table provides the details for 2011 and 2010 respectively of assets securitized in transactions in which ABN AMRO acts as originator, broken down by exposure type of the underlying pool of assets and the type of securitisation.

| (in millions)          |                                 | 31 December 2011      |                              |                |
|------------------------|---------------------------------|-----------------------|------------------------------|----------------|
| Type of Securitisation |                                 | Residential mortgages | Loans to corporates or SME's | Total          |
| Traditional            | Amounts of exposure securitised | 69,764                | 1,744                        | 71,508         |
| Synthetic              | Amounts of exposure securitised | 21,426                | 7,462                        | 28,888         |
| <b>Total</b>           |                                 | <b>91,190</b>         | <b>9,206</b>                 | <b>100,396</b> |

| (in millions)          |                                 | 31 December 2010      |                              |                |
|------------------------|---------------------------------|-----------------------|------------------------------|----------------|
| Type of Securitisation |                                 | Residential mortgages | Loans to corporates or SME's | Total          |
| Traditional            | Amounts of exposure securitised | 69,496                | 2,459                        | 71,955         |
| Synthetic              | Amounts of exposure securitised | 19,850                | 8,774                        | 28,624         |
| <b>Total</b>           |                                 | <b>89,346</b>         | <b>11,233</b>                | <b>100,579</b> |

The following table provides details on the notes issued by consolidated SPE's related to securitisation activities exceeding 0.1 % of the bank's total assets size.

| (in millions)                          | 31 December 2011   | 31 December 2010   |
|----------------------------------------|--------------------|--------------------|
| Category                               | Total notes issued | Total notes issued |
| Dolphin Master Issuer B.V.             | 30,412             | 30,412             |
| Oceanarium Master Issuer B.V.          | 14,631             |                    |
| Fishbowl Master Issuer B.V.            | 10,000             |                    |
| Goldfish Master Issuer B.V.            | 9,752              | 9,752              |
| Shield I B.V.                          | 4,016              | 4,016              |
| Beluga Master Issuer B.V.              | 3,943              | 3,943              |
| European Mortgage Securities VIII B.V. | 2,109              | 2,309              |
| SMILE Securitisation Company 2007 B.V. | 1,761              | 2,174              |
| SMILE Securitisation Company 2005 B.V. | 1,512              | 1,837              |
| SMILE Securitisation Company 2001 B.V. |                    | 579                |
| European Mortgage Securities VII B.V.  |                    | 14,493             |
| Delphinus 2001-II B.V.                 |                    | 843                |
| Delphinus 2006-II B.V.                 |                    | 3,330              |
| <b>Total</b>                           | <b>78,136</b>      | <b>73,688</b>      |

## Portfolio sales

Up to a limited amount, ABN AMRO participates in mortgage-related transactions in the Netherlands that have been conducted without the involvement of an SPE. In some of these transactions, the derecognition criteria are not fully met and the entire portfolio of assets continues to be recognised in the consolidated statement of the financial position. ABN AMRO also retains exposure to certain interest rate risks. The carrying amounts of these assets and associated liabilities was approximated EUR 0.1 billion at 31 December 2011 as well as at 31 December 2010.

ABN AMRO has participated in one transaction where derecognition of specified portions of an entire financial asset has occurred. The carrying amount of these assets and associated liabilities approximately EUR 0.2 billion at 31 December 2011 and EUR 0.3 billion EUR at 31 December 2010.

## Other material Special Purpose Entities

The list of material, consolidated SPEs – not related to securitisation activities – exceeding 0.1% of the bank's total assets size is reported in the table below.

| (in millions)                        |              | 31 December 2011          |              | 31 December 2010          |  |
|--------------------------------------|--------------|---------------------------|--------------|---------------------------|--|
| Entity name                          | Asset size   | % of the institution size | Asset size   | % of the institution size |  |
| Moeara Enim Investeringsmij. IV B.V. | 2,156        | 0.5%                      | 2,355        | 0.6%                      |  |
| Brooklyn Investments B.V.            | 1,613        | 0.4%                      | 1,471        | 0.4%                      |  |
| Palila Investments S.A.              | 1,003        | 0.2%                      | 1,002        | 0.3%                      |  |
| AA Covered Bond Company B.V.         | 2,002        | 0.5%                      | 2,001        | 0.5%                      |  |
| BV Petroleummij. "Moeara Enim"       |              |                           | 452          | 0.1%                      |  |
| <b>Total</b>                         | <b>6,774</b> |                           | <b>7,281</b> |                           |  |

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 (see note 20).

## 42 Capital adequacy

ABN AMRO regulatory capital is broken down into two Tiers: Tier 1 capital and Tier 2 capital.

### Tier 1 capital

Tier 1 capital consists of core Tier 1 capital and additional Tier 1 capital. Core Tier 1 capital is composed of shareholders' equity and non-controlling interests after deduction of the elements mentioned below. Additional Tier 1 capital consists of non-innovative Tier 1 capital, and innovative Tier 1 capital instruments after deduction of the elements mentioned below.

Shareholders' equity consists of share capital, share premium reserve, unrealised gains and losses, reserves and net profit attributable to shareholders. The unrealised gains and losses are excluded from Tier 1 capital except for the unrealised losses on available-for-sale equities which are fully deducted from Tier 1 capital.

Non-controlling interests reflect the equity of minority shareholders in a subsidiary.

Innovative Tier 1 instruments are deeply subordinated debt instruments, senior only to Equity attributable to owners of the parent company. They are perpetual, have a relatively high capacity for loss absorption and must meet strict rules predefined by the Dutch central bank. Outstanding innovative Tier 1 instruments at ABN AMRO are the non-cumulative perpetual capital securities.

Non-innovative Tier 1 capital at ABN AMRO consists of the liability related to the former Mandatory Convertible Securities.

### Tier 2 capital

Tier 2 capital is divided into upper Tier 2 and lower Tier 2 capital. Upper Tier 2 capital instrument are subordinated debt instruments with an indefinite term, while lower Tier 2 capital consists of other long-term subordinated liabilities. Both should meet certain specified criteria.

### Deductions from Tier 1 and Total Capital

Regulators apply deductions and prudential filters to core Tier 1 capital. The elements which are fully deducted or filtered out from core Tier 1 capital are:

- ▶ Goodwill and certain other intangible assets;
- ▶ Expected but not yet declared dividends;
- ▶ Loans to RFS Holdings B.V. to capitalise cohabitation entities;
- ▶ Capitalised future income from securitised assets serving as a credit enhancement for securitisation positions;
- ▶ Unrealised gains and losses on interest-earning securities classified as Available-for-sale;
- ▶ Unrealised losses on equities classified as Available-for-sale;
- ▶ Unrealised gains are included in Tier 2 capital;
- ▶ Unrealised gains and losses on cash flow hedge reserve.

The following items are deducted for 50% from core Tier 1 capital and 50% from Tier 2 capital:

- ▶ Participating interests of more than 10% in not fully consolidated credit or other financial institutions;
- ▶ Internal Rating Base (IRB) provision shortfall (i.e. provision shortage compared to IRB measurement of expected loss according to the IRB Approach;
- ▶ Securitisation positions not included in RWA, except for capitalised future income.

The following table provides actual capital levels as determined for supervisory purposes.

| (in millions)                                 | 31 December 2011 | 31 December 2010 |
|-----------------------------------------------|------------------|------------------|
|                                               | Basel II         | Basel II         |
| Core Tier 1 capital                           | 12,605           | 12,084           |
| Other Tier 1 capital                          | 2,744            | 2,750            |
| <b>Tier 1 capital</b>                         | <b>15,349</b>    | <b>14,834</b>    |
| Tier 2 capital                                | 4,508            | 4,502            |
| <b>Total capital</b>                          | <b>19,857</b>    | <b>19,336</b>    |
| Credit risk <sup>1</sup>                      | 101,609          | 99,577           |
| Operational risk                              | 13,010           | 14,461           |
| Market risks                                  | 3,667            | 2,290            |
| <b>Total risk weighted assets<sup>2</sup></b> | <b>118,286</b>   | <b>116,328</b>   |
| Tier 1 ratio                                  | 13.0%            | 12.8%            |
| Total capital ratio                           | 16.8%            | 16.6%            |

<sup>1</sup> Insurance risk RWA is included in Credit risk RWA for an amount of EUR 246 million.

