

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your ABN AMRO Ordinary Shares, you should send this document and the accompanying documents as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or the transferee. However, the distribution of this document and any accompanying documents into certain jurisdictions may be restricted by law and therefore persons into whose possession this document and any accompanying documents come should inform themselves about and observe any such restrictions. In particular, such documents should not be distributed, forwarded to or transmitted in or into any Restricted Jurisdiction or any other jurisdiction where the extension or availability of the Offers would breach any applicable law.

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE NEW RBS ORDINARY SHARES TO BE ISSUED IN CONNECTION WITH THE OFFERS OR HAS PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

This document is not for distribution into the United States. Offers and sales of the New RBS Ordinary Shares outside of the United States are being made pursuant to Regulation S under the Securities Act. Offers and sales of the New RBS Ordinary Shares to U.S. Holders are covered by the U.S. Prospectus. Offers and sales of the New RBS Ordinary Shares outside the United States are not covered by the U.S. Prospectus. No copy of this document may be mailed, communicated or distributed in the United States or to U.S. Holders in any manner. Any acceptance of the Offers that would result, directly or indirectly, in a violation of this restriction will be null and void. Each ABN AMRO Shareholder acquiring New RBS Ordinary Shares in the Offer pursuant to the Offer Document will be deemed to have represented and warranted that it has acquired the New RBS Ordinary Shares in an "Offshore transaction" as such term is defined in Regulation S.

A copy of this document, which comprises a prospectus relating to RBS prepared in accordance with the Prospectus Rules made under section 84 of the Financial Services and Markets Act 2000, has been filed with the FSA and has been made available to the public as required by section 3.2 of the Prospectus Rules.



The Royal Bank of Scotland Group plc

(incorporated under the Companies Acts 1948 to 1967 and registered with Registered No. SC45551)

**Proposed issue of up to 556,143,700 ordinary shares of 25 pence each in
The Royal Bank of Scotland Group plc**

and

**Proposed admission of up to 556,143,700 ordinary shares in
The Royal Bank of Scotland Group plc to the Official List and to
trading on the market for listed securities of the London Stock Exchange**

**Sponsor and Financial Adviser
Merrill Lynch International**

Application will be made to the FSA for the New RBS Ordinary Shares to be admitted to the Official List, and to the London Stock Exchange for the New RBS Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that admission to the Official List and the London Stock Exchange will become effective, and that dealings in the New RBS Ordinary Shares will commence, shortly following the date on which it is announced that all conditions to the Offers have been satisfied or, to the extent legally permitted, waived.

The whole of this document should be read, in particular, the section headed "Risk factors" set out in Part II of this document.

Investors should rely only on the information contained in this document and the Offer Document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representation must not be relied upon as having been so authorised. RBS will comply with its obligation to publish a supplementary prospectus containing further updated information required by law or by any regulatory authority but assumes no further obligation to publish additional information.

Subject to certain exceptions, this document and any accompanying documents are not being made available to ABN AMRO Shareholders with registered addresses in Australia, Italy or Japan and may not be treated as an offer of any New RBS Ordinary Shares to any person resident or located in such jurisdictions or another Restricted Jurisdiction.

Any persons (including, without limitation, custodians, nominees and trustees) who have a contractual or other legal obligation to forward this document or any accompanying documents to any Restricted Jurisdiction should read the paragraph 11 entitled "Offering Restrictions" in Part XXIV of this document.

Merrill Lynch International which is authorised and regulated in the United Kingdom by the FSA, is acting as financial adviser to Fortis, RBS and Santander and as underwriter for Fortis, RBS and Santander and is acting for no one else in connection with the Offers and will not be responsible to anyone other than Fortis, RBS and Santander for providing the protections afforded to customers of Merrill Lynch International or for providing advice to any other person in relation to the Offers.

The contents of this document are not to be construed as legal, business or tax advice. Each prospective investor should consult his, her or its own solicitor, independent financial adviser or tax adviser for legal, financial or tax advice.

FORWARD-LOOKING STATEMENTS

This document contains or incorporates by reference “forward-looking statements” regarding the intent, belief or current expectations of RFS Holdings, Fortis, RBS, Santander, ABN AMRO and their respective directors and officers about RFS Holdings, Fortis, RBS, Santander or ABN AMRO, their respective businesses and the transactions described in this document. Generally, words such as “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “plan”, “seek”, “continue” or similar expressions identify forward-looking statements.

These forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of RFS Holdings, Fortis, RBS, Santander or ABN AMRO and are difficult to predict, that may cause actual results or developments to differ materially from any future results or developments expressed or implied from the forward-looking statements. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements include, among other factors:

- costs (including taxes) or difficulties related to the integration of acquisitions, including the proposed acquisition of ABN AMRO, may be greater than expected;
- the risk of unexpected consequences resulting from acquisitions, including the proposed acquisition of ABN AMRO;
- RBS’s ability to achieve revenue benefits and cost savings from the integration of certain of ABN AMRO’s businesses and assets;
- Fortis’s, RBS’s, Santander’s and RFS Holdings’ ability to obtain regulatory approvals for the proposed acquisition of ABN AMRO without materially onerous conditions;
- any change-of-control provisions in ABN AMRO’s agreements that might be triggered by the transactions described in this document;
- the potential exposure of RBS and ABN AMRO to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. For example, certain of the market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated;
- general economic conditions in the European Union, in particular in the United Kingdom, the Netherlands, Belgium and Spain and in other countries in which RBS or ABN AMRO have business activities or investments, including the United States;
- the monetary and interest rate policies of central banks, in particular the Bank of England, the Dutch Central Bank, the Central Bank of Belgium, the Bank of Spain, the European Central Bank, the Board of Governors of the U.S. Federal Reserve System and other G-7 central banks;
- changes or volatility in interest rates, foreign exchange rates (including the exchange rates between Sterling, US Dollar and euros), asset prices, equity markets, commodity prices, inflation or deflation;
- the effects of competition and consolidation in the markets in which RBS or ABN AMRO operate, which may be influenced by regulation, deregulation or enforcement policies;
- tax consequences of restructuring;
- changes in consumer spending and savings habits, including changes in government policies which may influence investment decisions;
- changes in applicable laws, regulations and taxes in jurisdictions in which RBS and ABN AMRO operate, including the laws and regulations governing the structure of the transactions described in this document, as well as actions or decisions by courts and regulators;

- natural and other disasters;
- the inability of RBS or ABN AMRO to hedge certain risks economically;
- the adequacy of RBS's or ABN AMRO's impairment provisions and loss reserves;
- technological changes; and
- the success of RBS and/or ABN AMRO in managing the risks involved in the foregoing.

These statements are further qualified by the risk factors disclosed in or incorporated by reference in this document that could cause actual results to differ materially from those in the forward-looking statements. See "Risk Factors" in Part II of this document.

The statements relating to the revenue benefits, costs savings, adjusted earnings per share, returns on investment, internal rates of return, capital ratios and business growth opportunities the Banks expect to achieve following the transactions described in this document are based on assumptions. However, these expected revenue benefits, cost savings, adjusted earnings per share, returns on investment, internal rates of return, capital ratios and business growth opportunities may not be achieved. There can be no assurance that the Banks will be able to implement successfully the strategic and operational initiatives that are intended.

These forward-looking statements speak only as at the date of this document. Except as required by the FSA, the London Stock Exchange, the Part VI Rules or applicable law, RBS does not have any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. Except as required by the FSA, the London Stock Exchange, the Part VI Rules or applicable law, RBS expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in RBS's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

NOTICE

This document does not constitute an offer of, or the solicitation of an offer to subscribe for or buy, any New RBS Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction and is not for distribution in or into any Restricted Jurisdiction, except as determined by the Company in its sole discretion and pursuant to applicable laws.

None of RBS, Merrill Lynch, or their respective representatives is making any representation to any offeree or purchaser of the New RBS Ordinary Shares offered hereby regarding the legality of an investment by such offeree or purchaser under appropriate investment or similar laws. Each investor should consult with his, her or its own advisers as to the legal, tax, business, financial and related aspects of purchase or subscription of the New RBS Ordinary Shares.

PRESENTATION OF INFORMATION ON ABN AMRO

This document contains certain information relating to ABN AMRO and the ABN AMRO Group, including the information contained in the sections headed "Risk Factors", "Information on ABN AMRO", "Financial Information Relating to ABN AMRO", "Background to and Reasons for the Offers", "Plans and Proposals for ABN AMRO", "Financial Information relating to the ABN AMRO Businesses" and "Additional Information".

This information has been compiled from information published by ABN AMRO and has not been commented on or verified by ABN AMRO. RBS confirms that such information has been accurately reproduced from such sources and, so far as RBS is aware and is able to ascertain from information published by ABN AMRO, no facts have been omitted which would render the reproduced information inaccurate or misleading.

NO INTERNET SITE IS PART OF THIS PROSPECTUS

Each of Fortis, RBS, Santander and ABN AMRO maintains an internet site. The Fortis internet site is at <http://www.fortis.com>. The RBS internet site is at <http://www.rbs.com>. The Santander internet site is at <http://www.santander.com>. The ABN AMRO internet site is at <http://www.abnamro.com>. In addition, the Banks have established an internet site for the Offers which is accessible through each of the Banks' websites. Information contained in or otherwise accessible through these internet sites is not a part of this prospectus. All references in this prospectus to these internet sites are inactive textual references to these internet addresses and are for your information only.

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INDICATIVE TIMETABLE

ABN AMRO Shareholders should take note of the dates set forth in the schedule below in connection with the Offer. These dates may be changed by RFS Holdings in accordance with the terms and conditions of the Offer, as described in this document.

<u>Event</u>	<u>Calendar Date⁽¹⁾</u>
Publication of advertisement announcing the availability of the Offer Document	20 July 2007
Commencement of the Offer Period.	23 July 2007
Extraordinary General Meetings of Fortis shareholders (first call)	26 July 2007 ⁽²⁾
Extraordinary General Meeting of Santander shareholders (first call) . . .	26 July 2007 ⁽³⁾
Extraordinary General Meeting of Santander shareholders (second call)	27 July 2007 ⁽³⁾
Expected date of publication of interim results for the six months ending 30 June 2007 by ABN AMRO	30 July 2007
Expected date of publication of interim results for the six months ending 30 June 2007 by RBS	3 August 2007
Extraordinary General Meetings of Fortis shareholders (second call) . . .	6 August 2007 ⁽²⁾
Extraordinary General Meeting of RBS Shareholders	10 August 2007
End of initial Offer Period (deadline for tendering ABN AMRO Ordinary Shares into the Offer)	5 October 2007 ⁽⁴⁾
Announcement by RFS Holdings of whether or not the Offer is declared unconditional	Within five Euronext Amsterdam Trading Days after the end of the Offer Period
Settlement of the Offers; Admission to trading of the RBS Ordinary Shares on the London Stock Exchange and Euronext Amsterdam ⁽⁵⁾ . . .	Within five Euronext Amsterdam Trading Days after the Offer is declared unconditional

Notes:

- (1) If you hold ABN AMRO Ordinary Shares through a financial intermediary, please be aware the financial intermediary may require you to make decisions and take actions in advance of the dates noted. You should contact your financial intermediary with respect to questions regarding the dates that may be applicable to you.
- (2) The Extraordinary General Meetings of Fortis shareholders are likely to occur at the second call for which there will be no quorum requirement.
- (3) The Extraordinary General Meeting of Santander shareholders is likely to occur at the second call for which there will be a lower quorum requirement.
- (4) This date will change if RFS Holdings extends the Offer Period in accordance with applicable law.
- (5) Subject to approval by the relevant listing authorities.

PART I

SUMMARY

The following summary information is extracted from, and should be read as an introduction to and in conjunction with, the full text of this document.

Any investment decision relating to RBS, the Transaction and/or the Offer should be based on consideration of this document as a whole. Investors should also consider the Offer Document. Where a claim relating to information contained in this document is brought before a court, a plaintiff investor might, under the national legislation of the EEA States, have to bear the costs of translating this document before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, including any translation of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this document.

1 Introduction

Following the ruling of the Dutch Supreme Court on 13 July 2007 regarding the sale of LaSalle by ABN AMRO to Bank of America, on 16 July 2007 Fortis, RBS and Santander, acting through RFS Holdings, announced their intention to make an offer for the entire issued and outstanding ordinary share capital of ABN AMRO.

RFS Holdings, which was formed by the Banks, is offering to acquire all of the issued and outstanding ABN AMRO Ordinary Shares on the terms and conditions set out in the Offer Document.

2 Summary of the Terms of the Offers

Upon the terms and subject to the conditions set forth in the Offer Document, RFS Holdings is offering to exchange for each ABN AMRO Ordinary Share validly tendered and not properly withdrawn:

- €35.60 in cash; and
- 0.296 New RBS Ordinary Shares.

The consideration set out above assumes the payment by ABN AMRO of an interim (cash or share) dividend in respect of 2007 in an amount not to exceed €0.55 per ABN AMRO Ordinary Share (before deduction of any applicable withholding taxes). If ABN AMRO declares an interim (cash or share) dividend in respect of 2007 in excess of €0.55 per ABN AMRO Ordinary Share (before deduction of any applicable withholding taxes) or any other (cash or share) dividend, distribution, share split or analogous transaction in respect of the ABN AMRO Ordinary Shares, and the record date for such (cash or share) dividend, distribution, share split or analogous transaction precedes the Settlement of the Offers, the consideration set out above may be reduced by an amount, in the case of an interim (cash or share) dividend in respect of 2007 in excess of €0.55 per ABN AMRO Ordinary Share, equal to such excess (before deduction of any applicable withholding taxes) or otherwise by the full amount of any other such dividend, distribution, share split or analogous transaction (before deduction of any applicable withholding taxes). If ABN AMRO declares an interim (cash or share) dividend in respect of 2007 of €0.55 or less per ABN AMRO Ordinary Share (before deduction of any applicable withholding taxes), and the record date for such dividend precedes the Settlement of the Offers, the consideration set out above will not be adjusted.

Assuming the maximum number of 556,143,700⁽¹⁾ New RBS Ordinary Shares are issued pursuant to the Offers, holders of Existing RBS Ordinary Shares (other than RBS) will own RBS Ordinary Shares representing 94% of the share capital of the Company at the Settlement of the Offers, and former ABN AMRO Shareholders (other than ABN AMRO) will own the remaining 6%. In addition ABN AMRO Shareholders will have received cash consideration, in aggregate, of approximately €66 billion.

3 Reasons for the Offers

ABN AMRO, the Banks believe, contains good businesses and customer franchises widely spread across a range of attractive markets. However, ABN AMRO has acknowledged the opportunity for it to

⁽¹⁾ On a fully diluted basis, assuming the number of issued and outstanding ABN AMRO Ordinary Shares is as set out in ABN AMRO's Form 6-K dated 23 April 2007 and exercise of all ABN AMRO options based on information as set out in the ABN AMRO 2006 Annual Report on Form 20-F.

deliver greater benefits for its customers and employees and generate growth and additional value for its shareholders by combining with a partner and selling parts of the ABN AMRO Group.

The Banks believe that they have a comprehensive strategic fit with ABN AMRO across its activities. The Banks expect that, following their acquisition of ABN AMRO, they will be able to create stronger businesses with enhanced market presence and growth prospects, leading to substantial value creation and benefits for shareholders, customers and employees. The Banks have the financial and management resources to invest in and grow the ABN AMRO Businesses and have proven records of growing their own businesses. Implementation of the Banks' respective measures to realise projected synergies is expected to enhance profitability and allow the Banks to invest further in customer-facing areas, as they have done in their own businesses.

The Banks believe that the inclusion within their groups of the ABN AMRO Businesses will create substantial value for shareholders through cost savings and revenue benefits.

The Banks also believe that the stronger businesses resulting from the Transaction will create sustainable platforms for increased job creation and enhanced opportunities for employees. The Banks' track records in this regard are excellent, demonstrating organic growth in employment built on strong business foundations.

RBS believes that the acquisition of the ABN AMRO Businesses will enhance the RBS Group's prospects for growth, both by enabling it to accelerate existing strategies for growth and by providing attractive new opportunities.

Following the ruling of the Dutch Supreme Court on 13 July 2007, the Banks now expect that LaSalle will be sold to Bank of America. RBS would have preferred to acquire LaSalle as part of the ABN AMRO Businesses, to accelerate its strategy to develop a strong position in the United States in mid-corporate and commercial banking. However, RBS remains confident that its goals in this area can be achieved through organic growth and believes that the acquisition of the ABN AMRO Businesses will provide RBS with enhanced growth prospects, substantial transaction benefits and financial returns that remain compelling.

4 Financing the Offers

Assuming all outstanding ABN AMRO Ordinary Shares are tendered into the Offers, RBS would be obliged to issue 556,143,700⁽¹⁾ New RBS Ordinary Shares to the holders of ABN AMRO Ordinary Shares and, in addition, RFS Holdings would be obliged to pay an aggregate cash consideration of €66 billion. The Banks propose to finance the cash portion of the consideration payable by RFS Holdings through a combination of rights issues, issues of debt and preferred securities and internal resources. Merrill Lynch and certain other financial institutions have agreed to underwrite any such rights issues and certain issues of debt or preferred securities.

RBS, whose portion of the cash consideration payable on Settlement of the Offers is €22 billion⁽¹⁾ plans to issue preferred securities and debt securities, and to utilise internal resources to finance the remainder of its portion of the cash consideration not covered by the proceeds of the securities it issues.

5 Information on RFS Holdings

RFS Holdings was incorporated in the Netherlands on 4 May 2007 as a private company with limited liability, solely to make the Offers and to effect the Transaction. If the Offers are declared unconditional, RFS Holdings will be funded by Fortis, RBS and Santander in the following proportions:

- Fortis: 33.8%
- RBS: 38.3%
- Santander: 27.9%

Following the Offers having been declared unconditional, Fortis, RBS and Santander will have shareholdings in RFS Holdings that are equal to their proportionate funding commitments. The capital and income rights of each class of shares that will be issued to Fortis, RBS and Santander will be linked to the net assets and income of the ABN AMRO Businesses that each of the Banks or their respective

(1) On a fully diluted basis, assuming the number of issued and outstanding ABN AMRO Ordinary Shares is as set out in ABN AMRO's Form 6-K dated 23 April 2007 and exercise of all ABN AMRO options based on information as set out in the ABN AMRO 2006 Annual Report on Form 20-F.

affiliates will acquire following implementation of the restructuring of the ABN AMRO Group. Upon Settlement of the Offers, RFS Holdings will be a subsidiary of RBS owned by the Banks. RFS Holdings will then also be consolidated by RBS. RBS will assume the lead responsibility for ensuring that ABN AMRO is managed in compliance with all applicable regulatory requirements from Settlement of the Offers.

6 Information on RBS

Overview

RBS is the holding company of one of the world's largest banking and financial services groups, with a market capitalisation of £62.8 billion at the end of 2006. Listed on the London Stock Exchange and headquartered in Edinburgh, the RBS Group operates in the United Kingdom, the United States and internationally through its two principal subsidiaries, the Royal Bank and NatWest. Both the Royal Bank and NatWest are major U.K. clearing banks whose origins go back over 275 years. In the United States, the RBS Group's subsidiary Citizens Financial Group, Inc. was ranked the 10th largest (based on 31 December 2006 data) commercial banking organisation by deposits. The RBS Group has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

RBS had total assets of £871.4 billion and shareholders' equity of £40.2 billion as at 31 December 2006. It is strongly capitalised with a total capital ratio of 11.7% and a Tier 1 capital ratio of 7.5% as at 31 December 2006.

Financial information

The data for the three-year period ended 31 December 2006 set out below have been extracted without material adjustment from, and should be read together with RBS's audited consolidated financial statements included in, its Annual Report and Accounts for the year ended 31 December 2006. The summary selected historical condensed consolidated financial data presented below as of and for the years ended 31 December 2006, 2005 and 2004 were prepared in accordance with IFRS. Unless otherwise noted, the per share data are as published and have not been restated to reflect the two for one bonus share issue in May 2007.

	As of and for the year ended 31 December		
	2006	2005	2004
	(millions, except per share data, percentages and ratios)		
	(£)	(£)	(£)
Amounts in accordance with IFRS			
Key income statement data			
Total income ⁽¹⁾	28,002	25,902	23,391
Operating expenses ⁽²⁾⁽³⁾⁽⁴⁾	12,480	11,946	10,362
Operating profit before other operating charges and impairment losses	15,522	13,956	13,029
Operating profit before tax	9,186	7,936	7,284
Profit for the year	6,497	5,558	5,289
Profit attributable to ordinary shareholders	6,202	5,392	4,856
Key balance sheet data			
Total assets	871,432	776,827	588,122
Shareholders' equity	40,227	35,435	33,905
Other key financial data			
Earnings per ordinary share (pence)	194.7	169.4	157.4
Earnings per ordinary share – adjusted (pence) ⁽⁵⁾	64.9	56.5	52.5
Diluted earnings per ordinary share (pence) ⁽⁶⁾	193.2	168.3	155.9
Diluted earnings per ordinary share – adjusted (pence) ⁽⁵⁾⁽⁶⁾	64.4	56.1	52.0
Dividends per ordinary share (pence)	77.3	60.6	52.5
Dividends per ordinary share – adjusted (pence) ⁽⁵⁾	25.8	20.2	17.5
Dividend payout ratio ⁽⁷⁾	46%	43%	38%
Tier 1 capital ratio	7.5%	7.6%	7.0%
Total capital ratio	11.7%	11.7%	11.7%

Notes:

- (1) Includes gain on sale of strategic investments of £333 million in 2005.
- (2) Includes loss on sale of subsidiaries of £93 million in 2005.
- (3) Includes integration expenditure of £134 million for the year ended 31 December 2006 (2005: £458 million; 2004: £520 million).
- (4) Includes purchased intangibles amortisation of £94 million for the year ended 31 December 2006 (2005: £97 million; 2004: £45 million).
- (5) Adjusted to reflect the two for one bonus issue in May 2007.
- (6) All the convertible preference shares had a dilutive effect in 2006 and 2005 and as such have been included in the computation of diluted earnings per share. In 2004, their effect was anti-dilutive.
- (7) Dividend payout ratio represents the interim dividend paid and final dividend proposed as a percentage of profit attributable to ordinary shareholders.

Current Trading and Prospects

RBS's interim results for the six months to 30 June 2007 are expected to reflect good organic growth in income, disciplined expense control, measured investment in faster-growing businesses and continued strong credit metrics. Profit before tax, intangibles amortisation and integration costs for the six months to 30 June 2007 is expected to be not less than £5,000 million. Adjusted earnings per share before intangibles amortisation and integration costs is expected to exceed 37 pence per RBS Ordinary Share

based on an effective tax rate of 26%. The effective tax rate reflects an underlying rate of 29% adjusted to record the full effect (£160 million) on deferred tax of the change in the UK corporation tax rate in the first half of 2007.

The profit estimate has been made in respect of profit before tax, intangibles amortisation and integration costs rather than in respect of profit before tax, as RBS considers this measure provides more meaningful information to shareholders and allows for greater comparability with prior years. The profit estimate is based on the management accounts for the five months to 31 May 2007 and the preliminary results for the month of June 2007.

Except as disclosed above, there has been no significant change in the financial or trading position of the RBS Group since 31 December 2006, being the end of the last financial period for which the RBS Group has provided audited financial information.

Working Capital

As RBS has only had limited access to non-public information of ABN AMRO, it has not been able to undertake appropriate procedures to support a statement in respect of the sufficiency of its working capital on the basis that the Transaction has taken place.

However, RBS is of the opinion that the working capital available to the RBS Group, excluding the ABN AMRO Group, is sufficient for its present requirements, that is, for at least the next 12 months following the date of this document. This working capital statement has been prepared on the basis that the acquisition of the ABN AMRO Group has not taken place. RBS will prepare and publish a supplementary prospectus containing a working capital statement on the basis that the acquisition of the ABN AMRO Group has taken place as soon as reasonably practicable following completion of the Offers.

Costs of the Transaction

The total costs and expenses payable by the RBS Group in connection with the Transaction are estimated to amount to approximately £135 million (including amounts in respect of VAT).

7 Information on Fortis

Fortis is an international provider of banking and insurance products and services to personal, businesses and institutional customers. Fortis delivers a comprehensive package of financial products and services through its own distribution channels and via intermediaries and other partners.

Fortis ranks among the 20 largest financial institutions in Europe based on market capitalisation of €43.3 billion as at 31 December 2006, with total assets of €775 billion and shareholders' equity of €20.6 billion. As at that date, Fortis also had a total capital ratio of 11.1% and a Tier 1 capital ratio of 7.1%. With its sound solvency position, broad risk spread, experience in over 50 countries and the extensive expertise of its approximately 57,000 employees (full time equivalents) as of the end of 2006, Fortis combines an international presence with local flexibility to provide strong support to its customers.

Fortis SA/NV is a public company with limited liability (*société anonyme/naamloze vennootschap*) incorporated under Belgian law and Fortis N.V. is incorporated as a public limited liability company (*naamloze vennootschap*) under Dutch law.

8 Information on Santander

Banco Santander, S.A. is the parent bank of the Santander Group, one of the world's largest banking groups by market value, with a market capitalisation of €88.4 billion at the end of 2006. Santander's current legal name is Banco Santander Central Hispano, S.A. On 23 June 2007, the general meeting of shareholders of Santander approved the change of Santander's legal name to Banco Santander, S.A., which will become effective when regulatory approval has been obtained. Headquartered in Madrid, Spain, the Santander Group operates in three geographic areas: (i) Continental Europe, where the main institutions are Santander, Banco Español de Crédito, Banco Banif, Santander Consumer Finance and Banco Santander Totta; (ii) the United Kingdom, where the main institution is Abbey National; and (iii) Latin America, mainly Brazil, Mexico, Chile, Argentina, Puerto Rico, Venezuela and Colombia. Santander is incorporated under, and governed by the laws of the Kingdom of Spain.

The Santander Group's main business areas are retail banking, wholesale banking and asset management and insurance. As at 31 December 2006, Santander had, on a consolidated basis, total

assets of €833.9 billion and shareholders' equity of €40.1 billion. As at that date, Santander had, on a consolidated basis, a total capital ratio of 12.5% and a Tier 1 capital ratio of 7.4%.

9 Information on ABN AMRO

Overview

ABN AMRO is a prominent international banking group offering a wide range of banking products and financial services on a global basis through a network of 4,532 offices and branches in 56 countries and territories as at 31 December 2006. ABN AMRO is one of the largest banking groups in the world. In addition to its leading position in the Netherlands, ABN AMRO also has regional business units in Europe (including Antonveneta in Italy), North America, Latin America and Asia. ABN AMRO also has diverse international advisory, capital markets and investment banking activities and its global asset management business manages approximately €193 billion in specialist mandates and mutual funds operating in 26 countries worldwide.

As at 31 December 2006, ABN AMRO had total assets of €987.1 billion and shareholders' equity of €23.6 billion. As at that date, ABN AMRO had a total capital ratio of 11.1% and a Tier 1 capital ratio of 8.5%.

ABN AMRO financial information

The data set out below have been extracted without material adjustment from, and should be read together with ABN AMRO's audited consolidated financial statements included in, its Annual Report on Form 20-F for the year ended 31 December 2006. The financial data for the years ended 31 December 2006, 2005 and 2004 were prepared in accordance with IFRS.

	As of and for the year ended 31 December		
	2006	2005	2004
	(millions, except per share data, percentages and ratios)		
	(€)	(€)	(€)
Amounts in accordance with IFRS			
Key income statement data			
Operating income	27,641	22,334	18,791
Operating expenses	20,713	16,301	15,180
Operating profit before tax	5,073	5,398	3,004
Profit from continuing operations	4,171	4,256	2,289
Profit for the year	4,780	4,443	3,940
Attributable to shareholders of the parent company	4,715	4,382	3,865
Key balance sheet data			
Total assets	987,064	880,804	727,454
Equity attributable to shareholders of the parent company . .	23,597	22,221	14,815
Other key financial data			
Net profit per ordinary share	2.50	2.43	2.33
Fully diluted net profit per ordinary share	2.49	2.42	2.33
Dividends per ordinary share	1.15	1.10	1.00
Dividend payout ratio ⁽¹⁾	46.0%	45.3%	42.9%
Tier 1 capital ratio ⁽²⁾	8.45%	10.62%	8.46%
Total capital ratio ⁽²⁾	11.14%	13.14%	11.06%

Notes:

(1) Dividend per ordinary share as a percentage of net profit per ordinary share.

(2) Tier 1 capital and total capital as a percentage of risk-weighted assets under Bank for International Settlements guidelines.

Significant change

So far as RBS is aware, there has been no significant change in the financial or trading position of the ABN AMRO Group since 31 March 2007, being the end of the last financial period for which ABN AMRO has published financial information.

10 Conditions to the Offers

The issue of the New RBS Ordinary Shares is conditional upon the Offers being declared unconditional by RFS Holdings.

RFS Holdings shall not be obliged to declare the Offers unconditional and purchase any ABN AMRO Ordinary Shares validly tendered in the Offers and not properly withdrawn unless the conditions to the Offers have been satisfied or, to the extent permitted by law, waived.

In summary, the Offer is subject to the following conditions:

- an 80% minimum acceptance condition;
- a condition related to completion of the sale of LaSalle to Bank of America;
- a no material adverse change condition;
- a no litigation or other proceedings condition;
- a no injunction or other restrictions condition;
- a regulatory approvals condition;
- a competition and antitrust approvals condition;
- a condition related to the U.S. Prospectus being declared effective by the SEC;
- a condition related to the admission of the New RBS Ordinary Shares to the Official List, to trading on the London Stock Exchange's market for listed securities and to trading and listing on Euronext Amsterdam;
- a condition related to obtaining requisite shareholder approvals by Fortis, RBS and Santander;
- a condition related to no further transactions being entered into by ABN AMRO or its subsidiaries; and
- a condition that no third party is preparing or is to make an offer and that Barclays has not amended its offer or made a new offer.

The conditions to the Offers are for the benefit of RFS Holdings and, to the extent legally permitted, may be waived by RFS Holdings at any time prior to the end of the Offer Period. Notice of any such waiver will be given in the manner prescribed by applicable law. The conditions to the U.S. Offer are the same as the conditions to the Offer and RFS Holdings will not waive a condition in one offer unless it waives the same condition in the other offer.

RFS Holdings is entitled to permit the Offer to lapse if any of the conditions is not satisfied and to make a new offer or offers on terms to be determined at the relevant time.

11 Risk Factors

Investors should consider the risks normally associated with companies of a similar nature to RBS. Certain of these risks also apply to ABN AMRO's businesses. In particular, ABN AMRO Shareholders should consider the following risks:

- the value of the RBS Ordinary Shares will fluctuate;
- uncertainties about the effects of the Offers and any competing offers may have a negative impact on ABN AMRO;
- regulatory approvals may delay or have a negative effect on the Offers;
- RBS may not perform as expected and its share price may suffer;
- the Banks have only conducted a limited due diligence review of ABN AMRO and may become subject to unknown liabilities of ABN AMRO;
- consummation of the Offers may result in adverse tax consequences due to a change of control of ABN AMRO;
- change of control provisions in ABN AMRO's agreements may be triggered upon the completion of the Offers;
- your shareholder rights will change as a shareholder of a U.K. company;

- ABN AMRO Shareholders will own a smaller percentage of RBS and will exercise less influence over RBS's management;
- if the Offers are successful, but some ABN AMRO Ordinary Shares (including those underlying ABN AMRO ADSs) remain outstanding, the liquidity and market value of those securities may be adversely affected;
- under certain circumstances following completion of the Offers, in accordance with Dutch law, ABN AMRO Ordinary Shares may be acquired at a price lower than as a result of a sale of such shares under the Offers;
- governmental policy, regulation, general business conditions, interest rates, foreign exchange rates, equity prices, geopolitical conditions, borrower credit quality, insurance claims, litigation, changes in tax legislation and other market factors may have an adverse effect on RBS; and
- future growth in RBS's earnings and shareholder value depends on strategic decisions regarding organic growth and potential acquisitions.

12 Listing and Dealing

Application will be made to the FSA for the New RBS Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for the New RBS Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that listing will become effective and dealings, for normal settlement, on the London Stock Exchange will begin shortly following the date on which RFS Holdings declares the Offers unconditional. The New RBS Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing RBS Ordinary Shares, including the right to receive all dividends and other cash payments (if any) declared or paid by RBS by reference to a record date on or after the date of issue of the New RBS Ordinary Shares.

In addition, prior to the Offers being declared unconditional, RBS intends to list the New RBS Ordinary Shares on Euronext Amsterdam.

PART II

RISK FACTORS

An investment in RBS is subject to a number of risks. Accordingly, investors should carefully consider the risks and uncertainties described below, together with all other information contained in this document, before making an investment decision. Although this section, generally, describes the risks in terms of a risk to RBS or an investment in RBS Ordinary Shares, these risks are equally relevant to the Enlarged Group as it will be constituted assuming completion of the Offers.

The risks and uncertainties described below are not the only ones facing RBS or which may affect your decision whether to accept the Offer. Additional risks and uncertainties not presently known or that RBS currently deems immaterial may also have an adverse effect on its business. RBS's business, financial condition or results of operations could be materially and adversely affected by any of the risks described below. In that event, the value of the RBS Ordinary Shares could decline, and investors could lose all or part of their investment in the RBS Ordinary Shares.

In deciding whether to accept the Offer, you should carefully consider the following risks that relate to the Offers and the transactions contemplated thereby.

Nothing in these risk factors limits or qualifies RBS's or its directors' responsibility under Listing Rule 13.4.1(4), section 5.5 of the Prospectus Rules or Part VI of FSMA.

Risks Relating to the Transaction

The value of the New RBS Ordinary Shares being offered will fluctuate.

There will be no adjustment to the consideration offered for changes in the market price of either ABN AMRO Ordinary Shares, on the one hand, or New RBS Ordinary Shares, on the other, or for movements in exchange rates. Accordingly, the market value of the New RBS Ordinary Shares that holders of ABN AMRO Ordinary Shares will receive upon completion of the Offers could vary significantly from the market value of RBS Ordinary Shares on the date of this document or on the date the Offer was first announced. The market value of the New RBS Ordinary Shares will also continue to fluctuate after completion of the Offers.

You should obtain current market quotations for RBS Ordinary Shares and for ABN AMRO Ordinary Shares.

The uncertainties about the effects of the Offers and any competing offers could materially and adversely affect the business and operations of ABN AMRO.

Uncertainty about the effects of the Offers and any competing offers on employees, partners, regulators and customers may materially and adversely affect the business and operations of ABN AMRO. These uncertainties could cause customers, business partners and other parties that have business relationships with ABN AMRO to defer the consummation of other transactions or other decisions concerning ABN AMRO's business, or to seek to change existing business relationships with ABN AMRO. In addition, employee retention at ABN AMRO may be challenging until the Offers are completed.

Obtaining required regulatory approvals may delay completion of the Transaction, and compliance with conditions and obligations imposed in connection with regulatory approvals could adversely affect RBS's businesses and the businesses of ABN AMRO.

The Transaction will require various approvals or consents from, among others, the Dutch Central Bank, the FSA, the Bank of Spain, the European Commission and various other antitrust authorities outside the European Union, other bank regulatory, securities, insurance and other regulatory authorities worldwide. The governmental entities from which these approvals are required, including the Dutch Central Bank, the FSA, the Bank of Spain, the European Commission and others, may refuse to grant such approval or may impose conditions on, or require divestitures or other changes in connection with, the completion of the Transaction. These conditions or changes could have the effect of delaying completion of the Transaction, reducing the anticipated benefits of the Transaction or imposing additional costs on RBS or limiting RBS's revenues following completion of the Transaction, any of which might have a material adverse effect on RBS following the Transaction. In order to obtain these regulatory approvals, RBS may have to divest, or commit to divesting, certain of the businesses of ABN

AMRO and/or RBS to third parties. In addition, RBS may be required to make other commitments to regulatory authorities. These divestitures and other commitments, if any, may have an adverse effect on RBS's business, results of operations, financial condition or prospects after completion of the Transaction.

Certain jurisdictions claim jurisdiction under their competition or antitrust laws in respect of acquisitions or mergers that have the potential to affect their domestic marketplace. A number of these jurisdictions may claim to have jurisdiction to review the Transaction. Such investigations or proceedings may be initiated and, if initiated, may have an adverse effect on RBS's business, results of operations, financial condition or prospects after the completion of the Transaction.

Risks Relating to the RBS Ordinary Shares and RBS ADSs

RBS may fail to realise the business growth opportunities, revenue benefits, cost savings and other benefits anticipated from, or may incur unanticipated costs associated with, the Transaction and RBS's results of operations, financial condition and the price of RBS's Ordinary Shares may suffer.

There is no assurance that RBS's acquisition of certain of ABN AMRO's businesses will achieve the business growth opportunities, revenue benefits, cost savings and other benefits RBS anticipates. RBS believes that the offer consideration is justified in part by the business growth opportunities, revenue benefits, cost savings and other benefits it expects to achieve by combining its operations with certain ABN AMRO Businesses. However, these expected business growth opportunities, revenue benefits, cost savings and other benefits may not develop and other assumptions upon which the Banks determined the offer consideration may prove to be incorrect, as, among other things, such assumptions were based on publicly available information.

In particular, the reorganisation plan currently contemplated may have to be modified as a result of employee consultations and approvals, which may delay its implementation. RBS may also face challenges with the following: obtaining the required approvals of various regulatory agencies, any of which could refuse or impose conditions or restrictions on its approval; retaining key employees; redeploying resources in different areas of operations to improve efficiency; minimising the diversion of management attention from ongoing business concerns; and addressing possible differences between RBS's business culture, processes, controls, procedures and systems and those of the ABN AMRO Businesses that RBS will acquire. In addition, because the Banks have had access only to publicly available information regarding ABN AMRO's tax situation and structure, unanticipated substantial tax costs may be incurred in the implementation of the reorganisation plan.

Under any of these circumstances, the business growth opportunities, revenue benefits, cost savings and other benefits anticipated by RBS to result from the reorganisation may not be achieved as expected, or at all, or may be delayed. To the extent that RBS incurs higher integration costs or achieves lower revenue benefits or fewer cost savings than expected, its results of operations, financial condition and the price of the RBS Ordinary Shares may suffer.

The Banks have conducted only a limited due diligence review of ABN AMRO and, therefore, RBS may become subject to unknown liabilities of ABN AMRO, which may have an adverse effect on RBS's financial condition and results of operations.

In making the Offers and determining their terms and conditions, the Banks have relied on publicly available information relating to ABN AMRO, including periodic and other reports for ABN AMRO, filed with or furnished to the SEC on Form 20-F and Form 6-K. The Banks have also conducted a due diligence review of limited additional information about ABN AMRO. This information in relation to ABN AMRO has not been subject to comment or verification by ABN AMRO or the Banks or their respective directors. As a result, after the completion of the Offers, RBS may be subject to unknown liabilities of ABN AMRO, which may have an adverse effect on RBS's financial condition and results of operations.

Nothing in this risk factor limits or qualifies RBS's or its directors' responsibility under Listing Rule 13.4.1(4), section 5.5 of the Prospectus Rules or Part VI of FSMA.

Consummation of the Offers may result in adverse tax consequences resulting from a change of ownership of ABN AMRO.

The Banks have had access only to publicly available information concerning ABN AMRO's tax situation. It is possible that the consummation of the Offers may result in adverse tax consequences arising from a

change of ownership of ABN AMRO and its subsidiaries. The tax consequences of a change of ownership of a corporation can lead to an inability to carry-over certain tax reliefs and other tax benefits, including, but not limited to, tax losses and tax credits. Moreover, a change of ownership may result in other tax costs not normally associated with the ordinary course of business. Such other tax costs include, but are not limited to, stamp duties, land transfer taxes, franchise taxes and other levies. In addition, consummation of the Offers will result in RBS becoming, through RFS Holdings, the holding company of ABN AMRO and certain of its subsidiaries. There are differences between the U.K. and Dutch tax regimes for holding companies. These differences could result in additional tax being paid in the United Kingdom in respect of the profits of the relevant businesses of ABN AMRO as a result of their acquisition by a U.K. resident company.

Change of control provisions in ABN AMRO's agreements may be triggered upon the completion of the Offers, upon RFS Holdings' acquisition of ABN AMRO or upon the completion of the reorganisation and may lead to adverse consequences for RBS, including the loss of significant contractual rights and benefits, the termination of joint venture and/or licensing agreements or the requirement to repay outstanding indebtedness.

ABN AMRO may be a party to joint ventures, licences and other agreements and instruments that contain change of control provisions that will be triggered upon the completion of the Offers, upon RFS Holdings' acquisition of ABN AMRO or upon completion of the reorganisation. ABN AMRO has not provided the Banks with copies of any of the agreements to which it is party, and these agreements are not generally publicly available. Agreements with change of control provisions typically provide for or permit the termination of the agreement upon the occurrence of a change of control of one of the parties or, in the case of debt instruments, require repayment of all outstanding indebtedness. If, upon review of these agreements after completion of the Offers, the Banks determine that such provisions can be waived by the relevant counterparties, the Banks will consider whether to seek these waivers. In the absence of these waivers, the operation of the change of control provisions, if any, could result in the loss of material contractual rights and benefits, the termination of joint venture agreements and licensing agreements or the requirement to repay outstanding indebtedness.

In addition, employment agreements with members of ABN AMRO senior management and other ABN AMRO employees may contain change of control provisions providing for compensation to be paid in the event the employment of these employees is terminated, either by ABN AMRO or by those employees, following the completion of the Offers, RFS Holdings' acquisition of ABN AMRO or completion of the reorganisation. Such employment agreements may also contain change of control provisions providing for compensation to be paid following the occurrence of such events even if the employment is not terminated. RBS has taken into account potential payments arising on the operation of change of control provisions, including compensation arising on change of control provisions in employment agreements but such payments may exceed RBS's expectations.

RBS is a company governed by the laws of the United Kingdom, and being a shareholder of a company governed by the laws of the United Kingdom involves different rights and privileges from those of a shareholder of a Dutch company.

The rights of RBS's shareholders are governed by the laws of the United Kingdom and by its Memorandum of Association and Articles of Association. The laws of the United Kingdom extend to shareholders certain rights and privileges that may not exist under Dutch law and, conversely, do not extend certain rights and privileges that shareholders of a company governed by Dutch law may have.

After completion of the Offers, holders of ABN AMRO Ordinary Shares (including in the form of ABN AMRO ADSs) and holders of RBS Ordinary Shares will own a smaller percentage of RBS than they currently own of ABN AMRO and RBS, respectively, and will exercise less influence over management.

After the completion of the Offers, holders of ABN AMRO Ordinary Shares (including in the form of ABN AMRO ADSs) and holders of RBS Ordinary Shares will own a smaller percentage of RBS than they currently own of ABN AMRO and RBS, respectively. Assuming that all of the outstanding ABN AMRO Ordinary Shares are exchanged in the Offers, existing holders of RBS Ordinary Shares (other than RBS) and former holders of ABN AMRO Ordinary Shares (other than ABN AMRO) will own approximately 94% and 6%, respectively, of the outstanding shares of RBS immediately after the completion of the Offers, on a fully-diluted basis, assuming the number of issued and outstanding ABN AMRO Ordinary Shares is as

set out in ABN AMRO's Form 6-K dated 23 April 2007 and exercise of all ABN AMRO options based on information as set out in the ABN AMRO 2006 Annual Report on Form 20-F. Consequently, former holders of ABN AMRO Ordinary Shares, as a group, will have reduced ownership and voting power in RBS compared to their ownership and voting power in ABN AMRO, and existing holders of RBS Ordinary Shares will have reduced ownership and voting power in RBS compared to their current ownership and voting power in RBS. Following the completion of the Offers, RFS Holdings will own the majority of the ABN AMRO Ordinary Shares (including ABN AMRO Ordinary Shares formerly represented by ABN AMRO ADSs) and thus control the nomination of all of the members of the ABN AMRO managing board and the ABN AMRO supervisory board, subject to legal and regulatory requirements.

Risks Relating to Non-Tendering Security Holders

If the Offers are successful, but some ABN AMRO Ordinary Shares or ABN AMRO ADSs remain outstanding, the liquidity and market value of the remaining ABN AMRO Ordinary Shares and ABN AMRO ADSs held by the public could be adversely affected by the fact that they will be held by a smaller number of holders.

Depending upon the number of ABN AMRO Ordinary Shares and ABN AMRO ADSs acquired pursuant to the Offers, following the completion of the Offers, the ABN AMRO ADSs may no longer meet the requirements of the NYSE for continued listing. Moreover, to the extent permitted under applicable law and stock exchange regulations, if RFS Holdings acquires control of ABN AMRO, RFS Holdings intends to seek to cause the delisting of the ABN AMRO Ordinary Shares from Euronext Amsterdam and the ABN AMRO ADSs from the NYSE.

If the NYSE delists the ABN AMRO ADSs, or if Euronext Amsterdam delists the ABN AMRO Ordinary Shares, the market for the ABN AMRO Ordinary Shares and ABN AMRO ADSs will be adversely affected. Although it is possible that the ABN AMRO ADSs and/or the ABN AMRO Ordinary Shares could be traded in over-the-counter markets, such alternative trading markets may not occur. In addition, the extent of the public market for the ABN AMRO ADSs and ABN AMRO Ordinary Shares and the availability of market quotations would depend upon the number of holders and/or the aggregate market value of the ABN AMRO ADSs and ABN AMRO Ordinary Shares remaining at such time, the interest in maintaining a market in the ABN AMRO ADSs and ABN AMRO Ordinary Shares on the part of securities firms and the possible termination of registration of ABN AMRO ADSs under the Exchange Act. If such registration is terminated, ABN AMRO could cease filing periodic reports with the SEC, which could further impact the value of the ABN AMRO ADSs. To the extent the availability of such continued listings or quotations depends on steps taken by RFS Holdings, the Banks or ABN AMRO, RFS Holdings, the Banks or ABN AMRO may or may not take such steps. Therefore, if the Offers are successful, you should not rely on any such listing or quotation being available.

In addition, RFS Holdings intends to change ABN AMRO's dividend policy if the Offers are completed and to cause ABN AMRO to stop paying regular cash dividends after the completion of the Offers for the foreseeable future, subject to any applicable legal requirements.

If RFS Holdings acquires 95% or more of the outstanding issued capital of ABN AMRO, RFS Holdings may be able to utilise Dutch squeeze-out proceedings to acquire the ABN AMRO Ordinary Shares of non-tendering ABN AMRO Shareholders at a price that may be less than that which might have been received upon a sale of such ordinary shares prior to the squeeze-out.

If RFS Holdings acquires 95% or more of the outstanding issued capital of ABN AMRO, it intends to acquire the remaining issued capital of ABN AMRO in accordance with the squeeze-out proceedings prescribed by the Dutch Civil Code or other legal means. Furthermore, if RFS Holdings acquires 95% or more of the issued capital of and the voting rights attached to any class of shares of ABN AMRO, after the act implementing the squeeze-out provisions of European Union Takeover Directive 2004/25/EC comes into effect RFS Holdings will have the right to initiate squeeze-out proceedings with respect to shares of that class not tendered and not otherwise held by RFS Holdings or ABN AMRO. In case of a squeeze-out, ABN AMRO Ordinary Shares held by minority ABN AMRO Shareholders will be acquired only for cash, and a Dutch court will determine the price to be paid for the ABN AMRO Ordinary Shares, which may be lower than the cash equivalent of the consideration offered in the U.S. Offer. Also, upon payment of the amount required into a prescribed bank account, the ABN AMRO Ordinary Shares held by the minority shareholders will be transferred to RFS Holdings by operation of Dutch law. The only remaining right of the minority holders of ABN AMRO Ordinary Shares would be to receive payment for their ABN AMRO

Ordinary Shares. If you do not tender your ABN AMRO Ordinary Shares in the Offers and RFS Holdings is able to effectuate a squeeze-out, the price determined by the Dutch court for the purchase of ABN AMRO Ordinary Shares may be less than the amount which might have been received upon a sale of your ABN AMRO Ordinary Shares prior to the squeeze-out.

In the event that RFS Holdings acquires less than 95% of ABN AMRO's issued share capital and voting rights, RFS Holdings intends to take such legally permissible steps available to it under Dutch law to acquire the remaining outstanding ABN AMRO Ordinary Shares, and may acquire such ABN AMRO Ordinary Shares.

In the event that the squeeze-out procedures described above are not capable of being used because RFS Holdings has acquired less than 95%, RFS Holdings will have the right following the completion of the Offers to use any other legally permitted method to obtain 100% of the ABN AMRO Ordinary Shares, including engaging in one or more corporate restructuring transactions, such as a legal merger, liquidation, transfer of assets or conversion of ABN AMRO into another form of corporate entity, or changing the ABN AMRO articles of association to alter the corporate or capital structure in a manner beneficial to RFS Holdings, or engaging in one or more transactions with minority holders of ABN AMRO Ordinary Shares, including public or private exchanges or tender offers or purchases for consideration which may consist of RBS Ordinary Shares, other securities or cash. If you do not tender your ABN AMRO Ordinary Shares in the Offers and RFS Holdings is able to effectuate such a transaction, the price paid for the ABN AMRO Ordinary Shares purchased may be less than what might have been received upon a sale of such shares prior to such a transaction and payments may attract Dutch withholding tax for certain categories of shareholder depending on the form they take.

Risks relating to RBS

Governmental policy and regulation may have an adverse effect on RBS's results.

RBS's businesses and earnings can be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in the United Kingdom, the European Union, the United States and elsewhere.

There is continuing political and regulatory scrutiny of the operation of the retail banking and consumer credit industries in the United Kingdom and elsewhere. The nature and impact of future changes in policies and regulatory action are not predictable and are beyond RBS's control but could have an adverse impact on RBS's businesses and earnings.

In the European Union, these regulatory actions included an inquiry into retail banking in all of the then 25 member states by the European Commission's Directorate General for Competition. The inquiry examined retail banking in Europe generally. On 31 January 2007, the European Commission announced that barriers to competition in certain areas of retail banking, payment cards and payment systems in the European Union had been identified. The European Commission indicated that it will use its powers to address these barriers and will encourage national competition authorities to enforce European and national competition laws where appropriate. Any action taken by the European Commission and national competition authorities could have an adverse impact on RBS's payment cards and payment systems businesses and on RBS's retail banking activities in the European Union countries in which RBS operates.

In the United Kingdom, in September 2005, the Office of Fair Trading ("OFT") received a super-complaint from the Citizens Advice Bureau relating to payment protection insurance ("PPI"). As a result, the OFT commenced a market study on PPI in April 2006. In October 2006, the OFT announced the outcome of the market study and, on 7 February 2007, following a period of consultation, the OFT referred the PPI market to the U.K. Competition Commission for an in-depth inquiry. This inquiry could continue for up to two years. Also, in October 2006, the FSA published the outcome of its broad industry thematic review of PPI sales practices in which it concluded that some institutions fail to treat customers fairly.

In April 2006, the OFT commenced a review of the undertakings given following the conclusion of the Competition Commission Inquiry in 2002 into the supply of banking services to small and medium enterprises ("SMEs").

The OFT has carried out investigations into Visa and MasterCard credit card interchange rates. The decision by the OFT in the MasterCard interchange case was set aside by the Competition Appeals

Tribunal in June 2006. The OFT's investigations in the Visa interchange case and a second MasterCard interchange case are ongoing. The outcome is not known, but these investigations may have an impact on the consumer credit industry in general and, therefore on RBS's business in this sector. On 9 February 2007, the OFT announced that it was expanding its investigation into interchange rates to include debit cards.

On 7 September 2006, the OFT announced that it had decided to undertake an investigation of the application of its statement on credit card fees to current account unauthorised overdraft fees. The investigation was completed in March 2007. On 29 March 2007, the OFT announced its decision to conduct a formal in-depth investigation into the fairness of bank current account charges. On 26 April 2007, the OFT announced a formal market study into personal current accounts in the United Kingdom. The study will focus on the impact of free-if-in-credit current accounts on competition and whether they deliver value to consumers. The OFT expects to complete the market study by the end of 2007. In common with other banks in the United Kingdom, RBS has received claims from customers in respect of current account administration charges. The financial performance of RBS could be adversely affected if, by legal process or regulatory action, such charges are determined to be, in whole or in part, penalties or unfair.

On 26 January 2007, the FSA issued a Statement of Good Practice relating to Mortgage Exit Administration Fees. On 1 March 2007, the Group adopted a policy of charging all customers the fee applicable at the time the customers took out the mortgage. In addition, any customers who had previously been charged a higher fee than was applicable at the time they took out the mortgage and who complained were refunded the difference in fees. This approach was one of the options recommended by the FSA.

On 26 April 2007 the Office of Rail Regulation referred the leasing of rolling stock for franchised passenger services and the supply of related maintenance services in Great Britain to the U.K. Competition Commission for an inquiry lasting up to two years. RBS owns the Angel Trains group, a rolling stock leasing business operating in this market.

On 15 May 2007 the Competition Commission published its final report into the supply of personal current account banking services in Northern Ireland. It is anticipated that a statutory instrument implementing the remedies set out in the report will be made in October 2007. RBS owns Ulster Bank, which is active in the Northern Ireland current account market.

Other areas where changes could have an adverse impact include:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which RBS operates or may increase the costs of doing business in those markets;
- other general changes in the regulatory requirements, such as prudential rules relating to the capital adequacy framework;
- changes in competition and pricing environments;
- further developments in the financial reporting environment;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which, in turn, may affect demand for RBS's products and services.

RBS's business and earnings are affected by general business and geopolitical conditions.

The performance of RBS is influenced by economic conditions, particularly in the United Kingdom, the United States and Europe. A downturn in these economies could result in a general reduction in business activity and a consequent loss of income for RBS. It could also cause a higher incidence of credit losses and losses in RBS's trading portfolios. Geopolitical conditions can also affect RBS's earnings. Terrorist acts and threats and the response of governments in the United Kingdom, the United States and elsewhere to them could affect the level of economic activity. RBS's business is also exposed to the risk of business interruption and economic slowdown following the outbreak of a pandemic.

The financial performance of RBS is affected by borrower credit quality.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of RBS's businesses. Adverse changes in the credit quality of RBS's borrowers and counterparties or a general deterioration in U.K., U.S., European or global economic conditions, or arising from systemic risks in the financial systems, could affect the recoverability and value of RBS's assets and require an increase in the provision for impairment losses and other provisions.

Changes in interest rates, foreign exchange rates, equity prices and other market factors affect RBS's business.

The most significant market risks RBS faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates, particularly in the sterling-dollar and sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies and affect earnings reported by RBS's non-U.K. subsidiaries (mainly Citizens, RBS Greenwich Capital and Ulster Bank) and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of RBS's investment and trading portfolios. RBS has implemented risk management methods to mitigate and control these and other market risks to which RBS is exposed. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on RBS's financial performance and business operations.

RBS's insurance businesses are subject to inherent risks involving claims.

Future claims in RBS's general and life assurance businesses may be higher than expected as a result of changing trends in claims experience resulting from catastrophic weather conditions, demographic developments, changes in mortality and other causes outside RBS's control. Such changes would affect the profitability of current and future insurance products and services. RBS re-insures some of the risks it has assumed.

Operational risks are inherent in RBS's business.

RBS's businesses are dependent on the ability to process a very large number of transactions efficiently and accurately. Operational losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper authorisation, failure to comply with regulatory requirements and Conduct of Business rules, equipment failures, natural disasters or the failure of external systems, such as RBS's suppliers or counterparties. Although RBS has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is only possible to be reasonably, but not absolutely, certain that such procedures will be effective in controlling each of the operational risks faced by RBS.

Future growth in RBS's earnings and shareholder value depends on strategic decisions regarding organic growth and potential acquisitions.

RBS devotes substantial management and planning resources to the development of strategic plans for organic growth and identification of possible acquisitions, supported by substantial expenditure to generate growth in customer business. If these strategic plans do not meet with success, RBS's earnings could grow more slowly or decline.

The risk of litigation is inherent in RBS's operations.

In the ordinary course of RBS's business, legal actions, claims against and by RBS and arbitrations arise; the outcome of such legal proceedings could affect the financial performance of RBS.

RBS is exposed to the risk of changes in tax legislation and the interpretation of such legislation and to increases in the rate of corporate and other taxes in the jurisdictions in which it operates.

RBS's activities are subject to tax at various rates around the world computed in accordance with local legislation and practice. Action by governments to increase tax rates or to impose additional taxes would reduce the profitability of RBS. Revisions to tax legislation or to the interpretation of such legislation might also affect RBS's results in the future.

PART III

SELECTED HISTORICAL CONDENSED CONSOLIDATED FINANCIAL DATA OF RBS

Presented below are selected historical condensed consolidated financial data of RBS as of and for each of the years in the five-year period ended 31 December 2006. The data have been extracted without material adjustment from, and should be read together with RBS's audited consolidated financial statements included in, its Annual Report and Accounts for the year ended 31 December 2006.

The selected historical condensed consolidated financial data presented below as of and for the years ended 31 December 2006, 2005 and 2004 were prepared in accordance with IFRS. The financial data presented below as of and for the years ended 31 December 2003 and 2002 were prepared in accordance with U.K. GAAP.

Unless otherwise noted, the per share data are as published and have not been restated to reflect the two for one bonus share issue in May 2007.