<sup>2</sup> The transitional arrangements for solvency requirements under Basel II require that ABN AMRO needs to adhere to a Basel I floor for Own Funds. The Basel I Own Funds floor is calculated by multiplying the Basel I RWA of EUR 168 billion by 8% times 80% resulting in a minimum required amount of Own Funds of EUR 10.8 billion per 31 December 2011, which results in a total capital ratio of 14.8% (2010: 15.4%) which has been reported to the Dutch central bank. ABN AMRO comfortably meets this requirement.

## 43 Related parties

Until 29 September 2011 the ordinary shares in ABN AMRO were held by the Dutch State. On this date the Dutch State transferred its share capital in both ABN AMRO Group and ABN AMRO Preferred Investments B.V. to NLF. NLF 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. NLF 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. NLF 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. Consequently the relationship with the Dutch State changed from control to significant influence during 2011.

Parties related to ABN AMRO include NLF 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 6.3 million (2010: EUR 6.7 million). The outstanding loans and advances to members of the Managing Board and the Supervisory Board mainly consist of residential mortgages. These residential mortgages are granted under standard personnel conditions. Other loans and advances have client conditions (see also section 2 Supervisory Board review and note 44 of 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 2011, 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 2011 |            |       |       | 31 December 2010 |            |       |       |
|------------------------|------------------|------------|-------|-------|------------------|------------|-------|-------|
|                        | Joint ventures   | Associates | Other | Total | Joint ventures   | Associates | Other | Total |
| Assets                 | 10               | 118        | 715   | 843   |                  | 213        | 501   | 714   |
| Liabilities            | 53               | 351        |       | 404   | 46               | 96         | 4     | 146   |
| Irrevocable facilities |                  | 18         |       | 18    |                  | 15         |       | 15    |
| Income received        | 31               | 68         | 23    | 122   | 33               | 3          |       | 36    |
| Expenses paid          |                  | 3          | 239   | 242   |                  |            | 136   | 136   |

The column Other includes mainly pension funds related amounts.

## Balances with the Dutch State

| (in millions)                              | 31 December 2011 | 31 December 2010 |
|--------------------------------------------|------------------|------------------|
| <i>Assets:</i>                             |                  |                  |
| Financial assets held for trading          | 776              | 757              |
| Financial investments – available-for-sale | 4,538            | 2,287            |
| Loans and receivables – customers          | 970              | 62               |
| <i>Liabilities:</i>                        |                  |                  |
| Due to customers <sup>1</sup>              | 2,100            | 2,925            |
| Subordinated loans <sup>1</sup>            | 1,650            | 1,650            |
| <i>Income statement:</i>                   |                  |                  |
| Interest income                            | 91               | 85               |
| Interest expense                           | 212              | 339              |
| Net trading income                         |                  | -13              |
| Net fee and commission income              |                  | -138             |

<sup>1</sup> The Dutch State acquired these liabilities from ageas on 3 October 2008.

The change in Net fee and commission income is due to the termination in October 2010 of a EUR 34.5 billion risk mitigant, through a guarantee from the Dutch State, which ABN AMRO used to reduce the credit risk on part of the Dutch residential mortgage portfolio.

In addition to the items above, ABN AMRO has Medium Term Notes of EUR 4.8 billion (2010: EUR 9.0 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 continues to legally own certain Consortium shared assets and liabilities. This means that these assets and 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 relating to certain of those assets and liabilities. ABN AMRO has assessed the risk for such a shortfall and considers the risk to be remote.

As stated in note 38, 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 25 Tax assets and tax liabilities that mainly consist of transactions and balances with the Dutch tax authorities.

## 44 Remuneration of Managing Board and Supervisory Board

### Remuneration Managing Board

ABN AMRO's remuneration policy was 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 statement below summarises the income components for the individual Managing Board Members for the year 2011.

| (In thousands)                        | Base salary <sup>1</sup> | Variable remuneration <sup>2</sup> | Other payments | Pension costs <sup>3</sup> | Severance payments | Total        |
|---------------------------------------|--------------------------|------------------------------------|----------------|----------------------------|--------------------|--------------|
| <b>2011 (1 January - 31 December)</b> |                          |                                    |                |                            |                    |              |
| G. Zalm                               | 750                      |                                    |                | 222                        |                    | 972          |
| J.C.M. van Rutte                      | 600                      |                                    |                | 77                         |                    | 677          |
| J. van Hall                           | 600                      |                                    |                | 83                         |                    | 683          |
| C.E. Princen                          | 600                      |                                    |                | 124                        |                    | 724          |
| W. Reehoorn                           | 600                      |                                    |                | 84                         |                    | 684          |
| C.F.H.H. Vogelzang                    | 600                      |                                    |                | 86                         |                    | 686          |
| J.G. Wijn                             | 600                      |                                    |                | 123                        |                    | 723          |
| <b>Total</b>                          | <b>4,350</b>             |                                    |                | <b>799</b>                 |                    | <b>5,149</b> |
| <b>2010 (1 April - 31 December)</b>   |                          |                                    |                |                            |                    |              |
| G. Zalm                               | 563                      |                                    |                | 165                        |                    | 728          |
| J.C.M. van Rutte                      | 450                      |                                    |                | 57                         |                    | 507          |
| J. van Hall                           | 450                      |                                    |                | 60                         |                    | 510          |
| C.E. Princen                          | 450                      |                                    |                | 96                         |                    | 546          |
| W. Reehoorn <sup>4</sup>              | 450                      |                                    | 19             | 61                         |                    | 530          |
| C.F.H.H. Vogelzang                    | 450                      |                                    |                | 62                         |                    | 512          |
| J.G. Wijn                             | 450                      |                                    |                | 95                         |                    | 545          |
| <b>Total</b>                          | <b>3,263</b>             |                                    | <b>19</b>      | <b>596</b>                 |                    | <b>3,878</b> |

<sup>1</sup> For (annual) remuneration of the managing Board see section 2 of the Annual Report (Supervisory Board review). 2010 Salary amounts as of the appointment date 1 April 2010.

<sup>2</sup> For 2011 the Managing Board was not eligible for variable remuneration.

<sup>3</sup> Pension costs exclusively comprise pension service cost for the year computed on the basis of IAS 19.

<sup>4</sup> Mr Reehoorn received a long-term incentive plan entitlement in 2008, which was partly accrued in 2010 and fully payable at the end of the 3-year plan period in December 2010. The amount accrued in 2010 was pro-rated to reflect the appointment date.

### Loans from ABN AMRO to Managing Board members

The following table summarises outstanding loans of the members of the Managing Board at 31 December 2011.

| (In thousands)     | 2011                       |               | 2010                       |               |
|--------------------|----------------------------|---------------|----------------------------|---------------|
|                    | Outstanding<br>31 December | Interest rate | Outstanding<br>31 December | Interest rate |
| J.C.M. van Rutte   | 503                        | 3.0%          | 503                        | 3.0%          |
| J. van Hall        | 284                        | 5.3%          | 284                        | 5.3%          |
| C.E. Princen       | 960                        | 3.9%          |                            |               |
| W. Reehoorn        | 1,588                      | 3.8%          | 1,588                      | 3.0%          |
| C.F.H.H. Vogelzang | 1,459                      | 2.7%          | 1,469                      | 2.6%          |
| J.G. Wijn          | 1,268                      | 2.8%          | 1,268                      | 2.8%          |

### Remuneration of the Supervisory Board

The statement below summarises the income components for the individual Supervisory Board members. The levels of remuneration depend on the membership in the different committees and tasks assigned to those committees (see page 13 Supervisory Board Committees).

### Remuneration of the Supervisory Board of ABN AMRO for 2011

| (In thousands)                        | 2011 (1 January - 31 December) | 2010 (1 April - 31 December) |
|---------------------------------------|--------------------------------|------------------------------|
| J.H.M. Lindenberg <sup>1</sup>        | 100                            | 75                           |
| H.P. de Haan <sup>1</sup>             | 78                             | 60                           |
| S. ten Have <sup>1</sup>              | 60                             | 45                           |
| A. Meerstadt                          | 63                             | 47                           |
| M.J. Oudeman                          | 60                             | 45                           |
| J.M. Roobeek                          | 63                             | 47                           |
| D.J.G.M. van Slingelandt <sup>2</sup> | 88                             | 13                           |
| P.N. Wakkie                           | 75                             | 56                           |
| <b>Total</b>                          | <b>587</b>                     | <b>388</b>                   |

<sup>1</sup> Remuneration is excluding VAT.

<sup>2</sup> The appointment date of D.J.G.M. van Slingelandt is 2 November 2010.

### Loans from ABN AMRO to Supervisory Board members

The following table summarises outstanding loans of the members of the Supervisory Board at 31 December 2011.

| (In thousands)            | 2011                       |               | 2010                       |               |
|---------------------------|----------------------------|---------------|----------------------------|---------------|
|                           | Outstanding<br>31 December | Interest rate | Outstanding<br>31 December | Interest rate |
| A. Meerstadt <sup>1</sup> |                            |               | 1,314                      | 4.6%          |
| P.N. Wakkie <sup>1</sup>  | 284                        | 5.3%          | 284                        | 5.3%          |

<sup>1</sup> These outstanding loans are contracted prior to the appointment to the Supervisory Board.

## 45 Employee share option and share purchase plans

No employee share option plans are in place for the years 2011 and 2010.



## 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 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)                                               | 2011        | 2010        |
|-------------------------------------------------------------|-------------|-------------|
| <i>Income:</i>                                              |             |             |
| Share in result from participating interests after taxation | 665         | -668        |
| Other results after taxation                                |             |             |
| <b>Profit/(loss) for the year</b>                           | <b>665</b>  | <b>-668</b> |
|                                                             |             |             |
| Other comprehensive income                                  | -1,139      | 268         |
| <b>Total comprehensive income/expense for the period</b>    | <b>-474</b> | <b>-400</b> |

## Statement of financial position ABN AMRO Group N.V.

(before appropriation of profit)

| (in millions)                                                  | 31 December 2011 | 31 December 2010 |
|----------------------------------------------------------------|------------------|------------------|
| <b>Assets</b>                                                  |                  |                  |
| Participating interest in Group companies                      | 11,425           | 12,099           |
| <b>Total assets</b>                                            | <b>11,425</b>    | <b>12,099</b>    |
|                                                                |                  |                  |
| Due to Group companies                                         | 25               |                  |
| <b>Total liabilities</b>                                       | <b>25</b>        |                  |
|                                                                |                  |                  |
| <b>Equity</b>                                                  |                  |                  |
| Share capital                                                  | 1,015            | 1,015            |
| Share premium                                                  | 11,505           | 11,505           |
| Other reserves (incl. retained earnings/profit for the period) | -228             | -668             |
| Reserve participation                                          | -892             | 247              |
| <b>Total equity</b>                                            | <b>11,400</b>    | <b>12,099</b>    |
|                                                                |                  |                  |
| <b>Total liabilities and equity</b>                            | <b>11,425</b>    | <b>12,099</b>    |

## Statement of changes in equity ABN AMRO Group N.V.

| (in millions)                          | Share capital  | Share premium<br>reserve | Other reserves<br>including<br>retained earnings | Reserve<br>participation | Total         |
|----------------------------------------|----------------|--------------------------|--------------------------------------------------|--------------------------|---------------|
| <b>Balance at 31 December 2009</b>     | 0 <sup>1</sup> |                          |                                                  |                          |               |
| Acquisition of the two merged entities | 940            | 10,880                   |                                                  |                          | 11,820        |
| Total comprehensive income             |                |                          | -668                                             | 268                      | -400          |
| Increase of capital                    | 75             | 625                      |                                                  |                          | 700           |
| Other changes in equity                |                |                          |                                                  | -21                      | -21           |
| <b>Balance at 31 December 2010</b>     | <b>1,015</b>   | <b>11,505</b>            | <b>-668</b>                                      | <b>247</b>               | <b>12,099</b> |
|                                        |                |                          |                                                  |                          |               |
| Total comprehensive income             |                |                          | 665                                              | -1,139                   | -474          |
| Dividend                               |                |                          | -225                                             |                          | -225          |
| <b>Balance at 31 December 2011</b>     | <b>1,015</b>   | <b>11,505</b>            | <b>-228</b>                                      | <b>-892</b>              | <b>11,400</b> |

<sup>1</sup> The share capital at 31 December 2009 amounted to EUR 0.1 million.

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 93 million (2010: EUR 56 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 31 December 2011 did not give ABN AMRO Group N.V. reason to form a revaluation 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 below.

|                                        | 2011          | 2010          |
|----------------------------------------|---------------|---------------|
| <b>Balance as at 1 January</b>         | <b>12,099</b> |               |
| Acquisition of the two merged entities |               | 11,820        |
| Increase of capital                    |               | 490           |
| Issuance of preference shares          |               | 210           |
| Result from participating interests    | 665           | -668          |
| Dividend upstream                      | -200          |               |
| Currency translation                   | -2            | 35            |
| Available for sale                     | -438          | 126           |
| Cash flow hedge                        | -715          | 107           |
| Other                                  | 16            |               |
| Other comprehensive income             | -1,139        | 268           |
| Other revaluation                      |               | -21           |
| <b>Balance as at 31 December</b>       | <b>11,425</b> | <b>12,099</b> |

### Issued capital and reserves

#### Issued capital

As at 31 December 2011, the authorised share capital of ABN AMRO Group N.V. amounted to EUR 4,000 million distributed over 3,750,000,000 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 2011, issued and paid up capital by ABN AMRO Group N.V. amounted to EUR 940 million in class A ordinary shares and EUR 75 million in class A non-cumulative preference shares distributed over 940,000,000 class A ordinary shares and 75,000,000 non-cumulative preference shares (5.85%).

In September 2011 an interim dividend of EUR 200 million was paid for the ordinary shareholders. The non-cumulative class A preference shareholders received a dividend related to 2010 and 2009 of EUR 25 million out of the dedicated preference share dividend reserve.

**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 regarding the list of the major subsidiaries and associated companies of ABN AMRO Group N.V. for which a general guarantee has been issued).