	As of and for the year ended 31 December		
	2006	2005	2004
	<i>(millions, except per share data, percentages and ratios)</i>		
	<i>(£)</i>	<i>(£)</i>	<i>(£)</i>
Amounts in accordance with IFRS			
Summary condensed consolidated income statement			
Net interest income	10,596	9,918	9,071
Non-interest income ⁽¹⁾	17,406	15,984	14,320
Total income	28,002	25,902	23,391
Operating expenses ⁽²⁾⁽³⁾⁽⁴⁾	12,480	11,946	10,362
Profit before other operating charges and impairment losses	15,522	13,956	13,029
Insurance net claims	4,458	4,313	4,260
Impairment losses	1,878	1,707	1,485
Operating profit before tax	9,186	7,936	7,284
Tax	2,689	2,378	1,995
Profit for the year	6,497	5,558	5,289
Profit attributable to:			
Minority interests	104	57	177
Preference shareholders	191	109	256
Ordinary shareholders	6,202	5,392	4,856
Summary condensed consolidated balance sheet			
Loans and advances	549,499	487,813	408,324
Debt securities and equity shares	140,755	130,266	98,631
Derivatives and settlement balances	124,106	101,668	23,482
Other assets	57,072	57,080	57,685
Total assets	871,432	776,827	588,122
Shareholders' equity	40,227	35,435	33,905
Minority interests	5,263	2,109	3,492
Subordinated liabilities	27,654	28,274	20,366
Total capital resources	73,144	65,818	57,763
Deposits	516,365	453,274	383,198
Derivatives, settlement balances and short positions	167,588	140,426	51,866
Other liabilities	114,335	117,309	95,295
Total liabilities and equity	871,432	776,827	588,122

	As of and for the year ended 31 December		
	2006	2005	2004
	<i>(millions, except per share data, percentages and ratios)</i>		
	(£)	(£)	(£)
Other financial data			
Earnings per ordinary share (pence)	194.7	169.4	157.4
Earnings per ordinary share – adjusted (pence) ⁽⁵⁾	64.9	56.5	52.5
Diluted earnings per ordinary share (pence) ⁽⁶⁾	193.2	168.3	155.9
Diluted earnings per ordinary share – adjusted (pence) ⁽⁵⁾⁽⁶⁾	64.4	56.1	52.0
Dividends per ordinary share (pence)	77.3	60.6	52.5
Dividends per ordinary share – adjusted (pence) ⁽⁵⁾	25.8	20.2	17.5
Dividend payout ratio ⁽⁷⁾	46%	43%	38%
Share price per ordinary share at year end (£)	19.93	17.55	17.52
Share price per ordinary share at year end – adjusted (£) ⁽⁵⁾	6.64	5.85	5.84
Market capitalisation at year end (£ billion)	62.8	56.1	55.6
Net asset value per ordinary share (£)	11.59	10.14	9.26
Net asset value per ordinary share – adjusted (£) ⁽⁵⁾	3.86	3.38	3.09
Return on average total assets ⁽⁸⁾	0.74%	0.73%	0.94%
Return on average ordinary shareholders' equity ⁽⁹⁾	18.5%	17.5%	18.3%
Average shareholders' equity as a percentage of average total assets	4.4%	4.5%	5.9%
Tier 1 capital ratio	7.5%	7.6%	7.0%
Total capital ratio	11.7%	11.7%	11.7%
Ratio of earnings to combined fixed charges and preference share dividends ⁽¹⁰⁾			
—including interest on deposits	1.62	1.67	1.88
—excluding interest on deposits	6.12	6.05	7.43
Ratio of earnings to fixed charges only ⁽¹⁰⁾			
—including interest on deposits	1.64	1.69	1.94
—excluding interest on deposits	6.87	6.50	9.70

Notes:

- (1) Includes gain on sale of strategic investments of £333 million in 2005.
- (2) Includes loss on sale of subsidiaries of £93 million in 2005.
- (3) Includes integration expenditure of £134 million for the year ended 31 December 2006 (2005: £458 million; 2004: £520 million).
- (4) Includes purchased intangibles amortisation of £94 million for the year ended 31 December 2006 (2005: £97 million; 2004: £45 million).
- (5) Adjusted to reflect the two for one bonus share issue in May 2007.
- (6) All the convertible preference shares have a dilutive effect in 2006 and 2005 and as such have been included in the computation of diluted earnings per share. In 2004, their effect was anti-dilutive.
- (7) Dividend payout ratio represents the interim dividend paid and final dividend proposed as a percentage of profit attributable to ordinary shareholders.
- (8) Return on average total assets represents profit attributable to ordinary shareholders as a percentage of average total assets.
- (9) Return on average ordinary shareholders' equity represents profit attributable to ordinary shareholders expressed as a percentage of average ordinary shareholders' equity.
- (10) For this purpose, earnings consist of income before tax and minority interests, plus fixed charges less the unremitted income of associated undertakings (share of profits less dividends received). Fixed charges consist of total interest expense, including or excluding interest on deposits and debt securities in issue, as appropriate, and the proportion of rental expense deemed representative of the interest factor (one third of total rental expenses).

	As of and for the year ended 31 December	
	2003	2002
	<i>(millions, except per share data, percentages and ratios)</i>	
	(£)	(£)
Amounts in accordance with U.K. GAAP		
Summary condensed consolidated profit and loss account		
Net interest income	8,301	7,849
Non-interest income	10,980	9,167
Total income	19,281	17,016
Operating expenses excluding goodwill amortisation ⁽¹⁾	8,753	8,738
Goodwill amortisation	763	731
General insurance claims (net)	2,195	1,350
Profit before provisions	7,570	6,197
Provisions for bad and doubtful debts	1,461	1,286
Amounts written off fixed asset investments	33	59
Profit on ordinary activities before tax	6,076	4,852
Tax on profit on ordinary activities	1,888	1,582
Profit on ordinary activities after tax	4,188	3,270
Minority interests (including non-equity)	210	133
Preference dividends – non-equity	261	305
Additional Value Shares dividend – non-equity	1,463	798
Profit attributable to ordinary shareholders	2,254	2,034
Summary condensed consolidated balance sheet		
Loans and advances to banks (net of provisions)	51,891	44,296
Loans and advances to customers (net of provisions)	252,531	223,324
Debt securities and equity shares	82,249	68,928
Intangible fixed assets	13,131	12,697
Other assets	54,626	61,793
Total assets	454,428	411,038
Called up share capital	769	754
Share premium account	8,175	7,608
Other reserves	11,307	11,922
Profit and loss account	5,847	4,787
Shareholders' funds	26,098	25,071
Minority interests	2,713	1,839
Subordinated liabilities	16,998	13,965
Deposits by banks	67,323	54,720
Customer accounts	236,963	219,161
Debt securities in issue	41,016	33,938
Other liabilities	63,317	62,344
Total liabilities	454,428	411,038
Other financial data		
Earnings per ordinary share (pence)	76.9	70.6
Earnings per ordinary share – adjusted (pence) ⁽²⁾	25.6	23.5
Diluted earnings per ordinary share (pence) ⁽³⁾	76.3	69.6
Diluted earnings per ordinary share – adjusted (pence) ⁽²⁾⁽³⁾	25.4	23.2
Dividends per ordinary share (pence)	50.3	43.7
Dividends per ordinary share – adjusted (pence) ⁽²⁾	16.8	14.6
Dividend payout ratio	66.1%	62.3%
Share price per ordinary share at period end (£)	16.46	14.88
Share price per ordinary share at period end – adjusted (£) ⁽²⁾	5.49	4.96
Market capitalisation at period end (£ billion)	48.8	43.2
Net asset value per ordinary share (£)	7.82	7.43
Net asset value per ordinary share – adjusted (£) ⁽²⁾	2.61	2.48

	As of and for the year ended 31 December	
	2003	2002
	<i>(millions, except per share data, percentages and ratios)</i>	
	(£)	(£)
Return on average total assets ⁽⁴⁾	0.51%	0.52%
Return on average equity shareholders' funds ⁽⁵⁾	9.8%	8.8%
Average shareholders' equity as a percentage of average total assets . . .	5.9%	6.8%
Tier 1 capital ratio	7.4%	7.3%
Total capital ratio	11.8%	11.7%
Ratio of earnings to combined fixed charges and preference share dividends ⁽⁶⁾		
—including interest on deposits	1.95	1.74
—excluding interest on deposits	7.08	5.20
Ratio of earnings to fixed charges only ⁽⁶⁾		
—including interest on deposits	2.04	1.83
—excluding interest on deposits	9.73	7.24

Notes:

- (1) Includes integration expenditure of £229 million for the year ended 31 December 2003 (2002: £957 million).
- (2) Adjusted to reflect the two for one bonus share issue in May 2007.
- (3) Convertible preference shares have not been included in the computation of diluted earnings per share as their effect was anti-dilutive.
- (4) Return on average total assets represents profit attributable to ordinary shareholders as a percentage of average total assets.
- (5) Return on average equity shareholders' funds represents profit attributable to ordinary shareholders expressed as a percentage of average equity shareholders' funds.
- (6) For this purpose, earnings consist of income before tax and minority interests, plus fixed charges less the unremitted income of associated undertakings (share of profits less dividends received). Fixed charges consist of total interest expense, including or excluding interest on deposits and debt securities in issue, as appropriate, and the proportion of rental expense deemed representative of the interest factor (one third of total rental expenses).

PART IV

SELECTED HISTORICAL CONDENSED CONSOLIDATED FINANCIAL DATA OF ABN AMRO

Presented below are selected historical condensed consolidated financial data of ABN AMRO as of and for each of the years in the five-year period ended 31 December 2006. The data have been extracted without material adjustment from, and should be read together with ABN AMRO's audited consolidated financial statements included in its Annual Report on Form 20-F for the year ended 31 December 2006 and in its Annual Report on Form 20-F for the year ended 31 December 2004.

The financial data for the years ended 31 December 2006, 2005 and 2004 were prepared in accordance with IFRS. The financial data for the years ended 31 December 2003 and 2002 were prepared in accordance with Dutch GAAP.

	As of and for the year ended 31 December		
	2006	2005	2004
	<i>(millions, except per share data, percentages and ratios)</i>		
	(€)	(€)	(€)
Amounts in accordance with IFRS			
Selected consolidated income statement data			
Net interest income	10,575	8,785	8,525
Net fee and commission income	6,062	4,691	4,485
Net trading income	2,979	2,621	1,309
Results from financial transactions	1,087	1,281	905
Share of result in equity accounted investments	243	263	206
Other operating income	1,382	1,056	745
Income of consolidated private equity holdings	5,313	3,637	2,616
Operating income	27,641	22,334	18,791
Operating expenses	20,713	16,301	15,180
Loan impairment and other credit risk provisions	1,855	635	607
Total expenses	22,568	16,936	15,787
Operating profit before tax	5,073	5,398	3,004
Income tax expense	902	1,142	715
Profit from continuing operations	4,171	4,256	2,289
Profit from discontinued operations net of tax	609	187	1,651
Profit for the year	4,780	4,443	3,940
Attributable to shareholders of the parent company	4,715	4,382	3,865
Dividends on ordinary shares	2,153	2,050	1,665
Selected consolidated balance sheet data			
Assets			
Financial assets held for trading	205,736	202,055	167,035
Financial investments	125,381	123,774	102,948
Loans and receivables – banks	134,819	108,635	83,858
Loans and receivables – customers	443,255	380,248	320,022
Total assets	987,064	880,804	727,454
Liabilities			
Financial liabilities held for trading	145,364	148,588	129,506
Due to banks	187,989	167,821	133,529
Due to customers	362,383	317,083	281,379
Issued debt securities	202,046	170,619	121,232

	As of and for the year ended 31 December		
	2006	2005	2004
	<i>(millions, except per share data, percentages and ratios)</i>		
	(€)	(€)	(€)
Capitalisation			
Equity attributable to shareholders of the parent company . .	23,597	22,221	14,815
Equity attributable to minority interests	2,298	1,931	1,737
Subordinated liabilities	19,213	19,072	16,687
Group capital	45,108	43,224	33,239
Other financial data			
Average number of ordinary shares outstanding (millions) . .	1,882.5	1,804.1	1,657.6
Net profit per ordinary share	2.50	2.43	2.33
Fully diluted net profit per ordinary share	2.49	2.42	2.33
Dividends per ordinary share	1.15	1.10	1.00
Dividend payout ratio ⁽¹⁾	46.0%	45.3%	42.9%
Return on average total assets ⁽²⁾	0.50%	0.55%	0.57%
Return on average ordinary shareholders' equity ⁽³⁾	20.7%	23.5%	29.7%
Average ordinary shareholders' equity as a percentage of average total assets	2.38%	2.24%	1.84%
Tier 1 capital ratio ⁽⁴⁾	8.45%	10.62%	8.46%
Total capital ratio ⁽⁴⁾	11.14%	13.14%	11.06%
Ratio of earnings to combined fixed charges only			
—including interest on deposits ⁽⁵⁾	1.19	1.25	1.22
—excluding interest on deposits ⁽⁵⁾	1.54	1.78	1.76

Notes:

- (1) Dividend per ordinary share as a percentage of net profit per ordinary share.
- (2) Profit for the year as a percentage of average total assets.
- (3) Net profit attributable to ordinary shares as a percentage of average ordinary shareholders' equity excluding the reserves with respect to cash flow hedges and available for sale securities.
- (4) Tier 1 capital and total capital as a percentage of risk-weighted assets under Bank for International Settlements guidelines.
- (5) Deposits include bank and total customer accounts.

	As of and for the year ended 31 December	
	2003	2002
	<i>(millions, except per share data, percentages and ratios)</i>	
	(€)	(€)

Amounts in accordance with Dutch GAAP

Selected consolidated income statement data

Net interest revenue	9,723	9,845
Net commissions	4,464	4,639
Results from financial transactions	1,993	1,477
Other revenue	2,613	2,319
Total revenue	18,793	18,280
Operating expenses	12,585	13,148
Provision for loan losses	1,274	1,695
Operating profit before taxes	4,918	3,388
Net profit	3,161	2,207
Net profit attributable to ordinary shares	3,116	2,161
Dividends on ordinary shares	1,589	1,462

	As of and for the year ended 31 December	
	2003	2002
	<i>(millions, except per share data, percentages and ratios)</i>	
	(€)	(€)
Selected balance sheet data		
<i>Assets</i>		
Banks	58,800	41,924
Loans	296,843	310,903
Interest-bearing securities	132,041	141,494
Total assets	560,437	556,018
<i>Liabilities</i>		
Banks	110,887	95,884
Total customer accounts	289,866	289,461
Debt securities	71,688	71,209
<i>Capitalisation</i>		
Fund for general banking risks	1,143	1,255
Shareholders' equity ⁽¹⁾	13,047	11,081
Minority interests	3,713	3,810
Subordinated debt	13,900	14,278
Group capital ⁽¹⁾	31,803	30,424
Other financial data		
Average number of ordinary shares outstanding (millions)	1,610.2	1,559.3
Net profit per ordinary share	1.94	1.39
Fully diluted net profit per ordinary share	1.93	1.38
Dividend per ordinary share	0.95	0.90
Dividend payout ratio ⁽²⁾	49.0%	64.7%
Return on average total assets ⁽³⁾	0.53%	0.36%
Return on average shareholders' equity ⁽⁴⁾	27.7%	20.1%
Average ordinary shareholders' equity as a percentage of average total assets	1.88%	1.74%
Tier 1 capital ratio ⁽⁵⁾	8.15%	7.48%
Total capital ratio ⁽⁵⁾	11.73%	11.54%
Ratio of earnings to combined fixed charges		
—including interest on deposits ⁽⁶⁾	1.36	1.19
—excluding interest on deposits ⁽⁶⁾	2.65	1.82

Notes:

- (1) Pursuant to a directive of the Dutch "Raad voor de Jaarverslaggeving" (Council for Annual Reporting), from 1 January 2003, ABN AMRO calculated shareholders' equity before profit appropriation instead of after profit appropriation, which is how ABN AMRO used to present its financials. The consequence of this new directive is that the profit during the year will be added to shareholders' equity for the full amount until shareholders have approved the proposed profit appropriation. To be able to compare on a like for like basis, ABN AMRO has represented shareholders' equity, group capital and shareholders' equity per ABN AMRO Ordinary Share and per ABN AMRO ADS as at 31 December 2002 before profit appropriation.
- (2) Dividend per ordinary share as a percentage of net profit per ordinary share.
- (3) Net profit as a percentage of average total assets.
- (4) Net profit attributable to ordinary shares as a percentage of average ordinary shareholders' equity.
- (5) Tier 1 capital and total capital as a percentage of risk-weighted assets under Bank for International Settlements guidelines.
- (6) Deposits include bank and total customer accounts.

PART V

PERSONS RESPONSIBLE AND ADVISERS

1 Persons Responsible

The RBS Directors, whose names appear below, and RBS accept responsibility for the information contained in this document. To the best of the knowledge and belief of the RBS Directors and RBS (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 Information Provided by ABN AMRO

RBS confirms that the information relating to ABN AMRO, which has been sourced from information published by ABN AMRO, has been accurately reproduced from those sources and, as far as RBS is aware and is able to ascertain from information published by ABN AMRO, no facts have been omitted which would render the reproduced information inaccurate or misleading.

3 Directors and Advisers of RBS

Directors

Sir Tom McKillop (*Chairman*)
Sir Fred Goodwin (*Group Chief Executive*)
Guy Whittaker (*Group Finance Director*)
Johnny Cameron (*Chief Executive, Corporate Markets*)
Lawrence Fish (*Chairman, Citizens Financial Group, Inc.*)
Mark Fisher (*Chief Executive, Manufacturing*)
Gordon Pell (*Chief Executive, Retail Markets*)
Colin Buchan (*Non-Executive Director*)
Jim Currie (*Non-Executive Director*)
Bill Friedrich (*Non-Executive Director*)
Archie Hunter (*Non-Executive Director*)
Charles “Bud” Koch (*Non-Executive Director*)
Janis Kong (*Non-Executive Director*)
Joe MacHale (*Non-Executive Director*)
Sir Steve Robson (*Non-Executive Director*)
Bob Scott (*Non-Executive Director*)
Peter Sutherland (*Non-Executive Director*)
all of 36 St Andrew Square, Edinburgh EH2 2YB

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Reporting accountants and auditors to RBS

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Registrars

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PART VI

BACKGROUND TO AND REASONS FOR THE OFFER

Background to the Offers

In the ordinary course of managing their respective businesses, each Bank has regularly reviewed and evaluated its business strategy and strategic alternatives, potential acquisitions and business combinations.

During the two-year period covered in this section, as part of its review of non-organic growth opportunities for RBS, the RBS Board discussed a range of strategic opportunities, including the potential benefits of an acquisition of ABN AMRO, at its annual strategy offsite meetings and at a number of other RBS Board meetings.

In February 2005, Sir Fred Goodwin (Group Chief Executive of RBS) met with Mr Rijkman Groenink (Chairman of the Managing Board of ABN AMRO) to exchange views about various issues affecting banking in Europe. They also discussed whether there were any opportunities for a potential combination between the two companies, but nothing further came from this initial discussion.

In the summer of 2005, Sir Fred Goodwin and Mr. Groenink corresponded in connection with ABN AMRO's proposed acquisition of Banca Antonveneta. On 5 July 2005, in reaction to market speculation regarding Italian bank transactions, Sir Fred Goodwin wrote to Mr. Groenink confirming RBS's statement in its 2004 full year results that it had no interest in European cross-border bank acquisitions at that time.

On 31 October 2006, Sir Fred Goodwin wrote to Mr. Groenink regarding market speculation of a potential acquisition of ABN AMRO and to arrange a time to meet with Mr. Groenink to catch up generally. Mr. Groenink responded the next day, and a meeting was scheduled for 9 January 2007.

Between January and March 2007, Santander engaged in preliminary discussions and negotiations with ABN AMRO regarding the possible purchase by Santander of certain discrete businesses in different geographic locations being offered for sale by ABN AMRO. These preliminary discussions and negotiations between Santander and ABN AMRO did not result in the acquisition by Santander of any ABN AMRO Businesses.

On 9 January 2007, Sir Fred Goodwin met Mr. Groenink in Amsterdam, and, during a wide-ranging conversation, discussed whether a combination of parts of the ABN AMRO Group and certain RBS businesses could be attractive. The discussion related to the merits of combining RBS's U.S. operations with ABN AMRO's U.S. retail and commercial banking activities and their respective global corporate banking businesses. Mr. Groenink said that ABN AMRO would approach RBS if it decided to take any action in the United States and indicated that an internal review was underway at ABN AMRO with respect to the issue. It was left with Mr. Groenink to consider the discussion further and he agreed to revert to Sir Fred Goodwin. During these conversations, Mr. Groenink disclosed to Sir Fred Goodwin that ABN AMRO shareholder Tosca Holdings ("Tosca") had met with him to recommend that ABN AMRO merge with RBS. Sir Fred Goodwin confirmed that RBS was not working with Tosca, or, in this regard, with any other ABN AMRO shareholder.

The next day, Sir Fred Goodwin wrote to Mr. Groenink thanking him for the meeting and welcoming Mr. Groenink's thoughts in due course.

On 20 February 2007, a letter from The Children's Investment Fund ("TCI") to ABN AMRO was publicly disclosed, which urged ABN AMRO to actively pursue the potential break up, spin off, sale or merger of ABN AMRO or of its various businesses.

On 8 March 2007, Sir Fred Goodwin telephoned Mr. Groenink to discuss press and market speculation regarding a potential acquisition of ABN AMRO. During that conversation, Sir Fred Goodwin confirmed to Mr. Groenink that RBS was not the source of such speculation and offered to put this in writing to Mr. Groenink. However, he also reiterated a continued interest in working with ABN AMRO to explore the opportunities that might be available by combining RBS's U.S. operations with ABN AMRO's U.S. retail and commercial banking activities and RBS's and ABN AMRO's global corporate banking businesses. The call was concluded with both parties confirming they would give further consideration to the matter.

By letter dated 12 March 2007 to Mr. Groenink, Sir Fred Goodwin further reiterated that RBS was interested in exploring with ABN AMRO any opportunities which might exist in relation to the U.S. or more widely to work together to create value. He also re-confirmed that RBS had no involvement with Tosca.

In the course of regular dialogue, representatives of RBS and Santander held two meetings, in January and March 2007, in which the potential for a joint RBS-Santander acquisition of ABN AMRO was discussed.

On 19 March 2007, Barclays announced that it was in exclusive preliminary discussions with ABN AMRO concerning a potential combination of the two organisations and, on 20 March 2007, announced the principles of any potential combination between ABN AMRO and Barclays.

On 30 March 2007, Merrill Lynch arranged a meeting where Sir Fred Goodwin met with Count Maurice Lippens (Chairman of Fortis) and Mr. Jean-Paul Votron (Chief Executive of Fortis) to discuss a potential joint offer by RBS, Santander and Fortis for ABN AMRO.

During April 2007, representatives of the Banks and their financial adviser Merrill Lynch had a series of meetings during which the Banks agreed to work together on the potential acquisition of ABN AMRO and together formulated the Banks' proposed offer for ABN AMRO. These meetings culminated in the Banks sending a joint letter dated 12 April 2007, to Mr. Arthur Martinez (Chairman of the Supervisory Board of ABN AMRO) and Mr. Groenink, to express their strong interest in putting forward a joint offer for ABN AMRO which the Banks believed would provide ABN AMRO shareholders with immediate and superior value at a materially higher level than Barclays. The letter requested the opportunity to discuss the proposals with ABN AMRO. After the close of the market on 13 April 2007, in response to market and press speculation and a request by the AFM for the Banks to make a public announcement of their proposal to ABN AMRO, the Banks issued a joint announcement confirming the proposal they had made to ABN AMRO. The announcement was published on Regulatory News Service on 16 April 2007.

By letter dated 17 April 2007, ABN AMRO invited the Banks to a meeting on 23 April 2007 to discuss the Banks' proposals, and issued an announcement disclosing this invitation. By letter dated 19 April 2007, the Banks accepted the invitation of Mr. Groenink and Mr. Martinez to meet to clarify the Banks' intentions and interest with respect to ABN AMRO and, on the same day, the Banks issued an announcement confirming that they had agreed to attend the meeting.

On 20 April 2007, Sir Fred Goodwin telephoned Mr. Groenink to discuss the Banks' interest in acquiring ABN AMRO.

On 22 April 2007, there was a call between Count Maurice Lippens and Mr. Groenink concerning the relationship between Fortis and ABN AMRO.

On 23 April 2007, ABN AMRO announced that it had entered into a merger protocol (the "Merger Protocol") with Barclays in respect of a proposed €67 billion offer by Barclays for ABN AMRO that would be recommended by the ABN AMRO Managing and Supervisory Boards (the "ABN AMRO Boards") and that ABN AMRO Bank, an ABN AMRO subsidiary, had also entered into an agreement with Bank of America for the sale of LaSalle to Bank of America for \$21 billion in cash. The proposed offer by Barclays was conditional on the completion of the sale of LaSalle either to Bank of America pursuant to the terms of the Bank of America Agreement or pursuant to a purchase and sale agreement with another party. The Bank of America Agreement included a "go shop" provision that permitted ABN AMRO Bank, for a period of 14 days ending on 6 May 2007, to enter into an alternative acquisition agreement for LaSalle with another bidder, provided that, among other things, such bidder's acquisition proposal was a "superior proposal" in that it was superior from a financial point of view to the Bank of America Agreement, for cash and not subject to a financing condition. The "go shop" provision also required that any alternative acquisition agreement would automatically terminate upon the exercise by Bank of America of its right to match any such superior proposal. The Bank of America Agreement also granted ABN AMRO Bank the right to terminate the Bank of America Agreement if Bank of America failed to exercise its matching right, provided that ABN AMRO Bank simultaneously paid a \$200 million termination fee to Bank of America.

On the same day, ABN AMRO postponed the pre-arranged early afternoon meeting scheduled between the Banks and ABN AMRO, first to later in the afternoon and then to early evening. In reaction to ABN AMRO's announcement, the Banks sent a letter to Mr. Martinez and Mr. Groenink and issued a press release cancelling their meeting that had been arranged for that day. In the letter, the Banks stated that their proposals required the retention of LaSalle by ABN AMRO and requested details of the circumstances under which the sale of LaSalle to Bank of America could be terminated. The Banks also requested access to the same due diligence information provided to Barclays.

On 23 April 2007, Citizens, a wholly owned subsidiary of RBS, received a letter from UBS, on behalf of ABN AMRO, regarding a potential acquisition by Citizens of LaSalle. UBS asked Citizens to confirm that it

would be able to propose a cash purchase price in excess of \$21 billion not subject to financing and that Citizens was prepared to enter into an agreement on terms at least as favourable as the Bank of America Agreement. UBS also sent Citizens a proposed draft of a confidentiality agreement to be executed prior to the commencement of a due diligence review of LaSalle (the “LaSalle Confidentiality Agreement”).

On 24 April 2007, the Banks received a letter from ABN AMRO seeking further details of their proposal for the acquisition of ABN AMRO and suggesting a meeting to discuss them.

On 25 April 2007, Sir Fred Goodwin responded by letter on behalf of the Banks to Mr. Groenink outlining the key terms of the Banks’ proposed offer, including a price indication, and proposing a time to meet in Edinburgh that day. The Banks’ proposals were subject to certain pre-conditions, including LaSalle remaining within the ABN AMRO Group as well as satisfactory completion of a limited due diligence review.

On 25 April 2007, the Banks issued a press release and held a press conference outlining the contents of this proposal. Following the issue of the press release, Sir Fred Goodwin, Mr. Guy Whittaker (Group Finance Director of RBS) and Mr. Votron had various discussions on the proposed offer with Mr. Groenink, Mr. Martinez and Mr. Wilco Jiskoot (a director on the ABN AMRO Managing Board) and other representatives of ABN AMRO.

On the same day, ABN AMRO announced that it would provide the Banks with the same information it had previously provided to Barclays.

On 26 April 2007, ABN AMRO held its annual general meeting at which ABN AMRO shareholders approved (amongst other resolutions) a resolution by TCI that ABN AMRO should “actively pursue any possibilities to sell, spin-off or merge some or all of the major businesses of the [C]ompany to maximize shareholders’ value”. On the same day, the shareholder group VEB filed a suit in the Dutch Enterprise Chamber seeking, among other things, a provisional injunction restraining ABN AMRO and ABN AMRO Bank from proceeding to completion of the sale of LaSalle to Bank of America without the approval of the shareholders of ABN AMRO.

During the same day, Sir Fred Goodwin corresponded with Mr. Martinez to discuss access to be afforded to the Banks to conduct a limited due diligence review of ABN AMRO, consistent with that provided to Barclays. On the same day, ABN AMRO sent the Banks a proposed draft of a confidentiality agreement with respect to such information (the “ABN AMRO Confidentiality Agreement”) to be entered into by ABN AMRO and each Bank. The draft ABN AMRO Confidentiality Agreement contained a standstill provision that would have prevented the Banks from making an offer for ABN AMRO for 12 months without ABN AMRO’s prior written consent. The Banks requested that ABN AMRO remove the standstill provision from the ABN AMRO Confidentiality Agreement and issued a press release that day disclosing the request. Sir Fred Goodwin met with Mr. Martinez after the ABN AMRO annual general meeting to discuss due diligence access and to inform Mr. Martinez that the letter (referred to below) that was being sent by the Banks was of a technical nature in order to satisfy requirements of the Dutch takeover regulations and that the Banks’ preference was to hold direct, constructive discussions with ABN AMRO.

Given that any offer for ABN AMRO made prior to the expiration of the “go shop” period could, under Dutch takeover regulations, be made only on seven days’ notice to ABN AMRO, the Banks provided such notification by letter dated 26 April 2007. On 27 April 2007, the Banks issued a press release announcing the delivery of the notification to ABN AMRO. The same day, ABN AMRO agreed to remove the standstill provision, and the ABN AMRO Confidentiality Agreement was executed. On 28 April 2007, the Banks and ABN AMRO Bank also entered into a definitive LaSalle Confidentiality Agreement regarding a possible acquisition proposal by the Banks.

On 30 April 2007, the Banks delivered a letter to UBS confirming that the Banks were confident that they would be able to make an acquisition proposal for LaSalle that would constitute a superior proposal under the terms of the Bank of America Agreement. Shortly thereafter, the Banks and their advisers were granted access to begin their due diligence review of LaSalle, and the Banks’ legal counsel made preliminary contact with ABN AMRO’s legal counsel.

During the period between 30 April 2007 and 5 May 2007, the Banks met with ABN AMRO to conduct a limited due diligence review of ABN AMRO. Representatives from various ABN AMRO departments, including finance, human resources, legal, risk and compliance, group audit, group risk management, asset and liability management, general counsel and Business Units Latin America, Europe, Netherlands, Asia and Global Markets, met with their counterparts from Fortis, RBS and Santander to

discuss due diligence materials. Representatives from Citizens also met with LaSalle executives to discuss LaSalle's due diligence materials.

By letter dated 1 May 2007, Mr. Groenink asked the Banks to provide additional information regarding, among other things, the financing arrangements in place for the €50 billion cash element of the Banks' indicative offer; how the risks to capital, clients and employees would be managed in a break up of ABN AMRO; how the revenues, capital and group debt of ABN AMRO would be divided by the Banks; and how the capital gains tax, stranded costs and restructuring charges would be borne by the Banks.

In a telephone call on 2 May 2007, ABN AMRO counsel advised RBS counsel that ABN AMRO would be concerned about any cross-conditionality between an acquisition proposal for LaSalle and completion of a public offer for ABN AMRO. ABN AMRO counsel also indicated a willingness to discuss issues relating to the structure of the Banks' proposal before its submission. Later that day, the Banks received a letter from UBS, on behalf of ABN AMRO Bank, inviting them to submit a final binding offer for the acquisition of LaSalle between 2 May 2007 and 4 May 2007 and providing details of the procedures under which the offer should be made. The letter included a draft of a purchase and sale agreement between the Banks and ABN AMRO Bank with respect to LaSalle and the related disclosure schedules. Thereafter, the Banks' respective counsel had a preliminary discussion with ABN AMRO's counsel regarding the terms and structure of the Banks' acquisition proposal for LaSalle, including the fact that the acquisition proposal would be conditional upon the Banks completing an offer to acquire ABN AMRO and the Banks' belief that this was not precluded by the Bank of America Agreement.

On 2 May 2007, representatives of the Banks and Merrill Lynch met with Mr. Hugh Scott-Barrett (then Chief Financial Officer of ABN AMRO) and Mr. Jiskoot, together with representatives of Morgan Stanley and UBS, to discuss the proposed offer. Sir Fred Goodwin joined for part of the meeting.

On 3 May 2007, the Banks sent a letter to Mr. Groenink in response to his letter of 1 May 2007 in which he requested further information regarding the Banks' proposed offer. The Banks answered the questions in Mr. Groenink's letter, including explaining that any offer would not be subject to a financing condition, that Merrill Lynch had confirmed its intention to underwrite the Banks' securities issuances in respect of the €50 billion cash element of the proposed offer and that any changes to ABN AMRO's capitalisation and structure would be made only with regulatory approval following completion of the offer.

On the same day, the Dutch Enterprise Chamber granted VEB a provisional injunction restraining ABN AMRO and ABN AMRO Bank from proceeding to completion of the sale by ABN AMRO Bank of LaSalle to Bank of America without the approval of ABN AMRO shareholders.

Later on 3 May 2007, ABN AMRO counsel called RBS counsel to discuss whether any acquisition proposal by the Banks for LaSalle would be conditional on the completion of a public offer for ABN AMRO. ABN AMRO counsel encouraged the Banks to submit an unconditional acquisition proposal in light of the "various ramifications of a conditional bid". ABN AMRO counsel also indicated that ABN AMRO Bank would seek clarification from the Dutch Enterprise Chamber as to whether its order barred ABN AMRO from continuing the "go shop" process.

On 4 May 2007, Bank of America filed a lawsuit against ABN AMRO in the United States District Court of the Southern District of New York, seeking unspecified monetary damages for breach of representation, an injunction preventing ABN AMRO from negotiating the sale of or selling LaSalle, other than as provided for in the Bank of America Agreement, and an order of specific performance for the delivery of LaSalle to Bank of America. The same day, ABN AMRO asked the Dutch Enterprise Chamber for clarity on whether its preliminary injunction affected the "go shop" deadline provided for in the Bank of America Agreement.

On 4 May 2007, Sir Fred Goodwin, Count Maurice Lippens and Mr. Votron, as representatives of the Banks, met with Mr. Groenink and Mr. Martinez over dinner in Amsterdam to discuss the Banks' proposal for LaSalle and to explain how their proposal was superior to the Barclays proposed offer and the Bank of America agreement to acquire LaSalle.

In a 5 May 2007 letter, in accordance with the "go shop" provision of the Bank of America Agreement, the Banks submitted to both ABN AMRO's and ABN AMRO Bank's Boards their acquisition proposal to acquire LaSalle for \$24.5 billion in cash, not subject to financing, but conditional on the completion of a proposed public offer to be made by the Banks for ABN AMRO. The letter enclosed a confidential memorandum describing the details of the proposed public offer that the Banks would make for ABN AMRO if the Banks' acquisition proposal for LaSalle were accepted, including the price of €38.40 per share. The memorandum also described the rationale for the proposed offer, the Banks' plans with

respect to ABN AMRO, the expected benefits of the offer to customers and employees, the low execution risk of the offer and the financing of the offer consideration.

Included with the Banks' acquisition proposal was a purchase and sale agreement for LaSalle in the form that the Banks were prepared to execute. The agreement included a provision requiring the approval of ABN AMRO shareholders for the acquisition of LaSalle and a mutual termination right in the event that ABN AMRO recommended or pursued an alternative transaction involving the acquisition of ABN AMRO. In addition to the closing conditions included in the Bank of America Agreement, the agreement proposed by the Banks included conditions relating to the receipt of Fortis shareholder approval and the absence of any litigation arising out of or related to the Bank of America Agreement. The Banks also indicated that they were prepared to enter into a merger protocol with ABN AMRO that would outline the terms of their proposed public offer for ABN AMRO. By its terms, the Banks' acquisition proposal was to expire at 11:59 p.m. (New York City time) on 6 May 2007.

Throughout 5 and 6 May 2007, the Banks, Merrill Lynch and the Banks' respective legal advisers had discussions by telephone and correspondence with ABN AMRO and its financial and legal advisers regarding the acquisition proposal for LaSalle and the proposed offer for ABN AMRO. On 5 May 2007, ABN AMRO counsel asked RBS counsel to eliminate the conditions relating to the Bank of America litigation and the Fortis shareholder vote. ABN AMRO counsel and financial advisers also expressed dissatisfaction with the inter-conditionality between the Banks' acquisition proposal for LaSalle and the proposed offer to acquire ABN AMRO. The Banks' legal counsel and Merrill Lynch explained, however, that the inter-conditionality was not precluded by the Bank of America Agreement.

Later that day, RBS counsel sent a letter on behalf of the Banks to ABN AMRO stating that the Banks would eliminate the conditions relating to the Bank of America litigation and the Fortis shareholder vote. ABN AMRO counsel subsequently requested that the inter-conditionality also be eliminated and, on 6 May 2007, confirmed that request in writing.

During the afternoon (London time) of 6 May 2007, the Banks responded to a number of legal questions submitted by Morgan Stanley, on behalf of ABN AMRO. The Banks then received an email from Morgan Stanley and UBS, again on ABN AMRO's behalf, attaching a list of 31 detailed questions on the Banks' proposed offer for ABN AMRO. In response, a representative of Merrill Lynch sent Morgan Stanley and UBS an email to the effect that the Banks had provided sufficient information for ABN AMRO to be able to determine that the Banks' acquisition proposal was a superior proposal and that the Banks would provide confirmatory due diligence on the financing of the proposed offer if ABN AMRO accepted their offer in principle.

The parties' respective legal counsel continued to negotiate the terms of the purchase and sale agreement for LaSalle into the night of 6 May 2007, ahead of the expiry of the "go shop" provision at 11:59 p.m. (New York City time) and resolved substantially all the open issues in the purchase and sale agreement for LaSalle other than those that related to the inter-conditionality between the Banks' acquisition proposal for LaSalle and the Banks' proposed public offer to acquire ABN AMRO.

The Banks informed ABN AMRO through telephone calls and emails between Merrill Lynch, UBS and Morgan Stanley, and between Sir Fred Goodwin and Mr. Martinez and Mr. Groenink in the evening of 6 May 2007, that they were not prepared to remove the inter-conditionality between their acquisition proposal for LaSalle and their proposed public offer for ABN AMRO, that the interconditionality was not precluded by the Bank of America Agreement and that the Banks' offer for LaSalle was superior.

Later that night, UBS emailed Merrill Lynch to inform the Banks that the ABN AMRO Boards did not accept the inter-conditionality of the acquisition proposal and the proposed offer and therefore would not consider the Banks' acquisition proposal for LaSalle to be a superior proposal within the terms of the "go shop" provision.

On 7 May 2007, the Banks confirmed by press release that they had submitted an acquisition proposal for LaSalle to ABN AMRO on 5 May 2007, which had been rejected by ABN AMRO on 6 May 2007. In particular, the Banks noted that their proposed price for LaSalle was materially greater than the price that Bank of America had agreed to pay and would have led to a public offer from the Banks for ABN AMRO on terms consistent with the indicative proposals announced on 25 April 2007.

From the week commencing 7 May 2007 until the week ending 8 June 2007, there was intermittent contact between representatives of RBS, Santander and their advisers and Bank of America and its legal advisers regarding the possibility of resolving the situation with respect to the sale of LaSalle, in

particular regarding a possible split of the LaSalle business between RBS and Bank of America. As at the date of this document, discussions are not ongoing.

On 14 May 2007, at the request of the AFM and ABN AMRO, the Banks issued a press release to clarify certain aspects of the Banks' acquisition proposal for LaSalle submitted to ABN AMRO on 5 May 2007, including the proposed purchase price of \$24.5 billion. At the request of the AFM, ABN AMRO and the Banks also disclosed on their websites a number of previously non-public documents, including letters between the Banks and ABN AMRO and the draft purchase and sale agreement. The Banks' press release also stated that the Banks' proposals for the acquisition of ABN AMRO were still under consideration by the Banks and remained conditional, among other things, on LaSalle remaining within the ABN AMRO Group. The Banks stated that under the timetable set by the Dutch public offer rules, the Banks would make a further statement regarding their position on or before 27 May 2007.

On 15 May 2007, ABN AMRO filed an appeal in the Supreme Court of the Netherlands requesting that the Supreme Court nullify the decision of the Dutch Enterprise Chamber issued on 3 May 2007. On the same date, both Bank of America and Barclays also filed an appeal seeking similar relief with the Supreme Court of the Netherlands.

On 19 May 2007, Sir Fred Goodwin spoke with Mr. Martinez regarding progressing the Banks' proposed offer for ABN AMRO.

On 24 May 2007, executives from the Banks held preliminary discussions on their proposals in relation to ABN AMRO with ABN AMRO's Works Council. These discussions were continued on 4 June 2007.

On 25 May 2007, the Banks issued a press release announcing that, in light of the forthcoming bank holiday on Monday, 28 May 2007 in the Netherlands, Belgium and the United Kingdom, the Banks would make an announcement on 29 May 2007, rather than 27 May 2007, as previously indicated, clarifying whether or not, and if so under what circumstances, the Banks would make an offer for ABN AMRO.

Sir Fred Goodwin having advised Mr. Groenink and Mr. Martinez in advance by telephone, the Banks sent a letter dated 28 May 2007, confirming to ABN AMRO their intention to announce an offer on 29 May 2007 and enclosing a draft of the announcement to be released on 29 May 2007. The letter explained that the Banks' proposed offer was substantially the same as in the confidential memorandum dated 5 May 2007, but also indicated that the Banks intended to defer €1.00 of cash per ABN AMRO share from the proposed consideration pending resolution of the situation with respect to the sale of LaSalle. The letter also outlined the benefits of the Banks' proposals to ABN AMRO shareholders, employees and other stakeholders.

On 29 May 2007, the Banks announced their proposed offer for ABN AMRO and held investor and press conferences about the proposed offer. Among other things, the Banks confirmed the following terms of the proposed offer:

- €30.40 in cash plus 0.844 RBS ordinary shares for each ABN AMRO ordinary share (including €1.00 in cash to be retained by the Banks pending resolution of the situation with respect to the sale of LaSalle);
- Valued at €38.40 per ABN AMRO ordinary share, a 13.7% premium to the value of Barclays' proposed offer (based on the price of Barclays ordinary shares of 712.5p at the close of business on 24 April 2007, the day before the Banks first announced details of their proposals including a price indication, and the price of RBS ordinary shares of 642.5p at the close of business on 25 May 2007, the last full trading day prior to the announcement of the terms of the proposed offer);
- Total value of €71.1 billion; €8.6 billion higher than Barclays' proposed offer (based on an undiluted number of shares, and on the price of Barclays ordinary shares of 712.5p at the close of business on 24 April 2007, the day before the Banks first announced details of their proposals including a price indication, and on the price of RBS ordinary shares of 642.5p at the close of business on 25 May 2007, the last full trading day prior to the announcement of the terms of the proposed offer);
- Approximately 79% of the consideration in cash, providing greater certainty of value than Barclays' proposed offer;
- Proposed offer not subject to any financing condition, with capital raisings fully underwritten; and
- Proposed offer conditional, among other things, on the Dutch Supreme Court upholding the provisional injunction granted by the Dutch Enterprise Chamber on 3 May 2007 restraining ABN AMRO and ABN AMRO Bank from selling LaSalle to Bank of America without the prior approval

of ABN AMRO shareholders and the result of the ABN AMRO shareholder vote on the sale of LaSalle to Bank of America.

On 30 May 2007, in response to the Banks' offer announcement, ABN AMRO issued a press release stating that it had formed a Transaction Committee that would liaise with the Managing Board and key staff and advisers of ABN AMRO on an ongoing basis on all matters with respect to the proposed offers by Barclays and the Banks or other potential bidders.

Throughout June 2007, following the announcement of the terms of the proposed offer, UBS and Morgan Stanley (on behalf of ABN AMRO) and Merrill Lynch (on behalf of the Banks) had intermittent contact, none of which was substantive, to discuss the terms of the Banks' proposed offer.

By letter dated 4 June 2007, ABN AMRO advised the Banks that the ABN AMRO Boards were in the process of considering the Banks' proposed offer, requested clarification of various points and proposed a meeting between ABN AMRO's working team and the Banks for the week beginning 11 June 2007. Enclosed was a preliminary list of questions intended, according to the letter, to elicit information that would enable ABN AMRO to assess the likelihood that the Banks would obtain the necessary shareholder approvals to complete the proposed offer and to give ABN AMRO a better understanding of the Banks' plans for the split of the ABN AMRO business units in the Netherlands. The letter also noted that any interaction between the Banks and ABN AMRO must be predicated on preserving the rights and obligations under ABN AMRO's Merger Protocol with Barclays and the Bank of America Agreement.

By letter dated 5 June 2007, RBS (on behalf of the Banks) responded, stating that the Banks were willing to meet with ABN AMRO to discuss the proposed offer earlier than the week beginning 11 June 2007. The letter also requested further clarification from ABN AMRO regarding the Transaction Committee formed by ABN AMRO the previous week, as well as the implications of ABN AMRO's reference to "preserving the rights and obligations under [the] Merger Protocol". The Merger Protocol had not been made public at that stage.

On 7 June 2007, Mr. Votron spoke with Mr. Jiskoot regarding valuation issues with respect to the Banks' proposed offer and ABN AMRO's Transaction Committee.

By a letter dated 8 June 2007, Mr. Groenink responded to RBS's 5 June 2007 letter, stating that the Barclays Merger Protocol (which would be publicly filed early in the week commencing 11 June 2007) contained no provisions preventing ABN AMRO from seeking clarifications or prohibiting the ABN AMRO Boards from recommending to ABN AMRO's shareholders a superior competing offer to that of Barclays; however, the ABN AMRO Boards were not in a position to engage in a dialogue with the intent to recommend the Banks' proposed offer for ABN AMRO as it was conditional upon LaSalle not being sold. Mr. Groenink also suggested further meetings with him and Mr. Martinez if the Banks felt it necessary after review of the Merger Protocol and reiterated ABN AMRO's proposal for a meeting between ABN AMRO's working team and the Banks.

On 12 June 2007, Sir Fred Goodwin and Mr. Groenink met in Amsterdam to further discuss the terms of the Banks' proposal. The following day, Mr. Gilbert Mittler (Chief Financial Officer of Fortis), Mr. Whittaker, Mr. José A. Álvarez (Chief Financial Officer of Santander) and a representative of Merrill Lynch met with Mr. Jiskoot and representatives of Morgan Stanley and UBS to discuss the Banks' proposed offer in further detail, to answer the questions set out in Mr. Groenink's letter and to discuss the basis for cooperation between ABN AMRO and the Banks regarding their proposed offer.

Between 18 June and 20 June 2007, UBS contacted Merrill Lynch several times by email, on ABN AMRO's behalf, to request additional information and to clarify certain issues with respect to the Banks' proposed offer, in order to better understand the proposed offer so that the ABN AMRO Boards could determine whether to recommend the proposed offer. On 20 June 2007, UBS sent an email to Merrill Lynch confirming that other than the wording of the "material adverse change" clause in the Banks' proposed offer and ABN AMRO's request to have access to, for verification purposes, the Banks' funding and/or underwriting agreements, ABN AMRO and UBS had no further major outstanding questions about the Banks' proposed offer at that stage.

On 4 July 2007, Mr. Votron and Mr. Jiskoot met to discuss the merits of the Banks' proposed offer, valuation issues and the impact of the Transaction on clients and others.

On 10 July 2007, Mr. Groenink sent Sir Fred Goodwin a letter commenting on the Banks' plans for the Dutch businesses of ABN AMRO, suggesting a further meeting between the Banks and Mr. Jiskoot and offering to provide detailed management accounting information relating to ABN AMRO. Sir Fred

Goodwin replied the next day, welcoming the opportunity to meet and obtain further information relating to ABN AMRO as a helpful step forward as part of a constructive dialogue between ABN AMRO and the Banks.

On 11 July 2007, Mr. Groenink called Sir Fred Goodwin regarding VEB's 10 July 2007 submission to the Dutch Enterprise Court requesting the appointment of independent directors to ABN AMRO's Supervisory Board. Sir Fred Goodwin confirmed that RBS did not support that strategy. Mr. Martinez called Sir Fred Goodwin later, when the same matters were discussed.

On 13 July 2007, the Dutch Supreme Court overruled the Dutch Enterprise Chamber's injunction restraining ABN AMRO and ABN AMRO Bank from proceeding to completion of the sale by ABN AMRO Bank of LaSalle to Bank of America without the approval of ABN AMRO's shareholders. The Dutch Supreme Court decision did not deal with VEB's request to the Enterprise Chamber for an investigation into the policy of ABN AMRO as from 1 January 2006; this request is still pending before the Enterprise Chamber. Soon after the announcement of the Dutch Supreme Court's decision, ABN AMRO announced its intention to complete the sale of LaSalle to Bank of America.

On the same day, Mr. Groenink called Sir Fred Goodwin to seek clarification of the Banks' position following the Dutch Supreme Court's ruling. Sir Fred Goodwin confirmed that the Banks would clarify their position shortly. During a subsequent telephone conversation, Sir Fred Goodwin advised Mr. Martinez that the Banks intended to make a revised offer which would be materially higher than Barclays' proposed offer and that it would be a condition of that revised offer that ABN AMRO did not make any further disposals of a material part of its business or assets. Mr. Martinez confirmed that ABN AMRO would treat any revised offer by the Banks for ABN AMRO, without LaSalle, on a level playing field with Barclays' proposed offer. There was a subsequent follow up call between Mr. Groenink and Sir Fred Goodwin.

Later that day, the Banks wrote to Mr. Martinez and Mr. Groenink confirming that they still intended to bid for ABN AMRO, that their bid would be conditional, amongst other things, upon there being no further disposals by ABN AMRO of a material part of its business or assets, and that it remained the Banks' preference to work with the ABN AMRO Boards to secure their recommendation for the Banks' proposals. The Banks also issued a press release confirming their intention to proceed with a revised bid for ABN AMRO excluding LaSalle.

On 15 July 2007, during separate telephone conversations with each of Mr. Martinez and Mr. Groenink, Sir Fred Goodwin confirmed that the Banks would be making a revised proposed offer at €38.40 per ABN AMRO ordinary share. Mr. Martinez and Mr. Groenink each reconfirmed that this revised proposed offer would be treated on a level playing field with Barclays' proposed offer and that ABN AMRO had no intention of making any major assets disposals at the current time.

Sir Fred Goodwin indicated in the foregoing calls that the Banks would make reference in their announcement to the assurance regarding a level playing field.

On 16 July 2007, the Banks issued an announcement confirming their intention to proceed with their revised proposed offer for ABN AMRO on the following terms, amongst others:

- €35.60 in cash plus 0.296 RBS ordinary shares for each ABN AMRO ordinary share;
- Valued at €38.40 per ABN AMRO ordinary share, with a total value of €71.1 billion;
- Approximately 93% of the consideration in cash, providing greater certainty of value than Barclays' proposed offer;
- No pre-conditions or conditions relating directly to claims arising from the sale of LaSalle and no element of contingent consideration; and
- Conditional upon ABN AMRO not having made or agreed to make any acquisitions or disposals of a material part of its business or assets, with the exception of the disposal of LaSalle.

Further to the letter received by the Banks on 10 July 2007 from ABN AMRO, on 16 July 2007, representatives of RBS and Fortis met with ABN AMRO representatives to discuss and share limited historical management accounting information for periods in 2005 and 2006 relating to ABN AMRO's business units.

On 18 July 2007, ABN AMRO issued a press release acknowledging receipt of the Banks' revised proposed offer. In the press release, ABN AMRO confirmed it would discuss the revised proposed offer

with the Banks, and that, under the terms of the Merger Protocol, it would also discuss with Barclays its offer and the implications of the Banks' revised proposed offer. ABN AMRO also confirmed that it would assess the proposed offers in a fair and transparent manner and that it had no intention of making any major asset disposals at that time.

On the same day, during telephone conversations between Mr. Groenink and Sir Fred Goodwin, Mr. Groenink confirmed that the Banks' revised proposed offer would be assessed in a fair and transparent manner and that ABN AMRO had no intention of making any major asset disposals at that time. Mr. Groenink and Sir Fred Goodwin also discussed VEB's 10 July 2007 submission to the Dutch Enterprise Court requesting the appointment of independent directors to ABN AMRO's Supervisory Board.

In addition, there has been other intermittent contact, none of which was substantive, between representatives of the Banks and ABN AMRO and their respective advisers.

Reasons for the Offers

The statements in this Part VI which are attributed to the Banks have been derived from statements made by the Banks in the public announcements relating to their proposed offer for ABN AMRO on 29 May 2007.

The information set out below relating to ABN AMRO and the ABN AMRO Group has been sourced from ABN AMRO's Annual Report and Accounts for the years ended 31 December 2005 and 31 December 2006 and a publicly available ABN AMRO Investor Day Presentation from 2005 entitled "Opening up WCS to the Group". As the ABN AMRO Businesses do not correspond precisely to the Business Unit definitions in ABN AMRO's Annual Report and Accounts for the year ended 31 December 2006, certain information below is derived from estimates of the financial information attributable to such businesses.

ABN AMRO, the Banks believe, contains good businesses and customer franchises widely spread across a range of attractive markets. However, ABN AMRO has acknowledged the opportunity for it to deliver greater benefits for its customers and employees and generate growth and additional value for its shareholders by combining with a partner and selling parts of the ABN AMRO Group.

The Banks believe that they have a comprehensive strategic fit with ABN AMRO across its activities. The Banks expect that, following their acquisition of ABN AMRO, they will be able to create stronger businesses with enhanced market presence and growth prospects, leading to substantial value creation and benefits for shareholders, customers and employees. The Banks have the financial and management resources to invest in and grow the ABN AMRO Businesses and have proven records of growing their own businesses. Implementation of the Banks' respective measures to realise projected synergies is expected to enhance profitability and allow the Banks to invest further in customer-facing areas, as they have done in their own businesses.

The Banks believe the inclusion within their groups of the ABN AMRO Businesses will create substantial value for shareholders through cost savings and revenue benefits. In 2006, ABN AMRO's cost:income ratio was 69.6%, compared to 61.2% for Fortis Bank, 42.1% for RBS and 48.5% for Santander. The Banks believe that the combinations of complementary and overlapping businesses will enable substantial rationalisation of costs. In aggregate, it is expected that the Banks' cost savings, before tax, will reach approximately €3.46 billion per annum by the end of 2010.

While the expected cost saving opportunities underpin the potential value creation, the Banks also believe that there are considerable opportunities for them to create sustainable increases in profitable revenue growth. The Banks believe that relatively limited scale and resources, combined with a lack of focus, have made it difficult for ABN AMRO to take advantage of the many growth opportunities across its broad range of attractive but widely-spread franchises, products and geographies. The combination of complementary businesses and capabilities will create additional opportunities for growth which are not available to ABN AMRO alone, or to any single buyer. The Banks have the resources to capitalise on these opportunities for growth. The Banks estimate that the aggregate revenue benefits identified, net of associated costs and impairment losses, before tax, will be approximately €0.85 billion per annum by the end of 2010.

The Banks believe that, because of their collective presence in and understanding of the broad range of markets in which ABN AMRO operates, and because of their proven track records of successful acquisitions and delivery of promised results, their acquisition of ABN AMRO will have lower integration risk than its acquisition by a single buyer.

The Banks expect that the stronger businesses created by combining the ABN AMRO Businesses with their own complementary operations will generate benefits for customers and employees. The enhanced presence, product strengths and distribution capabilities of these strengthened businesses are expected to deliver benefits to customers, who will also gain from the increased scale and efficiency of the businesses that serve them. The Banks also believe that the stronger businesses resulting from the Transaction will create sustainable platforms for increased job creation and enhanced opportunities for employees.

Businesses to be Acquired

Upon successful completion of the Offers, the ABN AMRO Businesses are to be acquired by RFS Holdings, a company formed by the Banks and to be controlled by RBS. Following completion of the Offers, an orderly reorganisation is expected to result in the following ownership:

- RBS: Continuing businesses of Business Unit North America following the sale of LaSalle, Business Unit Global Clients and wholesale clients in the Netherlands (including former Dutch wholesale clients) and Latin America (excluding Brazil), Business Unit Asia (excluding Saudi Hollandi) and Business Unit Europe (excluding Antonveneta).
- Fortis: Business Unit Netherlands (excluding former Dutch wholesale clients, Interbank and DMC Consumer Finance), Business Unit Private Clients globally (excluding Latin America), and Business Unit Asset Management globally.
- Santander: Business Unit Latin America (excluding wholesale clients outside Brazil), Antonveneta, Interbank and DMC Consumer Finance.
- Shared Assets: Head Office and central functions, private equity portfolio, stakes in Capitalia and Saudi Hollandi, and Prime Bank.

The split of businesses shown above is based upon the Business Units as defined in ABN AMRO's Annual Report and Accounts for the year ended 31 December 2006.

RBS believes that the acquisition of the ABN AMRO Businesses will enhance the RBS Group's prospects for growth, both by enabling it to accelerate existing strategies for growth and by providing attractive new opportunities.

Global Wholesale Businesses

The combination of RBS Global Banking & Markets ("GBM") and ABN AMRO's Global Wholesale Businesses will create a leading corporate and institutional business with both scale and global reach, and with significantly enhanced growth prospects. For the purposes of this document, ABN AMRO's Global Wholesale Businesses consist of Business Unit Global Clients and the wholesale clients in Business Unit Europe (excluding Antonveneta), Business Unit Asia and the continuing businesses of Business Unit North America and wholesale clients in the Netherlands and Latin America, excluding Brazil.

GBM has over recent years established a strong platform for growth outside the United Kingdom in Continental Europe, the United States and the Asia-Pacific region, with scale in financing and risk management products and with deep customer relationships. GBM is now focused on leveraging this platform by adding new customers in existing geographic areas and by achieving greater geographic reach. ABN AMRO's Global Wholesale Businesses, while lacking scale in some important products, have extensive geographic reach and large but relatively under-developed customer franchises in Continental Europe, the United States and Asia. In the combined business, GBM expects to generate greater value from ABN AMRO customer relationships by applying its relationship-driven model, which has delivered significantly higher revenue per customer and revenue per employee metrics.

ABN AMRO is one of a small number of banks with a strong global capability in international cash management, payments and trade finance. These products often form the foundation of long-term relationships which should provide opportunities for GBM to sell other, higher value products. In

addition, GBM expects to be able to enhance its customer relationships by offering ABN AMRO's stronger products and capabilities in cash management and trade finance.

In North America, GBM has been implementing a strategy with the objective of becoming a top five corporate bank. RBS believes that the combination with ABN AMRO's Global Wholesale Businesses will enable GBM to accelerate the implementation of this strategy. In addition to the significant opportunity to grow the large corporate and institutional franchise in the United States, the combined business is expected to be able to deliver a full range of financial and risk management solutions to mid-corporate customers.

A current objective for GBM is to increase its exposure to high growth markets in Asia and the Middle East. RBS believes that the acquisition of ABN AMRO's Global Wholesale Businesses will enable GBM to make substantial progress on this objective, and will give GBM opportunities to sell a broader range of products to ABN AMRO's large but relatively under-developed corporate customer base in these areas. At the same time, the acquisition of the ABN AMRO Global Wholesale Businesses should enable GBM to increase its exposure to high growth areas such as emerging markets and equity derivatives.

In Latin America, RBS will acquire ABN AMRO's global clients and, except in Brazil, corporate customers and the branches that support them. Although relatively small, this presence and capability in Latin America is expected to enable GBM to enhance relationships with corporate customers operating in this region.

Based on 2006 data, the combined business would have top five positions across a broad range of products and a presence in over 50 countries and it would be ranked the number one corporate and institutional bank in the United Kingdom and Continental Europe and the number five corporate and institutional bank in the United States and Asia (excluding Japan), by client relationships. RBS believes that this combination of product strengths and leading customer franchises globally will give GBM enhanced competitive advantage in a market that is consolidating, and will provide a strong platform for organic growth.

International Retail Businesses

RBS expects that the combination of ABN AMRO's retail businesses in Asia and the Middle East and RBS's credit card and wealth management operations will create a valuable opportunity to build retail businesses in selected countries with large populations and high growth rates. For the purposes of this document, ABN AMRO's International Retail Businesses consist of the retail activities in Business Unit Asia and Business Unit Europe, excluding Antonveneta.

In Asia, RBS's wealth management business is growing strongly from its locations in Hong Kong and Singapore, serving a rapidly growing number of affluent customers in the region. RBS has also established partnership businesses with Bank of China in credit cards and wealth management. Across ABN AMRO's branch network in Asia, the Middle East and Europe are retail activities, offering retail banking products including current accounts and credit cards, and an affluent banking proposition. While RBS is of the view that these retail activities are thinly spread, RBS believes that there will be opportunities to build businesses in selected countries with large populations and high growth rates, accelerating RBS's wealth management strategy and adding the capability to distribute credit cards, and potentially a broader product range.

Diversification by Geography

The acquisition of the ABN AMRO Businesses is expected to increase RBS's geographic diversity and will strengthen its platform for growth outside the United Kingdom. On the basis of 2006 results, and full transaction benefits, the proportion of RBS's operating profit coming from outside the United Kingdom will increase from 42% to approximately 47%.

Cost Savings and Revenue Benefits

RBS believes that the combination of its and the ABN AMRO Businesses creates the opportunity for significant cost savings and revenue benefits. RBS believes that it will deliver cost savings amounting to €1,237 million (or €1,319 million, including its share of central cost savings), or 23% of the 2006 costs associated with the relevant ABN AMRO Businesses and net revenue benefits amounting to €481 million, or 8% of the 2006 income associated with the relevant ABN AMRO Businesses, in the third

year after completion of the Offers. RBS expects the total integration costs to be €2.57 billion (€2.73 billion including RBS's share of central integration costs).

The following table sets out the pre-tax benefits that RBS expects to gain within three years of completion of the Offers as a result of the integration of the relevant ABN AMRO Businesses. For further information about the plans and proposals of RBS for achieving these benefits, see "Plans and Proposals for ABN AMRO – RBS".

	Estimated Cost Savings per Annum by end of 2010	Estimated Net Revenue Benefits per Annum by end of 2010
	<i>(euro millions)</i>	<i>(euro millions)</i>
Global Wholesale Businesses	1,237	481
International Retail Businesses	—	—
Shared Assets	82	—
Total	1,319	481

Expected Financial Impact

Based on RBS's forecasts for business growth and transaction benefits, the acquisition of the ABN AMRO Businesses is expected to lead to 7.0% accretion in adjusted earnings^(a) per RBS Ordinary Share and to produce a return on investment^(b) of 13.2% in the third year after completion of the Offers. The internal rate of return of the Transaction is expected to be 15.5% post tax.

Allowing for the acquisition of the relevant ABN AMRO Businesses, RBS's Tier 1 capital ratio is expected to be approximately 7.4%^(c) at the end of 2007.

Notes:

- (a) Adjusted for purchased intangibles amortisation and integration costs.
- (b) Return on investment defined as profit after tax plus post-tax transaction benefits over consideration plus post-tax integration costs.
- (c) On a pro forma proportional consolidated basis Tier 1 ratio is expected to be 7.1%.

Cautionary Statement

The foregoing discussion is based on assumptions regarding the revenue benefits, cost savings and business growth opportunities RBS expects to achieve following the Transaction. However, these expected revenue benefits, cost savings and business growth opportunities may not develop. There can be no assurance that RBS will be able to successfully implement the strategic or operational initiatives that are intended. See also "Forward-Looking Statements" and "Risk Factors".

PART VII

PLANS AND PROPOSALS FOR ABN AMRO

Unless otherwise stated, the statements in this Part VII which are attributed to the Banks have been derived from statements made by the Banks in the public announcements relating to their proposed offer for ABN AMRO on 29 May 2007.

Overview

Immediately upon completion of the Offers, ABN AMRO will be owned by the Banks through RFS Holdings and will be a subsidiary undertaking of RBS. However, there will be no immediate change to the structure or operations of ABN AMRO. Subject to legal and regulatory requirements, a limited number of senior appointments will be made by the Banks to the Managing Board and the Group Business Committee of ABN AMRO. The Banks' immediate priority will be to ensure that the organisation continues to provide high quality service to its customers and to meet all regulatory requirements.

RBS will co-operate with Bank of America to ensure an orderly separation of LaSalle and the continuing businesses of Business Unit North America.

Following completion of the Offers, the Banks will work with the management of ABN AMRO to verify and expand the information received from, and assumptions made on the basis of, the limited due diligence access granted before announcement of the Offers. Within 45 days of completion of the Offers, the Banks intend to have validated a base-lined plan for the achievement of synergies and for the separation and transfer of the ABN AMRO Businesses to the respective banks. This plan will form the basis for continued consultation with employee bodies and regulators with whom there have already been extensive discussions as part of an ongoing process. Implementation of the plan will begin only when the necessary approvals have been received.

To the extent considered appropriate by the Banks, as an interim step towards the separation of the ABN AMRO Businesses, ABN AMRO will be reorganised into three units containing the businesses that will ultimately be transferred to the respective banks. A fourth unit will contain the Head Office functions and assets which are regarded as non-strategic.

Additionally, as soon as reasonably practicable, certain businesses which can readily be separated will be legally transferred to the respective banks. Fortis and RBS will work together to separate the Netherlands retail and commercial banking operations from the global wholesale banking operations. The former will be transferred to Fortis while the latter will be owned by RBS. The separation and transfer of businesses will be subject to regulatory approval and appropriate consultation processes with employees, employee representatives and other stakeholders.

Information technology systems will in general be separated and transferred with the businesses they support. However, where appropriate, the Banks may take advantage of opportunities to create greater economic value by sharing platforms.

During the reorganisation, the Banks will retain a shared economic interest in all central functions (including Head Office functions) that provide support to the ABN AMRO Businesses. The Banks will also retain shared economic interests in certain assets and liabilities of ABN AMRO which the Banks regard as non-strategic. These include ABN AMRO's private equity portfolio, its stakes in Capitalia and Saudi Hollandi, and Prime Bank. These are expected to be disposed of over a period of time with a view to maximising value.

The Banks believe that the structure they intend to implement following completion of the Offers will strengthen the ABN AMRO Businesses.

The Banks believe that holders of ABN AMRO's debt securities will, in general, benefit from the expected positive impact of the Transaction on ABN AMRO's credit profile.

At the outset, the entire portfolio of ABN AMRO derivative transactions will be managed to ensure that all the derivative risk management needs of the component ABN AMRO Businesses are satisfied. In time, there will be an orderly migration of transactions to the appropriate trading entities of the Banks in line with normal novation or assignment processes.

Unless otherwise stated, the information set out below relating to ABN AMRO and the ABN AMRO Group has been sourced from ABN AMRO's Annual Report and Accounts for the years ended 31 December 2005 and 31 December 2006 and a publicly available ABN AMRO Investor Day Presentation from 2005 entitled "Opening up WCS to the Group". As the ABN AMRO Businesses do not correspond precisely to the Business Unit definitions in ABN AMRO's Annual Report and Accounts for the year ended 31 December 2006, certain information below is derived from estimates of the financial information attributable to such businesses.

ABN AMRO's Global Wholesale Businesses

ABN AMRO has a large wholesale banking business with a global footprint and corporate banking operations in 53 countries. In addition to established positions with large numbers of customer relationships in Europe and the United States, ABN AMRO is present in emerging markets through offices in 11 countries in Asia, five countries in Eastern Europe and seven countries in Latin America.

ABN AMRO is one of a small number of banks with the global reach and product capability to be effective in international cash management, payments and trade finance. Through these transactional banking products, ABN AMRO has been able to establish large numbers of corporate and institutional customer relationships globally. However, RBS believes that many of these relationships are relatively under-developed, reflecting ABN AMRO's insufficient strength in many of the financing and risk management products which are most relevant and complementary for these customers.

In addition to its international activities with large corporate and institutional customers, ABN AMRO has extensive relationships with mid-corporate customers in Continental Europe, Asia and the Middle East.

The businesses which RBS will acquire are those that constituted ABN AMRO's Wholesale Clients Business Unit ("WCS") in 2005 (including the continuing businesses of Business Unit North America following the sale of LaSalle, and including the Netherlands, but excluding Brazil (other than Global Clients customers)) and the product capabilities serving wholesale clients within its Global Markets and Transaction Banking Product Business Units. In 2006, WCS customers were transferred to the regional Business Units, except for the largest customers, which were maintained in ABN AMRO's Global Clients Business Unit. In 2007, Global Clients customers have also been allocated to the regional Business Units. RBS estimates that ABN AMRO's Global Wholesale Businesses generated income of €5,677 million and profit before tax of €630 million in 2006, on an IFRS basis.

Strategic Rationale

RBS believes that there is a strong strategic fit between GBM and ABN AMRO's Global Wholesale Businesses. GBM has considerable strength across a broad range of financing and risk management products and in 2006 had what it believes to be an industry leading cost:income ratio of 40%, reflecting deep client relationships and strong income per customer metrics. However, whilst GBM has been expanding its international reach in recent years, it still has limited presence outside major financial centres. The acquisition of ABN AMRO's global branch network should enable GBM to accelerate this expansion relative to its current strategy, under which the establishment of a global branch network and customer base would take a significant period and would require significant investment.

ABN AMRO's considerable reach, through its global branch network, supports its strength in transactional products such as international cash management and trade finance. ABN AMRO is also strong in faster growth, but more specialised areas including equity derivatives and emerging markets. However, RBS believes that ABN AMRO's lack of depth and scale in some important products has led to relatively weak income per customer and per employee, resulting in a high estimated cost:income ratio for its Global Wholesale Businesses of 89% in 2006.

RBS's relationship-driven model and focus on deepening customer relationships enables it to generate high levels of income from its customers. GBM believes that this revenue generation is significantly above the level achieved by ABN AMRO from its Global Clients franchise. For these equivalent customer groups, GBM estimates that it generated more than 50% higher income per customer than ABN AMRO and more than 150% higher income per front office employee than ABN AMRO.

RBS expects that it will be able to deepen customer relationships and increase revenues per customer and per employee across ABN AMRO's extensive base of large and mid-corporate customers. To achieve this, GBM will apply its relationship-driven model in which relationship managers are enabled and incentivised to deliver the bank's full range of products and services from debt capital markets to

cash management. The RBS model focuses on the overall profitability of customer relationships and encourages a collaborative approach between relationship and product teams. The model is supported by clear client and revenue accountabilities, transparent incentives for collaboration, a focus on higher value added income streams and a simple organisation structure which encourages the development of cross-product customer solutions.

In addition to the application of its relationship management model, GBM expects to be able to create additional value from ABN AMRO's customer franchise through leveraging its strengths in the product areas that are both most relevant to large corporate and institutional customers and which offer the highest value revenue streams, for example in structured finance, risk management and securitisation. GBM believes that it brings the requisite scale and strength in these key product areas that ABN AMRO currently lacks.

RBS expects that the combined business will have product leadership across a broad range of corporate banking products, benefiting from the complementary and overlapping product strengths of GBM and ABN AMRO. The combined business will rank third in all bonds and loans globally, first in global securitisations, global project finance and all international bonds, second in emerging markets syndicated credits, third in foreign exchange and fifth in international cash management. RBS also expects it to be a leading player in the global interest rate derivatives market, where GBM has had particular success in the distribution of sophisticated risk management products to its large and mid-corporate customers.

Ranking by Product ⁽¹⁾	2006		
	GBM	ABN AMRO	Combined GBM + ABN AMRO ⁽²⁾
GBM Strengths			
Global All Bonds and Loans	# 6	# 17	# 3
Foreign Exchange	# 4	# 12	# 3
Global Securitisations	# 2	# 18	# 1
European Leveraged Loans	# 2	# 16	# 1
Global Project Finance	# 1	# 5	# 1
EMEA Syndicated Loans	# 1	# 9	# 1
ABN AMRO Strengths			
Euro Denominated Bonds	# 8	# 4	# 1
International Covered Bonds	# 18	# 1	# 1
Emerging Markets Syndicated Credits	# 31	# 2	# 2
International Cash Management	# 28	# 6	# 5
GBM + ABN AMRO Strengths			
All International Bonds	# 8	# 10	# 1
Asia-Pacific Syndicated Loans	# 13	# 15	# 5
U.S. Syndicated Loans	# 8	# 18	# 7

Notes:

(1) Data derived from Dealogic, Thomson Financial and Euromoney Polls.

(2) Combined estimates based on publicly available 2006 data.

RBS believes that the combined business will be well diversified by geography across the United Kingdom, the rest of Europe, the United States and Asia-Pacific, with a small contribution from Latin America. Within these regions, it is anticipated that the combined business will have considerable local presence through which to distribute its strong and broad product offering.

In Europe, including the United Kingdom, it is expected that the combined business will consolidate its position as the leading wholesale and fixed income bank. GBM will apply its relationship model and product strengths to deepen ABN AMRO's extensive franchise in Continental Europe with large corporates and financial institutions, while ABN AMRO's international cash management, payments and trade finance products will enable GBM to enhance its customer relationships. ABN AMRO's local presence is expected to enable GBM to extend from the largest corporates and financial institutions to the middle market, and to extend geographically into fast growing markets in Eastern Europe and the

Middle East. The combination of the two banks' structured investor product capabilities and distribution platforms is anticipated to create a significantly stronger business with good prospects for growth in an expanding market.

In North America, GBM has been implementing a strategy with the objective of becoming a top five corporate bank. RBS believes that the combination with ABN AMRO's Global Wholesale Businesses will enable GBM to accelerate the implementation of this strategy. The combined product strengths, including the capital markets expertise of RBS Greenwich Capital, should enable the combined group to generate increased revenues from the existing GBM and ABN AMRO client bases. RBS believes the business will be positioned to build on the combined industry sector strengths of GBM and ABN AMRO in consumer products, retail, healthcare, industrials, energy and utilities, and intends to leverage their complementary strengths in real estate financing to create a leading business in this area. In addition to the significant opportunity to grow the large corporate and institutional franchise in the United States, the combined business is expected to be able to deliver a full range of financial and risk management solutions to mid-corporate customers.

In Asia, RBS believes that the combined GBM and ABN AMRO wholesale businesses will have the capacity to build a significant regional corporate bank. As in the United States and Europe, the combined business will seek to increase the depth of ABN AMRO's current customer franchise by applying GBM's business model. ABN AMRO's existing local presence and infrastructure in key markets with strong growth will enable GBM to accelerate significantly its plans for developing business with customers in India, South Korea and Taiwan. In addition, there is a significant growth opportunity to develop ABN AMRO's emerging markets and equity derivatives products for GBM's customers globally.

In Latin America, ABN AMRO has established a presence and customer relationships. The combined business is expected by RBS to deepen these relationships, in particular by leveraging GBM's strengths in natural resources and project finance. GBM has had significant success in developing customer relationships in Iberia, and believes that a presence and capabilities in Latin America will enable it to support these customers' activities in the region.

RBS estimates that the combined business will be the third largest corporate and institutional banking and markets business globally by fixed income revenues (revenues from all areas except M&A advisory, cash equity and asset management businesses). Based on 2006 data, GBM will rank first in the United Kingdom and Continental Europe, fifth in the United States and fifth in Asia-Pacific (excluding Japan) by client relationships.

Business Plan

The management team of GBM has developed a clear and detailed roadmap for the integration of ABN AMRO's Global Wholesale Businesses. GBM will follow the Group's established integration principles: minimising disruption to customers and customer-facing activities, retaining the best talent from each organisation through a fair appointment process based on merit and competencies, creating single global platforms and creating the capability for future growth while maintaining leading efficiency ratios.

The integration of GBM and ABN AMRO's Global Wholesale Businesses will be led by a management team including many who were actively involved in the integration of NatWest.

During the first 45 days after completion of the Offers, GBM will work with the management of ABN AMRO to verify and expand the information received and assumptions made on the basis of the limited due diligence access granted before completion. By day 45, GBM intends to have validated a base-lined plan for the achievement of synergies. This plan will form the basis for consultation with employee bodies and regulators.

GBM will review ABN AMRO's activities in markets where it does not currently operate and intends to continue ABN AMRO's progress in aligning the cash equities business to support its enlarged and growing activities in equity derivatives.

Transaction Benefits

GBM believes that it will be able to generate significantly higher revenues from ABN AMRO's customer franchise by leveraging the combined businesses' enhanced product strengths and by applying its proven management capabilities. RBS believes that it will also be able to achieve substantial cost savings through de-duplication of infrastructure and support activities. GBM believes that it will be able

to reduce the cost:income ratio of ABN AMRO's Global Wholesale Businesses from 89% in 2006 to under 65% in the third year after completion of the Offers.

GBM expects to deliver transaction benefits which will increase its profit before tax by €1,718 million in the third year after completion of the Offers. Of this total, GBM estimates that cost savings will amount to €1,237 million and that net revenue benefits (after associated costs and impairment losses, and allowing for attrition) will increase profit before tax by €481 million.

GBM will focus on deepening customer relationships and increasing revenues per customer and per employee across ABN AMRO's large and mid-corporate customer base. To achieve this, GBM will apply its relationship-driven model and the techniques which have enabled it to deliver strong revenue per customer and revenue per employee metrics and a cost:income ratio of 40% in 2006. At the same time, RBS anticipates having stronger capabilities in international cash management and trade finance, equity derivatives and emerging markets to offer to its customers.

There is some overlap between the customer franchises of RBS and ABN AMRO, particularly in the United Kingdom. However, due to the complementary product propositions of the two businesses, revenue losses are expected to be limited, but conservative allowances for these potential revenue losses have been made.

The expected net revenue benefits of €481 million in the third year after completion of the Offers represent 8% of ABN AMRO's relevant 2006 revenues.

	Estimated Net Revenue Benefits per Annum by end of 2010	Number of Initiatives
	<i>(€ millions)</i>	
Global Banking	61	7
Global Markets	292	12
Transaction Banking	128	11
Overall Impact on Profit Before Tax	481	30

The combination of GBM and ABN AMRO's Global Wholesale Businesses is expected to enable substantial cost savings to be achieved, as RBS implements a single business architecture. Cost savings will be achieved by de-duplication of information technology platforms and supporting infrastructure. RBS's existing information technology platform will be used for the majority of products and functions, but it is expected that the information technology platform supporting ABN AMRO's cash management and trade finance business, as a core strength of that global business, will be retained.

Further cost savings are expected to be achieved by streamlining combined functions across operations, finance, risk, human resources and other support areas, and through procurement and property efficiencies. RBS also expects that cost savings will be achieved by bringing in-house certain operations which ABN AMRO has outsourced to external providers.

Additional cost savings are expected to be achieved by the elimination of overlaps in front office trading and support functions, as trading activities are consolidated into regional centres, while minimising disruption to customer-facing activities.

The expected cost savings resulting from these initiatives amount to €1,237 million in the third year after completion of the Offers, representing 24% of ABN AMRO's relevant 2006 expenses. The four principal areas of rationalisation and efficiency savings are set out below:

	Estimated Cost Savings per Annum by end of 2010 (€ millions)	Number of Initiatives
Front Office	352	10
Information Technology and Operations	611	27
Functional Support	166	16
Procurement and Property	108	5
Total Cost Savings	1,237	58

After allocating the support cost savings to the main business groupings, approximately €887 million of savings arise from global corporate and institutional businesses and €350 million from mid-corporate and commercial businesses and transaction banking services.

International Retail Businesses

ABN AMRO Retail Businesses in Asia, Middle East and Europe

ABN AMRO has an extensive network of branches in Asia and the Middle East, principally to support its international cash management, payments and trade finance businesses for commercial customers. Many of these branches are also active in retail banking, although generally only on a limited scale.

ABN AMRO has retail activities in nine markets in Asia and the Middle East⁽¹⁾:

- East Asia: China, Hong Kong, Singapore, Indonesia, Malaysia, Taiwan
- South Asia: India, Pakistan
- Middle East: United Arab Emirates

The most significant presence is in India, where ABN AMRO has 27 branches, and United Arab Emirates, with 17 locations. The branches in India are in major conurbations across the country and include six branches in New Delhi and three in Mumbai. In United Arab Emirates the network is focused on key locations in Abu Dhabi and Dubai.

ABN AMRO also has a presence in Mainland China, with 11 branches, and Taiwan, with five branches. In Pakistan, ABN AMRO has 12 branches (excluding Prime Bank, which will be included in the Shared Assets).

The principal product lines currently offered by ABN AMRO in Asia and the Middle East are mass market retail banking, affluent banking, under the Van Gogh brand, and credit cards. ABN AMRO has about 3.5 million retail customers in the region, including about 100,000 Van Gogh customers and approximately 3 million credit cards, which are mainly in Taiwan and India, with smaller portfolios in Singapore, Indonesia, Hong Kong and United Arab Emirates.

ABN AMRO also has retail businesses in Spain, Romania and Kazakhstan and stockbroking businesses in India, Australia and New Zealand.

RBS believes that there are attractive opportunities for growth, building on ABN AMRO's established infrastructure to support retail activities in countries with large populations and high growth rates. However, RBS notes that the retail businesses in Asia, the Middle East and Europe are thinly spread across many countries. RBS estimates that ABN AMRO's retail businesses in Asia, the Middle East and Europe together generated income of €607 million and profit before tax of €88 million in 2006, on an IFRS basis. Because of limited scale, some of these retail businesses may have relatively high operating costs and customer acquisition costs, and so lack competitive advantage.

(1) Excluding ABN AMRO's 40% stake in Saudi Hollandi which, although reported in BU Asia, will be included in the Shared Assets.

After completion of the Offers, RBS will analyse the retail activities country by country. RBS expects to focus on growing significant retail businesses in selected ABN AMRO countries. Factors affecting the selection of countries will include competitive advantage and scalability of the existing operations, economic growth rates and the competitive and regulatory environment for financial services. RBS also expects to focus on affluent banking and credit cards, products where RBS is strong in the United Kingdom and has significant activities outside the United Kingdom, and products likely to appeal to growing numbers of affluent customers in these high growth economies. The existing infrastructure supporting current accounts provides the possibility of a broader product offering.

RBS will seek to exit retail businesses not having critical mass or credible growth prospects.

RBS has not at this stage included any specific initiatives and transaction benefits in its overall estimates of revenue benefits and cost savings.

Plans for Non-Strategic Businesses of ABN AMRO

During the reorganisation, the Banks will retain a shared economic interest in all central functions (including Head Office functions) that provide support to the ABN AMRO's Businesses. The Banks will also retain shared economic interests in certain assets and liabilities of ABN AMRO which the Banks regard as non-strategic. These include ABN AMRO's private equity portfolio, its stakes in Capitalia and Saudi Hollandi, and Prime Bank. These are expected to be disposed of over a period of time with a view to maximising value.

PART VIII

THE OFFER

The Offer

RFS Holdings, which was formed by the Banks, is offering to acquire all of the issued and outstanding ABN AMRO Ordinary Shares on the terms and conditions set out in the Offer Document. The offer period will commence on 23 July 2007.

The Offer Document is addressed to (i) all ABN AMRO Shareholders located in the Netherlands and (ii) all ABN AMRO Shareholders who are located outside the Netherlands and the United States, if, pursuant to the local laws and regulations applicable to such holders, they are permitted to participate in the Offer set out therein.

RFS Holdings is making the same offer to all ABN AMRO Shareholders who are resident in the United States, and to all holders of ABN AMRO ADSs, wherever located, pursuant to a separate U.S. Prospectus.

The Offers have the same terms and are subject to the same conditions. The Offers are being made for all ABN AMRO Ordinary Shares and all ABN AMRO ADSs. According to ABN AMRO's Form 6-K dated 23 April 2007 there were 1,852,448,094 ABN AMRO Ordinary Shares outstanding and, according to ABN AMRO's 2006 Annual Report on Form 20-F, as of 31 December 2006 there were options to acquire approximately 53,253,000 ABN AMRO Ordinary Shares outstanding.

The Offers do not extend to any other securities of ABN AMRO such as any ABN AMRO Convertible Preference Shares, any ABN AMRO Formerly Convertible Preference Shares or any other hybrid capital instruments.

Except to the extent that exemptions or relief from compliance have been obtained, RFS Holdings intends to conduct the Offer in compliance with the tender offer rules of the Netherlands (the jurisdiction in which ABN AMRO Ordinary Shares are primarily listed and also ABN AMRO's jurisdiction of incorporation).

The Offer and the Offer Document are governed by and construed in accordance with the laws of the Netherlands as well as U.S. federal securities laws or other laws to the extent such laws are mandatorily applicable. To the extent permitted by applicable law, any dispute arising in connection with the Offer and the Offer Document will be subject to the exclusive jurisdiction of the competent court in Amsterdam, the Netherlands.

Terms of the Offer

Under the terms of the Offer, RFS Holdings is offering to exchange for each ABN AMRO Ordinary Share validly tendered and not properly withdrawn:

- €35.60 in cash; and
- 0.296 New RBS Ordinary Shares.

The consideration set out above assumes the payment by ABN AMRO of an interim (cash or share) dividend in respect of 2007 in an amount not to exceed €0.55 per ABN AMRO Ordinary Share (before deduction of any applicable withholding taxes). If ABN AMRO declares an interim (cash or share) dividend in respect of 2007 in excess of €0.55 per ABN AMRO Ordinary Share (before deduction of any applicable withholding taxes) or any other (cash or share) dividend, distribution, share split or analogous transaction in respect of the ABN AMRO Ordinary Shares, and the record date for such (cash or share) dividend, distribution, share split or analogous transaction precedes the Settlement of the Offers, the consideration set out above may be reduced by an amount, in the case of an interim (cash or share) dividend in respect of 2007 in excess of €0.55 per ABN AMRO Ordinary Share, equal to such excess (before deduction of any applicable withholding taxes), or otherwise by the full amount of any other such dividend, distribution, share split or analogous transaction (before deduction of any applicable withholding taxes). If ABN AMRO declares an interim (cash or share) dividend in respect of 2007 of €0.55 or less per ABN AMRO Ordinary Share (before deduction of any applicable withholding taxes) and the record date for such dividends precedes Settlement of the Offers, the consideration set out above will not be adjusted.

The cash consideration paid to tendering holders of ABN AMRO Ordinary Shares will be paid in euros. In no event will interest be paid on the cash to be received on Settlement of the Offers regardless of any delay in making it.

Fractional Entitlements

Fractions of New RBS Ordinary Shares will not be issued to persons whose ABN AMRO Ordinary Shares are exchanged in the Offer.

Admitted Institutions that tender ABN AMRO Ordinary Shares into the Offer on behalf of their clients will have to aggregate fractional entitlements to New RBS Ordinary Shares in accordance with the usual practice of the Admitted Institutions and sell them on the London Stock Exchange (or possibly, in the event a listing is obtained, on Euronext Amsterdam), and then remit the net proceeds pro rata to such holders of ABN AMRO Ordinary Shares.

The fractional entitlements to New RBS Ordinary Shares of ABN AMRO Shareholders who hold their shares in registered form will be aggregated, sold in the market by the Dutch Exchange Agent and then distributed pro rata by the Dutch Exchange Agent in a similar way as described above.

In no event will interest be paid on the cash to be received in lieu of any fraction of a New RBS Ordinary Share, regardless of any delay in making the payment.

Ownership of RBS after Completion of the Offer

If all of the issued and outstanding ABN AMRO Ordinary Shares and ABN AMRO ADSs on a fully-diluted basis are tendered and exchanged pursuant to the terms of the Offers, the former holders of ABN AMRO Ordinary Shares and ABN AMRO ADSs (other than ABN AMRO) and the holders of the Existing RBS Ordinary Shares (other than RBS) will hold the following percentages of RBS's Ordinary Shares immediately after the completion of the Offers:

	Owned by Current Holders of RBS Ordinary Shares	Owned by Former ABN AMRO Shareholders and Holders of ABN AMRO ADSs
Number of outstanding RBS Ordinary Shares held after completion of the Offers ⁽¹⁾	9,456,448,005	556,143,700
Percentage of RBS Ordinary Shares	94%	6%

Note:

- (1) On a fully diluted basis assuming the number of issued and outstanding ABN AMRO Ordinary Shares as set out in ABN AMRO's Form 6-K dated 23 April 2007 and exercise of all ABN AMRO options based on information as set out in the ABN AMRO 2006 Annual Report on Form 20-F.

Summary of the Conditions to the Offers

The issue of the New RBS Ordinary Shares is conditional upon the Offers being declared unconditional by RFS Holdings.

RFS Holdings shall not be obliged to declare the Offer unconditional and purchase any ABN AMRO Ordinary Shares validly tendered in the Offer and not properly withdrawn:

(a) Minimum Acceptance

if the ABN AMRO Ordinary Shares, including ABN AMRO Ordinary Shares represented by ABN AMRO ADSs, which have been validly tendered and not properly withdrawn in the Offers, on a combined basis, or which are otherwise held by RFS Holdings, do not represent at least 80% of the issued and outstanding ABN AMRO Ordinary Shares, calculated on a fully diluted basis. This condition is referred to as the "minimum acceptance condition";

For purposes of determining whether the minimum acceptance condition has been satisfied, the numerator will include all ABN AMRO Ordinary Shares, including all ABN AMRO Ordinary Shares represented by ABN AMRO ADSs, validly tendered and not properly withdrawn, in the Offer and the U.S. Offer, on a combined basis, or which are otherwise held by RFS Holdings, at the end of the Offer Period, and the denominator will be ABN AMRO's fully diluted share capital, including all:

- ABN AMRO Ordinary Shares issued and then outstanding, including all ABN AMRO Ordinary Shares represented by ABN AMRO ADSs;
- ABN AMRO Ordinary Shares issuable upon the conversion of all ABN AMRO Convertible Preference Shares; and
- ABN AMRO Ordinary Shares issuable (i) upon the exercise of any outstanding rights to subscribe for ABN AMRO Ordinary Shares (including any outstanding ABN AMRO options) whether or not exercisable during the Offer Period or (ii) under any other agreement giving the right to any person to subscribe for ABN AMRO Ordinary Shares,

but excluding all ABN AMRO Ordinary Shares held as treasury stock by ABN AMRO;

(b) Sale of LaSalle

if the Purchase and Sale Agreement, dated as of 22 April 2007, between Bank of America and ABN AMRO Bank in respect of ABN AMRO North America Holding Company, the holding company for LaSalle Bank Corporation, including the subsidiaries LaSalle N.A. and LaSalle Midwest N.A. (exclusive of any restatements of, or amendments to, such agreement), has not completed in accordance with its terms or if the proceeds of sale received on such completion are not held within the ABN AMRO Group;

(c) No Material Adverse Change

if any Material Adverse Change in respect of ABN AMRO, RFS Holdings, Fortis, RBS or Santander has occurred;

For this purpose, "*Material Adverse Change*" means:

- (i) any event, events or circumstance that results or could reasonably be expected to result in a material adverse effect on the business, cash flow, financial or trading position, assets, profits, operational performance, capitalisation, prospects or activities of any of ABN AMRO, RFS Holdings, Fortis, RBS or Santander (each, taken as a whole), as the case may be; or
- (ii) a material adverse change since the date hereof in national (including, without limitation, United States, United Kingdom, The Netherlands or any other member state of the European Economic Area) or international capital markets (including without limitation, an adverse change in the tax laws of such states), financial, political or economic conditions or currency exchange rates or exchange controls (whether or not arising as a result of or in connection with any outbreak or escalation of hostilities or declaration of war or national emergency or act of terrorism or other national or international calamity); or
- (iii) any suspension of or limitation in trading in the ABN AMRO Ordinary Shares or ABN AMRO Formerly Convertible Preference Shares or in the Fortis, RBS or Santander shares (other than on a temporary basis in the ordinary course of trading);

(d) No Litigation or Other Proceedings

if any litigation or other legal, governmental or regulatory proceedings or investigations by a third party (including any regulatory body or governmental authority) has or have been instituted or threatened or are continuing or if any judgment, settlement, decree or other agreement relating to litigation or other legal, governmental or regulatory proceedings or investigations instituted by a third party (including any regulatory body or governmental authority) is in effect, which might, individually or in the aggregate, reasonably be expected to materially and adversely affect ABN AMRO, RFS Holdings, Fortis, RBS, Santander or any of their respective affiliates;

(e) No Injunction or Other Restrictions

if an order, stay, judgment or decree is issued by any court, arbitral tribunal, government, governmental authority or other regulatory or administrative authority and is in effect, or any statute, rule, regulation, governmental order or injunction shall have been proposed, enacted, enforced or deemed applicable to the Offers, any of which restrains, prohibits or delays or is reasonably likely to restrain, prohibit or delay consummation of the Offers in any material respect, or if prior to the end of the Offer Period (*einde aanmeldingstermijn*):

- (i) a notification has been received from the AFM that the Offer has been made in conflict with any of the stipulations of Chapter IIa of the 1995 Securities Act, within the meaning of Article 32(a) of the 1995 Securities Decree (or any of its successor provisions) in which case the securities institutions would not be allowed to co-operate with the consummation of the Offer;
- (ii) trading in the ABN AMRO Ordinary Shares on Euronext Amsterdam has been permanently suspended as a result of a listing measure (*noteringsmaatregel*) taken by Euronext Amsterdam in accordance with Article 2706/1 of Euronext Rulebook II; or
- (iii) any of RFS Holdings, Fortis, RBS or Santander receives notification from its home country regulator that there is likely to be a material and adverse change in the supervisory, reporting or regulatory capital arrangements that will apply to ABN AMRO, Fortis, RBS, Santander or, to the extent applicable, RFS Holdings, as the case may be;

(f) Regulatory Approvals

if all authorisations and consents in connection with the Offers have not been obtained or relevant waiting periods have not expired or all mandatory or appropriate regulatory approvals from domestic and international regulatory authorities, insofar as reasonably required in connection with the Offers, have not been obtained;

(g) Competition and Antitrust

if the European Commission has not declared the concentration or concentrations resulting from the Transaction, including the concentrations following from the ultimate acquisition by each of the Banks of their respective parts of ABN AMRO's assets, compatible with the common market or has not otherwise granted its approval for the Transaction or if the applicable waiting period under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, in relation to the Transaction has not expired or been terminated or if other competent antitrust or competition authorities have not granted approvals reasonably deemed necessary;

(h) Registration Statement Declared Effective by the SEC

if the registration statement containing the U.S. Prospectus filed with the SEC is not declared effective by the SEC or if any stop order has been issued or proceedings for suspension of the effectiveness of the registration statement containing the U.S. Prospectus have been initiated by the SEC;

(i) Admission to the London Stock Exchange and Euronext Amsterdam

if confirmation has not been obtained that the New RBS Ordinary Shares will be admitted to:

- (i) the Official List maintained by the FSA;
- (ii) trading on the London Stock Exchange's main market for listed securities; and
- (iii) trading and listing on Euronext Amsterdam,

no later than the date of Settlement of the Offers;

(j) Shareholder Approvals

if, to the extent required, the general meetings of shareholders of each of Fortis and RBS have not passed the resolutions to approve the Transaction or if the general meetings of shareholders of each of Fortis, RBS and Santander have not passed the resolutions to approve the capital

increase or, as the case may be, the issuances of securities described in “Source and Amount of Funds”;

(k) No Other Transactions

if, other than the Bank of America Agreement, ABN AMRO or any of its subsidiaries or subsidiary undertakings has entered into any agreement, or completed any transaction, involving the sale, repurchase, redemption or issue by ABN AMRO or its affiliates to third parties of any shares in ABN AMRO’s own share capital (or securities convertible or exchangeable into shares or options to subscribe for any of the foregoing (other than pursuant to equity incentive plans operated in the normal course of business)), or involving the acquisition of material assets or the sale or transfer of a material part of its business or assets; including but not limited to any or all of the assets or businesses set out under “Background to and Reasons for the Offers – Reasons for the Offers” whether by way of any legal merger, legal demerger, liquidation or any other transactions with similar effect, or entered into, varied or terminated any material contract outside of the ordinary course of business, or given any undertaking to do any of the foregoing, or if ABN AMRO has approved, declared or paid a dividend outside of the normal course of its business or inconsistent with past practice; or

(l) No Third Party Offer

if any public announcement has been made indicating that a third party is preparing or is to make an offer (or any amendment to or revision of an existing or proposed offer) for the ABN AMRO Ordinary Shares or ABN AMRO ADSs, or if Barclays has announced or is to make (i) any offer under terms and conditions different from the terms and conditions announced by it on 23 April 2007; or (ii) any amendment to the terms and conditions of an existing offer such that the terms and conditions of that offer are different from the terms and conditions announced on 23 April 2007.

The conditions to the Offer are the same as the conditions to the U.S. Offer and RFS Holdings will not waive a condition to the Offer unless it waives the same condition to the U.S. Offer, and vice versa. The conditions to the Offer are for the benefit of RFS Holdings and the Banks and, subject to the Dutch offer rules and the U.S. tender offer rules (including U.S. tender offer rules that require that material changes of a condition be promptly disseminated to shareholders in a manner reasonably designed to inform them of such changes), RFS Holdings reserves the right, at any time and to the extent legally permitted, to waive any of the conditions to the Offer (including the minimum acceptance condition), by giving oral or written notice of the waiver to the Dutch Exchange Agent and the U.S. Exchange Agent and by making a public announcement in accordance with the procedures outlined in “Offer Period; Extension of the Offer Period”.

The condition in (e), first bullet, may not be waived by RFS Holdings except where the notification referred to in that condition has been or will be revoked by the AFM, if such notification is overruled by a court decision or after consultation with the AFM. Notice of any such waiver will be given in the manner prescribed by applicable law.

Offer Period; Extension of the Offer Period

The Offer Period will commence (*aanvang aanmeldingstermijn*) on 23 July 2007 and end (*einde aanmeldingstermijn*) at 15:00, Amsterdam time on 5 October 2007, unless the Offer Period is extended in accordance with Dutch tender offer rules. RFS Holdings intends for the Offers to expire on the same date and, if either offer is extended, to similarly extend the other offer.

RFS Holdings may, from time to time, extend the Offer Period until all the conditions listed above have been satisfied or, to the extent legally permitted, waived.

RFS Holdings reserves the right to waive the minimum acceptance condition at any time, including after the end of the Offer Period and prior to the Offer being declared unconditional. In accordance with the U.S. tender offer rules which govern the U.S. Offer and exemptive relief granted by the SEC, if RFS Holdings intends to waive the minimum acceptance condition after the end of the Offer Period in the event that the number of ABN AMRO Ordinary Shares validly tendered and not properly withdrawn in the U.S. Offer and the Offer, on a combined basis, together with all ABN AMRO Ordinary Shares held by RFS Holdings, represents not less than a majority of the issued and outstanding ABN AMRO Ordinary Shares

on a fully-diluted basis, then five U.S. Business Days prior to the scheduled end of the Offer Period, RFS Holdings will announce that it may effect such waiver of the minimum acceptance condition. RFS Holdings will make this announcement by issuing a press release on, among others, the Dow Jones News Service, by publication in the Daily Official List of Euronext Amsterdam and by placing an advertisement in *The Wall Street Journal*, National Edition, which will state the exact percentage to which the minimum acceptance conditions will be waived and state, that such waiver is possible and advise shareholders to withdraw their tenders immediately if their willingness to tender into the Offer would be affected by such waiver of the minimum acceptance condition. During the five U.S. Business Day period after RFS Holdings makes the announcement described in this paragraph, the Offer will be open for acceptances and ABN AMRO Shareholders who have tendered their securities in the Offer will be entitled to withdraw their ABN AMRO Ordinary Shares. Once the Offer Period has ended, ABN AMRO Shareholders will not be entitled to withdraw their tendered ABN AMRO Ordinary Shares. RFS Holdings will provide a further offering period of at least five U.S. business days following any such waiver.

In order to ensure compliance of the U.S. Offer with the U.S. tender offer rules and to ensure concurrent acceptance period of the Offer and the U.S. Offer, if RFS Holdings intends to waive the minimum acceptance condition in the event that the number of ABN AMRO Ordinary Shares validly tendered and not properly withdrawn in the Offers, on a combined basis, together with all ABN AMRO Ordinary Shares held by RFS Holdings, represent less than a majority of the issued and outstanding ABN AMRO Ordinary Shares on a fully-diluted basis, RFS Holdings will announce such waiver by publication in the Daily Official List of Euronext Amsterdam and by issuing a press release on, among others, the Dow Jones News Service, by no later than 9:00 am, New York City time (3:00 pm Amsterdam time) on the next U.S. business day after the previously scheduled expiration of the U.S. Offer and will extend the U.S. Offer (and similarly extend the Offer) to the extent required by the U.S. tender offer rules and in accordance with Dutch offer rules.

If RFS Holdings extends the Offer Period, it will make an announcement to that effect within three Euronext Amsterdam Trading Days after the previously scheduled expiration date of the Offer Period. RFS Holdings will announce any extension of the Offer Period by issuing a press release on, among others, the Dow Jones News Service and by publication in the Daily Official List of Euronext Amsterdam. During an extension, any ABN AMRO Ordinary Shares validly tendered and not properly withdrawn will remain subject to the Offer, subject to the right of each holder to withdraw the ABN AMRO Ordinary Shares he or she has already tendered. If RFS Holdings extends the period of time during which the Offer is open, the Offer will expire at the latest time and date to which RFS Holdings extends the Offer.

Subject to the requirements of the Dutch tender offer rules and without limiting the manner in which RFS Holdings may choose to make any public announcement, neither RFS Holdings nor the Banks will have any obligation to communicate any public announcement other than as described above.

Publication of Results; Subsequent Offering Period

Within five Euronext Amsterdam Trading Days after the end of the Offer Period, RFS Holdings will make a public announcement stating:

- that all conditions to the Offer have been satisfied or, to the extent legally permitted, waived, and declaring the Offer to be unconditional; or
- that the conditions to the Offers have not been satisfied or, to the extent legally permitted, waived, and that, accordingly, the Offer has been terminated.

Except as described above, announcements will be made by publication in the Daily Official List of Euronext Amsterdam and by means of a press release on, among others, the Dow Jones News Service.

As described above, the Offer and the U.S. Offer will be subject to the same conditions, and acceptances of the Offer and the U.S. Offer will be counted on an aggregate basis for purposes of determining whether the minimum acceptance condition has been satisfied.

Upon the Offers being declared unconditional, RFS Holdings reserves the right to provide a subsequent offering period of no more than 15 Euronext Amsterdam Trading Days in length, following the end of the Offering Period. During the subsequent offering period, if one is provided, remaining ABN AMRO Shareholders may tender, but not withdraw, ABN AMRO Ordinary Shares not previously tendered. A subsequent offering period, if one is provided, will not affect the timing of the acceptance and delivery of ABN AMRO Ordinary Shares previously tendered and accepted for exchange in the Offer. As mentioned

above, holders of ABN AMRO Ordinary Shares that tender their ABN AMRO Ordinary Shares during any subsequent offering period will not have withdrawal rights, and RFS Holdings will accept for exchange and deliver the consideration for any ABN AMRO Ordinary Shares validly tendered during any subsequent offering period promptly, and in any event within, five Euronext Amsterdam Trading Days of such ABN AMRO Ordinary Shares being tendered into the Offer. The consideration paid during any subsequent offering period will be the same consideration offered in the Offer Period. Any subsequent offering period will be announced simultaneously with an announcement that the conditions to the Offer have been satisfied or, to the extent permitted, waived, and declaring the Offer to be unconditional. As mentioned above, in the event the minimum acceptance condition is waived after the end of the Offer Period, following expiration of the Offer, to not less than a majority of the issued and outstanding ABN AMRO Ordinary Shares on a fully-diluted basis, RFS Holdings will provide a subsequent offering period of at least five U.S. business days immediately following such waiver.

Validity of the Tendered Securities; Waiver of Defects

RFS Holdings will determine questions as to the validity, form, eligibility, including time of receipt, and acceptance for exchange of any tender of ABN AMRO Ordinary Shares, in its sole discretion and RFS Holdings' determination will be final and binding. RFS Holdings reserves the right to reject any and all tenders of ABN AMRO Ordinary Shares that it determines are not in proper form or the acceptance for exchange of which may be unlawful. No tender of ABN AMRO Ordinary Shares will be deemed to have been validly made until all defects and irregularities have been cured or waived. RFS Holdings' interpretation of the terms and conditions of the Offer, including the acceptance forms and instructions thereto, will be final and binding. There shall be no obligation on RFS Holdings, the global information agent, the U.S exchange agent, the Dutch Exchange Agent or any person acting on its or their behalf to give notice of any defects or irregularities in any acceptance or notice of withdrawal and no liability shall be incurred by any of them for failure to give any such notification. RFS Holdings reserves the right, in accordance with applicable law, to permit a holder of ABN AMRO Ordinary Shares to accept the Offers in a manner other than as set out above.

Withdrawal Rights — General

ABN AMRO Ordinary Shares tendered for exchange into the Offer may be withdrawn at any time prior to the end of the Offer Period (including any extensions thereof). Once the Offer Period has expired, ABN AMRO Shareholders will not be able to withdraw any tendered ABN AMRO Ordinary Shares. This means that holders of ABN AMRO Ordinary Shares will not be able to withdraw any tendered ABN AMRO Ordinary Shares from the end of the Offer Period to the announcement of the results of the Offer, which will occur within five Euronext Amsterdam Trading Days after the expiration of the Offer Period. No withdrawal rights will apply to ABN AMRO Ordinary Shares tendered during the subsequent offering period, if one is provided.

ABN AMRO Shareholders may not rescind a withdrawal. If ABN AMRO Shareholders withdraw tendered ABN AMRO Ordinary Shares, such shares will be deemed not validly tendered for purposes of the Offer. However, holders of ABN AMRO Ordinary Shares may re-tender withdrawn ABN AMRO Ordinary Shares at any time prior to the expiration of the Offer Period or during the subsequent offering period, if one is provided.

Withdrawal of Tendered ABN AMRO Ordinary Shares

ABN AMRO Ordinary Shareholders who hold their shares through a financial intermediary that is an Admitted Institution and make their acceptance known through their financial intermediary to the Dutch Exchange Agent may withdraw their ABN AMRO Ordinary Shares by making a withdrawal request through their financial intermediary to the Dutch Exchange Agent prior to the end of the Offer Period.

Holders of ABN AMRO Ordinary Shares in registered form registered in the name of the relevant holders who tender their ABN AMRO Ordinary Shares in registered form by means of a form of acceptance sent to the Dutch Exchange Agent may withdraw by delivery to and receipt by the Dutch Exchange Agent of a properly completed and duly executed notice of withdrawal prior to the end of the Offer Period.

Settlement of the Offer

If the Offer is declared unconditional, New RBS Ordinary Shares will be issued and cash will be paid to the tendering ABN AMRO Shareholders whose ABN AMRO Ordinary Shares are accepted for exchange

promptly and, in any event, within five Euronext Amsterdam Trading Days thereafter. In the event of a subsequent offering period, if any, RFS Holdings will accept for exchange and deliver the consideration for any ABN AMRO Ordinary Shares validly tendered during the subsequent offering period promptly, and in any event, within five Euronext Amsterdam Trading Days of such ABN AMRO Ordinary Shares being tendered into the Offer.

New RBS Ordinary Shares

Introduction

The New RBS Ordinary Shares will be listed on the London Stock Exchange and upon settlement such shares will initially be delivered within the CREST settlement system which allows trading of the New RBS Ordinary Shares on the London Stock Exchange, all as further described below. In addition, RBS will seek to list the New RBS Ordinary Shares on Euronext Amsterdam. Assuming such listing takes place, a tendering ABN AMRO Shareholder wishing to trade its New RBS Ordinary Shares on Euronext Amsterdam rather than the London Stock Exchange may request that its New RBS Ordinary Shares be delivered into Euroclear Nederland, the settlement system for trading on Euronext Amsterdam. Tendering ABN AMRO Shareholders who make this request should be aware that such transfer will give rise to a UK stamp duty reserve tax (“**SDRT**”) charge of 1.5% of the value of such New RBS Ordinary Shares, payable by the tendering ABN AMRO Shareholder, all as further described below.

Tendering ABN AMRO Shareholders are urged to contact their bank or financial intermediary for detailed information about the manner in which they can hold their New RBS Ordinary Shares and under which circumstances the 1.5% SDRT charge will apply.

Delivery of New RBS Ordinary Shares

The New RBS Ordinary Shares will be capable of being held in Certificated Form or in Uncertificated Form under U.K. law. Euroclear UK is the Central Securities Depository for the United Kingdom, Republic of Ireland, Isle of Man, Jersey and Guernsey. It operates the CREST settlement system, allowing securities trading in these jurisdictions to be held in uncertificated form and transfers of such securities to be settled electronically.

The New RBS Ordinary Shares to which each tendering ABN AMRO Shareholder is entitled will initially be allotted in Uncertificated Form to a nominee that is a CREST participant, which will hold the New RBS Ordinary Shares as nominee on behalf of tendering ABN AMRO Shareholders. Thereafter, the New RBS Ordinary Shares will be delivered as follows:

The New RBS Ordinary Shares to which a tendering ABN AMRO Shareholder is entitled will be delivered within CREST to an account designated by the tendering ABN AMRO Shareholder in its form of acceptance (where applicable) or, where the tendering ABN AMRO Shareholder holds through an Admitted Institution, by the Admitted Institution through which such ABN AMRO Shareholder holds its ABN AMRO Ordinary Shares. In the case of ABN AMRO Shareholders who hold their ABN AMRO Ordinary Shares through an Admitted Institution, in most cases it is expected that this will be the CREST account of, or of a nominee for, the Admitted Institution through which the ABN AMRO Shareholder holds its ABN AMRO Ordinary Shares. In this case, no 1.5% SDRT charge should generally arise. A tendering ABN AMRO Shareholder wishing to trade its New RBS Ordinary Shares on Euronext Amsterdam may instead indicate that it wishes that the New RBS Ordinary Shares be delivered to Euroclear Nederland, in which case a SDRT charge of 1.5% of the value of the New RBS Ordinary Shares so delivered will arise and will be deducted from the cash consideration to which such tendering shareholder is entitled. However, should RBS not achieve its aim of having the RBS Ordinary Shares listed and traded on Euronext Amsterdam, then the New RBS Ordinary Shares to which tendering ABN AMRO Shareholders who elected to hold through Euroclear Nederland are entitled will instead be delivered in Certificated Form.

In the event that an Admitted Institution through which a tendering ABN AMRO Shareholder holds its ABN AMRO Ordinary Shares does not offer a CREST account or an ABN AMRO Shareholder does not wish to hold its New RBS Ordinary Shares through the CREST account of its Admitted Institution or does not hold its ABN AMRO Ordinary Shares through an Admitted Institution, such ABN AMRO Shareholder may instead elect for the CREST account applicable to the custodian arrangements described under “Custodian Arrangements” below (provided such ABN AMRO Shareholder, or financial intermediary through which such ABN AMRO Shareholder will hold its New RBS Ordinary Shares, satisfies the

relevant eligibility criteria) or may designate any other CREST account, in which case no SDRT charge should be payable unless the tendering ABN AMRO Shareholder designates a CREST account that is within the 1.5% SDRT regime which generally applies to providers of depositary receipt services and certain overseas clearance systems and their nominees. If the CREST account designated by a tendering ABN AMRO Shareholder is within the 1.5% SDRT regime, the 1.5% SDRT charge will be deducted from the cash consideration to which such tendering ABN AMRO Shareholder is entitled.

Alternatively, a tendering ABN AMRO Shareholder may request that its New RBS Ordinary Shares be delivered in Certificated Form, in which case no SDRT charge will be payable unless the person to whom the New RBS Ordinary Shares are delivered is a provider of clearance services or a provider of depositary receipt services or the nominee of such a person, in which case a 1.5% SDRT charge may arise.

To the extent that no, or invalid, account details are furnished (and no valid election is made for the custodian arrangements or Euroclear Nederland), the New RBS Ordinary Shares to which an ABN AMRO Shareholder is entitled will, provided the ABN AMRO Ordinary Shares have otherwise been validly tendered, be rematerialised and delivered to the relevant tendering holder, or the Admitted Institution through which such person currently holds its ABN AMRO Ordinary Shares, as the case may be, in Certificated Form.

Holders of ABN AMRO Ordinary Shares who are unsure as to whether the CREST account they wish to designate is within the 1.5% SDRT regime, should seek clarification from their bank or financial intermediary. Holders of ABN AMRO Ordinary Shares who hold through an Admitted Institution should confirm with the Admitted Institution that they will be able to hold their New RBS Ordinary Shares through the CREST account of, or of a nominee for, the Admitted Institution as expected.

For further information about the circumstances under which an SDRT charge may apply to you, please see “Taxation Considerations—United Kingdom”.

Cash

ABN AMRO Ordinary Shares held through Admitted Institutions

ABN AMRO Shareholders who hold their ABN AMRO Ordinary Shares through Admitted Institutions will receive the cash portion of their consideration via the relevant Admitted Institutions, in accordance with the procedures determined by the Admitted Institutions and the Dutch Exchange Agent and, where appropriate, the provisions of the Securities Giro Act of the Netherlands. The timing of the crediting of such cash to the account of each person holding their ABN AMRO Ordinary Shares through Admitted Institutions may vary depending on the account systems of the relevant Admitted Institution and, if applicable, the banks or financial intermediaries at which that person maintains a relevant account.

ABN AMRO Ordinary Shares held in registered form (outside of Euroclear Nederland)

ABN AMRO Shareholders holding their shares in registered form outside of Euroclear Nederland will receive the cash portion of their consideration into the account specified in their form of acceptance.

ABN AMRO Ordinary Shares held in bearer form

Holders of ABN AMRO Ordinary Shares in bearer form who do not hold their shares through financial intermediaries can contact the Dutch Exchange Agent for information on the Settlement of the Offer in respect of their ABN AMRO Ordinary Shares.

Custodian Arrangements

This paragraph is of importance to those ABN AMRO Shareholders who do not hold their ABN AMRO Ordinary Shares through an Admitted Institution or who hold their ABN AMRO Ordinary Shares through an Admitted Institution which does not offer a CREST account or who do not wish to hold their New RBS Ordinary Shares through the CREST account of their Admitted Institution.

RBS is facilitating custodian arrangements with a UK nominee which, subject to the satisfaction of the eligibility criteria detailed in the terms and conditions applicable to the arrangements set out in Annex B of the Offer Document, will allow holders of the New RBS Ordinary Shares issued pursuant to the Offer to hold their New RBS Ordinary Shares within CREST and to trade them on the London Stock Exchange. In

particular, these custodian arrangements are only available to persons who are individuals over the age of 18, and to corporate bodies, which are resident in certain jurisdictions. Holders who elect for the custodian arrangements will be deemed to have instructed the nominee to deposit their New RBS Ordinary Shares into the relevant CREST account and to be bound by the terms and conditions applicable to the custodian arrangements detailed in Annex B of the Offer Document.

ABN AMRO Shareholders who hold their ABN AMRO Ordinary Shares through an Admitted Institution who wish to elect for the custodian arrangements should notify their Admitted Institution accordingly. ABN AMRO Shareholders who hold their ABN AMRO Ordinary Shares in registered form outside of Euroclear Nederland and who satisfy the eligibility criteria and wish to utilise the custodian arrangements should elect accordingly on the form of acceptance.

RBS permits holders of RBS Ordinary Shares to elect to receive dividends, if any, in Pounds Sterling or U.S. Dollars and intends to offer such holders the option to elect to receive dividends in euros. Holders of RBS Ordinary Shares who hold their shares through the custodian arrangements will, pursuant to the terms and conditions applicable thereto, receive their dividends in Pounds Sterling unless they elect otherwise.

Currency of Cash Consideration

Holders of ABN AMRO Ordinary Shares tendered into the Offers will receive the cash portion of their consideration in euros.

New RBS Ordinary Shares

Rights of New RBS Ordinary Shares

London Stock Exchange

Applications will be made to the FSA for the New RBS Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for the New RBS Ordinary Shares to be admitted to trading on the London Stock Exchange's market for listed securities.

Euronext Amsterdam

RBS intends to list the New RBS Ordinary Shares on Euronext Amsterdam. RBS will apply for such listing in a timely manner.

Currency of Dividends

Existing holders of RBS Ordinary Shares receive dividends in Pounds Sterling unless they validly elect to receive dividends in U.S. Dollars.

Following Settlement of the Offer, holders of RBS Ordinary Shares (including the holders of New RBS Ordinary Shares) will continue to receive dividends in Pounds Sterling or U.S. Dollars (as applicable) and it is also intended to offer holders of RBS Ordinary Shares the option to receive dividends in euros.

Accounting Treatment

Under IFRS and U.S. GAAP, the acquisition of ABN AMRO will be accounted for by RBS using the purchase method. RBS, (acting through RFS Holdings which will be its consolidated subsidiary with effect from completion of the Offers) will be the acquirer. In RBS's consolidated financial statements, ABN AMRO's assets, liabilities and contingent liabilities will be recognised at fair value; the excess of the cost of the acquisition over the net fair value of the assets, liabilities and contingent liabilities recognised will be recorded as goodwill.

Effect of the Offers on the Market for ABN AMRO Ordinary Shares and ABN AMRO ADSs

For the reasons described below, if the Offers for ABN AMRO Ordinary Shares and ABN AMRO ADSs are completed, depending on the number of ABN AMRO Ordinary Shares and ABN AMRO ADSs accepted for exchange in the Offers, there may no longer be an active trading market for the ABN AMRO Ordinary Shares or ABN AMRO ADSs, and their liquidity could be materially adversely affected.

Delisting of ABN AMRO Ordinary Shares

ABN AMRO Ordinary Shares are listed and traded on Euronext Amsterdam. Depending upon the number of ABN AMRO Ordinary Shares acquired pursuant to the Offers, following the Settlement of the Offers the ABN AMRO Ordinary Shares may no longer meet the listing requirements of Euronext Amsterdam. To the extent permitted under applicable law and stock exchange regulations, RFS Holdings intends to procure the delisting of ABN AMRO Ordinary Shares on Euronext Amsterdam. If, following the Settlement of the Offers, RFS Holdings owns 95% or more of the ABN AMRO Ordinary Shares, or if otherwise permitted, RFS Holdings intends to cause ABN AMRO to submit a request for delisting to Euronext Amsterdam. Unless Euronext Amsterdam considers delisting detrimental to the protection of investors or the proper functioning of the market, it will approve the delisting request and publish its decision. Euronext Amsterdam may impose conditions on granting the request to delist. Delisting of the ABN AMRO Ordinary Shares will occur 20 Euronext Amsterdam Trading Days after publication of Euronext Amsterdam's decision approving the delisting request.

If Euronext Amsterdam were to delist the ABN AMRO Ordinary Shares, the market for ABN AMRO Ordinary Shares could be adversely affected. Although it is possible that the ABN AMRO Ordinary Shares would be traded on other securities exchanges or in the over-the-counter market, and the price quotations would be reported by such exchanges, or other quotation systems or by other sources, there can be no assurance that any such trading quotations will occur. The extent of the public market for the ABN AMRO Ordinary Shares and the availability of such quotations would depend upon the number of holders and/or the aggregate market value of the public float of ABN AMRO Ordinary Shares remaining at such time and the interest in maintaining a market in such securities on the part of securities firms.

To the extent the availability of such listings or quotations depends on steps taken by RFS Holdings, the Banks or ABN AMRO after Settlement of the Offers, RFS Holdings, the Banks or ABN AMRO may or may not take such steps. Therefore, non-tendering ABN AMRO Shareholders should not rely on any such listing or quotation being available following the Settlement of the Offers.

Regulatory Matters

As described above, RFS Holdings will not be obliged to purchase any tendered ABN AMRO Ordinary Shares pursuant to the Offer if all authorisations and consents in connection with the Offers have not been obtained and relevant waiting periods have not expired and all mandatory or appropriate regulatory approvals from domestic and international regulatory authorities reasonably required in connection with the Offers have not been obtained.

RFS Holdings and the Banks have made all necessary filings for the approval of the change of control of ABN AMRO with their home regulators, insofar as these are required, and have made substantially all other applications for regulatory change of control approval. Approval has been requested from, amongst others, the FSA, the Dutch Central Bank (*De Nederlandsche Bank*), the Spanish Securities Markets Commission (*Comisión Nacional del Mercado de Valores*) and the Belgian Banking, Finance and Insurance Commission (*Commission Bancaire, Financière et des Assurances*).

In addition, in order to complete the Offers, RFS Holdings and/or the Banks must make certain competition and antitrust filings with, and obtain approvals from, certain regulatory authorities. In particular, competition consents are being sought from, among others, the European Commission under the European Union Merger Regulation, the Federal Trade Commission, the antitrust division of the U.S. Department of Justice and CADE, the Brazilian antitrust authority.