## Other information

### Major subsidiaries and participating interests

|                                                            |        |                                           |
|------------------------------------------------------------|--------|-------------------------------------------|
| ABN AMRO Bank N.V. *                                       |        | Amsterdam, The Netherlands                |
| ABN AMRO Arbo Services B.V. *                              |        | Amsterdam, The Netherlands                |
| ABN AMRO Bank (Luxembourg) S.A.                            |        | Luxembourg, Luxembourg                    |
| ABN AMRO Capital Finance Limited                           |        | St. Helier, Jersey, Channel Islands       |
| ABN AMRO Clearing Bank N.V. *                              |        | 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 Commercial Finance N.V. *                         |        | 's Hertogenbosch, The Netherlands         |
| ABN AMRO Commercial Finance Holding B.V. *                 |        | 's Hertogenbosch, The Netherlands         |
| ABN AMRO Effecten Compagnie B.V. *                         |        | Amsterdam, The Netherlands                |
| ABN AMRO Funding USA LLC                                   |        | New York, USA                             |
| ABN AMRO Groenbank B.V. *                                  |        | Amsterdam, The Netherlands                |
| ABN AMRO Holding International AG.                         |        | Zug, Switzerland                          |
| ABN AMRO Holdings USA LLC.                                 |        | New York, USA                             |
| ABN AMRO Hypotheken Group B.V. *                           |        | Amersfoort, The Netherlands               |
| ABN AMRO Investment Holding B.V. *                         |        | Amsterdam, The Netherlands                |
| ABN AMRO Jonge Bedrijven Fonds B.V. *                      |        | Amsterdam, The Netherlands                |
| ABN AMRO Lease N.V. *                                      |        | 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. *                       |        | Amsterdam, The Netherlands                |
| ABN AMRO Participaties NPE Fund B.V. *                     |        | Amsterdam, The Netherlands                |
| ABN AMRO Securities (USA) LLC.                             |        | New York, USA                             |
| ABN AMRO Clearing Shoken Kabushiki Kaisha                  |        | Tokyo, Japan                              |
| ABN AMRO (Guernsey) Limited                                |        | St. Peter Port, Guernsey, Channel Islands |
| Alcover AG                                                 | 34%    | Zug, Switzerland                          |
| ALFAM Holding N.V. *                                       |        | Bunnik, The Netherlands                   |
| Alma Maritime Ltd.                                         | 38%    | Majuro, Marshall Islands                  |
| Australian Multilateral Clearing Facility Pty Ltd.         |        | Sydney, Australia                         |
| Banque Neufilze OBC S.A.                                   | 99.86% | Paris, France                             |
| Car Carriers Management B.V.                               | 50%    | Breskens, The Netherlands                 |
| CM Bulk Ltd.                                               | 50%    | Nassau, Bahamas                           |
| Currence Holding B.V.                                      | 35.54% | Amsterdam, The Netherlands                |
| Bethmann Bank AG                                           |        | Frankfurt am Main, Germany                |
| Delta Lloyd ABN AMRO Verzekeringen Holding B.V.            | 49%    | Zwolle, The Netherlands                   |
| Direktbank N.V. *                                          |        | Amersfoort, The Netherlands               |
| European Multilateral Clearing Facility N.V. *             | 78%    | Amsterdam, The Netherlands                |
| Equens S.E.                                                | 18%    | Utrecht, The Netherlands                  |
| Geldservice Nederland B.V.                                 | 33%    | Weesp, The Netherlands                    |
| Holland Venture B.V.                                       | 45.25% | Amsterdam, The Netherlands                |
| International Card Services B.V. *                         |        | Diemen, The Netherlands                   |
| Maas Capital Investments B.V. *                            |        | Rotterdam, The Netherlands                |
| MeesPierson (Curaçao) N.V.                                 |        | Willemstad, Curaçao                       |
| MeesPierson (N.A.) N.V.                                    |        | Willemstad, Curaçao                       |
| MoneyYou B.V. *                                            |        | Amsterdam, The Netherlands                |
| NeSBIC Groep B.V.                                          |        | Amsterdam, The Netherlands                |
| Neufilze Vie S.A.                                          | 60%    | Paris, France                             |
| Safe Ship Investment Company S.C.A. SICAR                  | 49%    | Luxembourg, Luxembourg                    |
| Solveon Incasso B.V.                                       |        | Amersfoort, The Netherlands               |
| Stater N.V. *                                              |        | Amersfoort, The Netherlands               |
| Triodos MeesPierson Sustainable Investment Management B.V. | 50%    | Utrecht, The Netherlands                  |

## Branches

|                                                                              |                                    |
|------------------------------------------------------------------------------|------------------------------------|
| ABN AMRO Bank N.V. Branch Belgium                                            | Berchem, Belgium                   |
| ABN AMRO Bank N.V. Jersey Branch                                             | St Helier, Jersey, Channel Islands |
| ABN AMRO Bank N.V. Branch Hong Kong                                          | Hong Kong, China                   |
| ABN AMRO Bank N.V. Branch Oslo                                               | Oslo, Norway                       |
| ABN AMRO Bank N.V. Branch Singapore                                          | Singapore, Singapore               |
| ABN AMRO Bank N.V. Branch UAE/DIFC                                           | Dubai, United Arab Emirates        |
| ABN AMRO Bank N.V. UK Branch                                                 | London, United Kingdom             |
| ABN AMRO Bank N.V. Frankfurt Branch                                          | Frankfurt am Main, Germany         |
| ABN AMRO Bank N.V. (Money Lending Business)                                  | Tokyo, Japan                       |
| ABN AMRO Bank N.V. Representative Office<br>(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 New York                            | New York, USA                      |
| ABN AMRO Bank N.V. Representative Office Greece                              | Piraeus, Greece                    |
| ABN AMRO Escritório de Representação LTDA                                    | Sao Paulo, Brasil                  |
| ABN AMRO Clearing Bank N.V. Branch Belgium                                   | Brussels, Belgium                  |
| ABN AMRO Clearing Bank N.V. Frankfurt Branch                                 | Frankfurt am Main, Germany         |
| ABN AMRO Clearing Bank N.V. London 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. Niederlassung Deutschland                   | Düsseldorf, Germany                |

\* 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 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 is at the disposal of the General Meeting of Shareholders.

In 2011, the General Meeting of Shareholders has adopted a dividend policy that targets a dividend payout of 40% of the reported annual profit.

**Profit appropriation**

For 2011, in accordance with article 38.4(a) and 38.7 of the Articles of Association, the Managing Board decides, with the approval of the Supervisory Board, to pay a dividend of EUR 13 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 50 million for the ordinary shares. An amount of EUR 200 million was paid on the ordinary shares as interim dividend.

**Post balance sheet events**

There have been no significant events between the year end and the date of approval of these accounts which would require a change to or disclosure in the accounts.

## Independent auditor's report

To the Shareholders of ABN AMRO Group N.V.

### Report on the annual financial statements

We have audited the accompanying annual financial statements 2011 of ABN AMRO Group N.V., Amsterdam. The annual 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 2011, the consolidated income statement, consolidated statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2011, 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 the annual 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 annual 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 annual 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 annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual 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 2011 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 2011 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 if 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 annual financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 8 March 2012

**KPMG ACCOUNTANTS N.V.**

**D. Korf RA**

other

# composition 16 of the Supervisory Board



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

Hessel Lindenberg (68, M)  
Rik van Slingelandt (65, M)  
Hans de Haan (67, M)  
Steven ten Have (44, M)  
Bert Meerstadt (50, M)  
Marjan Oudeman (53, F)  
Annemieke Roobeek (53, F)  
Peter Wakkie (63, M)

## Principal Responsibilities

Chairman  
Vice-Chairman  
Member  
Member  
Member  
Member  
Member  
Member

Age and gender between brackets. All members of the Supervisory Board are Dutch.

**Hessel Lindenberg (1943)<sup>1,2,3</sup>**

- ▶ Chairman
- ▶ M, Dutch, 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 Board, Centraal Fonds Volkshuisvesting
- ▶ Member of Supervisory Board, Gamma Holding N.V.
- ▶ Member of Supervisory Board, Zeeman Groep B.V.
- ▶ Member of Supervisory Board, DHV Holding N.V.
- ▶ Member of Supervisory Board, Doctors Pension Funds Services B.V.
- ▶ Member of Board of Trustees, University of Amsterdam
- ▶ Member of Board, Stichting Continuïteit PostNL, Stichting Vopak, Stichting Preferente Aandelen Wolters Kluwer, Stichting Administratiekantoor van Aandelen Telegraaf Media Groep N.V.

**Rik van Slingelandt (1946)<sup>1,2,3</sup>**

- ▶ Vice-Chairman
- ▶ M, Dutch, 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.
- ▶ Advisor, Redevco B.V.
- ▶ Member of Board, Stichting Neijenburg
- ▶ Chairman, Save the Children Fund Netherlands

**Hans de Haan (1944)<sup>1,3</sup>**

- ▶ M, Dutch, appointed on 18 December 2009
- ▶ Present term expires in 2015
- ▶ Last position held: Chartered accountant and partner with Ernst & Young Accountants

**Affiliations**

- ▶ Member of Board, Stichting Trustee Achmea Hypotheekbank
- ▶ Trustee in the bankruptcy of Van der Hoop Bankiers N.V.

<sup>1</sup> Audit Committee

<sup>2</sup> Remuneration, Selection & Nomination Committee

<sup>3</sup> Risk & Capital Committee

**Steven ten Have (1967)<sup>2</sup>**

- ▶ M, Dutch, 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 of Supervisory Board AFC Ajax N.V.
- ▶ Chairman, Postgraduate study Change Management, Vrije Universiteit, Amsterdam
- ▶ Member, Committee for Social Innovation, Ministry of Economic Affairs
- ▶ Member of Board, Stichting INK (Instituut Nederlandse Kwaliteit) (Institute for Netherlands Quality)
- ▶ Member, Editorial Committee (Redactieraad) Management & Consulting

**Bert Meerstadt (1961)<sup>1</sup>**

- ▶ M, Dutch, 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
- ▶ Chairman of Society for Prevention and Saving of Drowning Victims
- ▶ Chairman of Board Blinden-Penning Foundation for the Blind and Visually Impaired

**Marjan Oudeman (1958)<sup>2</sup>**

- ▶ F, Dutch, 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 Board of Directors of the Concertgebouw Foundation
- ▶ Governor of Nationaal Comité 4 en 5 mei (the National Committee 4 and 5 May Foundation)

<sup>1</sup> Audit Committee<sup>2</sup> Remuneration, Selection & Nomination Committee<sup>3</sup> Risk & Capital Committee

**Annemieke Roobeek (1958)<sup>3</sup>**

- ▶ F, Dutch, 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**

- ▶ Chairperson of Netherlands Center for Science and Technology (NCWT) and Science Center NEMO, Amsterdam
- ▶ Chairperson of INSID, Foundation for sustainability and innovation realisation directed by His Royal Highness Prince Carlos de Bourbon Parma
- ▶ Member of Supervisory Board, Draka Holding N.V. (until April 2010)
- ▶ Member of Supervisory Board, RAI Amsterdam Exhibition Centres
- ▶ Member of Supervisory Board, Abbott Healthcare Products B.V.
- ▶ Member of VROM-Council, responsible for a future outlook on urbanism and sustainability
- ▶ Chairperson of the governmental RLI Committee on the Transition towards Renewable Energy
- ▶ Member of Board, Foundation of the Medical Centre of Vrije Universiteit Amsterdam
- ▶ Member of the Supervisory Board of KLM N.V.
- ▶ Member of the Supervisory Board of DIGH (Stichting Dutch International Guarantees for Housing)

**Peter Wakkie (1948)<sup>2,3</sup>**

- ▶ M, Dutch, 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

<sup>1</sup> Audit Committee

<sup>2</sup> Remuneration, Selection & Nomination Committee

<sup>3</sup> Risk & Capital Committee



# composition 17 of the Managing Board



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

## Managing Board

Gerrit Zalm (59, M)  
Jan van Rutte (61, M)  
Johan van Hall (52, M)  
Caroline Princen (45, F)  
Wietze Reehoorn (49, M)  
Chris Vogelzang (49, M)  
Joop Wijn (42, M)

## Principal Responsibilities

Chairman  
Chief Financial Officer/Vice-Chairman  
Chief Operating Officer  
Integration, Communication & Compliance  
Chief Risk Officer and Strategy  
Retail & Private Banking  
Commercial & Merchant Banking

Age and gender between brackets. All members of the managing board are Dutch.

## Curriculum vitae of Managing Board members



**Gerrit Zalm** was appointed Chairman of the Managing Board of ABN AMRO Group and of ABN AMRO Bank on 1 April 2010. He studied General Economics at Vrije Universiteit Amsterdam, graduating in 1975 and complemented it with an Honorary Doctorate in Economics at Vrije Universiteit Amsterdam, graduating in 2008. He began working for the Ministry of Finance as an employee of the Economic Affairs section of the Budget Preparation Division in 1975. He was appointed Head of that section in 1977, and in 1978 he became Head of the Division. In 1981, he was appointed Deputy Director for Budgetary Affairs and Head of the Budget Preparation Division. Two years later, he was appointed Deputy Director for General Economic Policy at the Ministry for Economic Affairs, and in 1985 he became Director. From 1988, Gerrit Zalm was employed at the Central Planning Bureau, first as Deputy and later as Head. In 1990, he also became a professor at Vrije Universiteit Amsterdam. He was Minister of Finance during the first and second terms of the cabinet of Dutch Prime Minister Wim Kok from 1994 until 2002. During 2002 and 2003, he was a Member of the Dutch Parliament and Chairman of VVD, his party's parliamentary representation. From 2003 until 2007, he was Minister of Finance and Deputy Prime Minister in the second and third terms of the cabinet of Prime Minister Balkenende. After leaving the Dutch government in 2007, he was Chief Economist at DSB Bank until December 2007, after which he served as Chief Financial Officer until January 2009. On 23 December 2008 he was appointed Vice-Chairman of the Managing Board and on 28 February 2009 Chairman of the Managing Board of the former ABN AMRO Bank. Subsequently he became Chairman of the ABN AMRO and Fortis Bank Nederland Transition Team that was responsible for the integration of ABN AMRO and Fortis Bank Nederland until 1 April 2010.

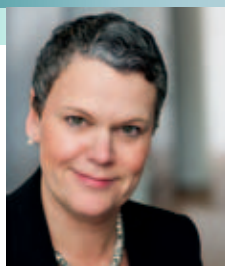


**Jan van Rutte** was appointed to the Managing Board of ABN AMRO Group on 18 December 2009 and was appointed to the Managing Board of ABN AMRO Bank on 1 April 2010. He is the Chief Financial Officer and Vice-Chairman of the Managing Board. He holds a Master of Business Administration in Economics (1978) from Erasmus University Rotterdam. Jan van Rutte began his career as a controller in the financial control department of Algemene Bank Nederland. He joined Pierson, Heldring & Pierson (later MeesPierson) in 1981, where he held various positions in Finance & Control. In 1999 he was appointed General Director of Finance for Fortis Bank NV/SA in Brussels and of Fortis Bank Nederland NV in the Netherlands. In 2001, he became a member of the Managing Board of Fortis Bank (Nederland) N.V. as well as Chief Financial Officer of Fortis Merchant Banking. In 2006, he was appointed Chairman of the Managing Board of Fortis Bank (Nederland) N.V. In 2009, he became Vice-Chairman of the ABN AMRO and Fortis Bank Nederland Transition Team that was responsible for the integration of ABN AMRO and Fortis Bank Nederland, with a focus on the Finance function, until 1 April 2010.





**Johan van Hall** was appointed to the Managing Board of ABN AMRO Group on 18 December 2009 and was appointed to the Managing Board of ABN AMRO Bank on 1 April 2010. He is the Chief Operating Officer responsible for Technology, Operations & Property Services (TOPS). He completed his Chartered Accountancy studies (NIVRA) in 1987 and earned a post Master's degree in IT Audit from Vrije Universiteit Amsterdam in 1989. He joined ABN AMRO in 1982, where he began his career in Audit. He was previously Global Head of IT Audit. As of 1999, he took responsibility for the development of the Multi Channel Platform, focusing on the development and integration of new distribution channels (including internet and mobile). In early 2004, Johan van Hall became member of the Management Team of Business Unit Netherlands, responsible for Business Solutions & Services. In October 2007, Johan van Hall became responsible for the separation of the Dutch State-acquired businesses in addition to his role of Chief Operating Officer of the Dutch State-acquired businesses. On 28 February 2009 he was appointed to the Managing Board of the former ABN AMRO Bank. In addition to his Managing Board appointment he joined the ABN AMRO and Fortis Bank Nederland Transition Team, responsible for the integration of ABN AMRO and Fortis Bank Nederland, with a focus on IT, Operations, Property and Procurement, until 1 April 2010.



**Caroline Princen** was appointed to the Managing Board of ABN AMRO Group and of ABN AMRO Bank on 1 April 2010 and is responsible for ICC (Integration, Communication & Compliance), HR, Legal, and Sustainability. She holds a Master's degree in Organisational Psychology (1992) from the University of Utrecht. Caroline Princen started her career in 1992 as an advisor with YDL Management Consultants. She was made Partner in 1996 and was appointed Managing Partner in 2001. She worked as a management consultant in the field of turn-around and change management for various national and international companies such as ABN AMRO, KLM, Douwe Egberts, KPN and Swiss Cargo. In 2005, she was appointed Chief Executive Officer of Nedstaal B.V. Caroline Princen was elected Top Woman of the Year 2008. In 2009, she joined the ABN AMRO and Fortis Bank Nederland Transition Team that was responsible for the integration of ABN AMRO and Fortis Bank Nederland until 1 April 2010, with a focus on Communications, Compliance, HR, Legal, and Sustainability.