While the Banks have made, and will continue to make, significant efforts to obtain requisite regulatory approvals, there can be no assurances regarding the timing of the approvals, their ability to obtain the approvals or the absence of litigation challenging these approvals. There can likewise be no assurance that U.S. federal or state and non-U.S. regulatory authorities will not attempt to challenge the combination on antitrust grounds or for other reasons, or, if a challenge is made, as to the results of the challenge.

In certain jurisdictions where ABN AMRO has operations, the local regulatory regime imposes a statutory timeframe within which the relevant regulator must communicate its decision on the application for regulatory change of control consent. In many instances, the timeframe imposed on the regulator is shorter than the initial Offer Period. In others, there is no such timeframe and the Banks cannot, therefore, be certain as to when consent might be granted (if at all). Whilst certain regulators have indicated their willingness to provide as much assistance as possible in reviewing the relevant application for regulatory change of control consent, there can be no guarantee that such consents will be granted within the initial Offer Period or at all.

PART IX

INFORMATION ON THE CONSORTIUM AND SHAREHOLDERS' AGREEMENT AND RFS HOLDINGS

1 Summary of the Consortium and Shareholders' Agreement

The following description of the Consortium and Shareholders' Agreement describes the material terms of the agreement and its schedules but does not purport to describe all the terms of the agreement. The Consortium and Shareholders' Agreement is available for inspection as set out in paragraph 19 of Part XXIV of this document. ABN AMRO Shareholders are urged to read carefully the entire Consortium and Shareholders' Agreement because it contains important information and it is the legal document that governs the arrangements among Fortis, RBS, Santander and RFS Holdings in relation to the Offers.

Overview

The Consortium and Shareholders' Agreement governs the relationships among Fortis, RBS, Santander and RFS Holdings in relation to the Offers and was executed by and among them on 28 May 2007 and may be amended or supplemented from time to time.

The arrangements contemplated by the Consortium and Shareholders' Agreement include:

- the funding of RFS Holdings in connection with the Offers;
- the governance of RFS Holdings both before and after the acquisition of ABN AMRO;
- Fortis's, RBS's and Santander's equity interests in RFS Holdings;
- the transfer of certain ABN AMRO Businesses, assets and liabilities to Fortis, RBS and Santander (or their group members) after the acquisition of ABN AMRO by RFS Holdings;
- the management and disposal of any businesses, assets and liabilities of ABN AMRO not intended to be transferred to Fortis, RBS or Santander;
- allocation of core Tier 1 capital;
- further funding obligations of Fortis, RBS and Santander after the acquisition of ABN AMRO where funding is required by regulatory authorities in connection with the ABN AMRO Businesses;
- allocation of taxes and conduct of tax affairs; and
- certain other matters referred to in the Consortium and Shareholders' Agreement.

Key provisions of the Consortium and Shareholders' Agreement

Funding of RFS Holdings

Fortis, RBS and Santander have agreed to subscribe for shares in RFS Holdings of a sufficient amount to fund the consideration due under the Offers. This funding commitment is split among Fortis, RBS and Santander as follows:

- Fortis: 33.8%,
- RBS: 38.3%, and
- Santander: 27.9%.

Approximately 7% of RFS Holdings' commitment will be satisfied by the issue of New RBS Ordinary Shares in connection with the Offers.

Ownership of RFS Holdings

Upon Settlement of the Offers, Fortis, RBS and Santander will have shareholdings in RFS Holdings that are equal to their proportionate funding commitments. Four classes of shares will be issued by RFS Holdings immediately prior to Settlement of the Offers in order to fund the consideration due, with one class for each of Fortis, RBS and Santander and a further class issued to all three. The capital and income rights of the three classes of shares that will be issued to Fortis, RBS and Santander, respectively, will be linked to the net assets and income of the ABN AMRO Businesses that each of the

Banks or their respective affiliates will acquire following implementation of the restructuring of the ABN AMRO Group. The fourth class, which will be issued to Fortis, RBS and Santander in proportion to their funding commitments, will reflect their *pro rata* interests in the businesses, assets and liabilities that are not being acquired by any of them individually.

Governance

Conduct of the Offers

Whilst the Offers are being conducted, RFS Holdings has six directors (two nominated by each of Fortis, RBS and Santander) and all decisions, including those relating to the Offers (for example, whether to declare the Offers unconditional) will require the agreement of at least one board nominee of each of Fortis, RBS and Santander. Expenses incurred by RFS Holdings in connection with the conduct of the Offers will be shared between Fortis, RBS and Santander in proportion to their shareholdings.

Post completion

Upon Settlement of the Offers, the board of RFS Holdings will be reduced to four directors, two nominated by RBS and one nominated by each of Fortis and Santander. Sir Fred Goodwin of RBS will be one of the RBS nominees and will also be the Chairman of the board, with a casting vote to decide matters on which the board cannot otherwise agree. Board decisions will generally be taken by a simple majority subject to minority protections in the form of reserved matters set out in the Consortium and Shareholders' Agreement that will require the approval of at least one director nominated by each of Fortis, RBS and Santander.

Reorganisation

See "Background to and Reasons for the Offers" for details of which businesses and assets of ABN AMRO each of Fortis, RBS and Santander will acquire following implementation of a post acquisition reorganisation of ABN AMRO. No changes can be made to this allocation of businesses and assets unless Fortis, RBS and Santander agree otherwise at a later stage. Under the terms of the Consortium and Shareholders' Agreement, each of Fortis, RBS and Santander will bear the costs and liabilities (historic and future) relating to the ABN AMRO assets it will ultimately acquire (with certain exceptions in relation to tax) and indemnities among Fortis, RBS and Santander reflect this position.

Businesses, assets and liabilities that are not to be acquired by any of Fortis, RBS or Santander individually will be disposed of over a period of time with a view to maximising value for the shareholders of RFS Holdings. The terms of the agreement provide for disposal of such of these assets as are to be sold as soon as possible.

The agreement contains provisions for determination of issues relating to the restructuring on which Fortis, RBS and Santander are unable to agree in the context of the restructuring.

If, prior to the implementation of the restructuring, it becomes clear that the necessary approvals for the transfer of assets to Fortis, RBS or Santander, as applicable, will not be obtained (such as due to rejection by a financial regulatory authority), the shareholder of RFS Holdings that was the intended acquirer of such assets will arrange for the sale of such assets and will be entitled to the proceeds of such sale.

Allocation of capital on restructuring

The core Tier 1 capital of ABN AMRO will be allocated between businesses in accordance with the allocation in the accounting records underlying the audited financial statements of ABN AMRO for the year ended 31 December 2006. However, if that allocation results in the ABN AMRO Businesses to be acquired by any of Fortis, RBS or Santander having a ratio of core Tier 1 capital to risk-weighted assets of below a specified level, the other shareholders of RFS Holdings are obliged to procure the contribution (in proportion to their allocation of capital) of sufficient core Tier 1 capital to the affected shareholder's acquired businesses to increase the ratio (to the extent that certain other intra-ABN AMRO measures do not achieve the same result). The contributing shareholders are entitled to a return on the core Tier 1 capital they contribute to the affected shareholder's acquired businesses. The return will be determined by reference to the return on the underlying investments in which the contributed capital is invested.

Intra-group arrangements

Following Settlement of the Offers, all shared services will continue on the same terms as applied by ABN AMRO as at 31 December 2006, unless Fortis, RBS and Santander agree otherwise. Following a review to identify anomalous terms or inappropriate pricing, if any party (provider/recipient) wishes to change the basis on which such services are provided, it will be required, following agreement amongst Fortis, RBS and Santander, to make recommendations to the board of RFS Holdings for its approval.

Provision of further capital

Until such time as all ABN AMRO assets have been transferred out of the group of which RFS Holdings will be the parent company, if a regulator requires contribution of further capital to ABN AMRO, the intended owner of the relevant business giving rise to the capital call will be responsible for meeting such a call (by providing further funding or otherwise). If a capital requirement is imposed in relation to assets that are not to be acquired by any shareholder of RFS Holdings, the shareholders will meet such requirement in proportion to their shareholdings. In the event that the FSA increases the capital requirements of RBS and that obligation arises in relation to one of the ABN AMRO Businesses to be acquired by Fortis or Santander, the Banks will agree in good faith and acting reasonably how to satisfy the imposed requirements or otherwise alleviate the issue.

Information technology and operations

There will be a specially constituted Central Service Governance Committee (comprising three members, one from each of Fortis, RBS and Santander) tasked with overseeing and agreeing on information technology and operational matters, including the separation of all information technology and operations assets used by or relating to businesses owned by more than one of Fortis, RBS and Santander. Fortis, RBS and Santander have agreed that as soon as reasonably possible after the Offer has been declared unconditional a reasonable and appropriate methodology will be discussed and agreed for remunerating each of the Banks that provides services to the other parties or that contributes to the planning and/or implementation of the separation and migration of information technology and operations assets. In the absence of unanimous agreement on any issue by the committee, that matter will be referred to the board of RFS Holdings for decision (together with any expert opinion obtained by the committee in the course of its discussions).

Intra-group debt

The agreement provides that there will be no repayment of intra-group debt when assets are transferred to Fortis, RBS and Santander. Accordingly, unless otherwise agreed, such debt will continue to maturity according to its terms.

Regulatory compliance

Fortis, RBS and Santander have each undertaken to co-operate fully to ensure that ABN AMRO continues to meet its regulatory obligations following completion of the Offers. The agreement provides that RBS will take the lead in ensuring such compliance.

Provision of information

RFS Holdings is required to provide appropriate information to its shareholders subject to competition law and regulatory requirements.

Termination and conditionality

The agreement terminates if (i) the Offers terminate, (ii) necessary shareholder approvals by the shareholders of Fortis, RBS and Santander, respectively are not obtained or (iii) Fortis, RBS and Santander unanimously agree such a termination. The funding obligations of the shareholders of RFS Holdings are conditional on the receipt of all necessary approvals required for the Offers to complete.

Transfer of shares

Transfers of shareholdings in RFS Holdings to third parties are restricted although intra-group transfers are permitted subject to Fortis, RBS and Santander retaining responsibility for their contractual obligations.

Governing law/arbitration

The agreement is governed by English law. Subject to the expert determination provisions referred to above, disputes will be resolved by arbitration in Paris under the rules of the International Chamber of Commerce.

2 Information on RFS Holdings

Overview

RFS Holdings was formed by the Banks to effect the Transaction.

Each of the Banks will have economic interests in RFS Holdings as described herein. Upon Settlement of the Offers, RFS Holdings will be jointly owned by the Banks in proportion to their funding commitments under the Consortium and Shareholders' Agreement. RFS Holdings will be consolidated as a subsidiary by RBS.

Constitution

RFS Holdings was incorporated in the Netherlands on 4 May 2007, as a private company with limited liability under the name RFS Holdings B.V.

The principal objective of RFS Holdings is to participate in, to take an interest in any other way in or to conduct the management of other business enterprises of whatever nature, to finance third parties, to provide security or undertake the obligations of third parties and otherwise engage in any activities which are incidental to or which may be conducive to any of the foregoing. RFS Holdings has not traded since incorporation.

RFS Holdings is registered at the Chamber of Commerce Amsterdam under number 34273228. Its registered office is at Strawinskylaan 3105, 1077 ZX Amsterdam, the Netherlands. Both for purposes of domestic Dutch and U.K. tax law and for purposes of the Netherlands U.K. double tax treaty, RFS Holdings will be a resident of the Netherlands only.

Share Capital

The authorised share capital of RFS Holdings amounts to €90,000 and consists of 90,000 ordinary shares with a nominal value of €1 each. All shares of RFS Holdings are registered shares. As at the date of this document, 18,000 ordinary shares in the capital of RFS Holdings have been issued and fully paid-up, which are held either directly or indirectly by the Banks.

Each of the Banks currently holds, directly or indirectly, one-third of the issued shares in the capital of RFS Holdings and will continue to do so until funding of RFS Holdings immediately prior to and for the purpose of Settlement of the Offers. Upon funding of RFS Holdings by the Banks for the purpose of Settlement of the Offers, the Banks will be issued new shares in the capital of RFS Holdings so that their aggregate shareholdings will be equal to their proportionate funding commitments: RBS will hold 38.3%, Fortis will hold 33.8% and Santander will hold 27.9% of the issued shares in the capital of RFS Holdings.

Governance

The RFS Holdings managing board comprises the following six members: Karel August Maria De Boeck (representative of Fortis), Alexander Maria Kloosterman (representative of Fortis), Miller Roy McLean (representative of RBS), Mark Andrew Fisher (representative of RBS), José A. Álvarez (representative of Santander) and Ignacio Benjumea (representative of Santander).

RFS Holdings does not have a supervisory board.

On or about the date of the Settlement of the Offers, the articles of association of RFS Holdings will be amended and the composition of its managing board changed. RBS will then control the managing board of RFS Holdings, subject to minority protections in the form of reserved matters set out in the Consortium and Shareholders' Agreement which will require the approval of at least one managing director nominated by each of Fortis, RBS and Santander. RFS Holdings will become a subsidiary of RBS and consolidated by it.

A further description of the governance of RFS Holdings is set out in the description of the Consortium and Shareholders' Agreement.

PART X

SOURCE AND AMOUNT OF FUNDS

Assuming all issued and outstanding ABN AMRO Ordinary Shares are tendered into the Offers, RBS would be obliged to issue 556,143,700⁽¹⁾ New RBS Ordinary Shares to ABN AMRO Shareholders in satisfaction of the obligations of RFS Holdings with regard to the share element of the offer consideration, and, in addition, RFS Holdings would be obliged to pay aggregate cash consideration of €66 billion. The Banks propose to finance the cash portion of the consideration payable by RFS Holdings through a combination of rights issues, debt and preferred securities issues and internal resources, as described in greater detail below. The number of New RBS Ordinary Shares issued and the aggregate amount of cash consideration would be less in the event that less than 100% of ABN AMRO Ordinary Shares are tendered into the Offers. In addition, the number of New RBS Ordinary Shares issued and the aggregate cash consideration may vary depending on the number of ABN AMRO Ordinary Shares outstanding at the time of the Settlement of the Offers.

Fortis

Fortis intends to finance its portion of the consideration to be paid by RFS Holdings in the Offers, which portion Fortis expects to amount to approximately €24 billion, by means of the following sources:

- net proceeds of an equity offering by Fortis of up to €13 billion, which offering will be made in the form of a non-statutory rights offering and offering of shares representing unexercised rights in accordance with applicable Belgian and Dutch and other applicable law;
- net proceeds of the placement of conditional capital exchangeable notes (“CCENs”), a new contingent core Tier 1 capital instrument issued on 11 July 2007, raising €2 billion; and
- the remaining part from the proceeds of a combination of (i) the issuance of various securities; (ii) the sale of specific non-core assets of Fortis that Fortis may complete prior to the completion of the Offers; and (iii) other internal financial resources including but not limited to cash on Fortis’s balance sheet.

Fortis has received an equity underwriting commitment letter, dated 16 May 2007, from Merrill Lynch under which Merrill Lynch has agreed to underwrite the rights offering for the purposes of financing Fortis’s participation in the Offers. The aggregate amount of Merrill Lynch’s standby underwriting commitment is €17 billion. Pursuant to the equity underwriting commitment letter, the terms and conditions of the underwriting agreement for the rights offering will be customary for international rights offerings of this type. Merrill Lynch’s commitment to underwrite these rights is only conditional upon RFS Holdings making the Offers. The equity underwriting commitment letters provide that the termination and *force majeure* provisions of the underwriting agreement will be aligned with the material adverse change condition of the Offers and that if there is any inconsistency between such provisions, the terms of the Offers shall prevail. Merrill Lynch’s obligation to underwrite the securities will terminate if the Offer is not declared unconditional and the U.S. Offer lapses or expires, if the Banks announce that the Offer will not be made or has been terminated or if all conditions to the Offer are not satisfied or waived by 31 December 2007. Pursuant to the terms of the equity underwriting commitment letter, Fortis has agreed to pay certain fees and expenses of Merrill Lynch in consideration for Merrill Lynch’s commitment.

The rights offering will be launched in the second half of 2007 and will be scheduled to close prior to Settlement of the Offers.

On 15 May 2007 Fortis entered into a €10 billion backstop liquidity facility with several European financial institutions to secure completely the financing of the Transaction to come from internal resources.

Fortis intends that following the Offers it will refinance the remaining part of the consideration through a combination of the following sources:

- up to €5 billion to be raised by issuing other Tier 1 capital instruments, equity-linked subordinated hybrid capital securities and/or convertible debt securities. On 16 May 2007, Fortis received a

(1) On a fully diluted basis, assuming the number of issued and outstanding ABN AMRO Ordinary Shares is as set out in ABN AMRO’s Form 6-K dated 23 April 2007 and exercise of all ABN AMRO options based on information as set out in the ABN AMRO 2006 Annual Report on Form 20-F.

standby underwriting commitment from Merrill Lynch to raise an amount of up to €5 billion through such financing transactions, the terms and conditions of which commitment are substantially similar to those of the equity underwriting commitment letter described above; and

- up to €8 billion through multiple other transactions, consisting of further sales of non-core assets, securitisation transactions and other similar transactions.

RBS

Upon Settlement of the Offers, RBS will issue 0.296 New RBS Ordinary Shares for each ABN AMRO Ordinary Share tendered. The creation and issuance of New RBS Ordinary Shares must be approved by the affirmative vote of a majority of holders of RBS Ordinary Shares present and voting at an extraordinary general meeting, which is planned to be held on 10 August 2007.

RBS, whose portion of the cash consideration for the Offers is €22 billion⁽¹⁾, plans to issue preferred securities and debt securities, and to utilise internal resources to finance the remainder of its portion of the cash consideration not covered by the proceeds of the securities it issues.

On 28 May 2007, RBS entered into a standby underwriting commitment letter with Merrill Lynch (the “Standby Underwriting Commitment Letter”), pursuant to which Merrill Lynch undertook to underwrite one or more issues by RBS of securities eligible to be treated as part of its innovative or non-innovative Tier I capital and/or convertible securities convertible into RBS Ordinary Shares, the proceeds of which would be used to finance part of the cash portion of consideration payable to ABN AMRO Shareholders upon Settlement of the Offers. The aggregate amount of Merrill Lynch’s standby underwriting commitment is €6.2 billion. Merrill Lynch’s commitment to underwrite these securities is conditional only upon RFS Holdings making the Offers. In the event that Merrill Lynch is unsuccessful in procuring subscribers for the securities issued by RBS, it has agreed to subscribe for these securities itself, up to the amount of its total standby underwriting commitment. Pursuant to the Standby Underwriting Commitment Letter, RBS has agreed to pay certain fees and expenses to Merrill Lynch in consideration for its standby commitment. Merrill Lynch’s obligation to underwrite the securities will terminate if the Offers lapse or expire, if the Banks announce that the Offers will not be made or have been terminated or if all conditions to the Offers are not satisfied or waived by 31 December 2007. RBS expects these issuances to be completed prior to Settlement of the Offers.

Under the Offers, RBS will contribute its consortium proportion (38.3%) of the consideration paid to ABN AMRO Shareholders, or €27.2 billion. The consideration for the ABN AMRO Businesses net of the sale of LaSalle will be €16 billion. The reduction comprises \$21 billion proceeds from the sale of LaSalle less inter-company balances of \$6 billion as set out in the Bank of America Agreement.

Santander

Santander intends to finance its portion of the consideration, which is approximately €19.9 billion, to be paid in the Offers by raising approximately €9.0 billion via a rights issue and the issuance of mandatorily convertible securities (the “Santander Contemplated Offerings”) and funding the remaining amount of approximately €10.9 billion through internal financial resources, including asset disposals.

Santander’s Board of Directors has convened for 26 July 2007, on first call, and 27 July 2007, on second call, an extraordinary general meeting of shareholders of Santander to request Santander shareholders to pass the necessary resolutions to enable Santander to proceed with the Santander Contemplated Offerings. The Santander Contemplated Offerings are expected to be launched in the second half of 2007 and are expected to close prior to Settlement of the Offers or shortly thereafter, in which case appropriate bridge financings will be arranged in order to fund payment of the consideration at settlement.

On 5 May 2007, Santander received standby securities underwriting commitment letters from each of Dresdner Bank AG and Calyon Spanish Branch under which each of these banks agreed to underwrite up to €6.0 billion of the Santander Contemplated Offerings, therefore totalling €12.0 billion. On 14 May 2007, Santander received a standby securities commitment letter from ING Bank N.V. under which ING Bank N.V. agreed to underwrite up to €2.0 billion of the Santander Contemplated Offerings.

(1) On a fully diluted basis, assuming the number of issued and outstanding ABN AMRO Ordinary Shares is as set out in ABN AMRO’s Form 6-K dated 23 April 2007 and exercise of all ABN AMRO options based on information as set out in the ABN AMRO 2006 Annual Report on Form 20-F.

On 27 May 2007, Santander received a standby securities commitment letter from Merrill Lynch under which it agreed to underwrite up to €10.0 billion of the Santander Contemplated Offerings. Pursuant to the standby securities commitment letters, the terms and conditions of the relevant subscription agreements for the Santander Contemplated Offerings will be customary for offerings of the type of securities to be issued. Pursuant to the standby securities commitment letters, Santander has agreed to pay certain fees and expenses to each of the banks in consideration for its standby commitment. Pursuant to the applicable standby securities commitment letters, Calyon Spanish Branch's, Dresdner Bank AG's, ING Bank N.V.'s and Merrill Lynch's underwriting commitments are conditioned upon RFS Holdings having made a formal offer for the entire issued and outstanding share capital of ABN AMRO no later than 30 September 2007.

Pursuant to their standby securities commitment letters, the underwriting commitment of each of Calyon Spanish Branch, Dresdner Bank AG, ING Bank N.V. and Merrill Lynch terminates if (i) the Offers lapse or expire, (ii) the Banks announce that the Offers will not be made or have been terminated or (iii) the conditions to the Offers are not satisfied or waived by, respectively, 31 December 2007 (in the case of Merrill Lynch's commitment), 3 May 2008 (in the case of Dresdner Bank AG's commitment), or 4 May 2008 (in the case of Calyon Spanish Branch's and ING Bank N.V.'s commitments).

PART XI

INFORMATION ON FORTIS

Overview

Fortis N.V. is incorporated as a public limited liability company (*naamloze vennootschap*) under Dutch law. Fortis N.V. has its corporate seat in Utrecht, The Netherlands, with its head office at Archimedeslaan 6, 3584 BA Utrecht, The Netherlands, and is registered under number 30072145 with the Trade Register at the Chamber of Commerce of Utrecht, The Netherlands. The telephone number of the registered office of Fortis N.V. is +31 30 226 62 22.

Fortis SA/NV is a public company with limited liability (*société anonyme/naamloze vennootschap*) incorporated under Belgian law. Fortis SA/NV has its registered office at Rue Royale/Koningsstraat 20, 1000 Brussels, Belgium. The company is registered in the register of legal entities (*registre des personnes morales/rechtspersonenregister*) under number 0451 406 524. The telephone number of the registered office of Fortis SA/NV is +32 2 565 1141.

In this document, “Fortis” refers to Fortis SA/NV, Fortis N.V. and the group of companies owned and/or controlled by Fortis SA/NV and Fortis N.V.

Fortis is an international provider of banking and insurance products and services to personal, business and institutional customers. The company delivers a comprehensive package of financial products and services through its own distribution channels and via intermediaries and other partners.

Fortis ranks among the 20 largest financial institutions in Europe based on market capitalisation of €43.3 billion as at 31 December 2006, with total assets of €775 billion and shareholders' equity of €20.6 billion. With its sound solvency position, broad risk spread, a presence in over 50 countries and the extensive expertise of its approximately 57,000 employees (full time equivalents) as of the end of 2006, Fortis combines an international presence with local flexibility to provide strong support to its customers. As at that date, Fortis had a total capital ratio of 11.1% and a Tier 1 capital ratio of 7.1%.

In its home market, the Benelux countries, Fortis occupies a leading position in each of its principal business segments, banking and insurance. Fortis's retail banking operations are a market leader in the Benelux region – one of Europe's wealthiest regions. Building on that leadership, Fortis has developed an integrated, European-wide network to serve its international client base. The same expertise it has developed in its home market is used to provide high net worth individuals, enterprises and entrepreneurs with advanced financial services tailored to their specific needs. Fortis also operates worldwide in selected activities, such as fund administration, trade finance, shipping finance, export and project finance and global markets. In specific countries in Europe and Asia it exploits its know-how and experience in banking and insurance, and is a market leader in banc assurance in Spain and Portugal.

Fortis Operating Structure

As of 1 January 2007, Fortis has reorganised its activities into three core businesses: Retail Banking, Merchant & Private Banking, and Insurance.

Retail Banking

Fortis Retail Banking provides a wide range of integrated financial and insurance solutions to individuals, professionals and small businesses.

More than six million active customers are served via an array of proprietary and third-party distribution channels. The proprietary channels include 1,600 branches, 60 credit shops, more than 2,500 Selfbank terminals and ATMs, online banking, telephone banking and call centres. Third-party distribution covers independent brokers (in Poland and the Netherlands) and non-financial outlets such as post offices (Belgium, Ireland) and car dealers (Poland).

With more than 17,000 employees active in nine countries, Fortis Retail Banking has an extensive European footprint. By pursuing a segmented customer approach towards mass retail clients, affluent individuals, professionals and small businesses, it aims to grow in both mature and developing markets.

Different models for growth based on its key strengths will be adapted to each specific market and customer segment:

- in mature markets where Fortis Retail Banking is market leader, like Belgium and Luxembourg, it will continue to focus on its customer by differentiating between segments, selectively deepening relationships, enhancing its service culture and offering integrated, multi-channel accessibility; and
- in fast-growing segments and developing markets, Fortis Retail Banking needs to rapidly exploit its existing and new positions. Retail Banking entered the German market in 2006, where it is swiftly rolling out consumer finance activities. In Poland, it is focusing on the SME market and upscale individual customers while expanding its consumer finance operations. In Turkey, meanwhile, Retail Banking is building a full-fledged mass retail franchise. And it is drawing on its expertise in Belgium to develop a postal banking franchise in Ireland through a joint venture with An Post.

Merchant & Private Banking

Fortis Merchant & Private Banking offers tailored financial products and skill-oriented services to large international companies and institutions, to Europe-oriented medium-sized enterprises and entrepreneurs, and to private banking clients.

Fortis Bank supports its clients in their international growth by advising them and structuring and arranging financial solutions to meet their often complex financial needs. The solutions Fortis offers its customers are based on a variety of activities, including foreign exchange (forex) trading and derivatives, money and capital markets, cash management, equity and fixed-income investments, business and asset financing, private equity, project finance, structuring, clearing and custody. In Europe, Merchant & Private Banking is investing in the expansion of its operations in several European countries, including the United Kingdom, France, Italy, Germany, Spain, Poland and Turkey. It is also developing its dealing room coverage and selected niche activities, such as shipping finance, export and project finance, trade and commodity finance, and clearing services on a more global scale, into areas such as the United States and Asia.

Insurance

Fortis Insurance provides life and non-life products in its home markets of Belgium and The Netherlands and in selected European and Asian markets.

Fortis is a prominent player in Europe's insurance market, and is among the top ten European insurers. Fortis benefits from market leadership in the Benelux countries where it offers a comprehensive range of life products, such as individual/group contracts and investment-linked policies, and non-life insurance products, such as property & casualty and accident & health. Fortis also benefits from strong positions in the banc-assurance and broker channels. Fortis Insurance leverages its existing skills in distribution, operations and products from its home markets in the Benelux region and has established leading positions in selected European and Asian markets.

Fortis's businesses are supported by the following support functions:

- *Group Resources*

This function includes Technology, Operations & Process Services (TOPS), Human Resources, Facilities and Purchasing.

- *Finance*

This function includes Performance Management, Consolidation & Accounting, Group Development & Acquisitions, Tax and Reporting, Ratings, Structuring & Capital Management.

- *Strategy*

This function includes Strategy, Investor Relations, Global Branding & Communications, Public Affairs, CSR and Fortis Investments.

- *Risk*

This function includes Risk, Legal, Compliance, Investigations and Customer & Management Processes. A key objective is to enhance risk strategies and further develop the risk function across Fortis. It will also drive the businesses and support functions to improve quality of processes.

- *Investment*

This function includes Asset & Liability Management (ALM) which has been established to enhance Fortis-wide synergies in this area and to optimise return on assets.

Each core business and support function is managed by a member of the Executive Committee.

Taking into account Belgian disclosure rules requiring disclosure of major shareholdings exceeding 3%, Stichting VSB has reported shareholdings of 4.99% in the share capital of Fortis.

The shares in RFS Holdings owned by the Fortis group are held by Fortis Bank Nederland (Holding) N.V., a wholly owned subsidiary of Fortis Bank SA/NV. The registered office of Fortis Bank Nederland (Holding) N.V. is located at Archimedeslaan 6, 3584 BA Utrecht, The Netherlands, and its business telephone number is +31 30 226 3655.

PART XII

INFORMATION ON RBS

Overview

RBS is the holding company of one of the world's largest banking and financial services groups, with a market capitalisation of £62.8 billion at the end of 2006. Listed on the London Stock Exchange and headquartered in Edinburgh, RBS operates in the United Kingdom, the United States and internationally through its two principal subsidiaries, the Royal Bank and NatWest. Both the Royal Bank and NatWest are major U.K. clearing banks whose origins go back over 275 years. In the United States, RBS's subsidiary Citizens Financial Group, Inc. was ranked the 10th largest (based on 31 December 2006 data) commercial banking organisation by deposits. RBS has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

RBS had total assets of £871.4 billion and shareholders' equity of £40.2 billion at 31 December 2006. It is strongly capitalised with a total capital ratio of 11.7% and Tier 1 capital ratio of 7.5% as at 31 December 2006.

Its registered office is at 36 St Andrew Square, Edinburgh EH2 2YB, Scotland and its head office is RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ, Scotland, telephone +44 131 556 8555.

Principal Activities

The Group's activities are organised in the following business divisions: Corporate Markets (comprising GBM and U.K. Corporate Banking), Retail Markets (comprising Retail and Wealth Management), Ulster Bank, Citizens, RBS Insurance and Manufacturing. A description of each of the divisions is given herein.

Corporate Markets

Corporate Markets is focused on the provision of banking, investment and risk management services to medium and large businesses and financial institutions in the United Kingdom and around the world. Corporate Banking and Financial Markets was renamed Corporate Markets on 1 January 2006 when RBS reorganised its activities into two businesses, GBM and U.K. Corporate Banking, in order to enhance the service provided to these two customer segments.

GBM

GBM is a leading banking partner to major corporations and financial institutions around the world, providing an extensive range of debt financing, risk management and investment services to its customers. GBM has a wide range of clients across its chosen markets. It has relationships with an overwhelming majority of the largest U.K., European and U.S. corporations and institutions. GBM's principal activity in the United States is conducted through RBS Greenwich Capital.

U.K. Corporate Banking

U.K. Corporate Banking is the largest provider of banking, finance and risk management services to U.K. corporate customers. Through its network of relationship managers across the country it distributes the full range of Corporate Markets' products and services to companies.

Retail Markets

Retail Markets was established in June 2005 to lead coordination and delivery of RBS's multi-brand retail strategy across its product range and is comprised of Retail (including its direct channels businesses) and Wealth Management.

Retail

Retail comprises both the Royal Bank and NatWest retail brands, and a number of direct providers offering a full range of banking products and related financial services to the personal, premium and small business markets across several distribution channels.

In core retail banking, Retail offers a comprehensive product range across the personal and small business market – money transmission, savings, loans, mortgages and insurance. Customer choice and product flexibility are central to the retail banking proposition and customers are able to access services through a full range of channels, including the largest network of branches and automated teller machines in the United Kingdom, the internet and the telephone.

Retail also includes RBS's non-branch based retail businesses that issue a comprehensive range of credit and charge cards to personal and corporate customers and provides card processing services for retail businesses. Retail is the leading merchant acquirer in Europe and ranks fourth globally.

It also includes Tesco Personal Finance, The One account, First Active U.K., Direct Line Financial Services and Lombard Direct, all of which offer products to customers through direct channels principally in the United Kingdom.

Wealth Management

Wealth Management provides private banking and investment services to its clients through a number of leading U.K. and overseas private banking subsidiaries and offshore banking businesses. Coutts is one of the world's leading international wealth managers with offices in Switzerland, Dubai, Monaco, Hong Kong and Singapore, as well as its premier position in the United Kingdom. Adam & Company is one of the major private banks in Scotland. The offshore banking businesses – The Royal Bank of Scotland International and NatWest Offshore – deliver retail banking services to local and expatriate customers, principally in the Channel Islands, the Isle of Man and Gibraltar.

Ulster Bank Group

Ulster Bank Group brings together the Ulster Bank and First Active businesses to provide a comprehensive range of products and services to retail and corporate customers in the island of Ireland.

Ulster Bank Retail Markets serves personal customers through both the Ulster Bank and First Active brands. Ulster Bank provides branch banking and direct banking services throughout the island of Ireland. First Active, through its branch network, serves personal customers in the Republic of Ireland with its separately branded product offerings, including mortgages and savings.

Ulster Bank Corporate Markets caters for the banking needs of business and corporate customers, including treasury and money market activities, asset finance, e-banking, wealth management and international services. Business and corporate banking services are provided via centrally-based relationship management teams and dedicated Business Centres located across both Northern Ireland and the Republic of Ireland.

Citizens

Citizens is the second largest commercial banking organisation in New England and the 10th largest (based on 31 December 2006 data) commercial banking organisation in the United States measured by deposits. Citizens provides retail and corporate banking services under the Citizens brand in Connecticut, Delaware, Massachusetts, New Hampshire, New Jersey, New York state, Pennsylvania, Rhode Island and Vermont and the Charter One brand in Illinois, Indiana, Michigan and Ohio. Through its branch network Citizens provides a full range of retail and corporate banking services, including personal banking, residential mortgages and cash management.

In addition, Citizens engages in a wide variety of commercial lending, consumer lending, commercial and consumer deposit products, merchant credit card services, trust services and retail investment services. Citizens includes RBS National Bank, its U.S. credit card business, RBS Lynk, its merchant acquiring business, and Kroger Personal Finance, its credit card joint venture with the second largest U.S. supermarket group.

RBS Insurance

RBS Insurance is the second largest general insurer in the United Kingdom, by gross written premiums. It sells and underwrites retail, SME and wholesale insurance over the telephone and internet, as well as through brokers and partnerships. The Retail Division sells general insurance products direct to the customer utilising the brands of Direct Line, Churchill and Privilege. Through its International Division, RBS Insurance sells motor insurance in Spain, Germany and Italy. The Intermediary and Broker Division

sells general insurance products through its network of independent brokers and selected retail partners.

Manufacturing

Manufacturing supports the customer-facing businesses and provides operational, technology and customer support in telephony, account management, lending and money transmission, global purchasing, property and other services.

Manufacturing drives optimum efficiencies and supports income growth across multiple brands and channels by using a single, scalable platform and common processes wherever possible. It also leverages RBS's purchasing power and has become the centre of excellence for managing large-scale and complex change.

The expenditure incurred by Manufacturing relates to costs principally in respect of the Group's banking and insurance operations in the United Kingdom and Ireland. These costs reflect activities that are shared between the various customer-facing divisions and consequently cannot be directly attributed to individual divisions. Instead, the Group monitors and controls each of its customer-facing divisions on revenue generation and direct costs whilst in Manufacturing such control is exercised through appropriate efficiency measures and targets. For financial reporting purposes the Manufacturing costs have been allocated to the relevant customer-facing divisions on a basis management considers to be reasonable.

The Centre

The Centre comprises group and corporate functions, such as capital raising, finance, risk management, legal, communications and human resources. The Centre manages the Group's capital requirements and Group-wide regulatory projects and provides services to the operating divisions.

PART XIII

INFORMATION ON SANTANDER

Overview

Banco Santander, S.A. is the parent bank of the Santander Group, one of the world's largest banking groups by market value, with a market capitalisation of €88.4 billion at the end of 2006. Santander's current legal name is Banco Santander Central Hispano, S.A. On 23 June 2007, the general meeting of shareholders of Santander approved the change of Santander's legal name to Banco Santander, S.A., which will become effective when regulatory approval has been obtained. Headquartered in Madrid, Spain, the Santander Group operates in three geographic areas: (i) Continental Europe; (ii) the United Kingdom; and (iii) Latin America, mainly Brazil, Mexico, Chile, Argentina, Puerto Rico, Venezuela and Colombia.

The Santander Group's main business areas are retail banking, wholesale banking and asset management and insurance. As at 31 December 2006, Santander had, on a consolidated basis, total assets of €833.9 billion and shareholders' equity of €40.1 billion. As at that date, Santander had, on a consolidated basis, a total capital ratio of 12.5% and Tier 1 capital ratio of 7.4%.

Santander is incorporated under, and governed by, the laws of the Kingdom of Spain. Its registered office is located at Paseo de Pereda 9-12, Santander, Spain, and its principal place of business is located at Ciudad Grupo Santander, Avda. de Cantabria s/n, 28660 Boadilla del Monte (Madrid), Spain. Telephone: +34-91-259-6520.

Geographic Areas

The activity of the Santander Group's operating units is managed on a geographic basis, which reflects the Santander Group's positioning in the world's three main currency areas:

Continental Europe. This covers all retail banking business (including Banco Banif ("Banif"), the Santander Group's specialised private bank), wholesale banking and asset management and insurance conducted in Europe, with the exception of Abbey National plc ("Abbey"). This segment includes the following units: Santander Network, Banco Español de Crédito ("Banesto"), Santander Consumer Finance and Portugal. Continental Europe is the largest business area of the Santander Group.

United Kingdom (Abbey). This covers only Abbey's business, mainly focused on retail banking in the United Kingdom.

Latin America. The Santander Group maintains a significant position in Latin America, mainly in Brazil, Mexico, Chile, Argentina, Puerto Rico, Venezuela and Colombia, in light of its financial strength, high degree of diversification (by countries, businesses, products, etc.), and breadth and depth of its franchise.

Business Area

The activity of the Santander Group's operating units is also managed by business area:

Retail Banking

Retail Banking encompasses the Santander Group's entire retail banking business (except for the Corporate Banking business managed globally, as described below).

The retail banking activity in Continental Europe is carried out through the branch network of the Santander Group, with support from an increasing number of automated cash dispensers, savings books updaters, telephone banking services, electronic and internet banking.

The Santander Group's consumer financing activities are conducted through its subsidiary Santander Consumer Finance and its group of companies. Most of the activity is in the business of auto financing, personal loans, credit cards, insurance and customer deposits. These consumer financing activities are mainly focused on Spain, Portugal, Germany and Italy (through Santander Consumer Bank). The Santander Group also conducts this business in the United Kingdom, Hungary, the Czech Republic, the Netherlands, Norway, Poland and Sweden.

Abbey became part of the Santander Group on 12 November 2004. Abbey is a significant financial services provider in the United Kingdom, being the second largest residential mortgage lender measured by outstanding balances. Abbey also provides a wide range of retail savings accounts, and operates across the full range of personal financial services.

The Santander Group engages in a full range of retail banking activities in Latin America, although the range of its activities varies from country to country. The Santander Group seeks to take advantage of whatever particular business opportunities local conditions present. The Santander Group engages in a wide array of deposit taking activities throughout Latin America, and other retail banking activities in Argentina, Brazil, Chile and Mexico. Its primary lending operations are in Chile, Mexico, Brazil and Puerto Rico.

Wholesale Banking

Wholesale Banking encompasses the Santander Group's Global Corporate Banking and Investment Banking and Markets businesses.

The Global Corporate Banking business covers transactional banking, trade finance, custody and basic financing. The Investment Banking business embraces financing solutions and corporate finance. The Markets business includes all the globally managed treasury departments and equities businesses. The Santander Group's treasury operations manage money, foreign exchange and fixed-income trading, using conventional instruments and derivatives, for its own account and for the accounts of its customers. The Santander Group also participates in fixed income capital market activities.

Asset Management and Insurance

Asset Management and Insurance encompasses the Santander Group's units that design and manage mutual and pension funds and insurance businesses.

The Santander Group's principal mutual fund operations are in Brazil, Mexico, Chile and Puerto Rico, and the Santander Group's main pension fund operations are in Chile, Mexico, Argentina, Peru and Colombia.

Financial Investments

In addition to the foregoing, the Santander Group has financial investments in a number of banking companies, principally in Europe. The following summarises the Santander Group's most important financial investments:

- *Sovereign Bancorp.* At 31 December 2006, the Santander Group had a 24.8% stake in Sovereign.
- *Attijariwafa Bank.* At 31 December 2006, the Santander Group had a 14.5% interest in Attijariwafa Bank, which engages mainly in trade finance and foreign investment activities. Together with Attijariwafa Bank, at 31 December 2006, the Santander Group had a 50% joint venture in Attijari International Bank Société Anonyme, which specialises in trade finance in Tangier's free trade zone.

Industrial Portfolio

The majority of the Santander Group's industrial holdings portfolio consists of investments in strategic sectors related to the growth of the Spanish economy. Through its investments in these areas, the Santander Group aims to contribute to the Santander Group's consolidated results. The following table summarises the Santander Group's main industrial holdings at 31 December 2006:

Company	Business	Percentage Held
France Telecom España, S.A	Telecommunications	5.01
Cepsa	Oil and Petrochemicals	29.99
Grupo Corporativo ONO, S.A.	Telecommunications	4.47

The shares in RFS Holdings owned by the Santander Group are held by Santander Holanda B.V., a wholly owned subsidiary of Banco Santander S.A. The registered office of Santander Holanda B.V. is located at Martinus Nijhofflaan 2, 2624 EF Delft, The Netherlands, and its business telephone number is +31 15 789 0100.

PART XIV

INFORMATION ON ABN AMRO

Unless otherwise stated, the information on ABN AMRO in this Part XIV has been accurately reproduced from information published by ABN AMRO, including its Annual Report and Accounts for the year ended 31 December 2006.

General

ABN AMRO is a bank under the laws of the Netherlands. According to ABN AMRO, ABN AMRO had 4,532 offices and branches in 56 countries and territories, and total consolidated assets of €987.1 billion as at 31 December 2006.

Group Structure and Principal Business Units

ABN AMRO's group structure comprises:

- seven Client business units, or BUs
- three Product BUs
- two cross-BU Segments
- Group Functions
- Services

The seven Client BUs consist of five regional BUs (Netherlands, Europe including Antonveneta in Italy, North America, Latin America and Asia) and two global BUs, Private Clients and Global Clients.

The three Product BUs (Global Markets, Transaction Banking and Asset Management) support the Client BUs by developing and delivering products for all of ABN AMRO's clients globally.

ABN AMRO binds all its Client BUs together through a cross-BU Consumer Client Segment and a cross-BU Commercial Client Segment.

Group Functions delivers value-added support across the ABN AMRO Group in areas ranging from Risk to Finance and from Human Resources to Sustainability.

Services focuses on increasing ABN AMRO's operational efficiency through group-wide consolidation and standardisation.

Client BUs

BU Netherlands

Serving a vast and diverse client base that comprises consumer and commercial clients, BU Netherlands is at the forefront of the Dutch banking industry. BU Netherlands employs approximately 21,800 people and serves its clients through a network of 561 bankshops, 78 advisory branches, five dedicated mid-market corporate client units and two large-corporate client units. BU Netherlands also operates some 1,600 ATMs, four integrated call centres, and internet and mobile channels. BU Netherlands' call centres and internet banking services are now every bit as important as the advisory branches for serving its small to medium-sized enterprise (SME) clients.

Bouwfonds

Bouwfonds is an international property group with three core activities: developing, financing and managing property. The business is active in both the residential and commercial markets and ranks among the Netherlands' leading property companies.

In December 2005, ABN AMRO, in its capacity as Bouwfonds' sole shareholder, announced its intention to sell the non-mortgage activities of Bouwfonds during the course of 2006. With effect from 1 January 2006, Bouwfonds' mortgage business was transferred to ABN AMRO Mortgage Group, which is part of BU Netherlands.

On 31 July 2006, ABN AMRO agreed to sell Bouwfonds Property Development, Bouwfonds Asset Management, Bouwfonds Public Fund Management, Bouwfonds Holding and Rijnlandse Bank to Rabobank, and Bouwfonds Property Finance (encompassing project financing, investment financing and risk-bearing interests in projects) to SNS Bank. The share transfers to Rabobank and SNS Bank were completed on 1 December 2006.

BU Europe

BU Europe (excluding Antonveneta in Italy)

BU Europe brings together all of ABN AMRO's activities in 27 countries: 23 countries in Europe (excluding the Netherlands) along with Kazakhstan, Uzbekistan, Egypt and South Africa. BU Europe employs approximately 8,000 people, including support functions serving all BUs operating in the region.

BU Europe provides its consumer and commercial clients with a focused range of financial products and services. Its regional strategies and operations are closely aligned with those of ABN AMRO's global BUs.

Antonveneta

ABN AMRO acquired a majority stake in Antonveneta in January 2006 and launched a tender offer for the remaining shares on 27 February 2006. It acquired 100% of the bank in July 2006 after it exercised its right to purchase the shares it did not yet own following its tender offer.

The integration of Antonveneta into the ABN AMRO Group was started early on in the year and completed in December 2006. Antonveneta's structure and governance have now been aligned with that of the ABN AMRO Group. However, due to the complex and protracted nature of the bid battle that preceded the acquisition of Antonveneta, it has taken time to stabilise the bank's business operations.

Antonveneta and its main subsidiaries, Interbanca and AAA Bank, are among the leading banks in Italy, with Antonveneta holding a ranking among the top ten groups in the major banking classifications. Antonveneta has over 1,000 branches in Italy. The bank is strongly rooted in northeast Italy, where 459 of its domestic branches are located. Integrated with the branch network are more than 1,100 ATMs and about 63,000 points-of-sale, as well as home and remote banking facilities. As at 31 December 2006 its employees numbered approximately 9,600.

BU North America

ABN AMRO's sizeable North American operations, collectively called BU North America, are headquartered in Chicago, Illinois. BU North America includes ABN AMRO's global businesses operating in the U.S. and Canada. With approximately 15,000 employees, BU North America serves individuals, corporations, institutions, non-profit entities and municipalities in the U.S. and Canada through its 434 branches and offices.

BU Latin America

ABN AMRO has had a presence in Brazil since 1917. In recent years it has consolidated its already strong position in the top tier of Brazilian banks by acquiring Banco Real and Bandepe in 1998, Paraiban in 2001 and Banco Sudameris in 2003. ABN AMRO operates in the Brazilian market as Banco Real.

Banco Real functions as a fully integrated consumer and commercial bank on a nationwide basis through more than 1,900 stand-alone and in-company branches, 6,700 points-of-sale and 8,700 ATMs. Today, Banco Real is the third-largest privately owned bank in Brazil.

Since 1 January 2006, ABN AMRO's Caribbean and Latin American operations outside of Brazil have come together with Banco Real to form BU Latin America. Outside Brazil, BU Latin America focuses primarily on the commercial client segment, although in Paraguay and Uruguay it also focuses on the consumer client segment. Currently, BU Latin America has approximately 28,000 employees. The Brazilian operations are BU Latin America's largest in the region by a substantial margin.

BU Asia

ABN AMRO has been operating for well over 100 years in several Asian countries including Indonesia, China, Singapore and Japan. As of year-end 2006, BU Asia covered 16 countries and territories, operating through 165 branches and offices (excluding those of Saudi Hollandi Bank, in which ABN AMRO has a 40% stake). BU Asia's client base includes commercial clients as well as consumer and private banking clients. It employs approximately 14,000 people, including support functions serving all BUs operating in the region. Its employees' ability to combine global expertise with intimate knowledge of their local markets enables BU Asia to offer world-class financial products and services to its clients across the region.

BU Global Clients

BU Global Clients serves a group of clients who demand the most sophisticated financial solutions customised to their specific needs. These clients are attracted to ABN AMRO by the industry expertise of the BU's bankers, who can deliver the required financial solutions by accessing both ABN AMRO's network and the broad range of products across the ABN AMRO Group's portfolio. The product innovation and accumulated experience that result from working with these clients actively drives the development of high-quality solutions for all clients of the bank, both within BU Global Clients and across the regional BUs.

The four client industry groups that BU Global Clients serves are Financial Institutions & Public Sector; Telecommunications, Media & Technology; Energy & Resources; and Global Industries (including Automotive, Consumer and Global Industrials). BU Global Clients also comprises dedicated Mergers & Acquisition and Equity Capital Markets teams.

BU Global Clients is organised around six hubs (Amsterdam, London, New York, Hong Kong, Sao Paulo and Sydney), and directly employs around 980 people. The financial results of BU Global Clients also reflect the contribution of 230 people employed by ABN AMRO Mellon, a joint venture with the Mellon Financial Corporation that provides global custody and value added services to institutional investors worldwide.

BU Private Clients

BU Private Clients offers private banking services to wealthy individuals and institutions with €1 million or more in net investable assets. With Assets under Administration of €140 billion in 2006, BU Private Clients is one of the top five private banks in Europe and ranks among the largest private banks worldwide. BU Private Clients has more than 3,300 employees, operating in 23 countries from 103 branches.

The needs of wealthy clients vary greatly. Therefore, BU Private Clients tailors its services to suit the requirements of well-defined client segments and their different sources of wealth. Across all segments, the BU's consistent focus on building strong relationships and being engaged with its customers is key to its success. BU Private Clients' products are based on an open architecture model, enabling the BU to offer its clients the best available products regardless of the actual provider.

Product BUs

BU Global Markets

BU Global Markets helps to drive the current and future growth of ABN AMRO by delivering product solutions that meet the diverse capital markets requirements of the bank's chosen clients. BU Global Markets is organised into four core areas: Equities (multi-product trading and distribution); Financial Markets (multi-asset-class trading and distribution); Fixed Income Capital Markets (integrated cross-border fixed-income origination); and Structured Lending (syndicated and structured loans). The BU Global Markets team is made up of approximately 3,500 employees with hubs in Amsterdam, Chicago, Hong Kong, London, New York, Singapore and Sydney.

BU Transaction Banking

BU Transaction Banking provides cash management, trade services and payment cards for all of ABN AMRO's client segments, across all regions worldwide. Bank accounts and payments services lie at the core of BU Transaction Banking's activities and at the heart of the bank's client relationships. Across all

segments, these services provide the foundation for cross-selling, enabling ABN AMRO to expand the relationship with each client. With a focused team of approximately 1,600 mainly regionally based staff, BU Transaction Banking provides services in more than 50 countries and handles billions of transactions every year.

BU Asset Management

BU Asset Management is ABN AMRO's global asset management business, managing approximately €193 billion in specialist mandates and mutual funds. BU Asset Management has more than 1,500 employees and operates in 26 countries worldwide, offering investment products in all major regions and asset classes. Its products are distributed directly to institutional clients such as central banks, pension funds, insurance companies and leading charities. Funds for private investors are distributed through ABN AMRO's consumer and private banking arms, as well as via third-party distributors such as insurance companies and other banks. The business from institutional clients represents just over half of the assets managed by BU Asset Management. Consumer and third-party clients account for a further 30%, and the remainder is in discretionary portfolios managed for BU Private Clients.

Cross-BU Segments

Consumer Client Segment

The Consumer Client Segment comprises the Consumer Banking heads of all ABN AMRO's Client BUs. Led by a member of the Managing Board, the Consumer Client Segment meets frequently to share results and identify new opportunities for growth.

Commercial Client Segment

The Commercial Client Segment encompasses all of ABN AMRO's commercial clients, ranging from large multinationals through mid-market corporate clients to the SME client portfolios. Client relationships are maintained in the bank's regional Client BUs and the BU Global Clients, while the Commercial Client Segment coordinates activities across both the Client and Product BUs, sharing best practice and the overall strategic framework supporting this essential component of the bank's portfolio.

Other businesses

Private Equity

The business model of ABN AMRO's Private Equity unit – branded as ABN AMRO Capital—involves providing capital and expertise to non-listed companies in a variety of sectors. By obtaining, in most cases, a majority stake, Private Equity has the ability to influence the company's growth strategy and increase its profitability. It then aims to sell its shareholding at a profit after a number of years. Private Equity specialises in European mid-market buyouts, but also manages a portfolio of investments in Australian buyouts, non-controlling and controlling shareholdings in small to medium-sized Dutch companies ("participates"), and dedicated media and telecom sector investments. It operates from seven offices across Europe and Australia and has 93 employees.

Group Functions

Group Functions provides guidance on ABN AMRO's corporate strategy and supports the implementation of the strategy in accordance with the bank's Managing for Value methodology, Corporate Values and Business Principles. By aligning and uniting functions across ABN AMRO's BUs and geographical territories, Group Functions also facilitates ABN AMRO Group-wide sharing of best practice, innovation and positioning to public authorities, and binds the bank in both an operational and cultural sense. Group Functions has approximately 3,800 employees.

Services

ABN AMRO's Services organisation is responsible for delivering internal support services across the bank's global, regional and product BUs worldwide. Its core areas are IT, Operations, and Corporate Services.

The Services organisation was created in 2006, bringing together all services units within the bank and building on the experience of the Group Shared Services (GSS) program, which was initiated in 2004. It currently has approximately 900 employees.

PART XV

OPERATING AND FINANCIAL REVIEW OF RBS

1 Operating and Financial Review

The Operating and Financial Review of RBS which is contained in the Annual Report and Accounts for 2006 is incorporated by reference into this document. The Operating and Financial Review can be found at pages 43 to 100 of the Annual Report and Accounts for 2006.

The Operating and Financial Review of RBS which is contained in the Annual Report and Accounts for 2005 is incorporated by reference into this document. The Operating and Financial Review can be found at pages 51 to 106 of the Annual Report and Accounts for 2005.

2 Capitalisation and Indebtedness

The table below sets forth RBS's consolidated capitalisation and indebtedness as at 31 December 2006. Please read this table together with the financial statements and the notes to those financial statements incorporated by reference in this document.

	As at 31 December 2006 (£ millions)
Share capital – authorised	
Ordinary shares of 25p each	1,270
Non-voting deferred shares of £0.01 each	323
Additional value shares of £0.01 each	27
Preference shares ⁽¹⁾	528
	<u>2,148</u>
Share capital – allotted, called up and fully paid	
Ordinary shares of 25p each	788
Non-voting deferred shares of £0.01 each	27
Preference shares ⁽²⁾	—
	<u>815</u>
Reserves	<u>39,412</u>
Total shareholders' equity	<u>40,227</u>
Group indebtedness⁽⁵⁾	
Dated loan capital	13,772
Undated loan capital	9,555
Preference shares ⁽³⁾	2,277
Trust preferred securities	2,050
Total subordinated liabilities	<u>27,654</u>
Debt securities in issue	<u>85,963</u>
Total indebtedness	<u>113,617</u>
Total capitalisation and indebtedness	<u>153,844</u>

Notes:

- (1) The authorised preference share capital of the Group as at 31 December 2006 was £528 million, consisting of 419.5 million non-cumulative preference shares of U.S.\$0.01 each, 3.9 million non-cumulative convertible preference shares of U.S.\$0.01 each, 66 million non-cumulative preference shares of €0.01 each, 3 million non-cumulative convertible preference shares of €0.01 each, 900 million non-cumulative convertible preference shares of £0.25 each, 1 million non-cumulative convertible preference shares of £0.01 each, 0.9 million cumulative preference shares of £1 each and 300 million non-cumulative preference shares of £1 each.
- (2) The allotted, called up and fully paid equity preference share capital of the Group as at 31 December 2006 consisted of 152 million non-cumulative preference shares of U.S.\$0.01 each and 2.5 million non-cumulative convertible preference shares of €0.01 each.

- (3) The allotted, called up and fully paid non-equity preference share capital of the Group as at 31 December 2006 consisted of 88 million non-cumulative preference shares of U.S.\$0.01 each, 1 million non-cumulative convertible preference shares of U.S.\$0.01 each, 0.2 million non-cumulative convertible preference shares of £0.01 each and 0.9 million cumulative preference shares of £1 each.
- (4) As at 31 December 2006, the Group had total liabilities and equity of £871 billion, including deposits by banks of £132 billion and customer accounts of £384 billion.
- (5) All of the indebtedness, except for £27.6 billion of debt securities in issue, is unsecured. None of the indebtedness described above or below is guaranteed.
- (6) On 16 January 2007, the Company redeemed the 8 million Series E non-cumulative U.S.\$ preference shares of U.S.\$0.01 each, the 10 million Series G non-cumulative U.S.\$ preference shares of U.S.\$0.01 each and the 16 million Series K non-cumulative U.S.\$ preference shares of U.S.\$0.01 each, at a redemption price of U.S.\$25 per share.
- (7) On 16 January 2007, NatWest redeemed the 10 million Series B non-cumulative U.S.\$ preference shares of U.S.\$25 each at a redemption amount of U.S.\$25 per share.
- (8) On 29 January 2007, the Royal Bank redeemed the £150 million 8.375% dated subordinated notes.
- (9) On 26 March 2007, the Royal Bank redeemed the £150 million undated subordinated floating rate step-up notes.
- (10) At 31 May 2007, the Group debt securities in issue totalled £88,275 million.
- (11) On 8 May, 2007, the Company capitalised £1,576 million of its share premium account by way of a bonus issue of two new ordinary shares of 25p each for every one ordinary share held by shareholders at close of business on 4 May, 2007 (the "Bonus Issue"). As of 8 May, 2007, the authorised ordinary share capital of RBS increased by £1,609 million (6,434,972,616 ordinary shares of 25p each) and the allotted, called-up and fully paid ordinary share capital increased by £1,576 million (6,304,298,670 ordinary shares of 25p each). Reserves decreased by £1,576 million as a result. Total shareholders' equity was unaffected by the Bonus Issue.
- (12) On 29 May 2007, the Royal Bank issued U.S.\$1,500 million floating rate subordinated step-up notes due August 2017.
- (13) On 14 June 2007, the Royal Bank issued €300 million floating rate subordinated notes due June 2022.
- (14) On 28 June 2007, the Company issued 38 million Series S non-cumulative U.S.\$ preference shares of U.S.\$0.01 each at U.S.\$25 per share.
- (15) On 6 July 2007, the Royal Bank redeemed the U.S.\$350 million and U.S.\$500 million floating rate subordinated notes.
- (16) On 17 July 2007, the Royal Bank redeemed the €130 million floating rate subordinated notes.
- (17) As at 31 December 2006, the Group had contingent liabilities and guarantees arising in the normal course of business totalling £19,846 million, consisting of guarantees and assets pledged as collateral security of £13,013 million and other contingent liabilities of £6,833 million.
- (18) Save as disclosed above, there has been no material change in the total capitalisation of the Group since 31 December 2006.

3 Subordinated Liabilities

The tables below set out the subordinated liabilities of RBS as at 31 December 2006.

Dated loan capital

	31 December 2006
	<i>(£ millions)</i>
The Company	
U.S.\$400 million 6.4% subordinated notes 2009 ⁽¹⁾	206
U.S.\$300 million 6.375% subordinated notes 2011 ⁽¹⁾	163
U.S.\$750 million 5% subordinated notes 2013 ⁽¹⁾	375
U.S.\$750 million 5% subordinated notes 2014 ⁽¹⁾	373
U.S.\$250 million 5% subordinated notes 2014 ⁽¹⁾	125
U.S.\$675 million 5.05% subordinated notes 2015 ⁽¹⁾	351
U.S.\$350 million 4.7% subordinated notes 2018 ⁽¹⁾	169
	1,762 ^(*)

**31 December
2006**

(£ millions)

The Royal Bank of Scotland plc

£150 million 8.375% subordinated notes 2007	162
€255 million 5.25% subordinated notes 2008	177
€300 million 4.875% subordinated notes 2009	212
U.S.\$350 million floating rate subordinated notes 2012 (callable July 2007)	184
U.S.\$500 million floating rate subordinated notes 2012 (callable July 2007)	254
€130 million floating rate subordinated notes 2012 (callable July 2007)	88
€1,000 million floating rate subordinated notes 2013 (callable October 2008)	677
U.S.\$50 million floating rate subordinated notes 2013	25
€1,000 million 6% subordinated notes 2013	745
€500 million 6% subordinated notes 2013	342
£150 million 10.5% subordinated bonds 2013 ⁽²⁾	168
U.S.\$1,250 million floating rate subordinated notes 2014 (callable July 2009)	643
AUD590 million 6% subordinated notes 2014 (callable October 2009)	235
AUD410 million floating rate subordinated notes 2014 (callable October 2009)	167
CAD700 million 4.25% subordinated notes 2015 (callable March 2010)	307
£250 million 9.625% subordinated bonds 2015	287
U.S.\$750 million floating rate subordinated notes 2015 (callable September 2010)	381
€750 million floating rate subordinated notes 2015	531
CHF400 million 2.375% subordinated notes 2015	160
CHF100 million 2.375% subordinated notes 2015	43
CHF200 million 2.375% subordinated notes 2015 (issued April 2006)	81
U.S.\$500 million floating rate subordinated notes 2016 (callable October 2011)	257
U.S.\$1,500 million floating rate subordinated notes 2016 (issued April 2006; callable April 2011)	773
€500 million 4.5% subordinated 2016 (callable January 2011)	350
CHF200 million 2.75% subordinated notes 2017 (issued December 2006; callable December 2012)	84
€100 million floating rate subordinated notes 2017	67
€500 million floating rate subordinated notes 2017 (issued June 2006; callable June 2012)	337
€750 million 4.35% subordinated notes 2017 (issued October 2006; callable October 2017)	502
AUD450 million 6.5% subordinated notes 2017 (issued November 2006; callable February 2012)	184
AUD450 million floating rate subordinated notes 2017 (issued November 2006; callable February 2012)	182
U.S.\$125.6 million floating rate subordinated notes 2020	65
€1,000 million 4.625% subordinated notes 2021 (callable September 2016)	687

	31 December 2006
	<i>(£ millions)</i>
National Westminster Bank Plc	
U.S.\$1,000 million 7.375% rate subordinated notes 2009	516
€600 million 6% subordinated notes 2010	440
€500 million 5.125% subordinated notes 2011	343
£300 million 7.875% subordinated notes 2015	350
£300 million 6.5% subordinated notes 2021	332
Charter One Financial, Inc	
U.S.\$400 million 6.375% subordinated notes 2012	218
Greenwich Capital Holdings, Inc	
U.S.\$500 million subordinated loan capital 2010 floating rate notes (callable December 2007)	256
U.S.\$170 million subordinated loan capital floating rate notes 2008 (issued October 2006)	87
First Active Plc	
U.S.\$35 million 7.24% subordinated bonds 2012 (callable December 2007)	22
£60 million 6.375% subordinated bonds 2018 (callable April 2013)	65
Other minority interest subordinated issues	24
	13,772

(*) In addition the Company has issued 0.5 million subordinated loan notes of €1,000 each, 1.95 million subordinated loan notes of U.S.\$1,000 each and 0.4 million subordinated loan notes of £1,000 each. These loan notes are included in the Company balance sheet as loan capital but are reclassified as minority interest Trust Preferred Securities on consolidation.

Notes:

- (1) On-lent to The Royal Bank of Scotland plc on a subordinated basis.
- (2) Unconditionally guaranteed by the Company.
- (3) In the event of certain changes in tax laws, dated loan capital issues may be redeemed in whole, but not in part, at the option of the issuer, at the principal amount thereof plus accrued interest, subject to prior regulatory approval.
- (4) Except as stated above, claims in respect of the Group's dated loan capital are subordinated to the claims of other creditors. None of the Group's dated loan capital is secured.
- (5) Interest on all floating rate subordinated notes is calculated by reference to market rates.

Undated loan capital

	31 December 2006
	(£ millions)
The Company	
U.S.\$350 million undated floating rate primary capital notes (callable on any interest payment date) ⁽¹⁾	178
U.S.\$75 million floating rate perpetual capital securities (callable September 2007) ⁽¹⁾	38
U.S.\$1,200 million 7.648% perpetual regulatory tier one securities (callable September 2031) ⁽¹⁾⁽²⁾	618
	834
The Royal Bank of Scotland plc	
£150 million 5.625% undated subordinated notes (callable June 2032)	144
£175 million 7.375% undated subordinated notes (callable August 2010)	183
€152 million 5.875% undated subordinated notes (callable October 2008)	105
£350 million 6.25% undated subordinated notes (callable December 2012)	350
£500 million 6% undated subordinated notes (callable September 2014)	512
€500 million 5.125% undated subordinated notes (callable July 2014)	350
€1,000 million floating rate undated subordinated notes (callable July 2014)	675
£500 million 5.125% undated subordinated notes (callable March 2016)	493
£200 million 5.625% subordinated upper tier 2 notes (callable September 2026)	210
£600 million 5.5% undated subordinated notes (callable December 2019)	594
£500 million 6.2% undated subordinated notes (callable March 2022)	546
£200 million 9.5% undated subordinated bonds (callable August 2018) ⁽³⁾	229
£400 million 5.625% subordinated upper tier 2 notes (callable September 2026)	397
£300 million 5.625% undated subordinated notes (callable September 2026)	326
£350 million 5.625% undated subordinated notes (callable June 2032)	362
£150 million undated subordinated floating rate step-up notes (callable March 2007)	150
£400 million 5% undated subordinated notes (issued March 2006; callable March 2011)	395
JPY25 billion 2.605% undated subordinated notes (callable November 2034)	99
CAD700 million 5.37% fixed rate undated subordinated notes (issued May 2006; callable May 2016)	317

**31 December
2006**

(£ millions)

National Westminster Bank Plc

U.S.\$500 million primary capital floating rate notes, Series A (callable on any interest payment date)	256
U.S.\$500 million primary capital floating rate notes, Series B (callable on any interest payment date)	267
U.S.\$500 million primary capital floating rate notes, Series C (callable on any interest payment date)	254
U.S.\$500 million 7.75% reset subordinated notes (callable October 2007)	262
€400 million 6.625% fixed/floating rate undated subordinated notes (callable October 2009)	280
€100 million floating rate undated step-up notes (callable October 2009)	68
£325 million 7.625% undated subordinated step-up notes (callable January 2010)	359
£200 million 7.125% undated subordinated step-up notes (callable October 2022)	205
£200 million 11.5% undated subordinated notes (callable December 2022) ⁽⁴⁾	272

First Active plc

£20 million 11.75% perpetual tier two capital	23
€38 million 11.375% perpetual tier two capital	36
£1.3 million floating rate perpetual tier two capital	2
	<u>9,555</u>

Notes:

- (1) On-lent to The Royal Bank of Scotland plc on a subordinated basis.
- (2) The Company can satisfy interest payment obligations by issuing ordinary shares to appointed Trustees sufficient to enable them, on selling these shares, to settle the interest payment.
- (3) Guaranteed by the Company.
- (4) Exchangeable at the option of the issuer into 200 million 8.392% (gross) non-cumulative preference shares of £1 each of National Westminster Bank Plc at any time.
- (5) Except as stated above, claims in respect of the Group's undated loan capital are subordinated to the claims of other creditors. None of the Group's undated loan capital is secured.
- (6) In the event of certain changes in tax laws, undated loan capital issues may be redeemed in whole, but not in part, at the option of the Group, at the principal amount thereof plus accrued interest, subject to prior regulatory approval.
- (7) Interest on all floating rate subordinated notes is calculated by reference to market rates.

Preference shares

	31 December 2006
	<i>(£ millions)</i>
The Company	
Non-cumulative preference shares of U.S.\$0.01	
Series E U.S.\$200 million 8.1% ⁽¹⁾	102
Series F U.S.\$200 million 7.65% (redeemable March 2007)	102
Series G U.S.\$250 million 7.4% ⁽¹⁾	126
Series H U.S.\$300 million 7.25% (redeemable at option of issuer)	153
Series K U.S.\$400 million 7.875% ⁽¹⁾	203
Series L U.S.\$850 million 5.75% (redeemable September 2009)	429
Non-cumulative convertible preference shares of U.S.\$0.01	
Series 1 U.S.\$1,000 million 9.118% (redeemable March 2010)	515
Non-cumulative convertible preference shares of £0.01	
Series 1 £200 million 7.387% (redeemable December 2010)	200
Cumulative preference shares of £1	
£0.5 million 11% (non-redeemable)	1
	<u>1,831</u>
National Westminster Bank Plc	
Non-cumulative preference shares of £1	
Series A £140 million 9% (non-redeemable)	142
Non-cumulative preference shares of U.S.\$25	
Series B U.S.\$250 million 7.8752% ⁽²⁾	141
Series C U.S.\$300 million 7.7628% ⁽³⁾	163
	<u>2,277</u>

Notes:

- (1) Redeemed in January 2007.
- (2) Series B preference shares each carry a gross dividend of 8.75% inclusive of associated tax credit. These preference shares were redeemed in January 2007.
- (3) Series C preference shares each carry a gross dividend of 8.625% inclusive of associated tax credit. Redeemable at the option of the issuer at a premium of U.S.\$0.30 reducing to nil if the date of redemption falls after 8 April 2007.

Trust preferred securities⁽¹⁾

	31 December 2006
	<i>(£ millions)</i>
€1,250 million 6.467% (redeemable June 2012)	918
U.S.\$750 million 6.8% (redeemable March 2008)	382
U.S.\$850 million 4.709% (redeemable July 2013)	409
U.S.\$650 million 6.425% (redeemable January 2034)	341
	<u>2,050</u>

Note:

- (1) The trust preferred securities have no maturity date and are not redeemable at the option of the holders at any time. These securities may with the consent of the U.K. Financial Services Authority be redeemed, by the issuer on the dates specified above or on any interest payment date thereafter. They may also be redeemed in whole, but not in part, upon the occurrence of certain tax and regulatory events. These securities are included in the Company balance sheet as dated loan capital.

4 Capital Resources

It is RBS policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, RBS has regard to the supervisory requirements of the FSA. The FSA uses Risk Asset Ratio ("RAR") as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are "weighted" to reflect the inherent credit and other risks). By international agreement, the RAR should be not less than 8% with a Tier 1 component of not less than 4%. As at 31 December 2006, the Group's total RAR was 11.7% and the Tier 1 RAR was 7.5%.

Total capital resources principally comprise shareholders' equity, minority interests and subordinated liabilities less goodwill and intangible assets and other supervisory deductions such as the Group's investment in insurance companies. In the first six months of 2007, the Group has redeemed a total of 34 million Series E, G and K non-cumulative U.S. dollar preference shares and 10 million Series B NatWest non-cumulative U.S. dollar preference shares, all at a redemption price of U.S.\$25 per share. These redemptions were largely offset by the issue of 38 million Series S non-cumulative U.S. dollar preference shares of U.S.\$0.01 each at U.S.\$25 per share on 28 June 2007. In addition, changes in shareholders' equity over the same period reflect retained profits less dividends paid, changes in the fair values of available-for-sale investments and cash flow hedges, and exchange differences on translation of foreign operations. Royal Bank issued U.S.\$1,500 million and €300 million floating rate subordinated notes on 29 May 2007 and 14 June 2007, respectively. These issues were partially offset by the redemption by the Royal Bank of £150 million 8.375% dated subordinated notes 2007 on 29 January 2007, £150 million undated subordinated floating rate step-up notes on 26 March 2007, U.S.\$850 million floating rate subordinated notes 2012 on 6 July 2007 and €130 million floating rate subordinated notes 2012 on 17 July 2007.

Upon completion of the Offers, RBS will issue to shareholders of ABN AMRO, in accordance with the terms of the Offers, up to 556,143,700⁽¹⁾ New RBS Ordinary Shares. The fair value of these shares is £3.6 billion based on the closing price of RBS Ordinary Shares of £6.40 as listed in the London Stock Exchange Daily Official List on 13 July 2007. The aggregate cash consideration payable by RBS to ABN AMRO Shareholders of approximately €22 billion is to be financed through the issuance of preferred securities and debt securities. RBS has entered into a standby underwriting commitment with Merrill Lynch, in an amount of €6.2 billion, pursuant to which Merrill Lynch undertakes to underwrite one or more issues by RBS of securities eligible to be treated as part of its innovative or non-innovative Tier 1 capital and/or convertible securities convertible into RBS Ordinary Shares. The remaining portion of RBS's aggregate cash consideration will be financed through the issue of debt securities. It will utilise its internal resources to finance any element of its cash consideration not covered by the proceeds of the securities it issues. The number of New RBS Ordinary Shares issued and the aggregate cash consideration payable by RBS may vary depending on the number of ABN AMRO Ordinary Shares outstanding at the time of completion of the Offers.

Liquidity management within RBS focuses on both overall balance sheet structure and the control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations. The structure of the balance sheet is managed to maintain substantial diversification, to minimise concentration across its various deposit sources, and to contain the level of reliance on total short-term wholesale sources of funds (gross and net of repurchase agreements) within prudent levels. As part of RBS's planning process, the forecast structure of the balance sheet is regularly reviewed over the plan horizon.

The level of large deposits taken from banks, corporate customers, non-bank financial institutions and other customers, and significant cash outflows therefrom, are also reviewed to monitor concentration and identify any adverse trends. During 2006, RBS's funding sources remained well diversified by counterparty, instrument and maturity. There has been no material change in this position in 2007.

RBS remains well placed to access various wholesale funding sources from a wide range of counterparties and markets. Access to liquidity to meet all foreseen needs remains comfortably within its policy parameters.

Further disclosures about the Group's management of capital resources and liquidity are set out in the Annual Report and Accounts for 2006 on pages 78 and 89 to 92, respectively, which are incorporated herein by reference.

(1) On a fully diluted basis, assuming the number of issued and outstanding ABN AMRO Ordinary Shares is as set out in ABN AMRO's Form 6-K dated 23 April 2007 and exercise of all ABN AMRO options based on information as set out in the ABN AMRO 2006 Annual Report on Form 20-F.

PART XVI

FINANCIAL INFORMATION RELATING TO RBS

Basis of financial information

The consolidated financial statements of RBS and its subsidiary undertakings included in the Annual Report and Accounts of RBS for each of the years ended 31 December 2004, 2005 and 2006 together with the audit reports thereon are incorporated by reference into this document. Deloitte & Touche LLP of Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2DB, United Kingdom, Chartered Accountants regulated by the ICAEW, has issued unqualified audit opinions on the consolidated financial statements of RBS and its subsidiary undertakings included in the Annual Report and Accounts of RBS for each of the three years ended 31 December 2004, 2005 and 2006. The audit opinion for the year ended 31 December 2004 is set out on page 138 of the Annual Report and Accounts 2004. The audit opinion for the year ended 31 December 2005 is set out on pages 134 to 135 of the Annual Report and Accounts 2005. The audit opinion for the year ended 31 December 2006 is set out on pages 128 to 129 of the Annual Report and Accounts 2006.

PART XVII

FINANCIAL INFORMATION RELATING TO ABN AMRO

Section A: Historical Financial Information for ABN AMRO

Basis of financial information

The consolidated financial statements of ABN AMRO and its subsidiary undertakings included in the Annual Report and Accounts of ABN AMRO for the years ended 31 December 2004, 31 December 2005 and 31 December 2006 together with the audit reports thereon are set out in the Appendix to this document. Ernst & Young Accountants has issued unqualified audit opinions on the consolidated financial statements of ABN AMRO and its subsidiary undertakings included in the Annual Report and Accounts of ABN AMRO for each of the three years ended 31 December 2004, 2005 and 2006.

Section B: Interim Financial Information for ABN AMRO

The following is the full text of the unaudited interim financial information for ABN AMRO for the three months ended 31 March 2007 which is a complete copy of the press release relating to the ABN AMRO results for the three months ended 31 March 2007 dated 26 April 2007.

Strong improvement in business performance

- **This press release contains a further breakdown of the financial results and a more in-depth analysis relative to the summary published on 16 April 2007. This press release includes an adjustment of our results in light of developments in the status of the U.S. Department of Justice (DOJ) investigation of €365 million (see Update on the status of the DOJ investigation) resulting in a net profit for the period of €1,064 million.**
- **Net operating profit first quarter of 2007 of €1,225 million, up 25.5% compared with the first quarter of 2006, excluding the provision taken in light of the status of the DOJ investigation**
 - Operating income increased 10.5% driven by strong revenue increases across all regions, supported by a very good performance of Global Markets
 - Operating result up 20.8%, excluding the provision, on the back of strong revenue growth and good cost control
 - Efficiency ratio improvement of 2.8 percentage points to 66.6%, excluding the provision
 - Profit for the period up 29.0%, excluding the provision and including a €97 million gain on the sale of ABN AMRO Mortgage Group (the U.S. mortgage business) and €17 million of results from the operations of the U.S. mortgage business, booked in results from discontinued operations
 - BU Europe's profit for the period increased from €18 million to €131 million due to a strong improvement in the operating result
 - EPS from continuing operations, excluding the provision, improved 30% to 65 euro cents
- **Net operating profit first quarter of 2007 up 24.6% compared with fourth quarter of 2006, excluding the provision taken in light of the status of the DOJ investigation**
 - Operating income increased 1.6%
 - Operating expenses down 4.0%, excluding the provision, showing the results of cost control measures taken in the second half of 2006
 - Efficiency ratio improvement of 3.9 percentage points to 66.6%, excluding the provision

Update on the status of the U.S. Department of Justice investigation

As previously disclosed, the U.S. Department of Justice has been conducting a criminal investigation into our dollar clearing activities, OFAC compliance procedures and other Bank Secrecy Act compliance matters. The Bank has cooperated with these investigations and is currently in active discussions to resolve these matters. Those discussions recently have advanced to the point where it is appropriate to take a provision of €365 million. If outstanding issues are successfully resolved in these discussions, we

believe that this amount will be sufficient to resolve the material financial consequences of the investigations. The Bank affirms that it takes very seriously its obligations to comply with U.S. economic sanctions and regulations.

Chairman's statement

“Our focus on growth, efficiency and acceleration has led to a significantly improved operating performance of €2 billion. The increase in operating result reflects a strong contribution to revenues from our growth engines in Brazil, Italy and Asia, combined with the acceleration of our cost control initiatives. The resulting EPS of 65 euro cents, excluding the provision taken in light of the status of the DOJ investigation means that we are well on our way to beating the 2007 EPS target of €2.30 (excluding major disposals and restructuring charges).”

First quarter analysis

ABN AMRO Group

	Quarterly						
	Q1 2007	Q1 2006	% change	% change ⁽²⁾	Q4 2006	% change	% change ⁽²⁾
	<i>(in millions of euros)</i>						
Net interest income	2,853	2,777	2.7	7.6	2,743	4.0	4.4
Net fees and commissions . .	1,517	1,452	4.5	8.2	1,566	(3.1)	(2.9)
Net trading income	1,031	843	22.3	23.0	791	30.3	30.5
Results from fin. transactions	332	83			323	2.8	0.1
Results from equity holdings .	76	50	52.0	56.2	74	2.7	2.7
Other operating income	180	215	(16.3)	(12.7)	396	(54.5)	(54.5)
Total operating income	5,989	5,420	10.5	14.3	5,893	1.6	1.7
Total operating expenses . . .	4,354	3,764	15.7	18.9	4,156	4.8	4.8
Operating result	1,635	1,656	(1.3)	3.9	1,737	(5.9)	(5.6)
Loan impairment	417	328	27.1	32.9	509	(18.1)	(18.5)
Operating profit before tax . .	1,218	1,328	(8.3)	(3.3)	1,228	(0.8)	(0.3)
Income tax expense	268	352	(23.9)	(15.0)	245	9.4	5.1
Net operating income	950	976	(2.7)	0.9	983	(3.4)	(1.6)
Discontinued operations (net)	114	62			403		
Profit for the period	1,064	1,038	2.5	6.9	1,386	(23.2)	(21.9)
Net profit attributable to shareholders	1,035	1,003	3.2	7.7	1,359	(23.8)	(22.4)
Earnings per share (euros) . .	0.56	0.53	5.7		0.72	(22.2)	
Eps from continuing operations (euros)	0.50	0.50	0.0		0.51	(2.0)	
Efficiency ratio	72.7%	69.4%			70.5%		

(1) all figures exclude the consolidation effect of controlled non-financial investments (see annex 2).

(2) % change at constant foreign exchange rates (see annex 2).

	31 Mar 07	31 Mar 06	% change	31 Dec 06	% change
Staff (fte)	107,819	104,054	3.6	106,999	0.8
	<i>(in billions of euros)</i>				
Total assets(*)	1,054.6	975.1	8.2	987.1	6.8
Group capital	46.9	45.8	2.5	45.1	4.0
Risk-weighted assets(*)	283.3	305.3	(7.2)	280.7	0.9

(*) Total assets and Risk-weighted assets are including discontinued operations for 2006

Core Tier 1 ratio	6.25%	5.86%	6.18%
BIS Tier 1 ratio	8.44%	8.07%	8.45%
BIS capital ratio	11.30%	10.42%	11.14%

The figures in the press release have not been subject to audit

Figures are excluding consolidation effect of controlled non-financial investments, also referred to as private equity investments

All figures are stated excluding the consolidation effect of controlled non-financial investments. The consolidation effect is the impact per line item of these investments, which are consolidated under IFRS. We believe that combining the temporary holdings in private equity investments active in different types of business other than our financial business does not provide a meaningful basis for discussion of our financial condition and results of operation. We refer to Annex 2 for a further discussion of the use of these non-GAAP financial measures. We have presented in Annex 2, and investors are encouraged to review, reconciliations of the figures excluding the consolidation of private equity investments and including the consolidation effects of our controlled private equity holdings.

Figures at constant foreign exchange rates

In addition to the actual growth measures, we have explained variances in terms of “constant foreign exchange rates” or “local currency”. These variances exclude the effect of currency translation difference. We refer to Annex 2 for a further discussion of the use of these non-GAAP financial measures.

Revised interim financial statements

This press release includes a set of interim financial statements as required under IFRS. These statements have been included as Annex 3 to this press release and include a consolidated income statement, consolidated balance sheet, a consolidated statement of changes in equity and a consolidated cash flow statement as well as the relevant accompanying notes to these statements.

Reporting adjustments

For comparison reasons the figures by BU have been adjusted to reflect the following (earlier announced) changes: BU Global Clients is reported in the regions; the International Diamonds & Jewellery Group is included in Group Functions (previously BU Private Clients) and BU Asset Management includes Asset Management France (previously in BU Private Clients).

Financial summary

First quarter 2007 compared with first quarter 2006

Please note that the results of the divested Bouwfonds business and the ABN AMRO Mortgage Group that was divested during the first quarter are presented as “discontinued operations” in 2006 and 2007. For comparison purposes, we have excluded the €365 million provision recorded in the first quarter of 2007 in light of the status of the DOJ investigation (see Update on status of the DOJ investigation) from the analysis.

Operating income	The Group’s operating income increased by 10.5% on the back of solid increases across all regions, which now include the results of Global Clients as well. The Group’s main growth engines, the BU Latin America, BU Asia and Antonveneta, as well as the BUs Europe and North America were the main drivers behind this increase, underpinned by a very strong performance in the BU Global Markets. Revenues in the BU Europe (excluding Antonveneta) increased by €173 million, underpinned by a strong performance in our Equities business. BU Asia increased revenues by €145 million, based on good performances of the retail and commercial banking franchise as well as the Global Markets business as well as a €52 million positive fair market valuation adjustment impact of Korean Exchange Bank (KEB) versus a negative impact of €24 million in the first quarter of 2006. The BU North America grew its operating income by €99 million on the back of a strong increase in non-credit related commercial banking revenues. The BU Latin America increased its revenues by €85 million due to continued growth in the retail and consumer finance loan portfolios. Antonveneta’s revenues (after IFRS purchase accounting impact) increased by €59 million, partly as a result of a €22 million gain on the sale of a part of the Italease stake. This broad-based regional client revenue growth is the result of a consistent focus on our strong local relationships across the various regions in combination with our ability to offer a wide and competitive product suite to our mid-market clients.
Operating expenses	Operating expenses rose by 6.0% mainly due to increases in the BU Europe and the BU Asia. The cost growth in the BU Europe was related to increased bonus accruals on the back of the strongly improved Global Markets revenues. Cost increases in the growth engine BU Asia included branch openings and marketing campaigns.
Operating result	The 20.8% improvement in the operating result was due to an improved performance across all the regional Client BUs, driven by solid organic revenue growth and good cost control.
Loan impairments	Total Group provisions were €417 million, of which €358 million were in the consumer portfolio and €59 million in the commercial portfolio. The provisioning level increased modestly as provisioning for the consumer loan portfolios in the BU Asia went up, and as provisioning levels in Antonveneta increased. Provisions in Asia increased mainly due to organic growth of the consumer banking portfolios in India and Indonesia, partly offset by lower provisions in Taiwan. Provisions in Antonveneta increased from unsustainably low levels in the first quarter of 2006.
Taxes	The effective tax rate was 22.6% for continued operations and 24.4% including discontinued operations, versus 26.5% in the first quarter of 2006. The decline in the effective tax rate is partly due to the reduction in the corporate tax rate in the Netherlands to 25.5% as well as tax credits in the BU Europe and Group Functions.

Profit for the period The Group's profit for the period increased to €1,339 million, up 29.0% and included a net gain on the sale of the U.S. mortgage business of € 97 million, as well as two months of results from the operations of the U.S. mortgage business of €17 million, booked in results from discontinued operations. Excluding the €114 million from discontinued operations in the current quarter and €62 million in the first quarter of 2006, the profit for the period was €1,225 million, an increase of 25.5%.

Net profit attributable to ABN AMRO shareholders Net profit attributable to shareholders was €1,310 million. Minority interest declined by €6 million to €29 million.

Capital ratios In the first quarter of 2007, we executed €442.5 million of the €1 billion share buy-back programme. The Tier 1 ratio at 31 March 2007 was 8.54%, nine basis points higher than at 31 December 2006. The core Tier 1 ratio was 6.35%, an increase of 17 basis points. The total BIS ratio stood at 11.40%, an increase of 26 basis points. As from the interim dividend for 2007, all dividend payments will be in cash. However, should an investor elect to have the cash dividend invested in stock, we will facilitate the process by buying the relevant stock in the open market.

First quarter 2007 compared with fourth quarter 2006

For comparison purposes, we have excluded the €365 million provision recorded in the first quarter of 2007 in light of the status of the DOJ investigation (see Update on status of the DOJ investigation) from the analysis.

Operating income Total operating income grew by 1.6% to €5,989 million. Adjusted for the €38 million gain on the sale of the domestic Asset Management activities in Taiwan (€38 million net) and the €110 million (€75 million net) Talman judgment booked in the fourth quarter of 2006, the operating income for the quarter increased by 4.2%. Revenue growth in the BU Europe (excluding Antonveneta) and the BU NL were the main drivers of growth. The €129 million increase in revenues in the BU Europe was mainly due to a strong performance of Global Markets, in particular in its Equities business. The BU NL grew its revenues by 3.0% to €1,360 million, driven by an increase in Global Markets revenues on the back of a continued good trading environment in the first quarter, as well as growth in the consumer and commercial clients businesses.

Operating expenses Total operating expenses were down by 4.0% to €3,989 million. Excluding gross restructuring charges of €123 million in the fourth quarter of 2006, expenses declined by 1.1%. The fourth quarter of 2006 already showed the first signs of the positive impact of the cost measures taken in the second half of 2006 and the first quarter of 2007 showed continued progress in this regard. The costs were managed down across the board but especially in the BUs Europe and Netherlands, on the back of the actions announced in the second half of 2006.

Operating result The operating result was up by 15.1% on a reported basis. Adjusted for the Talman judgment, the gain on the sale of the domestic Asset Management activities in Taiwan and the restructuring charge in the fourth quarter of 2006, the operating result showed an increase of 16.8% due to solid revenue growth in all regions, and the additional cost measures taken as well as the realised Services savings. On the same basis, the efficiency ratio improved 3.6 percentage points to 66.6%.

Loan impairments	The provisioning level for the Group declined by 18.1% due to lower provisioning levels in all regions, except for the BU Latin America, where provisioning continued to grow in absolute terms on the back of strong growth in the loan portfolio. For the full year 2007 we still expect a moderate increase in provisions for the Group overall, with consumer provisions set to grow in line with the growth of the consumer portfolios in Brazil, the Netherlands and Asia. Commercial provisions are expected to grow as releases and recoveries will decline further, and the speed of growth will depend on the macro-economic developments for which we have relatively benign expectations.
Taxes	The effective tax rate was 22.6% compared with 20.0% in the previous quarter. We expect the effective tax rate for the full year 2007 will be at least 25%.
Profit for the period	The profit for the period was down by 3.4%. Adjusted for the results from discontinued operations (Bouwfonds, U.S. mortgages), the sale of Asset Management Taiwan, the Talman judgment and the net restructuring charges, the profit for the period was up by 27.5%.
Return on equity	Return on equity for the first quarter was 21.75%.
Risk-weighted assets	As at 31 March 2007, the Group's risk-weighted assets (RWA) increased by €2.6 billion to €283.3 billion, as RWA growth in the regions was for the biggest part offset by the decline in the BU North America due to the sale of the mortgage business and securitisations.

Recent developments

On 12 February 2007, ABN AMRO announced the start of a €1 billion share buy-back programme. The decision to buy back shares is in line with ABN AMRO's policy of disciplined capital management. The buy-back programme will be completed by 30 June 2007. It was also announced that the 2006 final stock dividend as well as the 2007 interim stock dividend will be neutralised.

On 15 February 2007, SMILE 2007 was launched, a €4.9 billion true sale cash securitisation transaction of Dutch loans to small and medium-sized enterprises. With this transaction regulatory and economic capital is reduced in a very efficient way while transferring part of the credit risk from the Dutch SME loan book.

On 5 March 2007, ABN AMRO announced it had entered into an agreement to acquire a 93.4% interest in Prime Bank from shareholders for a cash consideration of PKR 13.8 billion (€172 million). On the same date, a tender offer was launched for all remaining shares of Prime Bank from minority shareholders, which was subsequently closed on 5 April 2007. At the close of the tender offer, ABN AMRO had obtained a 96.17% stake in Prime Bank. ABN AMRO was already the third-largest foreign bank in Pakistan. The acquisition will add significant scale to ABN AMRO's franchise in Pakistan, making the combined entity the second largest foreign bank and one of the top ten banks in the country with assets of PKR 124 billion (€1,547 million) and over 80 branches.

On 19 March 2007, it was confirmed that ABN AMRO had entered into exclusive preliminary discussions with Barclays plc concerning a potential combination of the two organisations.

On 20 March 2007, the objectives to be incorporated in the discussions with Barclays were communicated: The holding company of the combined entity would be a U.K. incorporated company (PLC) with a primary listing on the London Stock Exchange and secondary listing on Euronext Amsterdam. The new entity would have a U.K. unitary Board and clear governance and management structures. The first Chairman would be nominated by ABN AMRO and the first Chief Executive Officer would be nominated by Barclays. The head office for the combined entity would be located in Amsterdam. Discussions also were initiated with the U.K., Dutch and other relevant regulators as regards seeking the Dutch Central Bank (DNB) to act as lead regulator for the combined entity.

On 28 March 2007, ABN AMRO announced the agenda for the General Meeting of Shareholders (GMS), to be held in The Hague on 26 April 2007. At the GMS, ABN AMRO will ask its shareholders to discuss

and vote on the five items proposed by The Children's Investment Fund (TCI). Supervisory and Managing Boards unanimously recommend that shareholders vote against the proposals to break up ABN AMRO and the requirement to return the cash proceeds of any major business disposals to shareholders. As ABN AMRO has already materially incorporated the remaining three TCI proposals in its plans, the Supervisory and Managing Boards see no reason for shareholders to vote in favour of these three motions. Furthermore, the Supervisory Board proposes to appoint Dr Ana Maria Llopis Rivas as member of the Supervisory Board and to reappoint four current Supervisory Board members.

On 13 April 2007, ABN AMRO confirmed that it had received a letter from Royal Bank of Scotland, Banco Santander and Fortis, inviting ABN AMRO to start exploratory talks. ABN AMRO confirmed that the Managing Board and Supervisory Board would consider the letter carefully in line with their responsibilities. On 17 April 2007, ABN AMRO confirmed that it had agreed to the request for a meeting and that it had invited all signatories to a meeting in Amsterdam early in the week commencing 23 April 2007 to seek clarification of their intentions and interests.

On 16 April 2007, a summary of our first quarter results was published. It was decided to publish the preliminary first quarter results early, in light of recent developments and in order to be fully transparent. Besides the financials, it was also reported that regarding the ongoing criminal investigations relating to our dollar clearing activities, OFAC compliance procedures and other Bank Secrecy Act compliance matters, the bank is actively exploring all possible options to resolve these issues. The ultimate resolution of these compliance issues and related investigations and the nature and severity of possible additional sanctions cannot be predicted at this point in time.

On 16 April 2007, ABN AMRO announced that Robert J. Moore, currently Executive Vice President and Chief Financial Officer for LaSalle and ABN AMRO North America, had been appointed head of ABN AMRO's North American business effective 1 May 2007. He also assumes the title of Senior Executive Vice President in the global ABN AMRO organisation. Mr Moore succeeds Norman R. Bobins, who in January announced that he would retire at year-end. At that time, it was announced that Mr Bobins' role would be divided into two positions; Mr Moore assumes the Chief Executive post responsible for all of ABN AMRO's activities in North America while Larry Richman was named President of LaSalle and LaSalle Midwest, reporting to Mr Moore. As previously announced, Mr Bobins will assume the position of Chairman of LaSalle Corporation on 1 May 2007.

On 17 April 2007, ABN AMRO and Barclays announced that they had extended the exclusivity period to the end of Friday 20 April 2007.

On 23 April 2007, the Managing Board and Supervisory Board of ABN AMRO and the board of Directors of Barclays jointly announced that agreement has been reached on the combination of ABN AMRO and Barclays. The proposed merger will be implemented through an exchange offer pursuant to which ABN AMRO Ordinary Shareholders will receive 3.225 ordinary shares in Barclays for each existing ABN AMRO Ordinary Share (the "Offer"). Under the terms of the Offer, Barclays existing ordinary shareholders will own approximately 52 per cent and ABN AMRO existing ordinary shareholders will own approximately 48 per cent of the combined group.

On 23 April 2007, ABN AMRO announced the sale of ABN AMRO North America Holding Company which principally consists of the retail and commercial banking activities of LaSalle Corporation (LaSalle) to Bank of America for USD 21 billion in cash. The sale of LaSalle is expected to complete late 2007 and is subject to regulatory approvals and other customary closing conditions. The sale and purchase agreement permits ABN AMRO to execute a similar agreement for a higher offer for LaSalle for a period of 14 calendar days from the date of the agreement, permits Bank of America to match any higher offer, and provides for a termination fee of USD 200 million payable to Bank of America if the agreement is terminated under certain limited circumstances.

On 25 April 2007, ABN AMRO provided further details regarding the sale of ABN AMRO North America Holding Company to Bank of America, including that the Bank of America contract contains a "calendar" 14 day "go shop" clause which continues until 11:59 PM New York time on 6 May 2007. Under that clause an alternative bidder has these 14 days to execute a definitive sales agreement for the same businesses on superior terms for cash and not subject to a financing condition. This is followed by a 5 business days right for Bank of America to match the new bidder's superior proposal. The USD 200 million termination fee is to be paid by ABN AMRO if Bank of America does not match and as a result its contract is terminated. If Bank of America matches there is no further right to terminate the contract for a superior proposal. ABN AMRO further announced that it had that day made a copy of this contract

publicly available (filed with the SEC on 6-K). ABN AMRO and its advisors are actively engaged in soliciting alternative bids from the largest U.S. and international banks that may have an interest in LaSalle.

On 25 April 2007, ABN AMRO confirmed that it had received a letter from Royal Bank of Scotland, Banco Santander and Fortis in which they mention for the first time an indicative price per share in relation to a potential transaction with ABN AMRO. Included with the letter was the press release published earlier that day by the three banks. As ABN AMRO had written before to the three banks, ABN AMRO is open to discussing their proposals in order to receive further clarification. In that spirit, ABN AMRO had invited them for a meeting in Amsterdam that same day.

On 25 April 2007, ABN AMRO announced that its Managing Board and Supervisory Board had agreed to provide Royal Bank of Scotland, Banco Santander and Fortis with the same information that was previously shared with Barclays, subject to the execution of confidentiality agreements similar to the one previously signed by Barclays plc, a draft of which would be provided to them forthwith. Although the consortium had provided few additional details with respect to its proposals, this decision is in line with ABN AMRO's ongoing commitment to consider value-creating opportunities for its shareholders.

The BU Netherlands

	Quarterly				
	Q1 2007	Q1 2006	% change	Q4 2006	% change
	<i>(in millions of euros)</i>				
Net interest income	838	797	5.1	810	3.5
Net fees and commissions	257	270	(4.8)	247	4.0
Net trading income	190	176	8.0	100	90.0
Other operating income	75	40	87.5	163	(54.0)
Total operating income	1,360	1,283	6.0	1,320	3.0
Total operating expenses	871	850	2.5	914	(4.7)
Operating result	489	433	12.9	406	20.4
Loan impairment	105	85	23.5	112	(6.3)
Operating profit before tax	384	348	10.3	294	30.6
Income tax expense	85	84	1.2	72	18.1
Net operating profit	299	264	13.3	222	34.7
Discontinued operations (net)	0	50		371	
Profit for the period	299	314	(4.8)	593	(49.6)
Efficiency ratio	64.0%	66.3%		69.2%	
	31 Mar 07	31 Mar 06	% change	31 Dec 06	% change
Staff (fte)	22,317	22,321	(0.0)	22,213	0.5
	<i>(in billions of euros)</i>				
Total assets	204.7	200.2	2.2	206.3	(0.8)
Risk-weighted assets	86.8	78.1	11.1	81.2	6.9

Note: Staff, Total assets and Risk-weighted assets are based on "continuing operations".

As of 1 January 2007 the BU Netherlands (BU NL) includes the Global Clients Netherlands activities. The 2006 results have been restated accordingly.

First quarter 2007 compared with first quarter 2006

- *Total operating income* increased 6.0%, mainly driven by growth in net interest income in the consumer and commercial client businesses.

The 5.1% increase in net interest income was driven by the liability side. Consumer savings volumes grew by 2% with a fairly stable market share above 20%, while commercial savings volumes grew 6%. Margins on consumer and commercial savings products also increased.

Average loan volume growth for the consumer and commercial client business was 6.0%. Double-digit volume growth in commercial loans (including current accounts) was offset by lower margins. Consumer loan volumes were unchanged, but margins came down due to increased competition. The market share in consumer loans, excluding mortgages, remained stable at 25%.

The mortgage portfolio increased by 4.1% to €80 billion. New mortgage production volumes showed a sharp decline, due to lower refinancing volumes in the Netherlands. ABN AMRO's market share in new mortgage production declined from 12.0% to 10.6%, reflecting the efforts to maintain margins in times of persistent and fierce price competition. Nonetheless, margins on the mortgage portfolio decreased.

- *Total operating expenses* increased by 2.5% to €871 million. Total staff expenses were flat, but allocated product costs showed a small increase.
- *The operating result* increased by 12.9% to €489 million. Positive scissors of 3.5 percentage points led to an increase in operating profit of €56 million. The efficiency ratio improved by 2.3 percentage points to 64.0%.
- *Provisions* increased by €20 million to €105 million, or 50 basis points of average RWA. This increase was due to higher provisioning levels for the Corporate Clients portfolio and was partly offset by an improvement in the credit quality of the consumer portfolio.
- *Net operating profit* increased 13.3% to €299 million.
- *Discontinued operations (net)* included the first quarter 2006 results of Bouwfonds. The sale of Bouwfonds was finalised in the fourth quarter of 2006.
- *RWA* increased by €8.7 billion to €86.8 billion, mainly due to organic growth of the loan and mortgage portfolio as well as the reallocation of existing RWA relief programmes to the Group.

First quarter 2007 compared with fourth quarter 2006

- *Total operating income* was up 3.0% at €1,360 million, driven by growth in Global Markets revenues as well as consumer and commercial client revenues.

Net interest income was up 3.5% to €838 million, driven by growth in net interest income from loan products. Volumes in commercial loans increased at flat margins. Volumes and margins in consumer current accounts increased as well.

Mortgages showed an 11.7% decrease in new production, as a result of lower refinancing volumes and the policy to protect margins in the competitive environment. This resulted in a decline in market share in new mortgage production in the first quarter of 1.6 percentage points to 10.6%. In March the Florius label was launched, the successor of Bouwfonds Hypotheken.

A significant increase in business savings volumes also contributed to the quarter-on-quarter increase.

Trading income increased by €90 million to €190 million due to a good performance in Global Markets. Especially equity and foreign exchange product revenues increased on the back of increased client activity and benign markets.

Other operating income declined by €88 million to €75 million partly due to real estate gains in the fourth quarter that did not recur.

- *Total operating expenses* decreased by 4.7% to €871 million. Excluding the €14 million restructuring charge taken in the fourth quarter, expenses declined by 3.2% or €29 million, due to lower non-staff costs.

The BU NL plans to invest further in improving the service levels to its mid-market clients, as 2006 has proven that better client satisfaction leads to higher revenues. The Consumer Client Segment will further improve the quality and functionality of the direct channels. In the Commercial Client Segment we strive to increase added value for our target clients by reducing the number of clients per account manager and by better leveraging our sector-specific knowledge. The costs of these investments will be partly offset by the additional benefits from the Services initiatives, leading to an overall limited cost growth for the BU NL in 2007.

- *The operating result* increased by 20.4% to €489 million. The efficiency ratio improved by 5.2 percentage points to 64.0%. Excluding the restructuring charge, the operating result increased by 16.4%, and the efficiency ratio improved by 4.2 percentage points.
- *Provisions* decreased by €7 million to €105 million. Expressed as a percentage of average RWA, provisions decreased by 8 basis points to 50 basis points of RWA.
- The effective tax rate for the BU NL was down by 2.4 percentage points to 22.1%, mainly as the result of the Dutch corporate tax rate being lowered to 25.5%.
- *Discontinued operations (net)* included the results of, and the gain on, the sale of Bouwfonds. This transaction was finalised in the fourth quarter of 2006.
- *Net operating profit* increased 34.7% to €299 million.
- *RWA* increased by €5.6 billion to €86.8 billion, mainly due to reallocation of existing RWA relief programmes to the Group.

The BU Europe including Antonveneta

	Quarterly				
	Q1 2007	Q1 2006	% change	Q4 2006	% change
	<i>(in millions of euros)</i>				
Net interest income	444	368	20.7	443	0.2
Net fees and commissions	278	286	(2.8)	275	1.1
Net trading income	516	389	32.6	392	31.6
Results from fin. transactions	13	(32)		77	(83.1)
Results from equity holdings	1	0		(1)	
Other operating income	18	27	(33.3)	28	(35.7)
Total operating income	1,270	1,038	22.4	1,214	4.6
Total operating expenses	965	865	11.6	1,031	(6.4)
Operating result	305	173	76.3	183	66.7
Loan impairment	71	32	121.9	130	(45.4)
Operating profit before tax	234	141	66.0	53	
Income tax expense	46	70	(34.3)	27	70.4
Profit for the period	188	71	164.8	26	
Efficiency ratio	76.0%	83.3%		84.9%	
	31 Mar 07	31 Mar 06	% change	31 Dec 06	% change
Staff (fte)	18,204	17,910	1.6	18,067	0.8
	<i>(in billions of euros)</i>				
Total assets	470.4	391.7	20.1	402.8	16.8
Risk-weighted assets	75.5	76.5	(1.3)	73.8	2.3

In order to facilitate the analysis, we have split the BU Europe into two parts: the BU Europe excluding Antonveneta, and Antonveneta.

The BU Europe excluding Antonveneta

	Quarterly				
	Q1 2007	Q1 2006	% change ⁽¹⁾	Q4 2006	% change ⁽¹⁾
	<i>(in millions of euros)</i>				
Net interest income	125	109	14.7	132	(5.3)
Net fees and commissions	143	137	4.4	125	14.4
Net trading income	496	371	33.7	380	30.5
Results from fin. transactions . .	(2)	(34)		(11)	
Results from equity holdings . .	1	0		0	
Other operating income	(3)	4		5	
Total operating income	760	587	29.5	631	20.4
Total operating expenses	630	550	14.5	677	(6.9)
Operating result	130	37		(46)	
Loan impairment	(7)	0		17	
Operating profit before tax	137	37		(63)	
Income tax expense	6	19	(68.4)	(2)	
Profit for the period	131	18		(61)	
Efficiency ratio	82.9%	93.7%		107.3%	
	31 Mar 07	31 Mar 06	% change	31 Dec 06	% change
Staff (fte)	8,793	8,075	8.9	8,460	3.9
	<i>(in billions of euros)</i>				
Total assets	416.9	341.5	22.1	351.3	18.7
Risk-weighted assets	34.5	37.5	(8.0)	33.7	2.4

As of 1 January 2007, the BU Europe includes the Global Clients Europe activities. The BU Europe serves three client bases, corporate and financial institutions, which account for 99% of operating income, and consumer clients. The BU Europe also includes a large part of the BU Global Markets infrastructure, and approximately two-thirds of the BU Europe's revenues were from Global Markets products. Overall results have therefore been, and will continue to be, impacted by market volatility.

First quarter 2007 compared with first quarter 2006

- *Total operating income* increased by 29.5% due to significantly higher Global Markets revenues.

Financial Markets (rates, foreign exchange, credit and alternatives) revenues increased significantly as a result of continued growth in structured products. In particular, credit and alternatives, underpinned by Structured Credit. Financial Markets launched ABN AMRO's Eco-Markets initiative to focus on sustainable and responsible investment. The Private Investor Product offering, focused on Germany, Switzerland and Italy, continued its growth trend during the first quarter of 2007. Key transactions successfully executed by Structured Finance included the €277 million deal for TS Marine (Contracting) Ltd which involved ABN AMRO structuring an innovative financing structure for the purchase of three, high specification, decommissioning vessels for the offshore industry.

Substantial M&A revenues were generated from advising Tata in the €6.2 billion Tata/Corus acquisition.

Transaction Banking revenues increased largely due to the continued focus on Eastern European markets, in particular Russia, Romania and Kazakhstan, on the back of energy sector growth and higher overnight interest rates.

- *Total operating expenses* increased by 14.5%. This was due to a higher bonus accrual to support significant revenue growth.
- *The operating result* improved by €93 million to a profit of €130 million. The BU Europe had positive scissors of 15.0 percentage points, leading to an operating result improvement of €93 million to €130 million and an efficiency ratio improvement of 10.8 percentage points to 82.9%.

- *Provisioning* was a net release of €7 million, compared with a level of zero net provisions in the first quarter 2006. Although credit quality is expected to remain strong, the current favourable provisioning level is not deemed sustainable over the longer term.
- The BU Europe also benefited from a €47 million tax credit in the first quarter of 2007, linked to the U.K. business, which resulted in an effective tax rate of 4%. Excluding this tax credit, the effective tax rate was 39%.
- *Profit for the period* increased by €113 million to a profit of €131 million.

First quarter 2007 compared with fourth quarter 2006

The fourth quarter comparison is impacted by a €18 million gross (€13 million net of tax) restructuring charge booked in the fourth quarter of 2006 to improve the operational performance of Global Markets.

- *Total operating income* increased by 20.4% as revenues benefited from a strong performance in Equities, which reported its best quarter ever. In particular, increased client activity in volatility products, Private Investor Products, as well as selective risk taking resulted in an increase in Equity revenues booked in the BU Europe of nearly 70%. M&A revenues increased due to a number of high profile mandates such as the €300 million Pfeleiderer AG deal, in which we acted as the lead financial advisor in the public cash offer for Pergo AB. Transaction Banking revenues were supported by new product initiatives in Western Europe.
- *Total operating expenses* decreased by 6.9%. Excluding the restructuring charge, operating expenses decreased by 4.4%. This decrease in expenses, together with the simultaneous increase in transaction volumes to support the €129 million revenue increase, reflects the significant improvement in the productivity of the BU Europe platform. This has been achieved through an ongoing streamlining of European hub support functions, including a substantial net headcount reduction during the fourth quarter 2006. First quarter 2007 Full-Time Equivalent (FTE) staff figures increased compared with fourth quarter 2006 due to the inclusion of Risk, Audit and Compliance FTEs that were previously reported in Group Functions. This did not result in additional costs.
- *The operating result* increased by €176 million to a positive €130 million, resulting in an efficiency ratio of 82.9%, a decrease of 24.4 percentage points. Excluding the restructuring charge taken in the fourth quarter, the efficiency ratio improved by 21.5 percentage points.
- *Provisions* were a net release of €7 million in the first quarter 2007, compared with a net provision of €17 million in the fourth quarter 2006.
- *Profit for period* increased by €192 million to a profit of €131 million.

Strategic initiatives

The first quarter 2007 results reflect the benefit of actions taken by the BU Europe in 2006 to reduce costs and increase productivity. These include a number of participation choices made in 2006, which continue to affect the BU Europe. This included the exit of Commodities and Infrastructure Capital. The BU Europe will continue to reduce or exit those businesses that fail to deliver the expected returns. In addition, the BU Europe streamlined client coverage for corporate clients, which has led to faster decision-making, a higher quality of service for our clients, and a lower coverage cost per client. In addition, Global Markets is targeting a 75% global efficiency ratio in 2007, which will positively impact Europe in 2007. The BU Europe continues to focus on efficiency and reduce the Services cost base as a proportion of total cost base. The successful implementation of the Services Operations and the Services IT tracks initiated in April 2006 is accelerating the delivery of a structural change in the BU Europe cost base.

The first quarter results also reflect initiatives launched to support revenue growth, which are successfully supporting the BU Europe on its path to profitability in 2007. The BU Europe continues to focus on growing Financial Institutions revenues through focusing on high-margin, capital-efficient, multi-product offerings. We also continue to expand our successful Private Investor Product business into new products and new markets. In 2007, the BU Europe is rolling out e-Business Banking, a highly competitive and efficient standardised web-based product delivery to our target clients. We have launched in two countries in the first quarter 2007 and will roll out to two more during 2007, with full European coverage in 2008. We are focusing our growth investments in the expanding economies of Eastern Europe, delivering standardised complex products to these markets and building on our local

presence and specialised coverage to target selected client segments. This includes a strategy of Consumer Banking expansion in our target Eastern European markets, including the planned opening of a consumer business in Russia, to build on our strong local commercial position.

The BU Europe and Global Clients in Europe will also continue to focus on increasing the delivery of industry expertise to our clients. The BU Europe has also initiated a streamlining of the country-operating model through hubbing product delivery and offshoring support functions. We have opened a new low-cost, high-quality Offshoring Centre in Poland to support the bank's European operations.

Revenue growth has been supported by strict capital discipline and increased capital recycling. The BU Europe is focusing on "originate to sell" lending and dynamically managing capital to re-allocate it from Western Europe to the target Eastern European growth markets, and in Western Europe from Corporates to Financial Institutions.

Antonveneta

	BAPV results stand alone			Purchase accounting			Total		
	Q1 2007	Q1 2006	Q4 2006	Q1 2007	Q1 2006	Q4 2006	Q1 2007	Q1 2006	Q4 2006
	<i>(in millions of euros)</i>								
Net interest income	322	282	315	(3)	(23)	(4)	319	259	311
Net fees and commissions . . .	135	149	150	0	0	0	135	149	150
Net trading income	20	18	12	0	0	0	20	18	12
Results from fin. transactions . .	28	3	128	(13)	(1)	(40)	15	2	88
Results from equity holdings . .	0	0	(1)	0	0	0	0	0	(1)
Other operating income	21	23	23	0	0	0	21	23	23
Total operating income	526	475	627	(16)	(24)	(44)	510	451	583
Total operating expenses	290	269	308	45	46	46	335	315	354
Operating result	236	206	319	(61)	(70)	(90)	175	136	229
Loan impairment	78	32	113	0	0	0	78	32	113
Operating profit before tax . . .	158	174	206	(61)	(70)	(90)	97	104	116
Income tax expense	63	78	50	(23)	(27)	(21)	40	51	29
Profit for the period	95	96	156	(38)	(43)	(69)	57	53	87
Efficiency ratio	55.1%	56.6%	49.1%				65.7%	69.8%	60.7%
Staff (fte)							9,411	9,835	9,607
	<i>(in billions of euros)</i>								
Risk-weighted assets							41.0	39.0	40.1

Please note that the purchase accounting impacts results from the valuation of intangible assets (amounting to €1,194 million) and fair-value adjustments of principally financial assets and liabilities. The intangible assets are amortised over a period of approximately eight years under operating expenses. The fair-value adjustments are substantially amortised through net interest income over a period ranging from one to eight years dependent on the duration of the respective assets and liabilities and/or adjusted realised gains on sales of related assets and liabilities.

The analysis below is based on results of Antonveneta on a stand-alone basis.

First quarter 2007 compared with first quarter 2006

- *Total operating income* increased by 10.7% to €526 million partly due to a €21 million reclassification between loan impairment and net interest income in respect of interest on impaired loans which was not applied in 2006, and on the back of a €25 million increase in results from financial transactions. The latter increase included a €22 million gain on the sale of part of the Italease stake. Excluding the above reclassification and the sale of Italease stake, total operating income was up 1.7% despite a 9.4% decline in net commissions due to fewer investment products sold to retail customers. We expect operating income to accelerate in the second half of 2007.
- *Total operating expenses* were up 7.8% to €290 million. This was driven by a €20 million increase in general and administrative expenses as a result of integration costs. Excluding these integration costs, total operating expenses were up by 0.4%.

- *The operating result* increased by 14.6% to €236 million resulting in an efficiency ratio of 55.1%. Excluding the reclassification on net interest income and the gain on the sale of the Italease stake and the integration costs, the operating result was up by 3.4%, leading to an efficiency ratio of 55.9%.
- *Provisions* increased by €46 million to €78 million, but were significantly below the annualised normalised third quarter 2006 level of €96 million.
- *Profit for the period* decreased by €1 million to €95 million.
- The effective *tax rate* decreased to 39.9% from 44.8%, mainly on the back of a tax-free gain on the sale of the Italease stake.

First quarter 2007 compared with fourth quarter 2006

- *Total operating income* decreased by 16.1% to €526 million due to a €100 million decrease in results from financial transactions, a €15 million decrease in net fees and commissions due to margin pressure, partly offset by €8 million increase in trading activities. Excluding the €92 million gain on the sale of the Italease stake in the fourth quarter of 2006, as well as in the first quarter 2007, total operating income was down by 10.7%.
- *Total operating expenses* were down by 5.8%, driven by a significant decrease in general and administrative expenses due to lower rebranding and integration costs. Excluding the rebranding and integration costs sustained in both quarters, total operating expenses were flat at €270 million.
- *The operating result* decreased by 26.0%. Excluding the items mentioned above, the operating result was down by 21.4%.
- *Provisions* decreased by 31.0% to €78 million compared with €113 million in the previous quarter.
- *Profit for the period* was down by €61 million to €95 million.
- The effective *tax rate* increased to 39.9% from 24.3%, mainly due to bigger tax exempt gains in the previous quarter.

Recent developments

Our private banking group launched its branch-opening plan with a view to covering the wealthiest regions. The first branch was opened in Padua in February, and five additional branches will be opened in Milan, Bologna, Rome, Treviso and Vicenza by the end of April, with five further branch openings expected by the end of September.

The BU North America

	Quarterly					
	Q1 2007	Q1 2006	% change ⁽¹⁾	% change	Q4 2006	% change ⁽¹⁾
	<i>(in millions of euros)</i>					
Net interest income	575	589	(2.4)	6.7	612	(6.0)
Net fees and commissions	258	202	27.7	39.4	252	2.4
Net trading income	90	52	73.1	88.8	54	66.7
Results from fin. transactions	8	(15)			33	(75.8)
Results from equity holdings	1	2			1	
Other operating income . . .	63	66	(4.5)	4.7	177	(64.4)
Total operating income . .	995	896	11.0	21.4	1,129	(11.9)
Total operating expenses . .	662	640	3.4	13.2	714	(7.3)
Operating result	333	256	30.1	41.8	415	(19.8)
Loan impairment	(1)	(15)	(93.3)	(92.0)	8	(19.1)
Operating profit before tax	334	271	23.2	34.4	407	(17.9)
Income tax expense	96	53	81.1	97.7	111	(13.5)
Net operating profit	238	218	9.2	19.0	296	(19.6)
Discontinued operations (net)	114	12			32	
Profit for the period	352	230	53.0	67.1	328	7.3
Efficiency ratio	66.5%	71.4%			63.2%	8.5

(1) % change at constant foreign exchange rates (see annex 2).

	31 Mar 07	31 Mar 06	% change	31 Dec 06	% change
Staff (fte)	14,429	15,412	(6.4)	14,914	(3.3)
	<i>(in billions of euros)</i>				
Total assets	161.5	152.7	5.8	156.2	3.4
Risk-weighted assets	60.5	75.5	(19.9)	67.6	(10.5)

Note: Staff, Total assets and Risk-weighted assets are based on "continuing operations".

As of 1 January 2007, the BU North America includes the Global Clients North America activities.

Please note that all comparisons below are at constant exchange rates (percentages as in the table above) in order to facilitate comparison.

On 22 January 2007, ABN AMRO announced the sale of ABN AMRO Mortgage Group, Inc., its U.S.-based residential mortgage broker origination platform and residential mortgage servicing business, to Citigroup. Closing of this transaction occurred on 28 February 2007, and the gain on the sale as well as the two months of results of the divested business are reported as discontinued operations.

First quarter 2007 compared with first quarter 2006

- *Total operating income* increased by 21.4% on the back of an improved contribution from most business lines despite continued challenges from the yield curve, which was inverted for most of the quarter compared with being flat for most of the first quarter 2006.

The revenues of the commercial banking franchise increased by 2.6%, with strong growth in non-interest income more than compensating for a decline in net interest income. The high-touch client focus, aimed at deepening customer relationships, resulted in a strong increase in non-credit related revenues, with non-interest income growing by 22.9%. Cross-sell revenue grew predominantly on the back of structured credit products, derivatives and syndication fee income.

Net interest income declined as the positive impact of loan growth of 6.1% and higher deposit spreads was offset by the impact of a decline in loan spreads and a decline in deposits.

The operating income of the retail banking business was unchanged. The increase in deposits at slightly higher deposit spreads was offset by a 7.4% decline in home equity loans at lower loan spreads leading to a marginal decline in net interest income. The decrease in home equity loans was driven by the interest rate environment and the Michigan economy.

The previously announced sale of ABN AMRO Mortgage Group was completed on 28 February 2007. The gain of €97 million and two months of profits of €17 million are reported as discontinued operations.