**Wietze Reehoorn** was appointed to the Managing Board of ABN AMRO Group and ABN AMRO Bank on 1 April 2010, as Chief Risk Officer responsible for Risk Management & Strategy. He holds a Master's degree in Dutch Law (1986) from the University of Groningen. He joined ABN AMRO in 1989 as a trainee and held several senior management positions in Wholesale, Commercial & Corporate Banking and Risk Management in Business Unit Netherlands and Europe. In 2000, he was appointed as a Corporate Executive Vice-President, responsible for Financial Restructuring & Recovery (FR&R) and in 2001 he also became a member of the Management Team of ABN AMRO Netherlands responsible for Risk Management (including FR&R). In 2002, he became Head of Corporate Development of ABN AMRO Group N.V. responsible for Group M&A. He became a member of the Management Team of ABN AMRO Netherlands in 2004, responsible for Corporate Clients, and later became Head of Commercial and Corporate Banking. After the takeover of ABN AMRO by the Consortium in October 2007, Wietze Reehoorn was appointed CEO of Merchant Banking for the combined commercial and corporate banking businesses in the Netherlands. In 2009, he joined the ABN AMRO and Fortis Bank Nederland Transition Team responsible for the integration of ABN AMRO and Fortis Bank Nederland, with a focus on Risk Management & Strategy, until 1 April 2010.



**Chris Vogelzang** was appointed to the Managing Board of ABN AMRO Group and ABN AMRO Bank on 1 April 2010 and is responsible for Retail & Private Banking. He holds a Master's degree in Economics (1988) from the University of Groningen. Chris Vogelzang began his career in 1988 with Royal Dutch Shell Group. During his tenure there, he held senior management positions in sales, oil trading and marketing and had various international assignments in a number of countries in Africa and Europe. He joined ABN AMRO Bank in 2000 as a Corporate Executive Vice-President, responsible for Retail Marketing and later became Head of Business Development Netherlands. He was subsequently named Head of Consumer Banking Netherlands, responsible for all domestic sales, marketing and product development activities in the consumer market, and was a member of the Management Team of ABN AMRO Netherlands. In 2007, Chris Vogelzang was appointed Senior Executive Vice-President, responsible for Business Unit Private Clients. He also served as the Chief Executive Officer of Fortis Private Banking in 2008. On 28 February 2009 he was appointed to the Managing Board of the former ABN AMRO Bank responsible for BU Netherlands and BU Private Clients. In addition to his Managing Board appointment he joined the ABN AMRO and Fortis Bank Nederland Transition Team responsible for the integration of ABN AMRO and Fortis Bank Nederland, with a focus on Retail & Private Banking, until 1 April 2010.



**Joop Wijn** was appointed to the Managing Board of ABN AMRO Group and of ABN AMRO Bank on 1 April 2010 and is responsible for Commercial & Merchant Banking. He holds a Master's degree in Dutch Law (1994) and a Master's degree in Economics (1991), both from the University of Amsterdam. Joop Wijn joined ABN AMRO in 1994 as an Investment Manager for ABN AMRO Private Equity. In 1998, he entered politics as a Member of Parliament. In 2002, he was appointed State Secretary of Economic Affairs after which he became State Secretary of Finance. In 2006, he was appointed Cabinet Minister of Economic Affairs. From 2007 until 2009, Joop Wijn was Senior Executive Vice President at Rabobank, responsible for Small and Medium-sized Enterprises and Food & Agri clients in the Netherlands. In 2009, he joined the ABN AMRO and Fortis Bank Nederland Transition Team responsible for the integration of ABN AMRO and Fortis Bank Nederland, with a focus on Commercial & Merchant Banking, until 1 April 2010.

# works council 18

## A transitional year: from Transitional Central Works Council to Central Works Council

The Central Works Council was established in March 2011. Prior to that date, the Transitional Central Works Council represented the interests of all staff and ensured continuity of employee representation. The Central Works Council consists of 20 members: three representatives each from Retail & Private Banking, Commercial & Merchant Banking, TOPS and Functions (which all have their own works councils) plus one each from the eight largest subsidiaries (who are members of their own respective works councils). A small number of former Transitional Central Works Council members were re-elected and re-delegated from their Works Council.

## Issues and themes

The Central Works Council and the Managing Board view various initiatives from different perspectives: the Managing Board incorporates the interests of the Group as a whole, whereas the Central Works Council considers employees' interests in particular. Issues that were discussed regularly in 2011 included the company's strategy and vision, culture and leadership, the Culture Scan and Mood Monitor, mobility management, CRD III, the New World of Work and sustainability.

## Representative Board member

Caroline Princen was the representative Managing Board member in consultations with the Central Works Council in 2011. The dialogue was conducted in an open and constructive manner. The Chairman of the Managing Board, Gerrit Zalm, attended several consultative meetings, discussing issues such as the yearly and half-yearly results.

## 'Right to Speak' Covenant

In the year under review, the Central Works Council and the representative Board member concluded a covenant for ABN AMRO Group N.V. and ABN AMRO Bank N.V. regarding the so-called Personal Union (i.e. cross-membership of their Managing and Supervisory Boards) in order to make further arrangements pursuant to the Dutch Works Councils (Right to Speak) Act. Under this Act, the Central Works Council has the right, where appropriate, to be heard at the General Meeting of Shareholders regarding specific agenda items. In addition, ABN AMRO Group voluntarily applies the statutory two-tier board rules. As such, arrangements were made on procedures to be followed concerning the right of recommendation and the reinforced right of recommendation included in the Group's Articles of Association regarding the nomination of candidates for the Supervisory Board. The Central Works Council and the representative Board member also expressed the intention to build on their cooperation based on mutual trust.

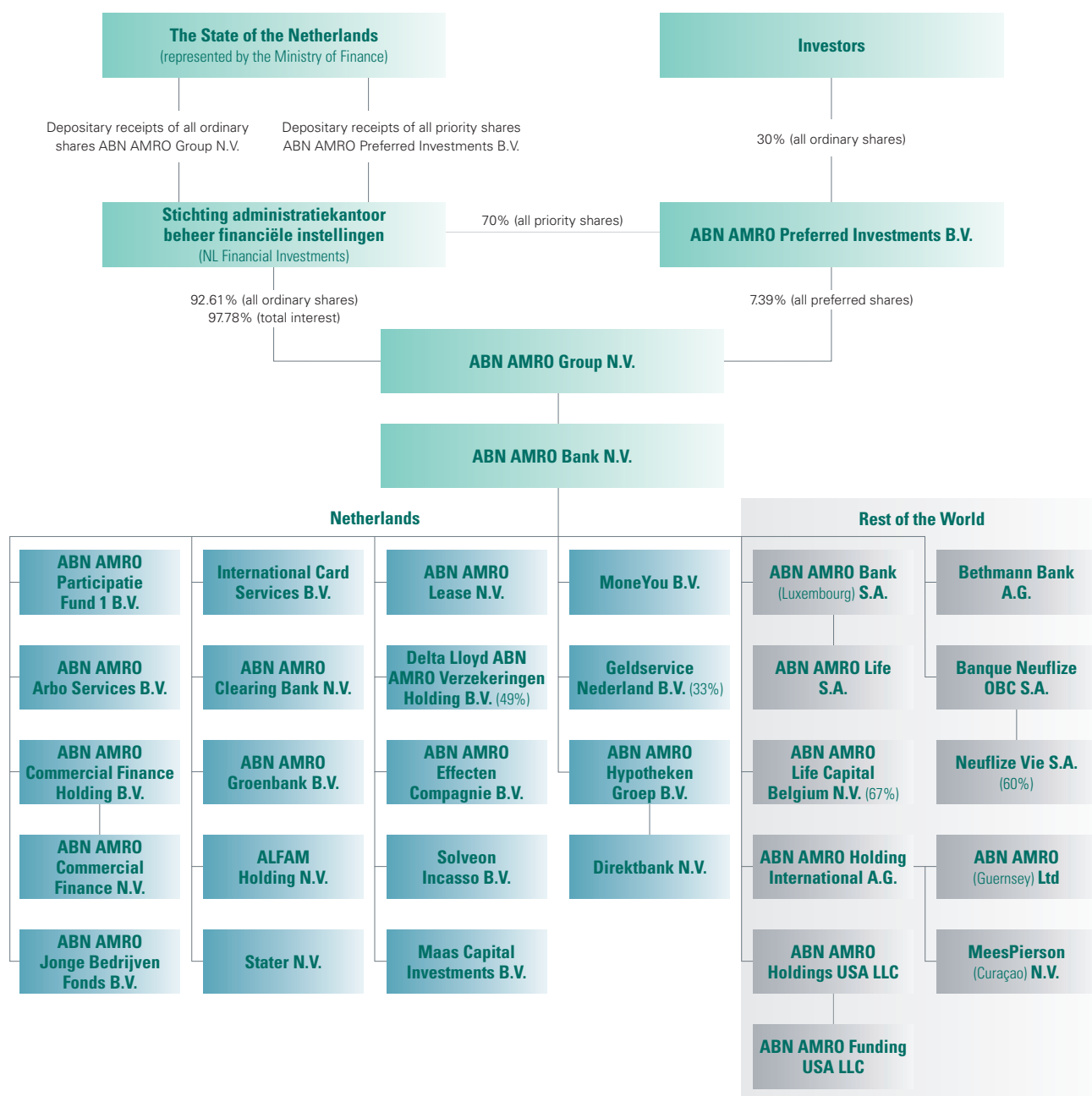
## Relationship between Central Works Council and Supervisory Board

Alongside regular consultations with the Supervisory Board members, the Central Works Council also has two meetings a year with a delegation from the Supervisory Board, including its Chairman, to discuss subjects of common interest. The Central Works Council experiences the relationship with the Supervisory Board as useful.

A tripartite consultative meeting of the Managing Board, the Supervisory Board and the Central Works Council was held in early June 2011. The topics discussed at the meeting included culture and leadership at the new bank and employee interests in general.

# legal structure and ownership 19

The figure below illustrates ABN AMRO's main subsidiaries and ownership



ABN AMRO's main operating companies are described below for each business segment. A more comprehensive overview of ABN AMRO's subsidiaries is provided in note 46 to 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 to consumers and commercial clients and residential mortgages and consumer lending in the Netherlands 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, promotes, manages and processes credit card transactions and offers other financial services, such as revolving credit facilities.

### ABN AMRO Verzekeringen

Delta Lloyd ABN AMRO Verzekeringen Holding B.V. (ABN AMRO Verzekeringen) is a joint venture with Delta Lloyd 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.

## Private Banking

### Banque Neuflyze OBC

Banque Neuflyze OBC S.A. (Banque Neuflyze OBC) is 99.9%-owned by ABN AMRO Bank N.V. It operates 11 branches in main French cities. Banque Neuflyze OBC provides an integrated approach to private and commercial wealth while also offering specialist services such as art advisory.

### 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. With 10 branches covering all major regions of Germany, Bethmann offers Private Banking and Private Wealth Management related services.

## Commercial Banking

### 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 corporates and the public sector. ABN AMRO Lease provides lease finance for their customers (vendor finance) to manufacturers of equipment. ABN AMRO Lease is active in the Netherlands, Belgium, Germany and the United Kingdom with dedicated sales teams operating in close cooperation with the C&MB clients segments, Commercial Banking International and ABN AMRO Commercial Finance.

### ABN AMRO Commercial Finance

ABN AMRO Commercial Finance B.V. (ACF) provides receivables financing and asset-based lending products. Its present client portfolio comprises a wide range of clients. ABN AMRO in the Netherlands (C&MB) is an important introducer of new business. ACF historically has built up a substantial market share in the local markets where it is active: 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 N.V. continues to attract funds.

**Merchant Banking****ABN AMRO Clearing**

ABN AMRO Clearing Bank N.V. (ABN AMRO Clearing) is a subsidiary of ABN AMRO. 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 12 locations across the globe and offers an integrated package 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) shareholder interest.

**Group Functions****ABN AMRO Funding USA LLC**

ABN AMRO Funding USA LLC (ABN AMRO Funding USA) is a successful entity on the US market for ABN AMRO's need for US dollars as funding for clients operating in the US and for clients with US dollar loans.

# definitions of important terms 20

## **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.>").

## **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 Management Approaches (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.

## **Allowance for loan losses**

Balance sheet provision held against the total of non-performing loans. The allowance is increased by the annual provisions and decreased by write-downs (net of recoveries) on non-performing loans.

## **Assets under Administration (AuA)**

All client assets managed by or deposited with a financial services firm for investment purposes, including wholesale client assets derived from custody, correspondent banking and/or working capital.

## **Assets under Management (AuM)**

Assets, including investment funds and assets of private individuals and institutions, which are professionally managed with the aim of realising an optimal investment result.

## **Basis point (bp)**

One hundredth of 1 percentage point.

## **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 late 2000's financial crisis. The Basel III standards include higher and better-quality capital, better risk coverage and the introduction of a maximum leverage ratio.



**Bank for International Settlements (BIS)**

Set up in 1930 with its head office in Basel. Its principal tasks are to promote cooperation between central banks and to assist in international payments. The BIS also issues recommendations to banks and regulatory authorities in the fields of risk management, capital adequacy and the provision of information on financial derivatives.

**BIS Ratio**

Solvency ratio for banks, stating the minimum capital requirements related to risk-weighted assets, as defined by the Bank for International Settlements (BIS).

**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.

**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.

**Core Tier 1 ratio**

The bank's core capital, excluding preference shares, expressed as a percentage of total risk-weighted assets.

**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.

**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.

**Customer Excellence**

ABN AMRO's new way of working, which is based on lean management principles.

**Derivatives**

Financial instruments whose value is derived from the price of one or several underlying assets (e.g. currencies, securities, indices).

**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.

**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.

**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.

**Managing for Value (MfV)**

Instrument ABN AMRO uses for maximising value. It allocates resources to where they earn the best long-term returns as measured by economic profit. Two relevant related terms are economic profit and economic value.

**Mergers & Acquisitions (M&A)**

Activities in the fields of mergers, acquisitions, privatisations, advisory services and organisation.

**Mortgage Servicing Right (MSR)**

Right to a stream of cash flows and an obligation to perform specified residential mortgage servicing activities, which may also be purchased from third parties. Mortgage servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of the borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to the investors. If servicing is retained at the time of loan sale, the MSRs are recognised as assets on the balance sheet.

**Net asset value per share**

Value of all the assets of a company less liabilities divided by the number of shares outstanding.

**Non-performing loans**

Loans for which there is objective evidence that not all contractually agreed amounts will be collected and for which an allowance for loan losses is established.

**Notional amounts**

The value of the principal of the underlying financial derivatives contracts.

**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.

**Preference share**

Share that receives a fixed rate of dividend prior to ordinary shares.

**Provision for loan losses**

Charge to income to cover possible loan losses on non-performing loans.

**RBS N.V.**

The Royal Bank of Scotland N.V., formerly known as ABN AMRO Bank N.V. prior to the Legal Demerger.

**Return on equity**

Net profit attributable to ordinary shareholders of the parent company divided by shareholders' equity.

**RARORAC**

A combination of two other measures: risk-adjusted return on capital (RAROC) and return on risk-adjusted capital (RORAC).

**Risk-weighted assets**

Total assets and off-balance sheet items calculated on the basis of the risks relating to the various balance sheet items.

**Scenario analysis**

Method used to measure and manage the interest rate risk. For example, net interest revenue can be estimated by using various assumptions about future interest rate movements.

**Securitisation**

Restructuring credits in the form of marketable securities.