- *Total operating expenses* increased by 13.2%, mainly driven by an increase in costs allocated from Global Markets. Within the previously announced efficiency improvement programme, 60% of the planned 900 FTE reductions were completed by the end of the first quarter, with the remainder expected to be completed by the end of the second quarter. As stated with the fourth quarter 2006 results, as a consequence of the divestiture of the mortgage business, the BU North America expects to remove approximately USD 100 million from its expense base over a two-year period, beyond the previously identified efforts to create a more streamlined cost base.
- *The operating result* increased by 41.8% and the efficiency ratio improved by 4.9 percentage points to 66.5%.
- *Provisions* increased by €14 million from a net release of €15 million to a net release of €1 million. Although credit quality is expected to remain strong, the current favourable provisioning level is not deemed sustainable over the longer term, and we therefore expect a gradual further increase in 2007.
- The effective *tax rate* increased from 19.6% to 28.7%, as tax releases that occurred in the first quarter of 2006 did not recur in the first quarter of 2007.
- *Profit for the period* increased by 67.1% to € 352 million. Excluding discontinued operations, profit for the period increased by 19.0% to €238 million.

First quarter 2007 compared with fourth quarter 2006

- *Total operating income* decreased by 11.1%. Excluding the impact of the Talman judgment (€110 million gross, €75 million net) in the fourth quarter of 2006, total operating income decreased by 1.5%.

Revenues of the commercial banking business fell by 4.8%, as growth in non-interest income was more than offset by lower interest income. Interest income declined, as loan growth of 1.4% was offset by lower loan and deposit spreads. Despite a continued increase in cross-sell revenue from structured credit derivatives and syndications, commercial banking non-interest income declined because the previous quarter benefited from a large transaction that did not recur in the first quarter.

The operating income of the retail banking business activities decreased by 0.9% as the modest improvement in deposit volumes and spreads was offset by a 1.8% decline in home equity volumes. Non-interest income declined primarily due to a reduction in overdraft fees as average checking account balances increased.

- *Total operating expenses* decreased by 6.4%. Excluding the restructuring charge (€52 million gross, €39 million net) in the fourth quarter of 2006, expenses increased by 0.9%.
- *The operating result* decreased by 19.1% and the efficiency ratio increased by 3.3 percentage points to 66.5%. Excluding the impact of the Talman judgment and the restructuring charge, the operating result decreased by 5.9% and the efficiency ratio increased by 1.5 percentage points to 66.5%.
- *Provisions* declined by €9 million from a net charge of €8 million to a net release of €1 million.
- The effective *tax rate* increased by 1.4 percentage points to 28.7%.
- *Profit for the period* increased by 8.5% to €352 million. Excluding discontinued operations, profit for the period fell 18.9% to €238 million.

Recent developments

On 16 April 2007, ABN AMRO announced that Robert J. Moore, currently Executive Vice President and Chief Financial Officer for LaSalle and ABN AMRO North America, had been appointed head of ABN AMRO's North American business effective 1 May 2007. He also assumes the title of Senior Executive Vice President in the global ABN AMRO organisation. Mr Moore succeeds Norman R. Bobins, who in January announced that he would retire at year-end. At that time, it was announced that Mr Bobins' role would be divided into two positions; Mr Moore assumes the Chief Executive post responsible for all of ABN AMRO's activities in North America while Larry Richman was named President of LaSalle and LaSalle Midwest, reporting to Mr Moore. As previously announced, Mr Bobins will assume the position of Chairman of LaSalle Corporation on 1 May 2007.

On 23 April 2007, ABN AMRO announced the sale of ABN AMRO North America Holding Company which principally consists of the retail and commercial banking activities of LaSalle Corporation (LaSalle) to Bank of America for USD 21 billion in cash. The sale of LaSalle is expected to complete late 2007 and is subject to regulatory approvals and other customary closing conditions. The sale and purchase agreement permits ABN AMRO to execute a similar agreement for a higher offer for LaSalle for a period of 14 calendar days from the date of the agreement, permits Bank of America to match any higher offer, and provides for a termination fee of USD 200 million payable to Bank of America if the agreement is terminated under certain limited circumstances.

On 25 April 2007, ABN AMRO provided further details regarding the sale of ABN AMRO North America Holding Company to Bank of America, including that the Bank of America contract contains a "calendar" 14 day "go shop" clause which continues until 11:59 PM New York time on 6 May 2007. Under that clause an alternative bidder has these 14 days to execute a definitive sales agreement for the same businesses on superior terms for cash and not subject to a financing condition. This is followed by a 5 business days right for Bank of America to match the new bidder's superior proposal. The USD 200 million termination fee is to be paid by ABN AMRO if Bank of America does not match and as a result its contract is terminated. If Bank of America matches there is no further right to terminate the contract for a superior proposal. ABN AMRO further announced that it had that day made a copy of this contract publicly available (filed with the SEC on 6-K). ABN AMRO and its advisors are actively engaged in soliciting alternative bids from the largest U.S. and international banks that may have an interest in LaSalle.

The BU Latin America

	Quarterly					
	Q1 2007	Q1 2006	% change	% change ⁽¹⁾	Q4 2006	% change ⁽¹⁾
	<i>(in millions of euros)</i>					
Net interest income . . .	826	736	12.2	18.7	751	10.0
Net fees and commissions	140	151	(7.3)	(2.1)	151	(7.3)
Trading income/results fin. trans.	53	53	0.0	9.4	90	(41.1)
Results from equity holdings	10	13	(23.1)	(18.5)	10	0.0
Other operating income .	21	12	75.0	85.0	16	31.3
Total operating income .	1,050	965	8.8	15.3	1,018	3.1
Total operating expenses	584	570	2.5	7.8	607	(3.8)
Operating result	466	395	18.0	26.0	411	13.4
Loan impairment	190	173	9.8	17.9	159	19.5
Operating profit before tax	276	222	24.3	32.3	252	9.5
Income tax expense . . .	99	90	10.0	29.6	52	90.4
Profit for the period . . .	177	132	34.1	34.2	200	(11.5)
Efficiency ratio	55.6%	59.1%			59.6%	

(1) % change at constant foreign exchange rates (see annex 2).

	31 Mar 07	31 Mar 06	% change	31 Dec 06	% change
Staff (fte)	28,912	27,020	7.0	28,205	2.5
	<i>(in billions of euros)</i>				
Total assets	44.6	33.4	33.5	39.4	13.2
Risk-weighted assets	25.9	22.5	15.1	24.2	7.0

As of 1 January 2007, the BU Latin America includes the Global Clients Latin America activities.

Please note that all comparisons below are at constant exchange rates (percentages as in the table above) in order to facilitate comparison.

First quarter 2007 compared with first quarter 2006

- *Total operating income* increased by 15.3%, driven by an improved contribution from all business lines and on the back of continued strong growth of the Brazil loan portfolio. The relative contribution from Brazil to total operating income of the BU Latin America was unchanged at 95%.

The Brazilian retail banking line of business, which comprises households and SMEs, contributed 66.8% to total operating income from Brazil. It grew by 15.0%, fuelled by a 27.6% increase in the retail loan portfolio at lower net interest margins. The decline in retail net interest margins was the result of the relatively stronger growth in lending to SMEs compared with the growth in higher net interest margin lending to households, and also due to declining margins overall. Average balances in the SME credit portfolio, which accounted for 50.9% of the total retail loan portfolio, grew by 34.5%. Average balances in the households loan portfolio, which accounted for 49.1% of the total retail loan portfolio, increased by 21.1% on the back of new client acquisitions, growth in personal loans and credit cards, as well as a further expansion in mortgage loans.

For the Aymoré consumer finance activities, which contributed 10.8% to total operating income from Brazil, revenues were up by 19.2% on the back of strong loan growth, partly offset by a decline in net interest margins and higher origination costs. Average balances grew by 31.8% to BRL 13.8 billion.

Commercial banking, including the results formerly reported under Global Clients, accounted for 8.9% of total income from Brazil, increasing its revenues by 5.7% on the back of loan growth, client-related trading income and commissions.

- *Total operating expenses* increased by 7.8%, partly reflecting the impact of the new collective labour agreement (CLA) that came into effect in September 2006.
- *The operating result* improved by 26.0% and the efficiency ratio improved by 3.5 percentage points to 55.6%.
- *Provisions* increased by 17.9% to €190 million, equivalent to 303 basis points of average RWA, compared with 377 basis points of average RWA reported in the first quarter of 2006 under the old reporting structure. Under the old structure RWA were lower than under the new structure.
- *Operating profit before tax* grew by 32.3%.
- The effective *tax rate* declined by 4.6 percentage points to 35.9%. The appreciation of the Brazilian real relative to the U.S. dollar led to a hedge-related tax charge of €20 million compared with a hedge-related tax charge of €32 million in the first quarter of 2006.
- *Profit for the period* grew by 34.2% to €177 million.

First quarter 2007 compared with fourth quarter 2006

- *Total operating income* of the BU LA increased by 1.7%, as continued strong growth in the Brazilian retail loan portfolio was partly offset by lower net interest margins and a decline in non-interest income as the fourth quarter of 2006 benefited from a number of large transactions, including for CVRD and Marfrig, that did not recur in the first quarter of 2007.

The operating income of the Brazilian retail banking line of business grew by 0.8% on the back of 6.7% growth of the overall retail loan portfolio resulting from increases of 8.1% in the SME loan portfolio and 5.3% in the households loan portfolio, largely offset by lower net interest margins.

Despite good volume growth, the operating income of the Brazilian Aymoré consumer finance operations declined by 1.7% due to higher origination costs and a decrease in net interest margins. During the quarter, the consumer finance loan portfolio increased by 6.8%.

Commercial banking revenues decreased by 3.6%, as the impact of loan growth was offset by a decline in non-interest income as a number of larger transactions in the previous quarter did not recur in the first quarter.

- *Total operating expenses* fell by 5.1%, due to a decrease in marketing and consultancy expenses and lower bonus accruals.
- *The operating result* increased by 11.7%. The efficiency ratio improved by 4.0 percentage points to 55.6%.
- *Provisions* increased by 18.0% to €190 million, equivalent to 303 basis points of average RWA compared with 329 basis points of average RWA reported in the fourth quarter of 2006 under the old reporting structure. Under the old reporting structure, RWA were lower than under the new structure. The absolute increase was due to the fact that the fourth quarter of 2006 benefited from the sale of non-performing loans (NPL) of a larger size than were sold in the first quarter of 2007. Excluding the impact of the NPL sales, provisions remained stable in absolute terms.
- *Operating profit before tax* increased by 7.7%.
- The effective *tax rate* was 35.9%, an increase of 15.3 percentage points from the fourth quarter. The appreciation of the Brazilian real against the U.S. dollar led to a hedge-related tax charge of €20 million compared with a hedge-related tax charge of € 8 million in the fourth quarter of 2006.
- *Profit for the period* decreased by 7.0% to €177 million.

The BU Asia

	Quarterly						
	Q1 2007	Q1 2006	% change	% change ⁽¹⁾	Q4 2006	% change	% change ⁽¹⁾
	<i>(in millions of euros)</i>						
Net interest income	155	147	5.4	14.7	165	(6.1)	(5.8)
Net fees and commissions . .	209	167	25.1	34.6	267	(21.7)	(21.3)
Trading income/results fin. trans.	195	83	134.9	150.5	108	80.6	81.5
Results from equity holdings	17	22	(22.7)	(16.8)	17	0.0	0.6
Other operating income	4	16	(75.0)	(75.0)	9	(55.6)	(55.6)
Total operating income	580	435	33.3	43.4	566	2.5	2.9
Total operating expenses . . .	396	332	19.3	27.5	407	(2.7)	(2.1)
Operating result	184	103	78.6	94.5	159	15.7	15.7
Loan impairment	53	36	47.2	61.9	78	(32.1)	(31.5)
Operating profit before tax . .	131	67	95.5	111.9	81	61.7	61.2
Income tax expense	24	23	4.3	9.6	35	(31.4)	(32.6)
Profit for the period	107	44	143.2	165.5	46	132.6	132.6
Efficiency ratio	68.3%	76.3%			71.9%		

(1) % change at constant foreign exchange rates (see annex 2).

	31 Mar 07	31 Mar 06	% change	31 Dec 06	% change
Staff (fte)	15,354	12,202	25.8	14,141	8.6
	<i>(in billions of euros)</i>				
Total assets	75.2	67.3	11.7	69.8	7.7
Risk-weighted assets	18.3	17.1	7.0	16.5	10.9

As of 1 January 2007, the BU Asia includes the Global Clients Asia activities.

First quarter 2007 compared with first quarter 2006

The year-on-year comparison of operating income and profit was positively impacted by the fair-market value changes of the stake in KEB (a positive €52 million in the first quarter of 2007 and a negative €24 million in the first quarter of 2006). Although the fair-market value change is a part of regular income, it creates substantial volatility in income.

- *Total operating income* increased by 33.3%, or €145 million, to €580 million, driven by strong growth in the consumer businesses, supported by the €76 million increase in revenues as a result of the fair-market value changes of our stake in KEB.

Growth in the consumer business was driven by continued growth of the Van Gogh Preferred Banking (VGPB) business and Consumer Finance business. The number of clients in Asia increased to 3.3 million. Fee income from sale of wealth management products increased as a result of the strong equity markets. The growth was particularly strong in Singapore, Hong Kong and China where the equity markets showed a steady improvement. The Assets under Administration of VGPB clients grew by 15% to €8.2 billion. Net interest income also improved with significant growth in credit cards and personal loans in Indonesia, India and UAE. The number of credit cards increased by 14% to 2.9 million from the same quarter last year and end of period net receivables (excluding Taiwan) grew by 39%.

Revenues from the commercial clients segment in the first quarter benefited from significant Mergers & Acquisitions (M&A) and Equity Capital Markets (ECM) deal closures in the Philippines, the United Arab Emirates, Hong Kong, India and Australia. In addition, cash management within Transaction Banking showed a strong increase in the first quarter of 2007 compared to the same quarter last year. Global Markets revenues held up well on the back of continued volatility in Asian equity markets. This led to a good performance overall but as a result of market volatility it was a lower first quarter compared with the same quarter last year.

The contribution from Saudi Hollandi Bank decreased by €7 million to €14 million.

India and China are two of our key countries in Asia and are a major focus of our growth efforts. In China revenue increased 63%, showing that our efforts are starting to bear fruit. The commercial business in China is seeing steady growth in its loan portfolio size, and is experiencing larger interest margins and higher commission income as a result of increasing asset sizes. For the consumer business, VGPB revenues alone have grown 90% and Assets under Administration (AuA) increased by 15% from last year as has income from selling structured products.

India had its best quarter ever, growing revenues by over 48%, riding on strong growth in business across client segments. Consumer revenues grew by 60%, primarily due to continued growth in the credit card and personal loan portfolios, as well as in commissions on third-party insurance products. The credit cards base grew by 19%, taking the overall client base to over 1.5 million. The Commercial business grew by over 30% from the previous year as a result of strong performance across products, especially Global Markets. The SME and mid-market client base more than doubled, largely driven by templated offerings. Highlights for the first quarter of 2007 include the closing of the high profile Tata-Corus deal and the continued success of the microfinance business which now reaches 391,590 very low-income households through 27 microfinance institutions across 17 states in India.

- *Total operating expenses* increased by 19.3% to €396 million, as we continued to invest in new branches, staff hires and marketing campaigns. In the first quarter, we opened 14 new branches across China, India and Pakistan.
- *The operating result* improved by 78.6% to €184 million.
- *Provisioning* increased by €17 million to €53 million or 122 basis points of average RWA, reflecting strong growth in consumer finance businesses, particularly in India and Indonesia.
- *Profit for the period* increased by 143.2% to €107 million, mainly due to an improved operating result, supported by lower provisioning and a lower effective tax rate.

First quarter 2007 compared with fourth quarter 2006

The quarter-on-quarter comparison of operating income and profit was positively impacted by the fair-market value changes of the stake in KEB (€52 million in the first quarter of 2007 and €15 million in the fourth quarter of 2006). Furthermore, the comparison was impacted by the €10 million gross (€7 million net) restructuring charge in the fourth quarter.

- *Total operating income* increased by 2.5%, driven by strong growth in the consumer businesses, supported by the €67 million increase in revenues as a result of the fair-market value changes of our stake in KEB.

The first quarter 2007 was a record quarter for the consumer businesses. The strong performance was driven by the VGPB Wealth Management businesses in Greater China and Singapore, and the credit card businesses in India, UAE and Indonesia. Taiwan showed increasing revenue momentum as revenues grew by 14%, and provision levels are stabilised.

The commercial business continued its expansion during the first quarter although this was generally a slower quarter following on from the exceptional closure to the year in the fourth quarter of 2006. Robust growth continued to be seen in Hong Kong, Taiwan, the Philippines and India. Product contributions came predominantly from Global Markets, M&A and ECM and Transaction Banking. M&A and ECM revenues closed several large transactions, including Maynilad, Qatar Telecom and Tata, while Transaction Banking was driven by strong growth in the cash management business which grew 15%. The sub-segments of SME and Inbound Clients continued to perform well.

- *Total operating expenses* decreased by 2.7%. Adjusted for the €10 million restructuring charge in the fourth quarter of 2006, expenses were flat, reflecting strong cost control.
- *The operating result* increased by 15.7% to €184 million.

- *Provisioning* decreased by €25 million to €53 million, mainly due to certain exceptional items in the fourth quarter. In addition, the credit situation in Taiwan is showing signs of improvement and provision levels are trending downwards.
- *Profit for the period* increased by 132.6% to €107 million.

Recent developments

On 5 March 2007, ABN AMRO announced it had entered into an agreement to acquire a 93.4% interest in Prime Bank from shareholders for a cash consideration of PKR 13.8 billion (€172 million). On the same date, a tender offer was launched for all remaining shares of Prime Bank from minority shareholders, which was subsequently closed on 5 April 2007. At the close of the tender offer, ABN AMRO had obtained a 96.17% stake in Prime Bank. ABN AMRO was already the third-largest foreign bank in Pakistan. The acquisition will add significant scale to ABN AMRO's franchise in Pakistan, making the combined entity the second largest foreign bank and one of the top 10 banks in the country with assets of PKR 124 billion (€1,547 million) and over 80 branches.

The BU Asset Management

	Quarterly						
	Q1 2007	Q1 2006	% change	% change ⁽¹⁾	Q4 2006	% change	% change ⁽¹⁾
	<i>(in millions of euros)</i>						
Net interest income	(4)	(4)			0		
Net fees and commissions . .	219	180	21.7	22.7	211	3.8	3.9
Net trading income	2	4			(1)		
Other operating income	14	30	(53.3)	(51.0)	67	(79.1)	(79.0)
Total operating income	231	210	10.0	11.3	277	(16.6)	(16.5)
Total operating expenses . . .	151	132	14.4	15.6	163	(7.4)	(7.2)
Operating profit before tax . .	80	78	2.6	4.0	114	(29.8)	(29.7)
Income tax expense	22	16	37.5	38.8	22	0.0	0.0
Profit for the period	58	62	(6.5)	(5.0)	92	(37.0)	(36.8)
Efficiency ratio	65.4%	62.9%			58.8%		

(1) % change at constant foreign exchange rates (see annex 2).

	31 Mar 07	31 Mar 06	% change	31 Dec 06	% change
Staff (fte)	1,837	1,671	9.9	1,630	12.7
	<i>(in billions of euros)</i>				
Assets under Management	209	188	11.2	193	8.3
Total assets	1.7	1.3	30.8	1.4	21.4
Risk-weighted assets	0.9	0.5	80.0	0.9	0.0

Please note that the results from Asset Management France (previously booked in the BU Private Clients) were transferred to ABN AMRO Asset Management as from the start of 2007. For the purpose of comparison, 2006 numbers have been restated.

First quarter 2007 compared with first quarter 2006

Please note that the comparisons in the section below are affected by the €28 million (gross and net) gain on the sale of the Asset Management operations in Curacao, completed in the first quarter of 2006.

- *Total operating income* went up by 10.0% to €231 million. Excluding the gain mentioned above, total operating income increased by 26.9%, mainly driven by higher management and service fee income. The 21.7% increase in commission income was related to the higher Asset under Management (AuM) levels, the higher fee levels on existing products and a further shift in the asset mix towards more profitable products.

The continuous growth reflects a shift towards more tailored solutions as well as further improvements in client service which mean that ABN AMRO Asset Management's offering is better connected to the clients' needs.

The implementation of the new Group structure as of 2006 also began to bear fruit. ABN AMRO Asset Management's goal to leverage its capabilities and increase cross-selling opportunities within the rest of the Group has led to, among other initiatives, the introduction of two Asian multi-manager products: the Asian Equity Multi-Manager Fund and the Asian Tilt Multi-Manager Strategy. Another milestone was the joint launch by ABN AMRO Asset Management, Debt Capital Markets, Consumer Finance and Product Management of the first tranche of the Asset-Backed Securities Fund in Brazil, offering a new non-correlated alpha source to private clients and third parties.

- *Total operating expenses* increased by 14.4% to €151 million mostly due to higher bonus accruals, reflecting higher volumes as well as higher quality earnings.
- *Operating profit before tax* increased by 2.6% to €80 million. Excluding the gain mentioned above, the operating result increased by 60.0% and the efficiency ratio improved by 7.1 percentage points to 65.4%.
- The effective *tax rate* increased from 20.5% to 27.5%.
- *Profit for the period* decreased by 6.5% to €58 million. Excluding the gains mentioned above profit for the period increased 70.6%.

First quarter 2007 compared with fourth quarter 2006

Please note that the comparisons in the section below are affected by the €38 million net gain on the sale of the domestic asset management operations in Taiwan and the €17 million net gain on the sale of the U.S. mutual funds business, which were both recorded in the fourth quarter of 2006.

- *Total operating income* decreased by 16.6% to €231 million. Excluding the items mentioned above, total operating income increased by 4.1% due to a combination of higher fees and commissions and higher trading income.
- *Total operating expenses* decreased by 7.4% to €151 million mainly driven by a decrease in bonus accruals as well as lower administrative expenses.
- *The operating profit before tax* decreased by 29.8% to €80 million from €114 million. Excluding the gains mentioned above, operating profit before tax increased by 35.6%. The efficiency ratio improved by 8.0 percentage points to 65.4%.
- The effective *tax rate* increased from 19.3% to 27.5%. Excluding the items mentioned above, the effective tax rate decreased 9.8 percentage points due to the tax-exempted gains in the fourth quarter 2006.
- *Profit for the period* decreased by 37.0% to €58 million. Excluding the items mentioned above, the profit for the period increased by 56.8%.

Assets under Management

As at 31 March 2007, Assets under Management (AuM) amounted to €208.7 billion compared with €193.3 billion at the end of 2006. This change in AuM can be explained by €2.0 billion in net inflows and €5.4 billion market appreciation along with negative currency effects of €1.1 billion. The AuM numbers include for the first time the 55% of AuM from the former joint venture with Antonveneta in addition to the 45% of AuM already reported and an AuM update of the funds under management from the multi-manager and asset management activities of Banque de Neufilize OBC. The AuM level at Artemis continued to grow strongly. The asset mix changed to 45% equities, fixed income 36% and 19% cash and other.

The BU Private Clients

Quarterly							
	Q1 2007	Q1 2006	% change	% change ⁽¹⁾	Q4 2006	% change	% change ⁽¹⁾
<i>(in millions of euros)</i>							
Net interest income	119	129	(7.8)	(7.2)	120	(0.8)	(0.8)
Net fees and commissions	168	161	4.3	5.7	175	(4.0)	(3.7)
Net trading income	20	9	122.2	121.1	8	150.0	151.3
Other operating income	20	21	(4.8)	(4.8)	23	(13.0)	(13.0)
Total operating income	327	320	2.2	3.0	326	0.3	0.5
Total operating expenses	224	229	(2.2)	(1.1)	201	11.4	11.6
Operating result	103	91	13.2	13.5	125	(17.6)	(17.4)
Loan impairment	(3)	1			0		
Operating profit before tax	106	90	17.8	18.1	125	(15.2)	(15.0)
Income tax expense	30	25	20.0	20.4	38	(21.1)	(20.8)
Profit for the period	76	65	16.9	17.2	87	(12.6)	(12.4)
Efficiency ratio	68.5%	71.6%			61.7%		

(1) % change at constant foreign exchange rates (see annex 2).

	31 Mar 07	31 Mar 06	% change	31 Dec 06	% change
Staff (fte)	3,140	3,043	3.2	3,212	(2.2)
<i>(in billions of euros)</i>					
Assets under Administration	148	138	7.2	142	4.2
Total assets	19.2	18.2	5.5	18.6	3.2
Risk-weighted assets	8.1	7.8	3.8	7.7	5.2

Please note that from 1 January 2007 the results from the former International Diamonds & Jewellery Group are reported in Group Functions, and the results from Asset Management France are reported in the BU Asset Management. As from 1 January 2007, the BU Private Clients includes the Vermogensgroep results, an acquisition completed last November 2006.

First quarter 2007 compared with first quarter 2006

- *Total operating income* increased by 2.2% to €327 million. This was driven by increases in the two main regions—Netherlands and Asia—mainly in the non-interest income line. The increase in non-interest income was driven by a €11 million improvement in net trading income, as well as 4.3% increase in net fees and commissions to €168 million. The growth in non-interest income reflected client appetite for equity products and Private Investor Products (PIP). Net interest income decreased by 7.8% to €119 million, due to strong pressure on margins, particularly related to the special savings account product, partly offset by higher volumes in client deposits.
- *Total operating expenses* decreased by 2.2% to €224 million mainly due to a 2.7% reduction in general administrative expenses and better cost management across all the regions.
- *The operating result* increased by 13.2% to €103 million.
- *Provisions* decreased by €4 million to a net release of €3 million due to a release of Incurred But Not Identified (IBNI) provisions.
- *Profit for the period* increased by 16.9% to €76 million.
- *Assets under Administration* increased from €138 billion at the end of March 2006 to €148 billion at the end of March 2007, reflecting an increase in net new assets and higher net asset values due to improved financial markets.

First quarter 2007 compared with fourth quarter 2006

- *Total operating income* was basically flat at €327 million, as an increase in trading income was offset by lower net fees and commissions. Client appetite for PIP products generated an increase in trading income of €12 million. Net fees and commissions were down by 4.0%, due to the particularly strong commission income in the previous quarter. Net interest income was down by 0.8% due to margin pressure.
- *Total operating expenses* increased by 11.4% to €224 million due to the €21 million release of restructuring charges related to the Services-IT track and the release from redundancy costs in France in the previous quarter. Excluding these releases, total operating expenses were down by 1.1%.
- *Provisions* decreased by €3 million to a net release of €3 million, as a consequence of a release of IBNI provisions.
- *Profit for the period* decreased by 12.6% to €76 million. Excluding the releases mentioned above, profit for the period was up by 17.2% on the back of a more favourable tax rate.
- *Assets under Administration* increased from €142 billion at the end of December 2006 to €148 billion at the end of March 2007. The asset mix remained relatively stable with 70% in securities and 30% in cash.

The BU Private Equity

	Quarterly					
	Q1 2007	Q1 2007 ⁽¹⁾	Q1 2006	% change	Q4 2006 ⁽¹⁾	% change
Net interest income	(88)	12	6	100.0	14	(14.3)
Net fees and commissions	3	3	7	(57.1)	0	
Results from fin. transactions	153	98	95	3.2	70	40.0
Other operating income	(5)	0	20		10	
Net sales private equity holdings	1,393	0	0		0	
Total operating income	1,456	113	128	(11.7)	94	20.2
Operating expenses	389	24	35	(31.4)	26	(7.7)
Goods and materials priv. equity holdings	970	0	0		0	
Total operating expenses	1,359	24	35	(31.4)	26	(7.7)
Operating result	97	89	93	(4.3)	68	30.9
Loan impairment	0	0	15		5	
Operating profit before tax	97	89	78	14.1	63	41.3
Income tax expense	(2)	(10)	(14)		(24)	
Profit for the period	99	99	92	7.6	87	13.8

(1) All figures exclude the consolidation effect of controlled non-financial investments (see annex 2).

	31 Mar 07	31 Mar 06	% change	31 Dec 06	% change
Staff (fte)	85	106	(19.8)	93	(8.6)
			(in billions of euros)		
Risk-weighted assets	2.4	2.6	(7.7)	2.4	0.0

The BU Private Equity (PE) operates through two lines of business: the Buy-out line of business and the Corporate Investments line of business.

The Buy-out line of business acquires, manages and subsequently sells majority-owned (controlling) shareholdings in companies where transactions are structured as leveraged management buy-outs or buy-ins. Buy-out investments are typically only made in mature companies that generate robust cash flows. The Buy-out business operates through seven teams in Europe and Australia.

The Corporate Investments line of business acquires, manages and sells financial, and in most cases, minority participations, in companies where the purpose of the transaction is to provide development and expansion capital on a temporary basis. Financial participations are taken in small and mid-cap later-stage companies, predominantly in the Netherlands.

In the first quarter of 2007, the BU PE made a total €119 million of new investments. The Buy-out line of business made a total of €116 million of new investments including investments in T.G.I. Friday's (U.K., restaurants), Sdu (Netherlands, publishing), Baarsma Wine Group (Netherlands, wine distribution) and Vetus (Netherlands, nautical equipment). The Corporate Investments line of business invested €3 million in add-ons in existing portfolio companies.

A total of €422 million in proceeds was realised from divestments. The Buy-out line of business divested €314 million of investments including those of Park Resorts (U.K., leisure). The Corporate Investments line of business divested €108 million of which €89 million relates to existing investments held by a captive fund that were transferred to the BU NL.

As a result of investments, divestments, fair-market value changes of €198 million and €9 million of currency and other effects, the value of the portfolio of the BU Private Equity decreased from €2,310 million to €2,213 million.

At the end of the first quarter, the BU's portfolio consisted of €1,717 million of buy-out investment, €456 million of Corporate Investments and €40 million of listed shares.

In addition to the BU PE portfolio, €247 million was managed by the Buy-out line of business on behalf of third-party investors and €116 million was managed by the Corporate Investments business on behalf of the BU Netherlands. Total funds under management by the BU PE were €2,576 million.

Under IFRS, the income statements and the balance sheets of companies in which the Group has a controlling interest are consolidated. Any profit or loss of the controlled companies is consolidated, while any profit or loss made on the ultimate divestment of the shares in these companies is only recognised at the time of sale. The majority of the portfolio that is managed by the Buy-out line of business falls into this category.

Minority-owned participations are not consolidated under IFRS. At the end of each quarter, the fair-market value of these financial participations is determined and changes in the fair-market value as assessed at the end of the previous quarter are recognised in the Group's profit and loss accounts of that quarter.

Please note that the results analysis below is based on figures excluding the consolidation effect of controlled investments, whereby uncontrolled investments are held at fair-market value and controlled investments are held at such investment's net asset value plus goodwill.

First quarter 2007 compared with first quarter 2006

- *Total operating income* decreased by 11.7% to €113 million, mainly resulting from substantially lower unrealised fair-market value returns from unconsolidated investments, partly offset by higher realised returns from exited consolidated investments.
- *Total operating expenses* declined by €11 million to €24 million. This was mainly due to lower overhead charges and lower accrual for incentive compensation.
- *Provisions* decreased by €15 million.
- *Profit for the period* increased by €7 million to €99 million.

First quarter 2007 compared with fourth quarter 2006

- *Total operating income* increased by 20.2% to €113 million. The increase was primarily driven by higher unrealised fair-market value returns from unconsolidated investments and higher realised exit profits of consolidated investments.
- *Total operating expenses* decreased by €2 million to €24 million, due to lower deal-related costs.
- *Provisions* decreased by €5 million to €0 million.
- Tax credits of €10 million were €14 million lower than in the previous period. This decrease is primarily due to a non-recurring tax credit on provisions in the fourth quarter of 2006.
- *Profit for the period* increased by 13.8% to €99 million.

Recent developments

ABN AMRO is taking steps to transfer the investment management function of most of the businesses of the BU Private Equity to an affiliate in which the teams will have independent operational and commercial authority. It provides the Private Equity business with greater independence enhancing the attractiveness for potential future funding from third party investors if deemed opportune. While the investment management activities will be transferred, the existing portfolio will continue to be owned by the Bank.

ABN AMRO has made a €2 billion long-term commitment to be invested in mid-market buy-out opportunities in the Dutch, U.K. and Nordic markets. Through these actions, ABN AMRO has further reduced its active involvement in its private equity investment management activities, particularly buy-outs, while continuing to benefit from the very good returns that the business has proven able to generate.

Group Functions including Services

	Quarterly				
	Q1 2007	Q1 2006	% change	Q4 2006	% change
	<i>(in millions of euros)</i>				
Net interest income	(112)	9		(172)	
Net fees and commissions	(15)	28		(12)	
Net trading income	40	79	(49.4)	58	(31.0)
Results from fin. transactions	117	10		46	154.3
Results from equity holdings	30	5		20	50.0
Other operating income	3	14	(78.6)	9	(66.7)
Total operating income	63	145	(56.6)	(51)	
Total operating expenses	477	111		93	
Operating result	(414)	34		(144)	
Loan impairment	2	1		17	
Operating profit before tax	(416)	33		(161)	
Income tax expense	(124)	5		(88)	
Profit for the period	(292)	28		(73)	
	31 Mar 07	31 Mar 06	% change	31 Dec 06	% change
Staff (fte)	3,541	4,369	(19.0)	4,524	(21.7)
	<i>(in billions of euros)</i>				
Total assets	70.0	81.7	(14.3)	74.5	(6.0)
Risk-weighted assets	4.9	7.3	(32.9)	(0.1)	

Please note that as from 1 January 2007, Group Functions includes the results from the International Diamonds & Jewellery Group (ID&JG).

First quarter 2007 compared with first quarter 2006

For comparison purposes, we have excluded the €365 million provision recorded in the first quarter of 2007 in light of the status of the DOJ investigation (see Update on the status of the DOJ investigation) from the analysis.

- *Total operating income* decreased by €82 million to €63 million. The fall can largely be explained by lower Asset & Liability Management (ALM) income and lower proprietary trading results for the Global Markets activities reported in Group Functions.
- *Total operating expenses* remained stable. The number of staff declined by 828 FTEs due to the transfer of audit, risk and compliance functions to the regions.
- *The operating result* decreased by €83 million to a negative €49 million.
- *Taxes* declined by €39 million to a net credit of €34 million due to tax credits in the first quarter.

- *Profit for the period* decreased by €45 million to a loss of €17 million.

First quarter 2007 compared with fourth quarter 2006

For comparison purposes, we have excluded the €365 million provision recorded in the first quarter of 2007 in light of the status of the DOJ investigation (see Update on the DOJ investigation) from the analysis.

- *Total operating income* increased by €114 million to €63 million. The increase can be explained by higher ALM results, partly offset by lower proprietary trading results.
- *Total operating expenses* increased by €19 million to €112 million. The number of staff declined by 983 FTEs due to the transfer of audit, risk and compliance to the regions.
- *The operating result* increased by €95 million to a negative €49 million.
- *Provisioning* decreased by €15 million in the first quarter to €2 million.
- *Tax expenses* turned from a net credit of €88 million to a net credit of €34 million as the tax credits in the first quarter were lower than in the fourth quarter.
- *Profit for the period* increased by €56 million to a loss of €17 million.

Recent developments

In 2006, ABN AMRO announced measures to improve the cost efficiency and productivity in Group Functions. The improvement in operational efficiency will be achieved by focusing on efficiency and productivity that will affect more than 500 FTEs mainly at head office. In the fourth quarter we took a restructuring charge of €29 million. The headcount reduction has started in the first quarter and we are on track to deliver the reduction of 500 FTEs.

The BU Global Markets

	Quarterly				
	Q1 2007	Q1 2006	% change	Q4 2006	% change
	<i>(in millions of euros)</i>				
Net interest income	123	93	32.3	38	
Net fees and commissions	251	245	2.4	389	(35.5)
Net trading income	937	747	25.4	779	20.3
Results from fin. transactions	26	46	(43.5)	35	(25.7)
Other operating income	(11)	3		(12)	
Total operating income	1,326	1,134	16.9	1,229	7.9
Total operating expenses	910	915	(0.5)	1,056	(13.8)
Operating result	416	219	90.0	173	140.5
Loan impairment	(1)	2		4	
Operating profit before tax	417	217	92.2	169	146.7
Income tax expense	89	61		(63)	
Profit for the period	328	156	110.3	232	41.4
Efficiency ratio	68.6%	80.7%		85.9%	

As of 1 January 2006, the results of the BU Global Markets are reported in the regional BUs in order to further drive close cooperation and synergies between the BU Global Markets and the regions. ABN AMRO committed to provide financial information on the BU Global Markets on a quarterly basis, which will make it possible to track progress against the previously communicated targets.

The BU Global Markets groups its products into Equities, Financial Markets, and Structured Finance. Equities comprises cash and derivatives sales and trading, research and corporate broking. Financial Markets covers macro products (rates and foreign exchange), credit and alternatives, and local markets. Structured Finance includes Fixed Income Capital Markets (FICM) and Structured Lending.

Global Markets Equities, Financial Markets and Structured Finance activities are reported in the regional Client BUs, while proprietary trading is reported in Group Functions.

First quarter 2007 compared with first quarter 2006

- *Total operating income* increased by 16.9% to a record €1,326 million as revenues across all product groups increased, with the exception of proprietary trading. The first quarter of 2006 included the revenues from the futures brokerage activities, which were sold in the third quarter of that year.
Equities delivered record quarterly revenues as increased cash and derivative client flows were supported by well-diversified risk taking. Financial Markets' revenues increased strongly, with the core business performing well, in particular in local markets and credit products. Continued emphasis on the growth of structured products resulted in a number of innovations, including Eco-Markets targeted at renewable energy, climate change and environmental issues. Structured Finance almost doubled its revenues. Emerging markets was a clear area of out performance as the business continued to introduce increasing volumes of structured products into the network.
- *Total operating expenses* were almost flat at €910 million. Good cost control and additional benefits from reduced overhead, back office costs and consultancy resulted in a decrease in non-staff costs. This was offset by higher bonus accrual on the back of significantly higher revenues.
- *The operating result* improved by 90.0% to €416 million and Global Markets' contribution to the Group operating result increased from 13.2% in the first quarter of 2006 to 20.8% in the first quarter of 2007. The efficiency ratio improved by 12.1 percentage points to 68.6%. Global Markets is well on track to meet its targeted efficiency ratio of 75% in 2007.
- *Provisions* showed a small release of €1 million.
- *Taxes* increased by €28 million to €89 million.
- *Profit for the period* more than doubled from €156 million to €328 million.

The BU Global Clients

	Quarterly				
	Q1 2007	Q1 2006	% change	Q4 2006	% change
	<i>(in millions of euros)</i>				
Net interest income	153	156	(1.9)	153	0.0
Net fees and commissions	397	262	51.5	381	4.2
Net trading income	158	142	11.3	184	(14.1)
Results from fin. transactions	41	(49)		18	127.8
Other operating income	(21)	0		12	
Total operating income	728	511	42.5	748	(2.7)
Total operating expenses	580	465	24.7	672	(13.7)
Operating result	148	46		76	94.7
Loan impairment	0	(2)		(3)	
Operating profit before tax	148	48		79	87.3
Income tax expense	15	(5)		1	
Profit for the period	133	53	150.9	78	70.5
Efficiency ratio	79.7%	91.0%		89.8%	

As of 1 January 2007 the BU Global Clients' results are reported in the regional BUs in order to further drive close cooperation and synergies between the BU Global Clients and the regions. ABN AMRO will continue to provide financial information on the BU Global Clients performance on a quarterly basis, in a similar way as Global Markets. This will make it possible to track progress against the previously communicated targets.

Responsibility for the Mergers & Acquisitions (M&A) and Equity Capital Markets (ECM) products for all clients of the bank falls under the BU Global Clients. In line with its mandate to make innovation and product expertise available to the mid-market clients of regional BUs, the BU Global Clients has driven a significant increase in M&A and ECM revenues generated from regional clients by deploying its own M&A and ECM resources to regional BUs. To fully reflect the value generated by BU Global Clients, all ECM and M&A revenues, whether generated by regional or large corporate clients, are included in the BU Global Clients results as of 1 January 2007. The 2006 results have been restated accordingly.

The four client industry groups served are Financial Institutions (FI); Technology, Media & Telecommunications (TMT); Energy & Resources (E&R); Financial Sponsors and Merchant Banking (FS&MB) and Global Industries (including Automotive, Consumer and Global Industrials).

First quarter 2007 compared with first quarter 2006

The comparison below was impacted by the fair-market value adjustments of the stake in Korean Exchange Bank (KEB) made in operating income and profit for the period (negative €24 million in 2006 and positive €52 million in 2007).

- *Total operating income* increased by 42.5% to €728 million. Excluding the fair-market value adjustments of KEB, total operating income increased 26.4%.

The first quarter results reflect a change in the product mix from traditional loan products to fee-driven products which has resulted in strong growth in primary and secondary capital markets products. This trend started in the second half of 2006 and has resulted in a higher quality income stream and less dependence on capital commitment.

Notable transactions in the first quarter were:

In FI, ABN AMRO had a tri-lead position in the inaugural Bank of America Covered Bond issue, a €4bn benchmark deal in which ABN AMRO also provided an innovative hedging structure. In addition, two Equity TRS trades were executed for Morgan Stanley's newly launched Dublin listed portable alpha funds involving equity derivatives, fund-linked derivatives and FX products.

In TMT, ABN AMRO was sole financial advisor to Qatar Telecom (Qtel) in its landmark purchase of a 25% stake in Asia Mobile Holdings Pte. Ltd. ("AMH"), a subsidiary of Singapore Technologies Telemedia ("STT"). TMT also completed its joint bookrunner role in the second stage 70% oversubscribed syndication of Ojer Telekomünikasyon A.S. ("OTAS") acquisition of a 55% stake in Türk Telekom.

In E&R, ABN AMRO acted as joint financial adviser to Tata Steel in its acquisition of Corus Steel Ltd to create the fifth largest global steel company. On this transaction, we also acted as joint broker to the acquisition and joint mandated lead arranger, book runner, facility agent and provider of bridge facility.

In FS&MB, ABN AMRO acted as mandated lead arranger and bookrunner, French presenting bank guarantor, equity bridge provider and facility agent for Permira for €1.3 billion acquisition of Provimi, a leading global developer, manufacturer and distributor of animal nutrition products

In Global Industries, ABN AMRO acted as sole financial adviser to Adsteam in its €404 million public take-over by SvitserWijismuller, a subsidiary of A.P Moller—Maersk A/S. Furthermore, ABN AMRO was also the sole bookrunner for two consecutive placements by Harbin Power.

These transactions and the many others that the BU Global Clients won in the first quarter demonstrate its ability to execute complex, structured financial solutions that generate real value for clients. This has also provided for a strong entry into the second quarter 2007.

- *Total operating expenses* increased by 24.7%. This increase was mainly due to a shift in the product mix, which led to an increase in allocated infrastructure and product costs. Bonus accrual was also higher on the back of higher revenues.
- *The operating result* increased by €102 million.
- No net additions to the provisions were made.
- A €15 million tax charge was taken.
- *Profit for the period* increased by €80 million to €133 million.
- *RWA* decreased by €4.1 billion due to active capital management which led to a large RWA relief programme executed at the end of 2006.
- *Return on Assigned Risk Capital* was 19%, almost in line with the full year target of 20%. This was the result of continued focus on capital efficiency as well increased focus on clients who demand less capital intensive products.

Annex 1

Cautionary statement regarding forward-looking statements

This announcement contains forward-looking statements. Forward-looking statements are statements that are not historical facts, including statements about our beliefs and expectations. Any statement in this announcement that expresses or implies our intentions, beliefs, expectations or predictions (and the assumptions underlying them) is a forward-looking statement. These statements are based on plans, estimates and projections, as they are currently available to the management of ABN AMRO. Forward-looking statements therefore speak only as of the date they are made, and we take no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors could therefore cause actual future results to differ materially from those expressed or implied in any forward-looking statement. Such factors include, without limitation, the conditions in the financial markets in Europe, the United States, Brazil and elsewhere from which we derive a substantial portion of our trading revenues; potential defaults of borrowers or trading counterparties; the implementation of our restructuring including the envisaged reduction in headcount; the reliability of our risk management policies, procedures and methods; and other risks referenced in our filings with the U.S. Securities and Exchange Commission. For more information on these and other factors, please refer to our Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission and to any subsequent reports furnished or filed by RBS with the U.S. Securities and Exchange Commission.

The forward-looking statements contained in this announcement are made as of the date hereof, and the companies assume no obligation to update any of the forward-looking statements contained in this announcement.

Annex 2

Use of non-GAAP financial measures

Constant foreign exchange rates

Throughout the discussion of the operating results in the press release, the financial results and performance compared to the prior period, both in euros and percentage terms, are given in euros. We may also, where deemed significant, explain variances in terms of “constant foreign exchange rates” or “local currency”. Both “constant foreign exchange rates” and “local currency” exclude the effect of currency translation differences and is a non-GAAP financial measure which, unlike actual growth, cannot be derived directly from the information in the financial statements. “Local currency” performance is measured for single currency volume differences. Management assesses, in part, the underlying performance of our individual businesses by separating foreign exchange translation effects throughout the income statement so as to understand the underlying trend of the business performance. The adjustments relate in particular to the impact of fluctuations in exchange rates used in translating results reported by our BUs North America and Latin America in U.S. dollar and Brazilian real into euros, as well as the various currencies making up BU Asia. Management believes that the exclusion of these items provides a better understanding of the underlying operational performance of our businesses during such periods. Fluctuations in exchange rates are outside of the control or influence of management and may distort the analysis of underlying operating performance of our businesses during the periods under review. External stakeholders, such as business analysts, also use these measures. However, we recognise that these measures should not be used in isolation and, accordingly, we begin our analysis in the press release on the performance of the bank and of the BUs with the comparable GAAP actual growth measures that reflect all the factors that affect our business. We calculate the comparable constant foreign exchange rate performance by multiplying the local currency volumes over the period to be compared with the average monthly exchange rates of the previous period being compared. For example, the volumes of the year ended 31 December 2006, are multiplied by the average monthly exchange rates of 2005 to compare with the results of the 2005 on a constant basis.

Consolidation effect controlled non-financial investments

IAS 27 requires the consolidation of private equity investments over which we have control, including non-financial investments managed as private equity investments. However, as a practical matter, our private equity business is managed separately from the rest of our banking business and management does not measure the performance of our banking business based on our consolidated results of operations. Our private equity business involves buying equity stakes in unlisted companies over which we can establish influence or control, and managing these shareholdings as an investor for a number of years with a view to selling these with a profit. The companies in which we have these temporary holdings are active in different types of business other than the financial industry. We believe that combining these temporary holdings with our core banking business does not provide a meaningful basis for discussion of our financial condition and results of operations.

In the presentation of the tables in this press release, in order to understand our performance, we have removed the effects of a line-by-line consolidation in the income statement of the private equity holdings of our Business Unit Private Equity. The results excluding the consolidation effect include the “de-consolidated” holdings based on the equity method. Similarly, in the presentation of our consolidated results of operations and in the segment discussion of our Business Unit Private Equity, we have removed the effects of consolidation of our private equity holdings from the various line items of the income statement and classified only the net operating profit of these investments under “Results from financial transactions”. The measures excluding the effects of consolidation of our private equity holdings are non-GAAP financial measures. Our management refers to these non-GAAP financial measures in making operating decisions because the measures provide meaningful supplemental information regarding our operational performance. In addition, these non-GAAP financial measures facilitate management’s internal comparisons to our historical operating results and comparisons to competitors’ operating results. In accordance with applicable rules and regulations, we have presented, and investors are encouraged to review, reconciliations of non-GAAP financial measures to the most comparable GAAP measures, i.e., reconciliations of our results excluding the consolidation effects of our private equity holdings to our results including those effects in this Annex.

The following table provides an overview of the income statement reconciliation of the non-GAAP financial measure “Group excluding consolidation effect” to “Group including consolidation effect”, the latter being fully compliant with IFRS.

Reconciliation of income statement to Group income statement including consolidation of consolidated non-financial investments

	First quarter 2007			First quarter 2006		
	Group (excl. cons. effect)	cons. effect	Group (incl. cons. effect)	Group (excl. cons. effect)	cons. effect	Group (incl. cons. effect)
	<i>(in millions of euros)</i>					
Net interest income	2,853	(100)	2,753	2,777	(75)	2,702
Net fees and commissions	1,517	0	1,517	1,452	0	1,452
Net trading income	1,031	2	1,033	843	(2)	841
Result from financial transactions	332	55	387	83	0	83
Result from equity participations	76	(7)	69	50	0	50
Other operating income	180	0	180	215	2	217
Net sales private equity holdings	0	1,393	1,393	0	1,246	1,246
Total operating income	5,989	1,343	7,332	5,420	1,171	6,591
Operating expenses	4,354	365	4,719	3,764	307	4,071
Goods & materials private equity holdings	0	970	970	0	852	852
Total operating expenses	4,354	1,335	5,689	3,764	1,159	4,923
Operating result	1,635	8	1,643	1,656	12	1,668
Loan impairment	417	0	417	328	0	328
Operating profit before tax . . .	1,218	8	1,226	1,328	12	1,340
Income tax expense	268	8	276	352	12	364
Net operating profit	950	0	950	976	0	976
Discontinued operations (net) .	114	0	114	62	0	62
Profit for the period	1,064	0	1,064	1,038	0	1,038

PART XVIII

RECENT DEVELOPMENTS OF RBS AND ABN AMRO

RBS

Recent Trading Update

On 5 June 2007, RBS released the following trading update:

“The Group continues to perform well in 2007 and we expect the rate of underlying earnings growth in the first six months of the year to be slightly higher than that implied by the consensus earnings forecast for the full year*. Highlights of our interim results for 2007 are expected to include good organic growth in income, disciplined expense control, measured investment in faster-growing businesses and continued strong credit metrics.

Group

The Group is delivering good growth in total income in 2007, with non-interest income continuing to grow faster than net interest income. Loan volumes remain strong, though we have maintained our conservative approach towards unsecured personal lending, while deposit volumes also continue to grow strongly. Margin trends remain in line with previous guidance. As expected, reported income growth will be slightly affected by the weakness of the U.S. dollar.

The Group expects to report a cost:income ratio slightly lower than for the full year 2006. Expenses continue to be tightly managed, and we have achieved further productivity gains from our manufacturing platform while investing in a number of high growth business opportunities.

Overall credit metrics remain strong, with a benign corporate credit environment and a modest reduction in U.K. retail impairment losses. Total impairment losses are expected to represent a slightly lower proportion of total loans and advances.

Returns on equity, and capital generation, remain strong. The Tier 1 capital ratio is expected to be stable in the middle of the 7% to 8% range.

Divisions

Divisional performances remain consistent with the trends displayed in 2006. Particular features are highlighted below.

Corporate Markets continues to perform well across its activities, with continuing strength in Global Banking and Markets and sustained good growth in U.K. Corporate Banking. We are continuing to invest in expanding its geographical footprint, product range and customer relationships. Our risk profile remains conservative and the corporate credit environment is stable.

Retail Markets is expected to show Wealth Management growing strongly and good growth in business banking, mortgages, savings and investment products. We have maintained our cautious approach to unsecured personal lending. Credit quality is improving, and we expect a modest reduction in impairment losses. Costs remain tightly controlled.

Ulster Bank continues to deliver good growth across the island of Ireland in both business and personal lending. We continue to invest in the expansion of our footprint and in the broadening of our product range.

Citizens continues to diversify its sources of income and has achieved good growth in its corporate and commercial activities, as well as in home equity lending. U.S. retail deposit and lending volumes remain subdued but margins have stabilised. Costs are under tight control and underlying credit metrics remain strong, reflecting the high quality of our portfolio.

RBS Insurance continues to focus on more profitable customers acquired mainly through its direct brands. Selective price increases have been introduced and RBS Insurance maintains its disciplined approach to risk selection. International and commercial activities continue to grow strongly. Expenses and claims remain rigorously managed.

* The market consensus forecast for 2007 adjusted earnings per RBS Ordinary Share is 72.1p.

Sir Fred Goodwin, Group Chief Executive, commented: “We expect that our first half results will again demonstrate the Group’s ability to deliver profitable organic growth, building on the many opportunities with attractive risk and reward characteristics that we have established in the United Kingdom and internationally. I am confident that the Group will continue to capitalise on these opportunities and deliver another strong performance in 2007.”

Bonus Issue

At the Annual General Meeting on 25 April 2007, RBS shareholders approved a bonus issue of two new RBS Ordinary Shares of 25p each for each existing RBS Ordinary Share held by each shareholder on the register on 4 May 2007. The newly issued RBS Ordinary Shares rank *pari passu* with the existing issued RBS Ordinary Shares and are not entitled to receive the final dividend for the financial year ended 31 December 2006. The purpose of the bonus issue was to lower the price per share, aligning RBS Ordinary Share prices closer with the average share prices for FTSE 100 companies and other banking stocks.

Current Trading and Prospects

RBS’s interim results for six months to 30 June 2007 are expected to reflect good organic growth in income, disciplined expense control, measured investment in faster-growing businesses and continued strong credit metrics. Profit before tax, intangibles amortisation and integration costs for the six months to 30 June 2007 is expected to be not less than £5,000 million. Adjusted earnings per share before intangibles amortisation and integration costs is expected to exceed 37 pence per RBS Ordinary Share based on an effective tax rate of 26%. The effective tax rate reflects an underlying rate of 29% adjusted to record the full effect (£160 million) on deferred tax of the change in the UK corporation tax rate in the first half of 2007.

The profit estimate has been made in respect of profit before tax, intangibles amortisation and integration costs rather than in respect of profit before tax, as RBS considers this measure provides more meaningful information to shareholders and allows for greater comparability with prior years. The profit estimate is based on the management accounts for the five months to 31 May 2007 and the preliminary results for the month of June 2007.

The Directors, who are responsible for the above estimates, have received a report from Deloitte & Touche LLP relating to the profit estimate. A copy of this report is set out in Part XIX of this document.

ABN AMRO

ABN AMRO has made certain statements publicly, based on its management’s estimates, that forecast minimum levels of profitability in future years.

In a press release dated 8 February 2007, ABN AMRO stated “As we indicated at the investor day on 11 December, we expect EUR500 million in net profit for this year (including non-operational gains) from Antonveneta, a 21.1% increase compared with 2006”.

These estimates were neither seen nor commented upon by RBS or its advisers in advance of their preparation and no reliance should be placed on them. The estimates do not necessarily reflect the Directors’ view of ABN AMRO’s prospects and financial performance nor the prospects and financial performance of the Enlarged Group. The financial projections should not be regarded as a reliable indicator of ABN AMRO’s future operating results nor the operating results of the Enlarged Group and they should not be relied upon as such.

These projections were prepared prior to the announcement of the Transaction. Not all of the estimates and assumptions upon which they were based are stated and the facts supporting the estimates and assumptions upon which they were stated to have been based may have since changed. In addition, the base data underlying them may now be out of date.

None of RBS or its financial advisers or any other party accepts responsibility for the accuracy, reasonableness, validity or completeness of the financial projections or the estimates and assumptions that underlie them.

None of the financial projections was intended for publication by RBS and should not be regarded as a forecast of profits by RBS, ABN AMRO or any of their respective directors and accordingly have not been prepared or reviewed to a standard to which published projections would be prepared and reviewed. Shareholders should not rely upon any of the financial projections in making any decision about an investment in RBS or ABN AMRO or in deciding whether or not to approve the Transaction.

PART XIX

REPORT OF DELOITTE & TOUCHE LLP

Deloitte.

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The Directors
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20 July 2007

Dear Sirs

We report on the profit estimate comprising an estimate of profit before tax, intangibles amortisation and integration costs and an estimate of earnings per share on the same basis of The Royal Bank of Scotland Group plc (the “Company”) and its subsidiaries (together the “Group”) for the period ended 30 June 2007 (the “Profit Estimate”). The Profit Estimate and the basis on which it is prepared is set out on page 125 of the Prospectus in respect of the proposed issue of up to 556,143,700 ordinary shares of 25p each in the Company and the application for admission of up to 556,143,700 shares in the Company to the Official List and to trading on the market for listed securities on the London Stock Exchange (the “Prospectus”) issued by the Company dated 20 July 2007. This report is required by Annex I item 13.2 of Commission Regulation (EC) No 809/2004 (the “Prospectus Directive Regulation”) and is given for the purpose of complying with that rule.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Profit Estimate in accordance with the requirements of the Prospectus Directive Regulation. In preparing the Profit Estimate, the directors of the Company are responsible for correcting errors that they have identified which may have arisen in unaudited financial results and unaudited management accounts used as the basis of preparation for the Profit Estimate.

It is our responsibility to form an opinion as required by the Prospectus Directive Regulation as to the proper compilation of the Profit Estimate and to report that opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent therein provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the

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Deloitte Touche Tohmatsu

Deloitte & Touche LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR, United Kingdom.

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purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Basis of Preparation of the Profit Estimate

The Profit Estimate has been prepared on the basis stated on page 125 of the Prospectus and is based on the management accounts for the five months ended 31 May 2007 and the preliminary results for the month of June 2007. The Profit Estimate is required to be presented on a basis consistent with the accounting policies of the Group.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included evaluating the basis on which the historical financial information for the five months ended 31 May 2007 has been prepared and considering whether the Profit Estimate has been accurately computed using that information and consistent with the accounting policies of the Group.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Profit Estimate has been properly compiled on the basis stated.

However, the Profit Estimate has not been audited. The actual results reported may be affected by required revisions to accounting estimates due to changes in circumstances or the impact of unforeseen events and we can express no opinion as to whether the actual results achieved will correspond to those shown in the Profit Estimate and differences may be material.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the Profit Estimate has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of the Group.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte & Touche LLP

PART XX

FINANCIAL INFORMATION RELATING TO THE ABN AMRO BUSINESSES

Narrative Description of Pro Forma Impact

RBS will account for the business combination with ABN AMRO as an acquisition in accordance with IFRS 3 “Business Combinations”. As a result of the acquisition of ABN AMRO, RBS’s assets would increase by the fair value of assets acquired, including goodwill and identifiable intangible assets. Similarly its liabilities would increase by the fair value of liabilities assumed. Assets and liabilities would also be affected by the consideration paid to ABN AMRO Shareholders. Equity would increase by the fair value of the New RBS Ordinary Shares forming part of the consideration given to ABN AMRO Shareholders and other shares issued to fund the cash consideration. Following the acquisition, profit attributable to shareholders is also expected to increase.

ABN AMRO prepares its financial statements in accordance with IFRS. There is insufficient published information to enable RBS to confirm that the application of IFRS by ABN AMRO is consistent with that adopted by RBS in the preparation of its financial statements.

Three-Year Track Record

Basis of preparation of the Three-Year Track Record Income Statements

The financial information for ABN AMRO in these unaudited track record income statements has been extracted from the audited financial statements for the year ended 31 December 2006 published by ABN AMRO in its Annual Report on Form 20-F filed with the SEC on 2 April 2007. The financial information in respect of the disposal of LaSalle has been extracted from the unaudited consolidated IFRS income statements of LaSalle for the three years ended 31 December 2006 published by ABN AMRO in the Unaudited Pro Forma Condensed Financial Statements filed with the SEC on a Current Report on Form 6-K on 25 April 2007.

ABN AMRO reports its financial statements in euros. Business Unit nomenclature below is consistent with that used by ABN AMRO.

The track record income statements have been prepared on the following bases:

- Only publicly available information has been used
- The analysis of ABN AMRO income statement data between RBS, Fortis, Santander and Other Businesses to be Disposed of is extracted from the segmental disclosures published in ABN AMRO’s 2006 Annual Report on Form 20-F, as adjusted for the disposal of LaSalle
- Businesses to be transferred to Fortis and Santander include Business Unit Netherlands (excluding wholesale clients), Business Unit Private Clients, Business Unit Asset Management, Business Unit Latin America (excluding wholesale clients businesses other than in Brazil) and Antonveneta. Wholesale clients businesses in the Netherlands and Latin America (excluding Brazil) are to be acquired by RBS but the results attributable to these businesses cannot be separately identified from the information disclosed in ABN AMRO’s 2006 Annual Report on Form 20-F. Therefore the results of these businesses are included in businesses to be transferred to Fortis and Santander
- Shared Assets to be disposed of comprise Business Unit Private Equity and Group Functions
- Businesses to be acquired by RBS include the continuing businesses of Business Unit North America following the sale of LaSalle, Business Unit Global Clients, Business Unit Asia (excluding Saudi Hollandi), Business Unit Europe excluding Antonveneta and wholesale clients businesses in the Netherlands and Latin America (excluding Brazil). The results attributable to Saudi Hollandi, a non-strategic business to be disposed of, cannot be separately identified from the information disclosed in ABN AMRO’s 2006 Annual Report on Form 20-F and hence are included within Businesses to be acquired by RBS. The results attributable to wholesale clients businesses in the Netherlands and Latin America (excluding Brazil) cannot be separately identified from the information disclosed in ABN AMRO’s 2006 Annual Report and Form 20-F and hence are included in Businesses to be transferred to Fortis and Santander

As stated above, there is insufficient publicly available information to enable the income statement analysis of the ABN AMRO Businesses to be transferred to Fortis and Santander, Shared Assets to be

disposed of or the ABN AMRO Businesses to be acquired by RBS to be presented accurately in accordance with the Part VI Rules. Accordingly, shareholders and investors should not place undue reliance on the analysis contained in the three-year track record income statements.

No balance sheet or cash flow statement financial information have been provided as ABN AMRO did not publish sufficiently detailed segmental data in its 2006 Annual Report on Form 20-F to enable information related to the businesses to be acquired by RBS to be identified.

Three-year Track Record Income Statement

For the year ended 31 December 2006

	Published ABN AMRO	Disposal of LaSalle	Businesses to be transferred to Fortis and Santander	Shared Assets to be disposed of	Businesses to be acquired by RBS
	(€m)	(€m)	(€m)	(€m)	(€m)
Net interest income	10,575	(2,115)	(7,718)	667	1,409
Net fee and commission income	6,062	(628)	(3,248)	(91)	2,095
Net trading income	2,979	(68)	(822)	(90)	1,999
Results from financial transactions	1,087	(138)	(221)	(604)	124
Share of result in equity accounted investments	243	(4)	(110)	(67)	62
Other operating income	1,382	(287)	(547)	(463)	85
Income of consolidated private equity holdings	5,313	—	—	(5,313)	—
Non-interest income	17,066	(1,125)	(4,948)	(6,628)	4,365
Operating income	27,641	(3,240)	(12,666)	(5,961)	5,774
Operating expenses	20,713	(2,047)	(8,131)	(5,459)	5,076
Profit before impairment losses	6,928	(1,193)	(4,535)	(502)	698
Impairment losses	1,855	(62)	(1,503)	(108)	182
Operating profit before tax	5,073	(1,131)	(3,032)	(394)	516
Tax	902	(232)	(841)	236	65
Profit from continuing operations	4,171	(899)	(2,191)	(630)	451
Profit from discontinued operations, net of tax	609	—	(505)	—	104
Profit for the year	4,780	(899)	(2,696)	(630)	555

For the year ended 31 December 2005

	Published ABN AMRO	Disposal of LaSalle	Businesses to be transferred to Fortis and Santander	Shared Assets to be disposed of	Businesses to be acquired by RBS
	(€m)	(€m)	(€m)	(€m)	(€m)
Net interest income	8,785	(2,016)	(6,073)	461	1,157
Net fee and commission income	4,691	(597)	(2,297)	(107)	1,690
Net trading income	2,621	(93)	(507)	(46)	1,975
Results from financial transactions	1,281	(43)	(79)	(973)	186
Share of result in equity accounted investments	263	(4)	(69)	(114)	76
Other operating income	1,056	(214)	(676)	(27)	139
Income of consolidated private equity holdings	3,637	—	(3,509)	128	—
Non-interest income	13,549	(951)	(3,628)	(4,776)	4,194
Operating income	22,334	(2,967)	(9,701)	(4,315)	5,351
Operating expenses	16,301	(1,959)	(6,546)	(3,465)	4,331
Profit before impairment losses	6,033	(1,008)	(3,155)	(850)	1,020
Impairment losses	635	(20)	(649)	(130)	(164)
Operating profit before tax	5,398	(988)	(2,506)	(720)	1,184
Tax	1,142	(331)	(715)	54	150
Profit from continuing operations	4,256	(657)	(1,791)	(774)	1,034
Profit from discontinued operations, net of tax	187	—	(136)	51	—
Profit for the year	4,443	(657)	(1,927)	(774)	1,085

For the year ended 31 December 2004

	Published ABN AMRO	Disposal of LaSalle	Businesses to be transferred to Fortis and Santander	Shared Assets to be disposed of	Businesses to be acquired by RBS
	(€m)	(€m)	(€m)	(€m)	(€m)
Net interest income	8,525	(2,018)	(5,091)	98	1,514
Net fee and commission income	4,485	(700)	(2,107)	(104)	1,574
Net trading income	1,309	(106)	(269)	(40)	894
Results from financial transactions	905	(12)	(26)	(1,063)	(196)
Share of result in equity accounted investments	206	(2)	(57)	(20)	127
Other operating income	745	(236)	(449)	16	76
Income of consolidated private equity holdings	2,616	—	(2,616)	—	—
Non-interest income	10,266	(1,056)	(2,908)	(3,827)	2,475
Operating income	18,791	(3,074)	(7,999)	(3,729)	3,989
Operating expenses	15,180	(1,824)	(6,224)	(3,007)	4,125
Profit before impairment losses	3,611	(1,250)	(1,775)	(722)	(136)
Impairment losses	607	(145)	(414)	(40)	8
Operating profit before tax	3,004	(1,105)	(1,361)	(682)	(144)
Tax	715	(363)	(457)	(77)	(182)
Profit from continuing operations	2,289	(742)	(904)	(605)	38
Profit from discontinued operations, net of tax	1,651	—	(146)	(1,207)	298
Profit for the year	3,940	(742)	(1,050)	(1,812)	336

PART XXI

REGULATION

Supervision and Regulation

The information on the supervision and regulation of RBS contained in the Annual Report and Accounts of RBS for 2006 is incorporated by reference into this document. The information on the supervision and regulation of RBS can be found on pages 246 to 249 of RBS's Annual Report and Accounts 2006.

PART XXII

TAXATION CONSIDERATIONS

1 United Kingdom

The following paragraphs, which are intended as a general guide only, are based on current U.K. tax legislation and what is understood to be current HM Revenue & Customs (“HMRC”) practice. They summarise certain limited aspects of the U.K. tax treatment of acceptance of the Offer and they relate only to the position of persons who acquire RBS Ordinary Shares pursuant to the Offer, who are beneficial owners of their RBS Ordinary Shares, who hold their RBS Ordinary Shares as an investment and who are not and have not been an employee of ABN AMRO, RBS or any person connected with ABN AMRO or RBS. Holders of RBS Ordinary Shares who are in any doubt as to their taxation position should consult an appropriate professional adviser immediately.

(a) Taxation on Disposal – U.K. Taxpayers

(i) Disposal of ABN AMRO Ordinary Shares pursuant to the Offer

Holders of ABN AMRO Ordinary Shares who are resident or ordinarily resident in the United Kingdom for U.K. tax purposes or who use, hold or acquired their ABN AMRO Ordinary Shares for the purposes of a trade, profession or vocation carried on in the United Kingdom through a branch, agency or (in the case of a company) permanent establishment will be treated as disposing of their ABN AMRO Ordinary Shares for the purposes of U.K. taxation of capital gains for a consideration equal to the aggregate of the cash consideration received by them and the market value of the New RBS Ordinary Shares to which such holder is entitled (including any cash received in respect of fractional entitlements). This may give rise to a liability to U.K. tax on capital gains depending on the holder’s individual circumstances, including the availability of any exemption, relief or allowable loss. The amount of any capital gain will be calculated using the sterling values of acquisition cost and disposal proceeds, such that foreign currency movements could affect the amount of any gain.

(ii) Subsequent Disposal of New RBS Ordinary Shares

A subsequent disposal of New RBS Ordinary Shares may, depending on individual circumstances (including the availability of any exemption, relief or allowable loss), give rise to a liability to U.K. tax on capital gains. Such holder’s acquisition cost of the New RBS Ordinary Shares, for the purpose of calculating any gain or loss, should be the market value of the New RBS Ordinary Shares on receipt.

(b) Taxation on Disposal – Non-U.K. Taxpayers

Holders of ABN AMRO Ordinary Shares who are not resident or ordinarily resident in the United Kingdom will not normally be liable to U.K. tax on gains on the disposal of ABN AMRO Ordinary Shares pursuant to the Offer, or on a subsequent disposal of New RBS Ordinary Shares, unless the relevant shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the United Kingdom through a branch or agency or, in the case of a corporate shareholder, through a permanent establishment (in which case the treatment described in the paragraphs above will apply). Such holders may be subject to foreign taxation on any gain under local law.

There is, however, an exception to this rule in the case of a holder of ABN AMRO Ordinary Shares who is an individual who has ceased to be either resident or ordinarily resident for tax purposes in the U.K. (or is regarded as non-resident for the purposes of a relevant double tax treaty (“**Treaty Non-resident**”)) but then resumes residence or ordinary residence (or, as the case may be, ceases to be a Treaty Non-resident) before 5 complete tax years have passed. Such a holder may be liable to U.K. tax on capital gains (subject to any available exemption, relief or allowable loss) if he or she has made a disposal of the relevant ABN AMRO Ordinary Shares or New RBS Ordinary Shares (as the case may be) while non-resident (or Treaty Non-resident).

(c) Taxation on Dividends

RBS is not required to withhold tax at source on making dividend payments on the New RBS Ordinary Shares.

RBS dividends will carry a tax credit at a rate of one-ninth of the net cash dividend. U.K. resident individual shareholders who are not liable to income tax in respect of the dividend will not be entitled to payments of the tax credit. In the case of U.K. resident individual shareholders liable to income tax at either the starting or the basic rate, the tax credit will satisfy in full such shareholders' liability to income tax on the dividend. U.K. resident individual shareholders liable to income tax at the higher rate will be subject to income tax on the gross dividend (i.e. the net cash dividend plus the tax credit) at 32.5%, but will be able to set the tax credit off against part of this liability so that a higher rate taxpayer will generally have an additional liability to income tax of 25% of the net cash dividend.

U.K. resident shareholders who are not liable to U.K. tax on dividends, including pensions funds and charities, will not be entitled to reclaim the tax credits in respect of dividends.

U.K. resident corporate shareholders will generally not be subject to corporation tax in respect of dividends paid by RBS.

Shareholders resident outside the U.K. in almost all cases will not be able to obtain payment of any tax credit. Where a shareholder resident outside the U.K. is entitled to a tax credit under the terms of any applicable double taxation treaty, such shareholder should in most cases be treated as being subject to a U.K. tax liability which extinguishes the availability of the tax credit in the United Kingdom. Credit for this may be available against foreign tax under local law.

(d) SDRT

(i) General (including New RBS Ordinary Shares held in Certificated Form)

Generally, subject to as set out below (in particular paragraph (iii)), no stamp duty or SDRT will be payable on the delivery of the New RBS Ordinary Shares to holders of ABN AMRO Ordinary Shares pursuant to the Offer.

Subject to applicable exemptions and reliefs and subject as set forth below, in particular in paragraph (iii), a subsequent transfer for value of New RBS Ordinary Shares will generally be subject to ad valorem stamp duty or SDRT. Stamp duty will arise on the execution of an instrument to transfer New RBS Ordinary Shares and SDRT will arise on the entry into an agreement to transfer New RBS Ordinary Shares. Stamp duty and SDRT are normally a liability of the purchaser. The amount of stamp duty or SDRT payable is generally calculated at the rate of 0.5% of the amount or value of the consideration payable for the transfer of New RBS Ordinary Shares (rounded up to the nearest £5 in the case of stamp duty).

Where New RBS Ordinary Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services (a "Clearance System") or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts (a "Depository Receipt System"), stamp duty or SDRT will be payable at the higher rate of 1.5% of the amount or value of the consideration payable or, in certain circumstances, the value of the New RBS Ordinary Shares. This liability for stamp duty or SDRT will strictly be accountable by the Depository Receipt System or Clearance System, as the case may be, but will, in practice, generally be reimbursed by participants in the Clearance System or Depository Receipt System. Clearance Systems may opt under Section 97A of the Finance Act 1986, provided certain conditions are satisfied, for the normal rate of stamp duty or SDRT (0.5% of the consideration paid) to apply to issues or transfers of New RBS Ordinary Shares into, and to transactions within, such systems instead of the higher rate of 1.5% generally applying to an issue or transfer of New RBS Ordinary Shares into the Clearance System and the exemption from stamp duty and SDRT on transfer of New RBS Ordinary Shares whilst in the Clearance System.

(ii) New RBS Ordinary Shares held through CREST

No stamp duty or SDRT will arise on the issue of New RBS Ordinary Shares into CREST save to the extent that the New RBS Ordinary Shares are issued into the CREST account of, or of a nominee for, a Depository Receipt System or the CREST account of, or a nominee for, a Clearance System which has not made an election under Section 97A of the Finance Act 1986. Paperless transfers of New RBS Ordinary Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5% of the amount or value of the consideration payable. Such 0.5% SDRT charge will normally be for the account of the transferee. CREST is obliged to collect SDRT on relevant transactions settled within the system.

(iii) New RBS Ordinary Shares deposited with Euroclear Nederland

It is understood that Euroclear Nederland is a Clearance System for stamp duty purposes and has not made an election under Section 97A Finance Act 1986. If a holder of ABN AMRO Ordinary Shares who receives New RBS Ordinary Shares pursuant to the Offers chooses to deliver its New RBS Ordinary Shares into Euroclear Nederland (including Euroclear Nederland's CREST account), SDRT will generally be payable at a rate of 1.5% of the value of the New RBS Ordinary Shares. The holder of such New RBS Ordinary Shares will bear the cost of this SDRT charge in practice.

No U.K. SDRT (or, in practice, stamp duty) should be payable on any transfers or agreements to transfer New RBS Ordinary Shares within Euroclear Nederland.

(e) Inheritance Tax

The New RBS Ordinary Shares will be assets situated in the United Kingdom for the purposes of U.K. inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and relief) give rise to a liability to U.K. inheritance tax even if the holder is neither domiciled in the U.K. nor deemed to be domiciled there under certain rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold New RBS Ordinary Shares bringing them within the charge to inheritance tax. Shareholders should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any ordinary shares through trust arrangements.

2 The Netherlands

(a) General

The following describes certain material Dutch tax consequences of the Offer and of the ownership and disposal of New RBS Ordinary Shares received pursuant to the Offer.

The following is intended as general information only and it does not purport to present any comprehensive or complete description of all aspects of Dutch tax law which could be of relevance to an ABN AMRO Shareholder. ABN AMRO Shareholders should consult with their tax advisors with regard to the tax consequences of the Offer and the ownership and disposal of New RBS Ordinary Shares received pursuant to the Offer in their particular circumstances. In this paragraph ABN AMRO Ordinary Shares and New RBS Ordinary Shares are referred to as "**Shares**".

The following summary is based on Dutch tax law as applied and interpreted by Dutch tax courts and as published and in effect on the date hereof, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

This part does not discuss whether ABN AMRO Shareholders can claim roll-over pursuant to law or case law, such as the so-called Exchange Judgments (*ruilarresten*), for capital gains realised on the exchange of ABN AMRO Ordinary Shares for New RBS Ordinary Shares. In addition, this part does not discuss the possible Dutch tax considerations or consequences that may be relevant to an ABN AMRO Shareholder or a holder of New RBS Ordinary Shares who receives or has received any benefits from ABN AMRO Ordinary Shares or New RBS Ordinary Shares as employment income, deemed employment income or otherwise as compensation.

For the purpose of this section “**Dutch Taxes**” shall mean taxes of whatever nature levied by or on behalf of the Netherlands or any of its subdivisions or taxing authorities.

(b) Withholding tax

Any payments made under the Offer will not be subject to withholding or deduction for, or on account of, any Dutch Taxes.

Any payments made by RBS on New RBS Ordinary Shares will not be subject to withholding or deduction for, or on account of, any Dutch Taxes.

(c) Shareholders Resident in the Netherlands

The description of certain Dutch tax consequences in this paragraph is only intended for the following holders of Shares:

- (i) individuals who are resident or deemed to be resident in the Netherlands; and
- (ii) individuals who opt to be taxed as a resident of the Netherlands for purposes of Dutch taxation (jointly, “**Dutch Individuals**”); and
- (iii) entities that are subject to the Dutch Corporate Income Tax Act 1969 (“**CITA**”) and are resident or deemed to be resident in the Netherlands for the purposes of the CITA (“**Dutch Corporate Entities**”), excluding:
 - (a) pension funds (*pensioenfondsen*) and other entities that are in whole or in part exempt from Dutch corporate income tax; or
 - (b) Dutch Corporate Entities which are entitled to the participation exemption with respect to the Shares based on article 13 CITA; or
 - (c) investment institutions (*beleggingsinstellingen*) as defined in the CITA.

Dutch Individuals engaged or deemed to be engaged in an enterprise or in miscellaneous activities

Dutch Individuals are generally subject to income tax at statutory progressive rates under the regime for income from work and home ownership (*inkomen uit werk en woning*) with a maximum of 52% with respect to any benefits derived or deemed to be derived from Dutch Enterprise Shares (as defined below), including any capital gains realised on the disposal thereof.

“**Dutch Enterprise Shares**” are Shares or any right to derive benefits from Shares:

- (i) which are attributable to an enterprise from which a Dutch Individual derives profits, whether as an entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder); or
- (ii) of which the benefits are taxable in the hands of a Dutch Individual as benefits from miscellaneous activities (*resultaat uit overige werkzaamheden*) including, without limitation, activities which are beyond the scope of active portfolio investment activities.

For the avoidance of doubt, any capital gain realised by a Dutch Individual on the disposal of ABN AMRO Ordinary Shares qualifying as Dutch Enterprise Shares pursuant to the Offer will generally be considered a taxable benefit as described above.

Dutch Individuals having a (fictitious) substantial interest

Dutch Individuals are generally subject to income tax under the regime for income from a substantial interest (*inkomen uit aanmerkelijk belang*) at statutory rates up to 25% with respect to any benefits derived or deemed to be derived from Shares, excluding Dutch Enterprise Shares, (including any capital gains realised on the disposal thereof) that represent a (fictitious) substantial interest (such Shares being “**Substantial Interest Shares**”).

Generally, a shareholder has a substantial interest (*aanmerkelijk belang*) in a company (regardless of the jurisdiction in which that company is resident for tax purposes) if such shareholder, alone or together with his partner, directly or indirectly:

- (i) owns, or holds certain rights on, shares representing 5% or more of the total issued and outstanding capital of the company, or of the issued and outstanding capital of any class of shares of the company;
- (ii) holds rights to acquire shares, whether or not already issued, representing 5% or more of the total issued and outstanding capital of the company, or of the issued and outstanding capital of any class of shares of the company; or
- (iii) owns, or holds certain rights on, profit participating certificates that relate to 5% or more of the annual profit of the company or to 5% or more of the liquidation proceeds of the company.

A shareholder will also have a substantial interest if his partner or one of certain relatives of the shareholder or of his partner has a (fictitious) substantial interest.

Generally, a shareholder has a fictitious substantial interest (*fictief aanmerkelijk belang*) in a company if, without having an actual substantial interest in this company:

- (i) an enterprise has been contributed to the company in exchange for shares on an elective non-recognition basis;
- (ii) the shares have been obtained under inheritance law or matrimonial law, on a non-recognition basis, while the disposing shareholder had a substantial interest in the company;
- (iii) the shares have been acquired pursuant to a share merger or legal demerger, on an elective non-recognition basis, while the shareholder prior to this transaction had a substantial interest in the company that was party thereto; or
- (iv) the shares held by the shareholder, prior to dilution, qualified as a substantial interest and, by election, no gain was recognized upon dequalification of these shares.

For the avoidance of doubt, any capital gain realised by a Dutch Individual on the disposal of ABN AMRO Ordinary Shares qualifying as Substantial Interest Shares pursuant to the Offer will generally be considered a taxable benefit as described above.

Dutch Individuals not engaged or deemed to be engaged in an enterprise or in miscellaneous activities or having a (fictitious) substantial interest

Generally, a Dutch Individual who owns Shares, excluding Dutch Enterprise Shares and Substantial Interest Shares, will be subject annually to an income tax imposed on a fictitious yield on such Shares under the regime for income from savings and investments (*inkomen uit sparen en beleggen*). Irrespective of the actual income or capital gains realised, the annual taxable benefit of all the assets and liabilities of a Dutch Individual that are taxed under this regime, including the Shares, is set at a fixed amount. The fixed amount equals 4% of the average fair market value of the assets reduced by the liabilities measured, in general, at the beginning and end of every calendar year. The tax rate under the regime for savings and investments is a flat rate of 30%.

For the avoidance of doubt, any capital gain realised by a Dutch Individual on the disposal of ABN AMRO Ordinary Shares not qualifying as Dutch Enterprise Shares or Substantial Interest Shares pursuant to the Offer will, by itself, not be subject to income tax.

Dutch Corporate Entities

Dutch Corporate Entities are generally subject to corporate income tax at statutory rates up to 25.5% with respect to any benefits derived or deemed to be derived from (including any capital gains realised on the disposal of) Shares.

For the avoidance of doubt, any capital gain realised by a Dutch Corporate Entity on the disposal of ABN AMRO Ordinary Shares pursuant to the Offer will generally be considered a taxable benefit as described above.

(d) Relief under the tax treaty between the Netherlands and the United Kingdom

The U.K. tax that may be imposed on holders of New RBS Ordinary Shares resident outside the U.K., mentioned in paragraph 2 of this Part XI (“U.K. Tax Considerations”, “Taxation on Dividends”, last paragraph) may be credited by certain Netherlands resident holders of New RBS Ordinary Shares against their Dutch tax liability as described below.

Generally, pursuant to the 1980 Income Tax Treaty between the Netherlands and the United Kingdom, a Dutch Individual or Dutch Corporate Entity receiving dividends on New RBS Ordinary Shares is—subject to certain conditions—entitled to a U.K. tax credit in respect thereof, to which an individual resident in the United Kingdom would have been entitled had he received those dividends.

A U.K. tax liability incurred by a Dutch Individual or Dutch Corporate Entity, as a result of and to the amount of the U.K. tax credit, may be applied as a foreign tax credit against his Dutch income tax or corporate income tax liability, subject to certain conditions and within limitations. In case of a Dutch individual, a U.K. tax liability can only be credited against the Dutch tax due on income that is being taxed under the same regime that applies to the RBS dividends received, i.e. the regime for (i) income from work and home ownership (ii) income from a substantial interest or (iii) income from savings and investments.

(e) Shareholders not resident in the Netherlands

The description of certain Dutch tax consequences in this paragraph is only intended for holders of Shares that are not resident or deemed to be resident in the Netherlands or, in case of an individual, have not opted to be treated as a resident of the Netherlands (“**Non-Resident Shareholders**”), excluding Non-Resident Shareholders which are entitled to the participation exemption with respect to Shares based on article 13 CITA.

Non-Resident Shareholders will not be subject to any Dutch taxes on income or capital gains (a) in respect of the disposal of ABN AMRO Ordinary Shares pursuant to the Offer and (b) in respect of the ownership and disposal of New RBS Ordinary Shares, except if:

- (i) the Non-Resident Shareholder derives profits from an enterprise, whether as entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise other than as an entrepreneur or a shareholder, which enterprise is, in whole or in part, carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in the Netherlands, to which his Shares are attributable;
- (ii) the Non-Resident Shareholder is an individual and derives benefits from miscellaneous activities (*resultaat uit overige werkzaamheden*) carried out in the Netherlands in respect of Shares, including, without limitation, activities which are beyond the scope of active portfolio investment activities;
- (iii) the Non-Resident Shareholder is entitled other than by way of the holding of securities to a share in the profits of an enterprise effectively managed in the Netherlands to which the Shares are attributable; or
- (iv) the Non-Resident Shareholder has a (fictitious) substantial interest in ABN AMRO and the Substantial Interest Shares are not attributable to the assets of an enterprise.

(f) Dutch Gift and Inheritance Tax

No Dutch gift tax or inheritance tax is due in respect of the disposal of ABN AMRO Ordinary Shares pursuant to the Offer.

No Dutch gift tax or inheritance tax is due in respect of any gift of New RBS Ordinary Shares by, or inheritance of New RBS Ordinary Shares on the death of, a RBS Shareholder, except if:

- (i) the RBS Shareholder is resident or is deemed to be resident in the Netherlands;
- (ii) at the time of the gift or the death of the RBS Shareholder, his New RBS Ordinary Shares are attributable to an enterprise (or an interest in an enterprise) which is, in whole or in part, carried on through a permanent establishment or permanent representative in the Netherlands;

- (iii) the New RBS Ordinary Shares are acquired by way of a gift from a RBS Shareholder who passes away within 180 days after the date of the gift and who is not and is not deemed to be at the time of the gift, but is, or is deemed to be at the time of his death, resident in the Netherlands; or
- (iv) the RBS Shareholder is entitled to a share in the profits of an enterprise effectively managed in the Netherlands, other than by way of the holding of securities or through an employment contract, to which enterprise New RBS Ordinary Shares are attributable.

For purposes of Dutch gift or inheritance tax, an individual who is of Dutch nationality will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the ten years preceding the date of the gift or his death. For purposes of Dutch gift tax, an individual, irrespective of his nationality, will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the 12 months preceding the date of the gift.

(g) Other Dutch Taxes

No other Dutch Taxes (including capital tax and stamp duty) are due by or on behalf of an ABN AMRO Shareholder by reason only of (a) the disposal of the ABN AMRO Ordinary Shares pursuant to the Offer, or (b) the acquisition, ownership or disposal of New RBS Ordinary Shares.

PART XXIII

DIRECTORS, CORPORATE GOVERNANCE AND EMPLOYEES

1 Board of Directors

RBS Directors

Directors	Title
Sir Tom McKillop	Chairman
Sir Fred Goodwin	Group Chief Executive
Guy Whittaker	Group Finance Director
Johnny Cameron	Chief Executive, Corporate Markets
Lawrence Fish	Chairman, Citizens Financial Group, Inc.
Mark Fisher	Chief Executive, Manufacturing
Gordon Pell	Chief Executive, Retail Markets
Colin Buchan*	Non-Executive Director
Jim Currie*	Non-Executive Director
Bill Friedrich*	Non-Executive Director
Archie Hunter*	Non-Executive Director
Charles "Bud" Koch	Non-Executive Director
Janis Kong*	Non-Executive Director
Joe MacHale*	Non-Executive Director
Sir Steve Robson*	Non-Executive Director
Bob Scott*	Non-Executive Director
Peter Sutherland*	Non-Executive Director

Note:

* Independent Non-Executive Director.

Each of the RBS Directors' business address is the Company's registered address at 36 St Andrew Square, Edinburgh EH2 2YB.

2 Details of the RBS Directors

2.1 Chairman

Sir Tom McKillop (age 64)

Appointed to the Board as Deputy Chairman in September 2005, Sir Tom is a non-executive director of BP p.l.c., and president of the Science Council. He was formerly chief executive of AstraZeneca PLC, president of the European Federation of Pharmaceutical Industries and Associations and chairman of British Pharma Group Limited. He is Pro-Chancellor of the University of Leicester and a trustee of The Council for Industry and Higher Education.

In addition to his directorship of RBS and any directorships of RBS Group companies, Sir Tom McKillop holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

Company	Status (Current/Previous)
BP p.l.c.	Current
Foundation for Science and Technology	Current
The Council for Industry and Higher Education	Current
Astrazeneca PLC	Previous
Astrazeneca U.K. Limited	Previous
British Pharma Group Limited	Previous
Lloyds TSB Bank plc	Previous
Lloyds TSB Group plc	Previous

2.2 Executive Directors

Sir Fred Goodwin (age 48)

Group Chief Executive

Appointed to the Board in August 1998, Sir Fred is a Chartered Accountant. He was formerly chief executive and director, Clydesdale Bank PLC and Yorkshire Bank PLC. He is chairman of The Prince's Trust, a non-executive director of Bank of China Limited and a former president of the Chartered Institute of Bankers in Scotland.

In addition to his directorship of RBS and any directorships of RBS Group companies, Sir Fred Goodwin holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

<u>Company</u>	<u>Status (Current/Previous)</u>
Bank of China Limited	Current
The Scottish Business Achievement Award Trust Limited . .	Previous

Guy Whittaker (age 50)

Group Finance Director

Appointed to the Board in February 2006, Guy Whittaker was formerly group treasurer at Citigroup Inc., based in New York, having previously held a number of management positions within the financial markets business at Citigroup. He was elected a Lady Beaufort Fellow of Christ's College Cambridge in 2004.

In addition to his directorship of RBS and any directorships of RBS Group companies, Guy Whittaker holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

<u>Company</u>	<u>Status (Current/Previous)</u>
Cambridge in America	Current
Associated Madison Companies Inc.	Previous
Citibank Overseas Investment Corporation	Previous
Citicorp Banking Corporation	Previous
Citigroup Funding Inc.	Previous
Citigroup Insurance Holding Corporation	Previous

Johnny Cameron (age 53)

Chief Executive, Corporate Markets

Appointed to the Board in March 2006, Johnny Cameron joined RBS from Dresdner Kleinwort Benson in 1998. In 2000, he was appointed Deputy Chief Executive of Corporate Banking & Financial Markets (CBFM) with responsibility for the integration of the NatWest and RBS Corporate Banking businesses. In October 2001 he was appointed Chief Executive CBFM, subsequently renamed Corporate Markets in January 2006.

In addition to his directorship of RBS and any directorships of RBS Group companies, Johnny Cameron holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

<u>Company</u>	<u>Status (Current/Previous)</u>
Amerindo Internet Fund plc	Previous
Amerindo Trading Limited	Previous
Murray Split Capital Trust plc	Previous

Lawrence Fish (age 62)

Chairman, Citizens Financial Group, Inc.

Appointed to the Board in January 1993, Lawrence Fish is an American national. He is a career banker and was previously a director of the Federal Reserve Bank of Boston. He is a trustee of the

Massachusetts Institute of Technology (MIT) and The Brookings Institution, and a director of Textron Inc., and numerous community organisations in the USA.

In addition to his directorship of RBS and any directorships of RBS Group companies, Lawrence Fish holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

Company	Status (Current/Previous)
Textron Inc.	Current
Federal Reserve Bank of Boston	Previous

Mark Fisher (age 47)

Chief Executive, Manufacturing

Appointed to the Board in March 2006, Mark Fisher is a career banker having joined National Westminster Bank Plc in 1981. In 2000, he was appointed Chief Executive, Manufacturing with various responsibilities including the integration of RBS and NatWest systems platforms.

In addition to his directorship of RBS and any directorships of RBS Group companies, Mark Fisher holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

Company	Status (Current/Previous)
APACS Administration Limited	Current
Payments Council Limited	Current
RFS Holdings B.V.	Current

Gordon Pell (age 57)

Chief Executive, Retail Markets

Appointed to the Board in March 2000, Gordon Pell was formerly group director of Lloyds TSB U.K. Retail Banking before joining National Westminster Bank Plc as a director in February 2000 and then becoming Chief Executive, Retail Banking. He is also a member of Race for Opportunity and a member of the National Employment Panel and the FSA Practitioner Panel. He was appointed chairman of the Business Commission on Racial Equality in the Workplace in July 2006.

He does not hold nor has held any directorships in the past five years other than his directorship of RBS and any directorships of RBS Group companies. He has not been a partner in any partnerships during the past five years.

2.3 Non-Executive Directors

Colin Buchan (age 52)

Appointed to the Board in June 2002, Colin Buchan was educated in South Africa and spent the early part of his career in South Africa and the Far East. He has considerable international investment banking experience, as well as experience in very large risk management in the equities business. He was formerly a member of the group management board of UBS AG and head of equities of UBS Warburg. He is chairman of UBS Securities Canada Inc. and vice-chairman of Standard Life Investments (Holdings) Ltd. He is also a director of Merrill Lynch World Mining Trust Plc, Merrill Lynch Gold Limited, Royal Scottish National Orchestra Society Limited and World Mining Investment Company Limited.

In addition to his directorship of RBS and any directorships of RBS Group companies, Colin Buchan holds or has held in the past five years the following directorships and partnerships.

Company/Partnership	Status (Current/Previous)
Applecross Properties (Land) Limited	Current
Applecross Property Partnership LLP	Current
Merrill Lynch World Mining Trust Plc	Current
Merrill Lynch Gold Limited	Current
Royal Scottish National Orchestra Society Limited	Current
Standard Life Investments (Holdings) Limited	Current
Standard Life Investments Limited	Current
The Fettes Foundation	Current
UBS Securities Canada Inc.	Current
World Mining Investment Company Limited	Current
Butterstone School	Previous

Jim Currie (age 65)

Appointed to the Board in November 2001, Jim Currie is a highly experienced senior international civil servant who spent many years working in Brussels and Washington. He was formerly director general at the European Commission with responsibility for the EU's environmental policy and director general for Customs and Excise and Indirect Taxation. He is also a director of Total Upstream U.K. Limited and an international adviser to Eversheds.

In addition to his directorship of RBS and any directorships of RBS Group companies, Jim Currie holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

Company	Status (Current/Previous)
54 Queensgate Terrace Residents Association Ltd	Current
Davaar Associates Limited	Current
Total Upstream U.K. Limited	Current
British Nuclear Fuels PLC	Previous
Sellafield Limited	Previous
Total Holdings U.K. Limited	Previous

Bill Friedrich (age 58)

Appointed to the Board in March 2006, Bill Friedrich is currently deputy chief executive of BG Group plc. He previously served as general counsel for British Gas plc and is a former partner of Shearman & Sterling where he practised as a general corporate lawyer working for several of the world's leading financial institutions.

In addition to his directorship of RBS and any directorships of RBS Group companies, Bill Friedrich holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

Company	Status (Current/Previous)
BG Energy Holdings Limited	Current
BG Group plc	Current
BG International Limited	Current
BG Asia, Inc	Previous
BG Asia Pacific Holdings Pte Limited	Previous
BG Egypt SA	Previous
BG Great Britain Limited	Previous
BG Intellectual Property Limited	Previous
BG Karachaganak Limited	Previous
BG LNG Services, LLC	Previous
BG North America, LLC	Previous
BG South East Asia Limited	Previous
BG Thailand Limited	Previous
BG Trinidad and Tobago Limited	Previous
BG Tunisia Limited	Previous
Hydrocarbons Offshore Services Limited	Previous

Archie Hunter (age 63)

Appointed to the Board in September 2004, Archie Hunter is a Chartered Accountant. He was Scottish senior partner of KPMG between 1992 and 1999 and president of The Institute of Chartered Accountants of Scotland in 1997/1998. He has extensive professional experience in the United Kingdom and North and South America. He is currently chairman of Macfarlane Group plc, a director of Edinburgh US Tracker Trust plc, Convenor of Court at the University of Strathclyde and a governor of the Beatson Institute for Cancer Research.

In addition to his directorship of RBS and any directorships of RBS Group companies, Archie Hunter holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

Company	Status (Current/Previous)
Beatson Institute for Cancer Research	Current
Edinburgh US Tracker Trust plc	Current
Le Chardon D'Or Limited	Current
Macfarlane Group plc	Current
The Scottish Cancer Foundation	Current
Clydeport Limited	Previous
S G B S Limited	Previous
Synergy Fund GP Limited	Previous

Charles "Bud" Koch (age 61)

Appointed to the Board in September 2004, Bud Koch is an American national. He has extensive professional experience in the USA and is currently chairman of the board of John Carroll University and a trustee of Case Western Reserve University. He was chairman, president and chief executive officer of Charter One Financial, Inc. and its wholly owned subsidiary, Charter One Bank, N.A. between 1973 and 2004. He is also a director of Assurant, Inc.

In addition to his directorship of RBS and any directorships of RBS Group companies, Charles Koch holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

Company	Status (Current/Previous)
Assurant, Inc.	Current
John Carroll University	Current
Federal Home Loan Bank of Cincinnati	Previous
Financial Services Roundtable	Previous

Janis Kong (age 56)

Appointed to the Board in January 2006, Janis Kong is currently a non-executive director of Kingfisher plc and Portmeirion Group public limited company. She is also Chairman of The Forum for the Future and a member of the board of Visit Britain. She was previously executive chairman of Heathrow Airport Limited and a director of BAA Limited.

In addition to her directorship of RBS and any directorships of RBS Group companies, Janis Kong holds or has held in the past five years the following directorships. She has not been a partner in any partnerships during the past five years.

Company	Status (Current/Previous)
Kingfisher plc	Current
Portmeirion Group Public Limited Company	Current
The Forum for the Future	Current
BAA Limited	Previous
Heathrow Airport Limited	Previous
Heathrow Express Operating Company Limited	Previous
London Airports 1993 Limited	Previous
London Airports Limited	Previous

Joe MacHale (age 55)

Appointed to the Board in September 2004, Joe MacHale is currently the senior independent director and chairman of the audit committee of The Morgan Crucible Company plc, a non-executive director and chairman of the remuneration committee of Brit Insurance Holdings PLC, and a trustee of MacMillan Cancer Support. He held a number of senior executive positions with J P Morgan between 1979 and 2001 and was latterly chief executive of J P Morgan Europe, Middle East and Africa Region.

In addition to his directorship of RBS and any directorships of RBS Group companies, Joe MacHale holds or has held in the past five years the following directorships and partnerships.

Company/Partnership	Status (Current/Previous)
Brit Insurance Holdings PLC	Current
Macmillan Cancer Support	Current
The Morgan Crucible Company plc	Current
Prytania Holdings LLP	Current
Galahad Finance Limited	Previous

Sir Steve Robson (age 63)

Appointed to the Board in July 2001, Sir Steve is a former senior U.K. civil servant, who had responsibility for a wide variety of Treasury matters. His early career included the post of private secretary to the Chancellor of the Exchequer and secondment to ICFC (now 3i). He was also a second permanent secretary of HM Treasury, where he was managing director of the Finance and Regulation Directorate. He is a non-executive director of JP Morgan Cazenove Holdings, Xstrata plc and Partnerships U.K. plc, and a member of the Chairman's Advisory Committee of KPMG.

In addition to his directorship of RBS and any directorships of RBS Group companies, Sir Steve Robson holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

Company	Status (Current/Previous)
JP Morgan Cazenove Holdings	Current
Partnerships U.K. plc	Current
Xstrata plc	Current

Bob Scott (age 65)

Appointed to the Board in January 2001, Bob Scott is an Australian national. He is the senior independent director. He has many years' experience in the international insurance business and played a leading role in the consolidation of the U.K. insurance industry. He is a former group chief executive of CGNU plc (now Aviva plc) and former chairman of the board of the Association of British Insurers. He is chairman of Yell Group plc and a non-executive director of Swiss Reinsurance Company (Zurich) and Jardine Lloyd Thompson Group plc. He is also a trustee of the Crimestoppers Trust, an adviser to Duke Street Capital Private Equity and a board member of Pension Insurance Corporation Holdings LLP.

In addition to his directorship of RBS and any directorships of RBS Group companies, Bob Scott holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

Company	Status (Current/Previous)
Crimestoppers Trust	Current
Jardine Lloyd Thompson Group plc	Current
Pension Insurance Corporation Limited	Current
Swiss Reinsurance Company (Zurich)	Current
Yell Group plc	Current
Focus DIY Group Limited	Previous
Focus No. 1 Limited	Previous
FW No. 1 Limited	Previous
Wise S C	Previous

Peter Sutherland (age 61)

Appointed to the Board in January 2001, Peter Sutherland is an Irish national. He is a former attorney general of the Republic of Ireland and from 1985 to 1989 was the European Commissioner responsible for competition policy. He is chairman of BP p.l.c. and Goldman Sachs International. He was formerly chairman of Allied Irish Bank and director general of GATT and its successor, the World Trade Organisation.

In addition to his directorship of RBS and any directorships of RBS Group companies, Peter Sutherland holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

Company	Status (Current/Previous)
BP p.l.c.	Current
Goldman Sachs International	Current
L.O.W. Limited	Current
European Movement Ireland	Previous
Goldman Sachs (U.K.) L.L.C.	Previous
Goldman Sachs Europe Limited	Previous
Goldman Sachs Group Holdings (U.K.)	Previous
Goldman Sachs Holdings (U.K.)	Previous
Investor AB	Previous
Telefonaktiebolaget LM Ericsson (LME)	Previous

2.4 Confirmations

At the date of this document, none of the RBS Directors named above has:

- (a) during the last five years received any convictions in relation to fraudulent offences;
- (b) during the last five years been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body or of a senior manager of any company;
- (c) during the last five years been subject to any official public incrimination and/or sanction by statutory or regulatory authorities (including designated professional bodies);
- (d) during the last five years been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any issuer.

2.5 Conflict of interests

In respect of any RBS Director, there are no actual or potential conflicts of interests between any duties they have to the Company, either in respect of the Transaction or otherwise, and the private interests and/or other duties they may also have.

No RBS Director has or had during the year ended 31 December 2006 a material interest in any significant contract with RBS or any of its subsidiaries.

None of the RBS Directors was selected to be a director of RBS pursuant to any arrangement or understanding with any major customer, supplier or other person having a business connection with the RBS Group.

No restrictions have been agreed by any RBS Director on the disposal within a certain period of time of his or her holding of RBS's securities.

There are no family relationships between any of the RBS Directors.

2.6 Interests in RBS Shares

As at 16 July 2007 (the latest practicable date prior to the date of this document), the interests of each Executive Director (and their connected persons) in the share capital of the Company which have or will have been notified to the Company are set out in the following table:

Executive Director	Ordinary shares of 25p each beneficially owned at 16 July 2007
Sir Fred Goodwin	200,664
Mr Cameron	10,942
Mr Fish	33,360
Mr Fisher	19,274
Mr Pell	1,746
Mr Whittaker	277,777

As at 16 July 2007, the executive directors held a technical interest as potential beneficiaries in The Royal Bank of Scotland Group plc 2001 Employee Share Trust (12,727,467 RBS Ordinary Shares) and The Royal Bank of Scotland plc 1992 Employee Share Trust (1,057,974 RBS Ordinary Shares), being trusts operated for the benefit of employees of the Company and its subsidiaries.

As at 16 July 2007 (the latest practicable date prior to the date of this document), the interests of the Chairman of RBS (and his connected persons) in the share capital of the Company which have been notified to the Company are set out in the following table:

Chairman	Ordinary shares of 25p each beneficially owned at 16 July 2007
Sir Tom McKillop	90,000

As at 16 July 2007 (the latest practicable date prior to the date of this document), the interests of each Non-Executive Director and his or her connected persons in the share capital of the Company which have been notified to the Company are set out in the following table:

Non-Executive Director	Ordinary shares of 25p each beneficially owned at 16 July 2007
Mr Buchan	15,000
Dr Currie	1,668
Mr Friedrich	62,819
Mr Hunter	10,500
Mr Koch	60,000
Mrs Kong	21,000
Mr MacHale	30,000
Sir Steve Robson	nil
Mr Scott	13,344
Mr Sutherland	16,770

Preference shares

Mr Fish held 20,000 non-cumulative preference shares of U.S.\$0.01 each at 16 July 2007 and Mr Koch held 20,000 non-cumulative preference shares of U.S.\$0.01 each at 16 July 2007. No other Director had an interest in the preference shares during the year.

The interests of each RBS Director will be unaffected as a result of the Offers.

2.7 RBS Directors' interests under Employee Share Plans

The RBS Directors had the following options and awards relating to RBS Ordinary Shares as at 16 July 2007 (being the latest practicable date prior to the date of this document):

Name	Share plan	Date of grant	Number of shares	Option Price	Market Price at date of award	Vested/Unvested	Exercise period
				(£)	(£)		
Sir Fred Goodwin	Executive Share Option Scheme	07-Dec-98	493,713	2.916667	—	Vested	07.12.01-06.12.08
	Executive Share Option Scheme	04-Mar-99	8,889	3.726667	—	Vested	04.03.02-03.03.09
	Executive Share Option Scheme	03-Jun-99	81,918	3.990000	—	Vested	03.06.02-02.06.09
	Executive Share Option Scheme	29-Mar-00	460,944	2.603333	—	Vested	29.03.03-28.03.10
	Executive Share Option Scheme	14-Aug-01	131,100	5.726667	—	Vested	14.08.04-13.08.11
	Executive Share Option Scheme	14-Mar-02	123,900	6.060000	—	Vested	14.03.05-13.03.12
	Executive Share Option Scheme	13-Mar-03	218,400	4.123333	—	Vested	13.03.06-12.03.13
	Executive Share Option Scheme	11-Mar-04	432,525	5.780000	—	Vested	11.03.07-10.03.14
	Executive Share Option Scheme	10-Mar-05	477,153	5.763333	—	Unvested	10.03.08-09.03.15
	Executive Share Option Scheme	09-Mar-06	485,961	6.173333	—	Unvested	09.03.09-08.03.16
	Sharesave Scheme	02-Sep-05	3,801	4.346667	—	Unvested	01.10.10-31.03.11 ⁽¹⁾
OVERALL TOTAL			2,918,304				

Name	Share plan	Date of grant	Number of shares	Option Price	Market Price at date of award	Vested/Unvested	Exercise period
				(£)	(£)		
Mr Cameron	Executive Share Option Scheme	04-Mar-99	57,582	3.726667	—	Vested	04.03.02-03.03.09
	Executive Share Option Scheme	29-Mar-00	115,233	2.603333	—	Vested	29.03.03-28.03.10
	Executive Share Option Scheme	14-Aug-01	78,600	5.726667	—	Vested	14.08.04-13.08.11
	Executive Share Option Scheme	14-Mar-02	95,400	6.060000	—	Vested	14.03.05-13.03.12
	Executive Share Option Scheme	13-Mar-03	157,800	4.123333	—	Vested	13.03.06-12.03.13
	Executive Share Option Scheme	11-Mar-04	151,383	5.780000	—	Vested	11.03.07-10.03.14
	Executive Share Option Scheme	10-Mar-05	242,916	5.763333	—	Unvested	10.03.08-09.03.15
	Executive Share Option Scheme	09-Mar-06	255,129	6.173333	—	Unvested	09.03.09-08.03.16
	Medium-term Performance Plan	17-Jun-01	167,472	NIL	5.450000	Vested	⁽²⁾
	Medium-term Performance Plan	11-Apr-02	66,234	NIL	6.196667	Vested	⁽²⁾
	Medium-term Performance Plan	28-Apr-05	138,810	NIL	5.763333	Unvested	⁽²⁾
	Sharesave Scheme	01-Sep-00	5,595	3.283333	—	Unvested	01.10.07-31.03.08 ⁽¹⁾
OVERALL TOTAL			1,532,154				
Mr Fish	Executive Share Option Scheme	11-May-98	323,631	3.110000	—	Vested	11.05.01-10.05.08
	Executive Share Option Scheme	10-Mar-05	112,809	5.763333	—	Unvested	10.03.08-09.03.15
	Executive Share Option Scheme	09-Mar-06	333,387	6.173333	—	Unvested	09.03.09-08.03.16
	OVERALL TOTAL		769,827				
Mr Fisher	Executive Share Option Scheme	01-Apr-99	42,843	3.080000	—	Vested	01.04.02-31.03.09
	Executive Share Option Scheme	29-Mar-00	99,873	2.603333	—	Vested	29.03.03-28.03.10
	Executive Share Option Scheme	14-Aug-01	65,400	5.726667	—	Vested	14.08.04-13.08.11
	Executive Share Option Scheme	14-Mar-02	68,100	6.060000	—	Vested	14.03.05-13.03.12
	Executive Share Option Scheme	13-Mar-03	121,500	4.123333	—	Vested	13.03.06-12.03.13
	Executive Share Option Scheme	11-Mar-04	118,944	5.780000	—	Vested	11.03.07-10.03.14
	Executive Share Option Scheme	10-Mar-05	182,187	5.763333	—	Unvested	10.03.08-09.03.15
	Executive Share Option Scheme	09-Mar-06	184,260	6.173333	—	Unvested	09.03.09-08.03.16
	Sharesave Scheme	03-Sep-04	933	4.030000	—	Unvested	01.10.07-31.03.08 ⁽¹⁾
	Sharesave Scheme	02-Sep-05	435	4.346667	—	Unvested	01.10.08-31.03.09 ⁽¹⁾
OVERALL TOTAL			884,475				
Mr Pell	Executive Share Option Scheme	29-Mar-00	153,648	2.603333	—	Vested	29.03.03-28.03.10
	Executive Share Option Scheme	14-Aug-01	87,300	5.726667	—	Vested	14.08.04-13.08.11
	Executive Share Option Scheme	14-Mar-02	82,800	6.060000	—	Vested	14.03.05-13.03.12
	Executive Share Option Scheme	13-Mar-03	149,400	4.123333	—	Vested	13.03.06-12.03.13
	Executive Share Option Scheme	11-Mar-04	141,651	5.780000	—	Vested	11.03.07-10.03.14
	Executive Share Option Scheme	10-Mar-05	151,821	5.763333	—	Unvested	10.03.08-09.03.15
	Executive Share Option Scheme	09-Mar-06	187,095	6.173333	—	Unvested	09.03.09-08.03.16
OVERALL TOTAL			953,715				

Name	Share plan	Date of grant	Number of shares	Option Price (£)	Market Price at date of award (£)	Vested/ Unvested	Exercise period
Mr Whittaker . . .	Executive Share Option Scheme	09-Mar-06	170,085	6.173333	—	Unvested	09.03.09-08.03.16
	Restricted Stock Award	28-Feb-06	91,449	—	6.460000	Unvested	01.02.08
	Restricted Stock Award	28-Feb-06	75,966	—	6.460000	Unvested	01.02.09
	Restricted Stock Award	28-Feb-06	37,263	—	6.460000	Unvested	01.02.10
	Sharesave Scheme	01-Sep-06	3,705	4.613333	—	Unvested	01.10.13-31.03.14 ⁽¹⁾
	OVERALL TOTAL		378,468				

Notes:

(1) Options held under the Sharesave Scheme are not subject to performance conditions.

(2) Option based awards under the Medium-term Performance Plan that have vested, are exercisable up to ten years from the date of grant.

Save as set out in this Part XXIII, none of the RBS Directors has any interest in the share or loan capital of the Company or any of its subsidiaries.

No RBS Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Company and which was effected by any member of the RBS Group in the current or immediately preceding financial year or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

There are no guarantees provided by any member of the RBS Group for the benefit of the RBS Directors.

3 Executive Directors' Service Contracts and Remuneration

A summary of the Executive Directors' service contracts is set out below:

3.1 Notice Periods

Details of the Executive Directors' notice periods under their service contracts are set out below:

Name	Date of current contract/ Employing company	Notice period – from company	Notice period – from executive
Sir Fred Goodwin	1 August 1998 The Royal Bank of Scotland plc	12 months	6 months
Mr Cameron	29 March 1998 The Royal Bank of Scotland plc	12 months	6 months
Mr Fish	18 February 2004 Citizens Financial Group, Inc.	12 months	12 months
Mr Fisher	27 February 2007 The Royal Bank of Scotland plc	12 months	12 months
Mr Pell	20 February 2006 The Royal Bank of Scotland plc	12 months	6 months
Mr Whittaker	19 December 2005 The Royal Bank of Scotland plc	12 months	12 months

3.2 Remuneration and benefits

Under the terms of their service contracts and applicable incentive plans, in the year ending 31 December 2006, the Executive Directors were entitled to the remuneration and benefits set out below:

Directors' remuneration	Salary/ fees	Performance Bonus ⁽¹⁾	Pension Allowance	Benefits ⁽²⁾	Other ⁽³⁾	2006 Total
	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)
Sir Fred Goodwin	1,190	2,760	—	46	—	3,996
Mr Cameron ⁽⁴⁾ (appointed 1 March 2006) . . .	889	2,340	236	31	—	3,496
Mr Fish ⁽⁵⁾	1,017	1,627	—	35	3,997	6,676
Mr Fisher ⁽⁴⁾ (appointed 1 March 2006)	654	1,105	122	13	—	1,894
Mr Pell ⁽⁶⁾	790	1,309	—	21	420	2,540
Mr Whittaker ⁽⁷⁾ (appointed 1 February 2006) .	663	1,190	228	2	1,392	3,475

Notes:

- (1) Includes 10% profit sharing. The performance bonus for Mr Cameron and Mr Fisher reflects their performance for the full year.
- (2) Includes a choice of various employee benefits or a cash equivalent, on a similar basis to other employees. In the case of Mr Fish, his benefits are similar to those for other Citizens employees.
- (3) Does not include the awards made under the Medium term Performance Plan in 2006. These awards are set out in paragraph 3.3 below.
- (4) Includes remuneration paid to Mr Cameron and Mr Fisher prior to their appointment as directors. For this period, Mr Cameron and Mr Fisher received salary and benefits of £141,000 and £105,000 respectively.
- (5) Mr Fish is a non-executive director of Textron Inc. and retains the fees paid to him in this respect. For 2006, he received a remuneration package from Textron Inc. equivalent to approximately U.S.\$84,974. He also received cash payments under the Citizens Phantom 2000 Plan, equivalent to approximately U.S.\$6,100,000 and under the Citizens Long Term Incentive Plan equivalent to approximately U.S.\$1,268,000 converted to Sterling using the average exchange rate for the period as set out on page 243 of the Annual Report and Accounts for 2006. The award made to Mr Fish under the Citizens Long Term Incentive Plan in 2006 is set out in paragraph 3.4 below.
- (6) Mr Pell received a cash payment of approximately £420,000 as a result of the exercise of a phantom option under the Medium-term Performance Plan.
- (7) Mr Whittaker joined the Group on 1 February 2006. On recruitment, Mr Whittaker was compensated for the value of restricted stock and unvested options he forfeited on departure from his previous employer. This compensation took the form of a grant of ordinary shares in the Company worth £1,000,000 and restricted stock granted on similar terms as the Restricted Share Plan worth £1,450,000, the latter vesting in three tranches between 2007 and 2009. In addition, Mr Whittaker forfeited his performance bonus from his previous employer and was compensated by a cash payment of £1,195,181 and an award of restricted stock granted on similar terms as the Restricted Share Plan worth £962,785, the latter vesting in four tranches between 2007 and 2010. He also received relocation expenses of £197,211.
The cash amounts are included in "Other" above, whilst the grant of ordinary shares, plus the first tranche of restricted stock (which has now vested) is included in Mr Whittaker's interests in shares in 2.6 above. The unvested restricted stock awards are shown in 2.7 above.

3.3 U.K. based Directors

Benefits

Executive Directors are eligible to receive a choice of employee benefits or a cash equivalent on a similar basis to other employees.

Short-term annual incentives

U.K. based Executive Directors normally have a maximum annual incentive potential of between 160% and 200% of salary. For exceptional performance, as measured by the achievement of significant objectives, Executive Directors may be awarded incentive payments of up to 200% of salary, or 250% of salary in the case of the Group Chief Executive and the Chief Executive, Corporate Markets. Awards will normally be based on the delivery of a combination of appropriate Group and individual financial and operational targets approved each year by the Remuneration Committee.

For the Group Chief Executive, the annual incentive is primarily based on specific Group financial performance measures such as operating profit, earnings per share growth and return on equity. The remainder of the Group Chief Executive's annual incentive is based on a range of non-financial measures which may include measures relating to shareholders, customers and staff.

For the other Executive Directors a proportion of the annual incentive is based on Group financial performance and a proportion on division financial performance. The remainder of each individual's annual incentive opportunity is dependent on achievement of a range of non-financial measures, specific objectives and key result areas. Divisional performance includes measures such as operating income, costs, loan impairments or operating profit. Non-financial measures include customer measures (e.g. customer numbers, customer satisfaction), staff measures (e.g. employee engagement) and efficiency and change objectives.

In respect of 2006, the Remuneration Committee reviewed the annual incentive payments for all Executive Directors taking into account performance against the various targets set at the beginning of the year and covering overall Group financial metrics, divisional performance and each director's other operational targets.

Group operating profit and other Group financial metrics were fully met or exceeded in 2006, while most divisional and individual performance objectives were also met or exceeded. As a result, the Remuneration Committee proposed and the Board (excluding Executive Directors) agreed annual incentive payments ranging from 75% to 125% of normal maximum level. The payments made to Mr Cameron (125% of normal maximum) and Sir Fred Goodwin (110% of normal maximum) reflected the outstanding performance achieved by Corporate Markets and the Group overall respectively and were within the exceptional maximum level.

Long-term incentives

RBS provides long-term incentives in the form of share options and share or share equivalent awards. Their objective is to encourage the creation of value over the long-term and to align the rewards of the Executive Directors with the returns to shareholders. Details of these long-term incentive plans are shown from page 166 of this document.

Medium-term Performance Plan

The Medium-term Performance Plan was approved by shareholders in April 2001. Each Executive Director is eligible for an annual award in the form of share or share equivalent awards. Whilst the rules of the plan allow awards over shares worth up to one and a half times earnings, the Remuneration Committee has adopted a policy of granting awards based on a multiple of salary. Normally awards are made at one times salary to Executive Directors, with one and a half times salary being granted in the case of the Group Chief Executive. No changes will be made to this policy without prior consultation with shareholders. All awards under the plan are subject to three-year performance targets.

Awards made from 2006 are subject to two performance measures: 50% of the award vests on a relative Total Shareholder Return ("TSR") measure and 50% vests on growth in adjusted earnings per share ("EPS") over the three- year performance period.

For the TSR element, vesting is based on the level of outperformance by the Group of the median of the comparator group TSR over the performance period. Awards made under the plan will not vest if the company's TSR is below the median of the comparator group. Achievement of median TSR performance against comparator companies will result in vesting of 25% of the award. Outperformance of median TSR performance by up to 9% will result in vesting on a straight-line basis from 25% to 125%, outperformance by 9% to 18% will result in vesting on a straight-line basis from 125% to 200%. Vesting at 200% will occur if the Company outperforms the median TSR performance of the comparator group by at least 18%. For awards made in 2006, the companies in the comparator group are ABN AMRO Holdings N.V.; Banco Santander Central Hispano, S.A.; Barclays PLC; Citigroup Inc; HBOS plc; HSBC Holdings plc; Lloyds TSB Group plc and Standard Chartered PLC. The Remuneration Committee considers this group to be appropriate in the context of the Group's business.

The EPS element ensures a clear line of sight for executives to improve long-term financial performance. For this element, the level of EPS growth over the three-year period will be calculated by comparing the adjusted EPS in the year prior to the year of grant with that in the final year of the performance period. Each year the vesting schedule for the EPS growth measure will be agreed by the Remuneration Committee at the time of grant, having regard to the business plan, performance relative to comparators and analysts' forecasts.