**Standardised Approach**

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.

**Three lines of defence**

ABN AMRO's risk management approach.

**Tier 1 ratio**

Core capital of the bank expressed as a percentage of total risk-weighted assets.

**Treasury**

Department responsible for all money market and currency operations.

**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.

**Volatility**

Statistical measure for the degree to which items (market rates, interests) fluctuate over time.

**Whistleblowing policy**

ABN AMRO policy that provides all employees with channels and guidance for reporting suspected malpractice, such as fraud, insider trading or breach of client confidentiality.

# abbreviations 21

|      |                                                                                        |       |                                                         |
|------|----------------------------------------------------------------------------------------|-------|---------------------------------------------------------|
| AFM  | <i>Autoriteit Financiële Markten</i> (Netherlands Authority for the Financial Markets) | FTE   | Full-time equivalent (a measurement of number of staff) |
| AFS  | Available-for-sale                                                                     | FTP   | Funds Transfer Price                                    |
| ALCO | (ABN AMRO's) Asset & Liability Committee                                               | FX    | Foreign exchange                                        |
| ALM  | Asset & Liability Management                                                           | GAAP  | Generally Accepted Accounting Principles                |
| ATM  | Automated teller machine                                                               | GBP   | British pound                                           |
| BCM  | (ABN AMRO's) Business Continuity Management                                            | GRC   | (ABN AMRO's) Group Risk Committee                       |
| bp   | Basis point                                                                            | HR    | Human Resources                                         |
| CAO  | (Dutch) collective labour agreement                                                    | IBNI  | Incurred but not identified                             |
| CCC  | (ABN AMRO's) Central Credit Committee                                                  | ICAAP | Internal Capital Adequacy Assessment Process            |
| CD   | Certificate of deposit                                                                 | ICB   | Industry Classification Benchmark                       |
| CDS  | Credit default swap                                                                    | ICC   | (ABN AMRO's) Integration, Communication & Compliance    |
| CFO  | Chief Financial Officer                                                                | ID&JG | (ABN AMRO's) International Diamond & Jewelry Group      |
| CFP  | Contingency Funding Plan                                                               | IFRS  | International Financial Reporting Standards             |
| CHF  | Swiss Franc                                                                            | ILAAP | Internal Liquidity Adequacy Assessment Process          |
| C&MB | Commercial & Merchant Banking                                                          | IMM   | Internal Models Method                                  |
| CP   | Commercial paper                                                                       | IRB   | Internal Rating Based (approach)                        |
| CRD  | (the EU's) Capital Requirements Directive                                              | IT    | Information Technology                                  |
| CRO  | Chief Risk Officer                                                                     | LC&MB | (ABN AMRO's) Large Corporates & Merchant Banking        |
| CVA  | Credit Value Adjustment                                                                | LCR   | Liquidity Coverage Ratio                                |
| CWC  | (Dutch) Central Works Council                                                          | LGD   | Loss Given Default                                      |
| DNB  | De Nederlandsche Bank N.V. (Dutch central bank)                                        | LIP   | Loss identification period                              |
| DSTA | Dutch State Treasury Agency                                                            | LtD   | Loan-to-Deposit (ratio)                                 |
| EAD  | Exposure at Default                                                                    | LT2   | Lower Tier 2                                            |
| EBA  | European Banking Authority                                                             | M&A   | Mergers & Acquisitions                                  |
| EC   | European Commission                                                                    | MiFID | (the EU's) Markets in Financial Instruments Directive   |
| ECB  | European Central Bank                                                                  | MTN   | Medium-term notes                                       |
| ECT  | Energy, Commodities & Transportation                                                   |       |                                                         |
| EU   | European Union                                                                         |       |                                                         |
| EUR  | Euro                                                                                   |       |                                                         |
| FBN  | Fortis Bank Nederland                                                                  |       |                                                         |

|         |                                                                                                   |
|---------|---------------------------------------------------------------------------------------------------|
| NHG     | Nationale Hypotheek Garantie (Dutch State guaranteed mortgages)                                   |
| NII     | Net Interest Income                                                                               |
| NLFI    | NL Financial Investments (foundation)                                                             |
| NSFR    | Net Stable Funding Ratio                                                                          |
| OOE     | One Obligor Exposure                                                                              |
| PD      | Probability of Default                                                                            |
| RARORAC | Risk-Adjusted Return On Risk-Adjusted Capital                                                     |
| RBS     | The Royal Bank of Scotland plc                                                                    |
| RMBS    | Residential Mortgage Backed Securitisation                                                        |
| RM&S    | (ABN AMRO's) Risk Management & Strategy                                                           |
| ROE     | Return on Equity                                                                                  |
| RoRWA   | Return on Risk-Weighted Assets                                                                    |
| R&PB    | Retail & Private Banking                                                                          |
| RWA     | Risk-weighted assets                                                                              |
| SA      | Standardised Approach                                                                             |
| SCE     | Special component of equity                                                                       |
| SF/NLA  | Stable Funding over Non-Liquid Assets (ratio)                                                     |
| SMEs    | Small to medium-sized enterprises                                                                 |
| SREP    | Supervisory Review and Evaluation Process                                                         |
| TIGA    | <i>Technische Integratie Geld Administratie</i><br>(technical integration of cash administration) |
| TMC     | (ABN AMRO's) Transition Management Committee                                                      |
| TOPS    | (ABN AMRO's) Technology, Operations & Property Services                                           |
| UCR     | Uniform Counterparty Rating                                                                       |
| UCITS   | Undertakings for Collective Investment in Transferable Securities (directives)                    |
| USD     | US dollar                                                                                         |
| UT2     | Upper Tier 2                                                                                      |
| VaR     | Value-at-Risk                                                                                     |
| YBB     | (ABN AMRO's) YourBusiness Banking<br>(service model)                                              |
| YE      | Year-end                                                                                          |

# other relevant information 22

## European Commission investigation

On 5 April 2011, the European Commission (EC) announced the outcome of the state aid investigation against ABN AMRO, approving the support package and restructuring plan subject to certain conditions, including:

- ▶ A ban on acquisitions above a certain amount (not applicable to certain activities such as private equity);
- ▶ A continuation of the price leadership restrictions similar to the ones implemented in 2010;
- ▶ A ban on advertising state ownership;
- ▶ An EUR 18 million interest payment based on a recalculation (already made in 2010).

The EC also confirmed that Hybrid Tier 1 and Tier 2 instruments continued to be subject to restrictions on the calling of instruments and to a ban on coupon payments unless there was a legal obligation to make such payments. This ban remains in force up to 10 March 2013. The EC decision does not prevent ABN AMRO from making dividend payment on its ordinary shares provided this payment exceeds EUR 100 million per annum. Such dividend payments oblige ABN AMRO to pay coupons on securities containing a dividend pusher. Most measures are applicable for the duration of three years, starting on 5 April 2011.

On 14 June 2011, ABN AMRO appealed to the Court in Luxembourg against the acquisition ban. Lodging of the appeal has not suspended the aforesaid decision. The EC now has to file its Statement of Defence.

## EBA stress test and capital exercise

On top of the DNB and internal stress tests that are conducted as part of the bank's risk management processes (more details are provided in the Risk management section), ABN AMRO participated in the EU-wide stress test executed by the European Banking Authority (EBA). In July 2011 the EBA presented the results of the 2011 stress test, which was conducted on the largest European banks. ABN AMRO passed the stress test by a comfortable margin, with capital levels exceeding the minimum requirements even under an adverse economic scenario.

In light of further intensification of the European debt crisis in the third quarter of 2011, EBA proposed to conduct a capital exercise for larger European banks as part of the EU recapitalisation plan. In addition, banks were asked to provide extensive disclosure of their sovereign debt exposures. The proposal was agreed upon by the European Council on 26 October and EBA published the final results in December 2011. Banks are required to establish an exceptional and temporary buffer such that the core Tier 1 capital ratio under EBA definition reaches a level of 9% by the end of June 2012. ABN AMRO passed the 9% EBA core Tier 1 threshold and is therefore not required to raise its capital level under this plan.

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