For the awards made in 2006, the awards will not vest if EPS growth is below 5% per annum over the three-year period. Where EPS growth is between 5% per annum and 10% per annum vesting will occur on a straight-line basis from 25% to 100%. Vesting at 100% will occur if EPS growth is at least 10% per annum.

The following share equivalent awards were made under the Medium-term Performance Plan in 2006:

Director	Number of share equivalents subject to award	Market price per share (at date of award)	Aggregate value
		(£)	(£)
Sir Fred Goodwin	291,579	6.173333	1,800,014
Mr Cameron	145,791	6.173333	900,016
Mr Fish	93,351	6.173333	576,287
Mr Fisher	105,294	6.173333	650,015
Mr Pell	124,731	6.173333	770,006
Mr Whittaker	113,391	6.173333	700,000

Entitlements in respect of awards under the Medium-term Performance Plan prior to 2006, but not exercised in that year, have not been included in this table and are disclosed on page 122 in the Annual Report and Accounts for 2006.

Options

In 2006, awards were made under the Executive Share Option Scheme approved by shareholders in January 1999. Options granted to executive directors were over shares worth between one and a quarter times salary and two and a half times salary, based on the market value at the date of grant. These options are exercisable only if, over a three-year period from the date of grant, the growth in the Company's EPS has exceeded the growth in the RPI plus 9%.

A new executive share option plan was approved at the Company's Annual General Meeting in 2007. Grants to executive directors can be made over shares worth up to 300% of salary with an EPS performance condition. The performance condition will be based on the average annual growth in the Group's adjusted EPS over the three-year performance period commencing with the year of grant. The calibration of the EPS growth measure will be agreed by the Remuneration Committee at the time of each grant having regard to the business plan, prevailing economic conditions and analysts' forecasts. No grants have yet been made under this plan.

3.4 U.S. based director – Lawrence Fish

Benefits Mr Fish accrues pension benefits under a number of arrangements in the U.S. Details are provided on pages 116 and 124 of the Annual Report and Accounts for 2006. In addition he is entitled to receive other benefits on a similar basis to other Citizens employees.

Short-term performance rewards take the form of an annual incentive plan which rewards the achievement of Group, business unit and individual financial and non-financial targets. The normal maximum annual bonus potential is two times salary, although additional amounts to a maximum of a further two times salary may be awarded, at the discretion of the Board, for exceptional performance as measured by the achievement of significant objectives.

Long-term incentives consist of the following components:

- The last grant made under the Citizens Phantom 2000 Plan vested on 1 January 2006 to Mr Fish and is included in 3.2 above. The value of units at the time of vesting was based on

the cumulative economic profit generated by Citizens, the trend in economic profit and on the external market trends in the U.S. banking sector, using price/earnings ratios of comparator U.S. banks.

- A grant under the Group's Medium-term Performance Plan within the levels, and on the same terms, available to U.K. based executives.
- A grant under the Executive Share Option Scheme within the levels, and on the same terms, available to U.K. based executives. In 2007, Mr Fish will be eligible for a grant under the new executive share option plan approved by shareholders at the Company's Annual General Meeting.
- A grant under the new Citizens Long Term Incentive Plan, which was approved by shareholders at the Company's Annual General Meeting in 2005. Performance is measured on a combination of Growth in Profit before Tax and Relative Return on Equity based on a comparison of Citizens with comparator U.S. banks. The targets for this plan are set on an annual basis over the three-year term of the grant. The target value of the award made under the plan in 2005 was 33% of salary and in 2006 was 75% of salary. Each award may deliver up to a maximum of twice the target value. Mr Fish was made an award under the Citizens Long Term Incentive Plan in 2006 of approximately £762,750, which reflects a target value of 75% of salary.

3.5 Benefits on Termination

Except as noted below, in the event of severance of contract where any contractual notice period is not worked, the employing company may pay a sum to the Executive Director in lieu of this period of notice. Any such payment would, at maximum, comprise base salary and a cash value in respect of fixed benefits (including pension plan contributions). In the event of situations involving breach of the employing company's policies resulting in dismissal, reduced or no payments may be made to the Executive Director. Depending on the circumstances of the termination of employment, the Executive Director may be entitled, or the Remuneration Committee may exercise its discretion to allow, the Executive Director to exercise outstanding awards under long-term incentive arrangements subject to the rules of the relevant plan. All U.K. based Directors, with the exception of Guy Whittaker, are members of The Royal Bank of Scotland Group Pension Fund (the "RBS Fund") and are contractually entitled to receive all pension benefits in accordance with its terms. The RBS Fund rules allow all members who retire early at the request of their employer to receive a pension based on accrued service with no discount applied for early retirement.

The Remuneration Committee has reviewed this provision of the RBS Fund, which applies equally to executive directors and other employees. The Remuneration Committee concluded that a change to the terms of the RBS Fund in respect of early retirement at the Company's request would not be a cost-effective route to take at this time. The RBS Fund is closed to employees, including executive directors, joining the Group after 30 September 2006.

The exception to these severance arrangements relates only to Mr Fish. If Mr Fish's contract is terminated without cause, or if he terminates the contract for good reason (as defined in the contract), he is entitled to a lump sum payment to compensate him for the loss of 12 months' salary plus annual bonus. Mr Fish would also be entitled to receive for this period health, life insurance and long term disability coverage and any other benefits determined in accordance with the plans, policies and practices of Citizens at the time of termination. The Remuneration Committee has been advised that these termination provisions are less generous than the current market practice in the United States.

3.6 Aggregate Emoluments

The aggregate emoluments for the Directors for the financial year ended 31 December 2006 was approximately £29.7 million. The aggregate emoluments figure includes cash based awards (if any) granted under the Medium-term Performance Plan, the Citizens Phantom 2000 Plan and Citizens Long Term Incentive Plan in 2006, which are described in detail from page 173 of this document. These awards are unvested and payment (if any) is therefore subject to the satisfaction of performance conditions. The aggregate emoluments figure also includes any sum received in 2006 by a Director on the exercise in that year of a phantom option granted under the

Medium-term Performance Plan, or an award which has vested under the Citizens Phantom 2000 Plan or Citizens Long Term Incentive Plan. Entitlements in respect of awards granted prior to 2006, but not exercised in that year, have not been included and are disclosed on pages 122 and 123 of the Annual Report and Accounts for 2006.

For information on the total amount set aside by the Group to provide pensions, retirement or similar benefits in respect of the Directors in the financial year ended 31 December 2006, please see page 124 in the Annual Report and Accounts for 2006.

4 Non-Executive Directors' Letters of Appointment and Fees

The Non-Executive Directors do not have service contracts or notice periods although they each have letters of engagement reflecting their responsibilities and commitments. Under the Articles of Association, all Directors must retire by rotation and seek re-election by shareholders at least every three years. The dates in the table below reflect the latest date for re-election. No compensation would be paid to the Chairman or to any Non-Executive Director in the event of early termination.

The original date of appointment as a Director of the Company and the latest date for the next re-election are as follows:

	Date first appointed	Latest date for next re-election
Sir Tom McKillop	1 September 2005	2009
Mr Buchan	1 June 2002	2009
Dr Currie	28 November 2001	2008
Mr Friedrich	1 March 2006	2009
Mr Hunter	1 September 2004	2008
Mr Koch	29 September 2004	2008
Mrs Kong	1 January 2006	2009
Mr MacHale	1 September 2004	2008
Sir Steve Robson	25 July 2001	2008
Mr Scott	31 January 2001	2009
Mr Sutherland	31 January 2001	2009

The fees paid to the Chairman and each of the Non-Executive Directors in the year ended 31 December 2006 were as follows:

Chairman and Non-Executive Directors	Board fees	Board committee fees	2006 Total
	(£000)	(£000)	(£000)
Sir Tom McKillop ⁽¹⁾	—	—	471
Mr Buchan	65	55	120
Dr Currie	65	15	80
Mr Friedrich (appointed 1 March 2006)	54	15	69
Mr Hunter	65	93	158
Mr Koch ⁽²⁾	65	—	65
Mrs Kong (appointed 1 January 2006)	65	8	73
Mr MacHale	65	30	95
Sir Steve Robson	65	30	95
Mr Scott ⁽³⁾	—	—	155
Mr Sutherland	65	23	88

Notes:

- (1) Sir Tom McKillop's fee covers all Board and Board Committee work.
- (2) In addition to his role as a non-executive director, Mr Koch has an agreement with Citizens Financial Group, Inc. to provide consulting services for a period of three years following the acquisition by Citizens of Charter One Financial, Inc. For these services Mr Koch receives \$402,500 per annum.
- (3) Mr Scott's senior independent director fee covers all Board and Board Committee work including Chairmanship of the Remuneration Committee.

5 Pension benefits

Members of the Group sponsor a number of pension schemes in the United Kingdom and overseas, predominantly of the defined benefit type, whose assets are independent of the Group's finances. Defined benefit pensions generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement. Employees do not make contributions for basic pensions but may make voluntary contributions to secure additional benefits on a money-purchase basis. Since October 2006 The Royal Bank of Scotland Group Pension Fund has been closed to new entrants.

Details of the funding position of the pension schemes are contained in the Annual Report and Accounts for 2006. For information on the pension benefits paid by the Group please see pages 144 and 145 in the Annual Report and Accounts.

6 Corporate Governance

As at the date of this document, RBS is in full compliance with the provisions of the Combined Code except in relation to authority reserved to the Board to make the final determination of the remuneration of the Executive Directors.

6.1 Board sub-committees

Sub-committees of the Board have been constituted to consider and make recommendations to the Board regarding matters relating to external and internal audit, internal control and risk management processes, the selection of appropriate accounting policies, the appointment of directors and directors' remuneration and the presentation of the interim and full year accounts. All of the sub-committees of the Board operate to clearly defined terms of reference.

6.2 Group Audit Committee

Current members

Colin Buchan, Bill Friedrich, Archie Hunter (Chairman), Joe MacHale and Sir Steve Robson.

All members of the Audit Committee are independent non-executive directors. The Audit Committee holds at least five meetings each year, two of which are held immediately prior to submission of the interim and annual financial statements to the Board. This core agenda is supplemented by additional meetings as required. Audit Committee meetings are attended by relevant Executive Directors, the internal and external auditors and finance and risk management executives. At least twice per annum the Audit Committee meets privately with the external auditors. The Audit Committee also visits RBS Group business divisions and selected group functions under a programme set out at the beginning of each year.

The Audit Committee is responsible for:

- assisting the Board in discharging its responsibilities and in making all relevant disclosures in relation to the financial affairs of the RBS Group;
- reviewing accounting and financial reporting and regulatory compliance;
- reviewing the RBS Group's system of internal control; and
- monitoring the RBS Group's processes for internal audit, risk management and external audit.

6.3 Remuneration Committee

Current members

Sir Tom McKillop, Colin Buchan, Jim Currie, Janis Kong, Bob Scott (Chairman) and Peter Sutherland.

The members of the Remuneration Committee comprise independent Non-Executive Directors together with the Chairman of the Board. In June 2006, the FRC issued a revised Combined Code which applies to reporting years beginning on or after 1 November 2006. The Company has adopted provision B.2.1 of the Combined Code early and appointed the Chairman of the Board as a member of the Remuneration Committee as the Company considers him to have been independent on appointment as Chairman. In that regard the provisions of the Code

have not been compiled with. The Remuneration Committee holds at least three meetings each year.

The Remuneration Committee is responsible for assisting the Board in discharging its responsibilities and making all relevant disclosures in relation to the formulation and review of the Group's executive remunerating policy. The Remuneration Committee makes recommendations to the Board in the remuneration arrangements for the Executive directors and the Chairman.

Responsibility for determining the remuneration of the Executive Directors has not been delegated to the Remuneration Committee, and in that sense the provisions of the Combined Code have not been complied with. The Board as a whole reserves the authority to make the final determination of the remuneration of directors as it considers that this two stage process allows greater consideration and evaluation and is consistent with the unitary nature of the Board. No director is involved in discussion regarding his or her remuneration.

6.4 Nominations Committee

Current members

Sir Tom McKillop, Archie Hunter, Bob Scott and Peter Sutherland.

The Nominations Committee comprises independent Non-Executive Directors, under the chairmanship of the Chairman of the Board. The Nominations Committee meets as required.

The Nominations Committee is responsible for assisting the Board in the formal selection and appointment of directors. It considers potential candidates and recommends appointments of new directors to the Board. The appointments are based on merit and against objective criteria, including the time available to, and the commitment which will be required of, the potential director.

In addition, the Nominations Committee considers succession planning for the Chairman, Group Chief Executive and Non-Executive Directors. The Nominations Committee takes into account the knowledge, mix of skills, experience and networks of contacts which are anticipated to be needed on the Board in the future. The Chairman, Group Chief Executive and Non-Executive Directors meet to consider executive succession planning. No director is involved in decisions regarding his or her own succession.

7 Employees

The average number of employees employed by the RBS Group excluding temporary staff, for the three years ended 31 December 2004, 2005 and 2006 is set out below:

	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006
Global Banking & Markets	8,600	6,900	7,800
U.K. Corporate Banking	7,800	8,200	8,800
Retail	42,800	44,200	43,800
Wealth Management	4,200	4,300	4,600
Ulster Bank	4,200	4,500	4,800
Citizens	25,800	26,000	24,600
RBS Insurance	20,100	20,500	18,500
Manufacturing	26,200	26,600	26,400
Centre	2,200	2,300	2,500
Total	141,900	143,500	141,800
United Kingdom	106,900	107,200	105,700
USA	27,100	27,400	26,200
Europe	7,000	7,800	8,100
Rest of the World	900	1,100	1,800
Total	141,900	143,500	141,800

The average number of temporary employees during 2006 was 4,800.

PART XXIV

ADDITIONAL INFORMATION

1 The Company

The Company was incorporated and registered in Scotland on 25 March 1968 under the Companies Acts 1948 to 1967 as a private limited company under the name National and Commercial Banking Group Limited. On 3 September 1979, it changed its name to The Royal Bank of Scotland Group Limited. On 10 March 1982, it changed its name to its present name and was reregistered under the Companies Acts 1948 to 1980 as a public company with limited liability. The Company is registered under company number SC45551.

The principal legislation under which the Company operates, and pursuant to which the RBS Ordinary Shares have been created, is the Companies Act and regulations made thereunder.

The Company is domiciled in the United Kingdom. Its head office is at RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ and its registered office is at 36 St Andrew Square, Edinburgh EH2 2YB (Telephone number +44 (0) 131 556 8555).

The Existing RBS Ordinary Shares are primarily listed on the Official List of the FSA. The ISIN of the RBS Ordinary Shares is GB0007547838.

2 Significant Subsidiaries

2.1 RBS

The Company is the parent company of the RBS Group. A full list of the Company's significant subsidiaries which are considered by the Company to be likely to have a significant effect on its assessment of assets and liabilities, financial position and/or profits and losses is set out below.

Name	Percentage ownership interest and voting power	Field of activity	Country of incorporation	Registered office
The Royal Bank of Scotland plc	100	Banking	Scotland	36 St Andrew Square Edinburgh EH2 2YB
National Westminster Bank Plc	100	Banking	England	135 Bishopsgate, London EC2M 3UR
Citizens Financial Group, Inc.	100	Banking	U.S.	One Citizens Plaza, Providence, Rhode Island 02903 USA
Coutts & Co	100	Private Banking	England	440 Strand, London WC2R 0QS
Greenwich Capital Markets, Inc	100	Broker dealer	U.S.	600 Steamboat Road Greenwich Connecticut 06830 USA
RBS Insurance Group Limited	100	Insurance	England	Churchill Court Westmoreland Road Bromley Kent BR1 1DP
Ulster Bank Limited	100	Banking	Northern Ireland	11-16 Donegal Square, East Belfast BT1 5UB

3 Share Capital

3.1 History of ordinary share capital

Authorised share capital

At 1 January 2004, the first day covered by the historical financial information incorporated by reference into this document, the authorised ordinary share capital of the Company was

£1,019,843,851.50, divided into 4,079,375,406 ordinary shares of 25 pence each. Since 1 January 2004, the authorised ordinary share capital was increased by £250,000,000 on 20 April 2005 and by a further £1,608,743,154 on 8 May 2007.

Issued share capital

As at 1 January 2004, the first day covered by the historical financial information incorporated by reference into this document 2,963,335,412 RBS Ordinary Shares were issued and fully paid up. Since 1 January 2004, the following changes have occurred to the issued share capital of the Company:

Year	RBS Ordinary Shares issued as a result of the exercise of Options granted under Sharesave Scheme	RBS Ordinary Shares issued as a result of the exercise of Executive Share Option Scheme	RBS Ordinary Shares issued as a result of the issue of Profit Sharing Shares	RBS Ordinary Shares issued in connection with Scrip Dividends	RBS Ordinary Shares issued in connection with Option 2000 Scheme	RBS Ordinary Shares repurchased by RBS	RBS Ordinary Shares issued in connection with MPP	RBS Ordinary Shares issued pursuant to Placings	Shares allotted as a result of the Bonus Issue
2004	10,581,639	1,239,544	2,374,632	23,355,525	6,648,519	0	69,809	165,000,000	
2005	10,462,831	938,796	2,297,171	7,464,618	2,761,238	0	13,937	0	
2006	1,248,450	2,566,736	2,190,017	0	3,981,772	(53,698,621)	12,310	0	
2007	0	0	0	0	0	(695,000)	0	0	6,304,298,670

At 31 December 2006 the authorised ordinary share capital of the Company was £1,269,843,851.50, divided into 5,079,375,406 ordinary shares of 25 pence each, of which 3,152,844,335 were issued and fully paid up.

From 1 January 2007 until 16 July 2007 (being the latest practicable date prior to the publication of this document), no RBS Ordinary Shares were issued pursuant to the exercise of options under the RBS Ordinary Share Option Schemes and 6,304,298,670 RBS Ordinary Shares were issued as part of a bonus issue that completed on 8 May 2007.

3.2 Current share capital information

As at 16 July 2007 (being the latest practicable date prior to the date of this document), the authorised and issued share capital of the Company was as follows:

Class of Share	Authorised (number)	Authorised (amount)	Issued (number)	Issued (amount)
Ordinary shares of £0.25 each	11,514,348,022	£2,878,587,005.50	9,456,448,005	£2,364,112,001.25
Non-voting Deferred shares of £0.01 each	32,300,000,000	£323,000,000	2,660,556,304	£26,605,563.04
Additional Value Shares of £0.01	2,700,000,000	£27,000,000	—	—
11% cumulative preference shares of £1 each	500,000	£500,000	500,000	£500,000
5½% cumulative preference share of £1 each	400,000	£400,000	400,000	£400,000
Category II non-cumulative dollar preference shares of \$0.01 each	403,500,000	\$4,035,000	244,000,000	\$2,440,000
Non-cumulative convertible dollar preference shares of \$0.01 each	3,900,000	\$39,000	1,000,000	\$10,000
Non-cumulative dollar preference shares of \$0.01 each	16,000,000	\$160,000	—	—
Non-cumulative euro preference shares of €0.01 each	66,000,000	€660,000	2,500,000	€25,000
Non-cumulative convertible euro preference shares of €0.01 each	3,000,000	€30,000	—	—
Non-cumulative convertible sterling preferences shares of £0.01 each	1,000,000	£10,000	200,000	£2,000
Category II non-cumulative convertible preference shares of £0.25 each	900,000,000	£225,000,000	—	—
Non-cumulative preference shares of £1 each	300,000,000	£300,000,000	—	—

As at 16 July 2007 (the latest practicable date prior to the date of this document), the Company and its subsidiaries held the following RBS Shares:

Shareholder	Number of RBS Shares
<i>Ordinary Shares of £0.25 each</i>	
RBS Asset Management (ACD) Limited	9,431,906
RBS Asset Management (Dublin) Limited	9,193,413
Adam & Co. Investment Management Limited	4,864,359
RBS Collective Investment Funds Limited	3,441,301
National Westminster Bank Plc	2,915,191
Coutts & Co.	2,667,823
The Royal Bank of Scotland Plc	939,973
Direct Line Unit Trusts Limited	485,827
National Westminster Bank Plc PEP/ISA Office	78,059
Adam & Co. International Limited	48,450
Ulster Bank Dublin Trust Limited	35,094
Coutts Bank von Ernst Limited	18,220
Ulster Bank Investment Funds Limited	17,296
Coutts & Co. PEP/ISA Office	11,766
Citizens Bank of Rhode Island	10,836
Citizens Bank New Hampshire	900

Save as set out above, there are no outstanding convertible debt securities, exchangeable debt securities or debt securities with warrants.

3.3 Share capital upon completion of the Offers

The ordinary share capital of the Company immediately following completion of the Offers based on the assumptions set out below will be as follows:

Authorised		Issued and fully paid up	
Number	£m	Number	£m
12,070,491,722	3,017.6	10,012,591,705	2,503.1

The table assumes that the Ordinary Resolution to be proposed at the EGM, as set out in the RBS Shareholder Circular, is approved and that the maximum number of 556,143,700 New RBS Ordinary Shares are issued in connection with the Offers, the Offers complete in accordance with their terms and that no other issues of RBS Ordinary Shares occur between the date of this document and completion of the Offers.

The Existing RBS Ordinary Shares and the New RBS Ordinary Shares to be issued pursuant to the Offers will rank *pari passu* in all respects. All of the New RBS Ordinary Shares will rank in full for dividends and other distributions (if any) declared, made or paid by RBS by reference to a record date on or after the date of issue of the New RBS Ordinary Shares.

It is expected that the New RBS Ordinary Shares issued in connection with the Offers will be issued as soon as practicable following announcement by RFS Holdings that all conditions to the Offer have been fulfilled or, to the extent legally permitted, waived, which is expected to be in or around November 2007.

3.4 Existing shareholder authorities

At an annual general meeting of the Company held on 25 April 2007, the power conferred on the RBS Directors by paragraph (1) of Article 13(B) of RBS's Articles of Association was renewed for a period expiring at the conclusion of the annual general meeting of RBS in 2008 and for the purposes of that Article the "Section 80 amount" was £481,806,518.

At an annual general meeting of the Company held on 25 April 2007, the following resolutions were also passed:

- (i) the power conferred on the RBS Directors by paragraph (2) of Article 13(B) of RBS's Articles of Association was renewed for the period ending at the conclusion of the annual general meeting of RBS in 2008 or on 25 July 2008, whichever is the earlier, and for that purpose the "Section 89 amount" was £119,839,024;
- (ii) pursuant to Article 11 of RBS's Articles of Association RBS was generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act) of RBS Ordinary Shares, subject to the following conditions:
 - (a) subject to the proviso below, the maximum number of such RBS Ordinary Shares to be purchased is 958,712,195;
 - (b) the minimum price which may be paid for an RBS Ordinary Share is 25 pence per RBS Ordinary Share which shall be exclusive of expenses;
 - (c) the maximum price (exclusive of expenses) which may be paid for an RBS Ordinary Share is in respect of a RBS Ordinary Share contracted to be purchased on any day, the higher of (i) an amount equal to 105 per cent. of the average of the middle market quotations for a RBS Ordinary Share, as derived from the Daily Official List of the London Stock Exchange, for the five business days immediately preceding the day on which the RBS Ordinary Share is contracted to be purchased and (ii) that stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (Commission Regulation (EC) of 22 December 2003 (Number 2273/2003));
 - (d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of RBS following the Annual General Meeting held on 25 April 2007, or 18 months from 25 April 2007 (whichever is the earlier) unless such authority is renewed prior to such time; and
 - (e) RBS may conclude a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after such expiry, and may make a purchase of RBS Ordinary Shares in pursuance of any such contract as if the authority hereby conferred had not expired.

Details of the Ordinary Resolution to be proposed in connection with the Offers are set out below.

3.5 Shareholder authorities proposed at the Extraordinary General Meeting

The following Ordinary Resolution is set out in the RBS Shareholder Circular and it is proposed that this resolution will be voted on at the EGM of the Company on 10 August 2007 for the purposes of facilitating the Transaction.

THAT:

- 1 the proposed acquisition by the RBS Group of the ABN AMRO Businesses (as defined in the circular to shareholders of the Company dated 20 July 2007 (the "Circular")) through RFS Holdings B.V. ("RFS Holdings") making a public offer or offers for shares (or otherwise acquiring) in the capital of ABN AMRO Holding N.V. ("ABN AMRO") on the terms and subject to the conditions of the offers set out in the offer documents published by RFS Holdings on 20 July 2007 (the "Offer Documents") (copies of which documents are produced to the meeting and signed for identification purposes by the chairman of the meeting) or through RFS Holdings making any revised or new offer or offers for ABN AMRO or entering into other agreements to acquire shares in ABN AMRO, provided that the terms of any such revised or new offer or offers or other agreements do not result in consideration being offered which is materially higher than the consideration offered under the offers set out in the Offer Documents (the offers set out in the Offer Documents and/or any such revised or new offer or offers being the "Offers") (as all are described in, or contemplated by, the Circular) be approved and that the Directors (or a committee of the Directors) be authorised to agree with Fortis and Santander any waivers, extensions,

non-material amendments or variations to the terms and conditions of the Offers or other agreements and to execute such documents and do all such things as they may consider to be necessary or desirable to implement and give effect to the Offers or any matters incidental thereto;

- 2 subject to, and immediately upon, RFS Holdings announcing that all the conditions to the Offers are fulfilled or waived, (other than any condition relating to the admission of any new ordinary shares in the capital of the Company to be issued pursuant to, in connection with or for the purposes of the Offers to the Official List of the UK Listing Authority and to trading on the London Stock Exchange), the authorised share capital of the Company be and is hereby increased from £2,878,587,005.50 to £3,017,622,930.50 by the creation of 556,143,700 new ordinary shares of 25 pence each;
- 3 subject to, and immediately upon, RFS Holdings announcing that all the conditions to the Offers are fulfilled or waived (other than any condition relating to the admission of the new ordinary shares in the capital of the Company to be issued pursuant to, in connection with or for the purposes of the Offers to the Official List of the UK Listing Authority and to trading on the London Stock Exchange) and in addition and without prejudice to the power conferred on the Directors by paragraph (1) of Article 13(B) of the Articles of Association:
 - 3.1 the Directors be generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £139,035,925 provided that such authority shall be limited to the allotment of relevant securities pursuant to, in connection with or for the purposes of the Offers or otherwise in connection with the acquisition of shares in ABN AMRO;
 - 3.2 such authority shall expire on 10 August 2008;
 - 3.3 by such authority and power the Directors may during such period make offers or agreements which would or might require securities to be allotted after the expiry of such period; and
 - 3.4 for the purposes of this resolution words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings herein.

3.6 General confirmations

None of the New RBS Ordinary Shares has been marketed or are being made available to the public in whole or in part in conjunction with the application for listing of those securities. All of the New RBS Ordinary Shares issued in connection with the Offers will be allotted and issued to ABN AMRO Shareholders.

Save as disclosed in this document, during the three years immediately preceding the date of this document, there has been no issue of share capital of the Company fully or partly paid either for cash or other consideration and no such issues are proposed and no share capital of the Company or any of its subsidiaries is under option or agreed, conditionally or unconditionally, to be put under option.

3.7 Shares not representing capital

The Company has in issue the following shares not representing capital: 2,660,556,304 non-voting deferred shares of £0.01 each.

4 Memorandum and Articles of Association of RBS

The Memorandum of Association of the Company was adopted on 15 January 1998. The current version of the Articles of Association of the Company was adopted on 15 January 1998. The Articles of Association were amended by special resolutions of the Company passed on 13 January 2000, 28 February 2000, 20 June 2000, 11 April 2001 and 29 April 2004. The following is a summary of the Memorandum of Association and Articles of Association.

4.1 Memorandum of Association

The Memorandum of Association provides, amongst other things, that RBS's objects are to carry on the business of banking in all or any of its aspects and to carry on the business of a holding company. The Company's objects are set out in full in clause 4 of the Memorandum.

4.2 Articles of Association

4.2.1 Voting Rights

Subject to any special rights or restrictions provided by the Articles of Association, on a show of hands every member who is present in person shall have one vote, and on a poll every member who is present in person or by proxy shall have one vote for each 25p in nominal amount of the shares held by him. Voting rights may not be exercised by a member who has been served with a restriction notice after failure to provide RBS with information concerning interests in shares to be provided under U.K. law.

Holders of non-cumulative preference shares are not entitled to attend or vote at any general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of RBS or any resolution directly varying or abrogating the rights attached to any such shares and then in such case only to speak to and vote upon any such resolution. However, holders have the right to vote in respect of any matter when the dividend payable on their shares has not been declared in full for such number of dividend periods as the directors shall determine prior to the allotment thereof.

4.2.2 Shareholders' Meetings

The Board must call an Annual General Meeting once in every year, not more than 15 months after the holding of the previous Annual General Meeting. All other general meetings are to be called Extraordinary General Meetings and may be called by the directors whenever they think fit. The directors must also convene a meeting upon the request of shareholders holding not less than 10% of RBS's paid-up capital carrying voting rights at general meetings of shareholders. A request for a general meeting of shareholders must state the objects of the meeting, and must be signed by the requesting shareholders and deposited at RBS's registered office. If RBS's directors fail to give notice of such meeting to shareholders with 21 days from receipt of notice, the shareholders that requested the general meeting, or any of them representing more than one-half of the total voting rights of all shareholders that requested the meeting, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of 3 months. Any such meeting must be convened in the same manner, as readily as possible, as that in which meetings are to be convened by RBS's directors.

RBS must give at least 21 days' notice in writing of an Annual General Meeting or any general meeting at which it is proposed to pass a special resolution. All other general meetings may be called by at least 14 days' notice in writing. Notice shall be given to the auditors and to every member of RBS, other than those who are not entitled to receive such notice under the provisions of the Articles of Association.

A meeting may be called by shorter notice provided that:

- (i) in the case of an Annual General Meeting, all the members entitled to attend and vote at the meeting agree to the short notice; and
- (ii) in the case of an Extraordinary General Meeting, by a majority in number of the members having a right to attend and vote thereat, being a majority holding not less than 95% in nominal value of the shares giving that right.

The notice calling a general meeting must specify the place, day and time of the meeting.

4.2.3 Attendance at Shareholders' Meetings; Proxies and Votes by Mail

In general, all shareholders (subject to restrictions for holders of non-cumulative preference shares as set out above) who have properly registered their shares may participate in general meetings. Shareholders may attend in person or by proxy. Shareholders may vote in person or, on a poll, by proxy.

In order to attend or vote at any general meeting, a person must be entered on the register of members by the time, being not more than 48 hours before the meeting, specified in the notice of the general meeting.

A shareholder may appoint a proxy in writing or by electronic communication. The appointment of a proxy must be delivered to or received by RBS at the address specified for that purpose not later than 48 hours before the time appointed for the holding of the meeting. A proxy need not be a member of RBS.

4.2.4 Quorum

The Articles of Association state that no business other than the appointment of a chairman of the meeting shall be transacted at any general meeting unless a quorum is present. A quorum for the purposes of a general meeting is five shareholders present in person and entitled to vote at the meeting.

If a quorum is not present at a general meeting within 15 minutes of the time appointed for the meeting (or such longer time not exceeding one hour as the chairman of the meeting may determine), the meeting shall be adjourned to either the day and time specified in the notice convening the meeting for such purpose or (if not specified) such time as the chairman of the meeting may determine. In the event of the latter, not less than seven days' notice of the adjourned meeting shall be given. If a quorum is not present at the adjourned meeting within fifteen minutes of the time appointed, the members present in person or by proxy and entitled to vote at the meeting shall constitute a quorum.

4.2.5 Votes Required for Shareholder Action

A simple majority of shareholders may pass an ordinary resolution. To pass a special resolution, a majority of not less than three quarters of the members entitled to vote at the meeting is required.

4.2.6 Amendments Affecting Shareholder Rights

Shareholder rights of a class of shares in the capital of RBS may be varied either with the written consent of the holders of three quarters of the issued shares of the class affected, or by an extraordinary resolution passed at a separate general meeting of the class of shareholders affected. The provisions of the Articles of Association relating to general meetings shall apply to such separate class meetings, except that the necessary quorum shall be at least two persons holding or representing by proxy one third of the nominal amount of the issued shares of the class, and that any holder of the shares present in person or by proxy may demand a poll and on such a poll every holder shall have one vote for every share of the class held by him.

4.2.7 Financial Statements and Other Communications with Shareholders

Not less than 21 days before the date of a general meeting, RBS must send a copy of every balance sheet and profit and loss account which is to be laid before a general meeting, and a copy of the Director's and Auditors' reports, to every member of RBS and every person who is entitled to receive notice of the meeting.

4.2.8 Dividends

RBS may declare dividends on the ordinary shares by ordinary resolution but no dividend shall be payable except out of distributable profits. No dividend shall be payable in excess of the amount recommended by the directors, or in contravention of the special rights attaching to any share. Dividends shall be declared and paid according to the amounts paid on the shares in respect of which the dividend is paid. As regards any shares not fully paid, the dividend shall be apportioned and paid pro rata according to the amounts paid on the shares during the period in respect of which the dividend is paid.

No dividend payable shall bear interest against RBS.

Each cumulative preference share confers the right to a fixed cumulative preferential dividend payable half-yearly. Each non-cumulative preference share confers the right to a preferential dividend (not exceeding a specified amount) payable in the currency of the relevant share. The rate of such dividend and the date of payment thereof, together with the terms and conditions of the dividend are as may be determined by the directors prior to allotment. Cumulative preference share dividends are paid in priority to any dividend on any other class of share.

The non-cumulative preference shares rank for dividend after the cumulative preference shares but rank *pari passu* with each other and any shares expressed to rank, in terms of participation in the profits of RBS, in some or all respects *pari passu* therewith and otherwise in priority to dividends payable on the ordinary shares and any other share capital in RBS.

Dividends will be declared and paid in full on non-cumulative preference shares if, in the opinion of the directors of RBS, RBS has sufficient distributable profits, after payment in full or the setting aside of a sum to provide for all dividends accrued on the cumulative preference shares, to cover such payment in full.

If, in the opinion of the directors, insufficient profits of RBS are available to cover the payment in full of dividends after having paid any dividends payable on any of the cumulative preference shares, dividends will be declared by the directors pro rata on the non-cumulative preference shares to the extent of the available distributable profits.

The non-cumulative preference shares will carry no further rights to participate in the profits of RBS and if, and to the extent that, any dividend or part of any dividend is on any occasion not paid for the reasons described above, holders of non-cumulative preference shares will have no claim in respect of such non-payment.

If any dividend is not payable for the reasons described above, or if payment of any dividend would cause a breach of the U.K. Financial Services Authority's capital adequacy requirements applicable to RBS or its subsidiaries, the directors may pay a special dividend not exceeding U.S.\$0.01, (pound)0.01 or (euro)0.01 (depending on the currency of the relevant preference share) per share.

4.2.9 *Changes in Share Capital*

RBS may by ordinary resolution increase its share capital by such sum to be divided into shares of such amounts, and denominated in such currencies as prescribed by the resolution.

RBS may also by ordinary resolution:

- (i) consolidate and divide any of its share capital into shares of larger amount than its existing shares;
- (ii) cancel any shares which, at the date of passing the resolution, have not been taken by any person and diminish the amount of its capital by the amount of the shares cancelled; or
- (iii) sub-divide any of its shares into shares of smaller amount than is fixed by the Memorandum of Association.

RBS may reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner and subject to any incident authorised, and consent required, by law.

4.2.10 *Pre-emption Rights*

Under U.K. law, if RBS issues specific kinds of additional securities, current shareholders will have pre-emption rights to those securities on a pro rata basis. Pre-emption rights are transferable during the subscription period relating to a particular offering.

The shareholders may, by way of a special resolution, grant authority to the directors to allot shares as if the pre-emption rights did not apply. This authority may be either specific or general and may not exceed a period of five years. If directors wish to seek authority to disapply the pre-emption rights, the directors must produce a statement that is circulated to shareholders detailing their reasons for seeking the disapplication of such pre-emption rights.

4.2.11 *Form, Holding and Transfer of Shares*

Shares may be held in either certificated or uncertificated form.

Shares held in certificated form are evidenced by a certificate and a register of shareholders is maintained by RBS's registrar. Any member may transfer all or any of his

certificated shares by an instrument of transfer in any usual form or a form approved by the directors.

Title to certificated shares is evidenced by entry in the register of RBS's members.

The directors may decline to register any transfer of a certificated share unless:

- (i) the instrument of transfer is lodged at the specified place and accompanied by the certificate for the shares to which it relates;
- (ii) the instrument of transfer is in respect of only one class of share; and
- (iii) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

Existing RBS Ordinary Shares held in uncertificated form are held through CREST (computerised settlement system to facilitate the transfer of title to shares in uncertificated form operated by Euroclear UK).

Subject to any applicable restrictions in the Articles of Association, any member may transfer all or any of his uncertificated shares by means of a relevant system in the manner provided for in the Uncertificated Securities Regulations 2001 and the rules of the relevant system.

Title to uncertificated shares is evidenced by entry in the operator register maintained by Euroclear UK (which forms part of the register of RBS's members).

The directors may decline to register the transfer of an uncertificated share in accordance with the Uncertificated Securities Regulations 2001, and, in the case of jointly held shares, where the share is to be transferred to more than four joint holders.

No fee is payable for the registration of transfers of either certificated or uncertificated shares although see Part XXII—United Kingdom stamp duty and SDRT for the stamp duty and SDRT consequences thereof.

4.2.12 Liquidation Rights

If RBS is liquidated, the liquidator may, with the authority of an extraordinary resolution, divide among the members in specie or kind the whole or any part of the assets of RBS. The liquidator may determine how such division is to be carried out as between members or classes of members.

In the event of a return of capital on a winding-up or otherwise, the holders of cumulative preference shares are entitled to receive out of the surplus assets of RBS available for distribution amongst the members (i) in priority to the holders of the non-cumulative preference shares and any other shares ranking *pari passu* therewith, the arrears of any fixed dividends including the amount of any dividend due for a payment after the date of commencement of any winding-up or liquidation but which is payable in respect of a half-year period ending on or before such date and (ii) *pari passu* with the holders of the non-cumulative preference shares and any other shares ranking *pari passu* therewith, the amount paid up or credited as paid up on such shares together with any premium.

Each non-cumulative preference share shall confer on a winding up or liquidation (except, (unless otherwise provided by the terms of issue) a redemption or purchase by RBS of any shares in the capital of RBS), the right to receive out of surplus assets of RBS available for distribution amongst the members after payment of the arrears (if any) of the cumulative dividend on the cumulative preference shares and in priority to the holders of the ordinary shares, repayment of the amount paid up or credited as paid up on the non-cumulative preference shares together with any premium paid on issue *pari passu* with the holders of the cumulative preference shares and together with an amount equal to accrued and unpaid dividends.

4.2.13 Disclosure of Holdings Exceeding Certain Percentages

The Disclosure and Transparency Rules require shareholders to notify RBS if the voting rights held by him (including by way of certain financial instrument) reaches, exceeds or falls below 3%, 4%, 5%, 6%, 7%, 8%, 9%, 10% and each 1% threshold thereafter up to

100%. Under the Disclosure and Transparency Rules, certain voting rights in RBS may be disregarded.

Pursuant to the Companies Act, RBS may also send a notice to any person whom RBS knows or believes to be interested in RBS's shares requiring that person to confirm whether he has such an interest and if so details of that interest.

Under the Articles of Association and U.K. law, if a person fails to comply with such a notice or provides information that is false in a material particular in respect of any shares (the "default shares"), the Directors may serve a restriction notice on such person. Such a restriction notice will state that the default shares and, if the Directors determine, any other shares held by that person, shall not confer any right to attend or vote at any general meeting of RBS.

In respect of a person with a 0.25% or more interest in the issued ordinary share capital of RBS, the Directors may direct in the restriction notice that, subject to certain exceptions, no transfers of shares held by such person (in certificated or uncertificated form) shall be registered and that any dividends or other payments on the shares shall be retained by RBS pending receipt by RBS of the information requested by the Directors.

4.2.14 Purchase of RBS's Shares by RBS

Subject to U.K. law, and to any rights conferred on the holders of any class of shares and to any requirements imposed by the London Stock Exchange, RBS may purchase any of its own shares. The Directors are not obliged to select the shares to be purchased rateably or in any other particular manner as between the holders of shares of the same class or different classes.

4.2.15 Conversion

Convertible preference shares carry the right to convert into ordinary shares if they have not been the subject of a notice of redemption from RBS, on or before a specified date determined by the Directors. The right to convert will be exercisable by service of a conversion notice on RBS within a specified period. RBS will use reasonable endeavours to arrange the sale, on behalf of convertible preference shareholders who have submitted a conversion notice, of the ordinary shares which result from such conversion and to pay to them the proceeds of such sale so that they receive net proceeds equal to the nominal value of the convertible preference shares which were the subject of the conversion notice and any premium at which such shares were issued, provided that ordinary shares will not be sold at below a benchmark price (as determined prior to the issue of the relevant convertible preference shares by the Directors).

4.2.16 Lien and Forfeiture

RBS has a lien on every partly paid share for all amounts payable to RBS in respect of that share. The Directors may call any monies unpaid on shares and may sell shares on which calls or amounts payable under the terms of issues are not duly paid.

4.2.17 Ownership of Shares by Non-U.K. Persons

There are no provisions in the articles of association that restrict non-resident or foreign shareholders from holding RBS Ordinary Shares or from exercising voting rights attaching to RBS Ordinary Shares.

4.2.18 Untraceable Shareholders

RBS shall be entitled to sell, at the best price reasonably obtainable, the shares of a member or the shares to which a person is entitled by transmission if:

- (i) during a period of 12 years prior to the date of advertising its intention to sell such shares at least three cash dividends in respect of such shares have become payable but all dividends or other moneys payable remain unclaimed;
- (ii) as soon as practicable after the expiry of the period referred to in sub-paragraph (i) above, RBS inserts advertisements in one daily newspaper with a national circulation in the United Kingdom, one Scottish daily newspaper and one

newspaper circulating in the area of the last known address of the member or other person giving notice of its intention to sell the shares;

- (iii) during the period referred to in sub-paragraph (i) above and the period of three months following the publication of the advertisements referred to in sub-paragraph (ii) above, RBS receives no indication of the whereabouts or existence of the member or other person; and
- (iv) if the shares are listed on the London Stock Exchange, RBS gives notice to the London Stock Exchange of its intention to sell the shares prior to publication of the advertisements.

The net proceeds of such sale shall belong to RBS, which shall be obliged to account to the former member or other person previously entitled to the shares for an amount equal to the proceeds as a creditor of RBS.

5 Major Shareholders

In so far as is known to the Company as at 16 July 2007 (the latest practicable date prior to the date of this document), the following persons are interested directly or indirectly in 3% or more of the issued ordinary share capital of the Company:

Shareholder	Number of RBS Ordinary Shares	Per cent. of issued share capital
Barclays PLC	380,510,604	4.01
Legal & General Group plc	390,396,705	4.12

Save as disclosed above, the Company is not aware of any person who is interested directly or indirectly in 3% or more of the issued ordinary share capital of the Company.

As at 16 July 2007, being the latest practicable date prior to the publication of this document, the Company was not aware of any person or persons who directly or indirectly, jointly or severally, exercise or could exercise control over the Company nor is it aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

None of the Company's major shareholders have or will have different voting rights attached to the shares they hold in the Company.

6 Employee Share Plans

The Company operates the following employee share plans ("Plans")¹:

6.1 Option Plans

The Company operates the following option plans ("Option Plans"):

6.1.1 Sharesave Schemes

- The Royal Bank of Scotland Group plc 2007 Sharesave Plan
- The Royal Bank of Scotland Group plc 2007 Irish Sharesave Plan
- The Royal Bank of Scotland Group plc 1997 Sharesave Scheme
- First Active PLC 2001 Approved SAYE Scheme*

6.1.2 Discretionary Option Plans

- The Royal Bank of Scotland Group plc 2007 Executive Share Option Plan
- The Royal Bank of Scotland Group plc Option 2000 Scheme

¹ All the Plans marked ("*") are legacy plans and relate to either the acquisition of NatWest or First Active PLC and have not been summarised in detail. Under the legacy plans, grants were originally made by NatWest and First Active PLC over the ordinary shares of those companies. All outstanding rights under the legacy plans are over RBS Ordinary Shares.

- The Royal Bank of Scotland Group plc 1999 Executive Share Option Scheme
- The Royal Bank of Scotland Group plc Executive Share Option Scheme 1986
- First Active PLC 2002 Approved Share Option Scheme*
- First Active PLC 1998 Share Option Scheme*
- The National Westminster Bank Group 1994 Executive Share Option Scheme*

6.1.3 *Terms of the Option Plans*

The following terms apply to all of the Option Plans:

Time limit for option grants

Options may not be granted more than ten years after shareholder approval.

Overall plan limits

In any ten calendar year period, the Company may not issue (or grant rights to issue) more than 10% of its issued ordinary share capital under the Option Plans and any other all-employee share plans adopted by the Company.

In addition, in any ten calendar year period, the Company may not issue (or grant rights to issue) more than 5% of its issued ordinary share capital under the executive share plans adopted by the Company.

RBS Ordinary Shares in treasury will count as new issue shares for the purposes of these limits unless the Association of British Insurers decide that they need not count.

Variation of capital

In the event of any variation in the Company's share capital, adjustments may be made to the number of RBS Ordinary Shares under option and the price payable on the exercise of an option as considered appropriate.

Other features of options

Options are not transferable, except on death. Options are not pensionable.

Rights attaching to RBS Ordinary Shares

Any RBS Ordinary Shares allotted when an option is exercised will rank equally with RBS Ordinary Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

Alterations to the Option Plans

The committee or Board (as appropriate) may amend the Option Plans in any respect, provided that the prior approval of shareholders is obtained for the amendment of certain provisions to the advantage of participants.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Option Plans, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group. Shareholder approval will also not be required for any amendment to any performance conditions.

Alterations to plans approved by the relevant tax authority are generally subject to the prior approval of the relevant tax authority.

6.1.4 *Savesave Schemes*

The following additional terms apply to the savesave schemes as well as those set out in 6.1.3:

Eligibility

Employees and full-time directors of the Company and any designated participating subsidiary who are resident and ordinarily resident in the relevant jurisdiction for tax

purposes will be eligible to participate. The Board may require employees to have completed a qualifying period of employment of up to five years (or three years in Ireland) before the grant of options. All eligible employees must be invited to participate. The Board may allow other employees to participate.

Grant of options

Options can only be granted to employees who enter into approved savings contracts, under which monthly savings are normally made over a period of three or five years. Options must be granted within 30 days (or 42 days if applications are scaled back) of the first day by reference to which the option price is set. The number of RBS Ordinary Shares over which an option is granted will be such that the total option price payable will correspond to the proceeds on maturity of the related savings contract.

Individual participation

Monthly savings by an employee under all savings contracts linked to options granted under any sharesave scheme may not exceed the statutory maximum (currently £250 in the United Kingdom and €320 in Ireland). The Board can set a lower limit in relation to any particular grant.

Option price

The price per RBS Ordinary Share payable upon the exercise of an option will not be less than 80% of the average middle-market quotation of a RBS Ordinary Share on the London Stock Exchange on the three days preceding a date specified in an invitation to participate (or such other day or days as may be agreed with the relevant tax authority).

The option price will be determined by reference to dealing days which fall within the period of six weeks following the announcement by the Company of its results for any period or at any other time which the Board considers to be sufficiently exceptional to justify offering options.

Exercise of options

Options will normally be exercisable for a six month period after the end of each savings contract. Earlier exercise is permitted in certain circumstances otherwise options will lapse on cessation of employment or directorship with the Company's group.

No grants have been made under The Royal Bank of Scotland Group plc 2007 Sharesave Plan and The Royal Bank of Scotland Group plc 2007 Irish Sharesave Plan. Options may be granted under these plans at a later date. The Royal Bank of Scotland Group plc 1997 Sharesave Scheme is no longer in operation; however there are still outstanding options under it.

The First Active PLC 2001 Approved SAYE Scheme* has only a few participants with minimal outstanding awards.

6.1.5 Discretionary Option Plans

The following additional terms apply to the discretionary option plans, as well as those set out in 6.1.3:

Eligibility

Any employee (including an executive director) of the Company and its subsidiaries will be eligible to participate.

Grant of options

The committee may grant options to acquire RBS Ordinary Shares within six weeks following the Company's announcement of its results for any period. The committee may also grant options within six weeks of shareholder approval of any plan or at any other time if the committee considers there are exceptional circumstances which justify the granting of options.

No payment is required for the grant of an option.

Individual participation

The committee will determine which employees may participate and the extent of their participation. The maximum value of RBS Ordinary Shares over which options may be granted to an employee will be set at the discretion of the committee, subject to the limits specified in the rules of the particular plan.

Option price

The price per RBS Ordinary Share payable upon exercise of an option will not be less than the market value of a RBS Ordinary Share on the dealing day (or a limited period before the dealing day depending on the plan) before the date of grant (or such other dealing day(s) as the committee may decide).

Performance conditions

The committee may impose a performance condition which must be satisfied before the exercise of options.

The committee may set different or no performance conditions for participants who are not directors or senior executives.

The committee may vary the performance conditions applying to existing options if an event has occurred which causes the committee to consider that it would be appropriate to amend the performance conditions, provided the committee considers the varied conditions are fair and reasonable and not materially less challenging.

Exercise of options

Options will normally become capable of exercise three years after grant to the extent that any performance conditions have been satisfied and provided the participant remains employed in the Company's group. Options will lapse on the day before the tenth anniversary of the date of grant (or six years for The Royal Bank of Scotland Group plc Option 2000 Scheme) or after such shorter period as determined by the committee at the time of grant.

RBS Ordinary Shares will normally be allotted or transferred to participants within 30 days of exercise. Where permitted under the plan rules the committee can decide to satisfy options which are not tax-advantaged by the payment of a cash amount.

Leaving employment and corporate events

As a general rule, an option will lapse upon a participant ceasing to hold employment or be a director within the Company's group. However, if a participant ceases to be an employee or director in the Company's group by reason of his death, ill-health, injury, disability, redundancy, retirement, his employing company or the business for which he works being sold out of the Company's group or in other circumstances at the discretion of the committee, then his option will become exercisable on the date of his cessation or on such later date as the committee may decide and remain exercisable for a limited period thereafter.

Similarly, in the event of a corporate event not being an internal corporate reorganisation, all options will become exercisable early for a limited time. The extent to which an option will become exercisable in these situations will depend upon two factors:

- (a) the extent to which any performance conditions have been satisfied by reference to the date of cessation; and
- (b) the pro-rating of the option to reflect the number of months (rounded up) between its grant and the time of cessation or corporate event, although the committee can decide not to pro-rate an option if it regards it as inappropriate to do so in the particular circumstances.

No grants have been made under The Royal Bank of Scotland Group plc 2007 Executive Share Option Plan to date. Options may be granted under this plan at a later date.

The Royal Bank of Scotland Group plc 1999 Executive Share Option Scheme and The Royal Bank of Scotland Group plc 1986 Executive Share Option Scheme are no longer in operation; however there are still outstanding options under these plans.

First Active PLC 2002 Approved Share Option Scheme*, First Active PLC 1998 Share Option Scheme* and the National Westminster Bank Group 1994 Executive Share Option* have only a few participants with minimal outstanding awards.

6.2 Share Incentive Plans

The Company operates the following Share Incentive Plans (“SIPs”):

- The Royal Bank of Scotland Group plc Employee Share Ownership Plan
- The Royal Bank of Scotland Group plc Employee Share Ownership Plan (Buy As You Earn Share Plan) (“Buy As You Earn Plan”)

The following terms are common to the SIPs.

Eligibility

All employees of the Company and any participating subsidiary may participate. When these plans are operated, all eligible employees must be invited to participate.

Operation

Employees may be offered free, partnership and matching shares, as the directors decide, except that free shares cannot be offered under the Buy As You Earn Plan.

Free shares

Participants can be given free RBS Ordinary Shares (“free shares”) up to a market value limited by the U.K. tax legislation to, currently, £3,000 a year. The directors may make the awards of free shares subject to performance targets. Free shares must generally be held in trust for between three and five years.

U.K. employees may be offered the opportunity to buy RBS Ordinary Shares (“partnership shares”) by deduction from their pre-tax salary. Such partnership shares are bought at market value. Under current U.K. legislation, they can buy up to £1,500 in each tax year or, if less, 10% of salary.

The directors may award additional free RBS Ordinary Shares (“matching shares”) on a matching basis to participants who buy partnership shares. Under the current legislation, up to a maximum of two matching shares can be offered for each partnership share.

Dividends

Cash dividends paid on RBS Ordinary Shares held in the SIPs may be reinvested in further RBS Ordinary Shares up to certain limits set out in the legislation.

Voting rights

The trustees can only vote RBS Ordinary Shares held in the SIPs in accordance with participants’ instructions.

General offers

If a general offer is made to the shareholders of the Company, participants may direct the trustees how to act in respect of any RBS Ordinary Shares held on their behalf.

The Buy As You Earn Plan is no longer in operation; however there are still outstanding awards under it.

6.3 Ulster Bank Group Employee Share Incentive Scheme (ESIS)

Eligibility

Any employee of the Ulster Bank Group plc (or participating group company) is eligible to participate in the ESIS at the discretion of the Board.

Grants of awards

The Board at its absolute discretion can invite any eligible employee to participate in the ESIS by offering the right to take all or part of any bonus or other sum due and owing to the employee in the form of shares. These shares are purchased by a trustee and held in the trustee's name for a period of up to five years and one month. After this time the shares are transferred into the employee's name.

General

This ESIS does not have any leaver specific provision to allow for early release of shares.

6.4 The Royal Bank of Scotland Group plc Irish Profit Sharing (Share Ownership) Scheme

The Royal Bank of Scotland Irish Profit Sharing (Share Ownership) Scheme is currently operated and allocations are made subject to Irish Revenue limits.

Eligibility

Employees and directors of the Company and participating subsidiaries at the end of the previous financial year may be allocated RBS Ordinary Shares.

Holding periods

Shares are normally held by the trustee for a minimum period of two years after allocation. In certain circumstances, for example death, redundancy or reaching the age of 60, RBS Ordinary Shares may be released before the expiry of the two-year period. After three years, the RBS Ordinary Shares are transferred to employees free of income tax.

Voting rights

The trustee can only vote RBS Ordinary Shares held in the plans in accordance with participants' instructions.

General offers

If a general offer is made to the shareholders of the Company, participants may direct the trustee how to act in respect of any shares held on their behalf.

6.5 The Royal Bank of Scotland Group plc Medium-term Performance Plan ("MPP")

Eligibility

Any employee (including an executive director) of the Company and its subsidiaries (except a subsidiary which the Board has expressly designated as not a participating subsidiary) will be eligible to participate in the MPP.

Grant of options

The committee (or such other person acting with the prior consent of the Board) may grant awards to participants. Awards under the MPP may be in the form of rights to acquire RBS Ordinary Shares by way of a nil-cost option or a contingent award or in the form of phantom shares or phantom share options. The amount of the award is determined at the discretion of the committee. The type of the award is either determined by the committee or the participant. The award is made subject to conditions based on the financial performance of the Company and its subsidiaries over a performance period.

Individual participation

The committee will determine which employees may participate and the extent of their participation. The maximum value of awards which may be granted to an employee will be set at the discretion of the committee but it is not intended that this will normally be above 150% of an employee's base salary in any financial year. Special conditions apply if an award is made in excess of this limit.

Performance conditions

The committee will impose a performance condition on the exercise of options and vesting of awards.

The committee may vary the performance conditions applying to an award if an event has occurred which causes the committee to consider that it would be appropriate to amend the performance conditions, provided the committee reasonably considers the varied conditions are a fairer measure of performance, and not materially more difficult or less challenging than the original conditions.

Rights of exercise or vesting

Awards will not be capable of exercise or vest earlier than the expiry of the performance period (except in exceptional circumstances). Awards will only be capable of exercise or vest to the extent that any performance conditions have been satisfied and provided the participant remains employed in the Company's group.

Awards will lapse on the day before the tenth anniversary of the date of grant.

RBS Ordinary Shares will be allotted or transferred to participants within 30 days of exercise of a nil cost option or vesting of a contingent award. The grantor can decide to satisfy such nil cost options or vested contingent awards by the payment of a cash amount.

On the exercise of a phantom option or vesting of a phantom share award, a cash payment equal to the market value of each phantom share will be made to the participants within 30 days of such exercise or vesting.

Leaving employment

As a general rule, an award is not capable of exercise, or will not vest if a participant ceases to hold employment or be a director within the Company's group. However, if a participant ceases to be an employee or director in the Company's group by reason of his death, ill-health, injury, disability, redundancy, retirement, his employing company or the business for which he works being sold out of the Company's group or in other circumstances at the discretion of the committee, then a contingent award will vest on the date of cessation and a nil-cost option can be exercised in the 12 months following the cessation of employment. An award may be reduced pro rata to reflect the length of service within a performance period and the extent to which any conditions have been satisfied.

Corporate events

In the event of certain corporate events such as a takeover, or winding up of the Company all awards will become exercisable early (for a limited period), or vest early. The extent to which awards will become exercisable or vest in these situations will depend on the extent to which any performance conditions have been satisfied.

6.6 The Royal Bank of Scotland Group plc Restricted Share Plan ("RSP")

Eligibility

Any employee (but excluding any person who is a main board director of the Company) of the Company and its subsidiaries will be eligible to participate in the RSP.

Grant of award

The Board may grant a conditional right to acquire RBS Ordinary Shares at no cost (“conditional award”) or a beneficial interest in RBS Ordinary Shares (“restricted shares”) in the Company.

No payment is required for the grant of award.

Performance conditions

The Board may make the vesting of an award conditional on satisfying one or more conditions.

The Board may vary the performance conditions applying to an award if an event has occurred which causes the board to consider that it would be appropriate to either waive the existing conditions in whole or in part, or to amend the performance conditions, provided the board reasonably considers the varied conditions are a fairer measure of performance, and not materially more difficult or less challenging than the original conditions.

Vesting of an award

The Board can decide to satisfy awards by the payment of a cash amount.

The RSP only uses existing RBS Ordinary Shares, and trustees are not permitted to subscribe for any new issue shares.

Leaving employment

As a general rule, an award will lapse upon a participant ceasing to hold employment within the Company’s group. However, if a participant ceases to be an employee in the Company’s group by reason of his death, ill-health, injury, disability, redundancy, retirement, his employing company or the business for which he works being sold out of the Company’s group or in other circumstances at the discretion of the Board, then his award will vest in full on the date of his cessation even if conditions have not been satisfied.

Corporate events

In the event of a takeover, amalgamation, reconstruction or winding up of the Company (not being an internal corporate reorganisation or merger) all awards will vest early and in full (unless the Board determines otherwise).

6.7 Citizens Long Term Incentive Plan

The Citizens Long Term Incentive Plan (“CLTIP”) was approved by shareholders in 2005. Awards have been made to Mr Fish under CLTIP. Performance is measured on a combination of growth in profit before tax and relative return on equity based on a comparison of Citizens with comparator U.S. banks. The targets for this plan are set on an annual basis over the three-year term of the grant. The target value of the award made under the CLTIP in 2005 was 33% of salary, and in 2006 was 75% of salary. Each award may deliver up to a maximum of twice the target value.

6.8 Citizens Phantom 2000 Plan

The Company also had an outstanding cash award granted under the Citizens Phantom 2000 Plan (“CPP”), which is no longer operational and therefore has not been summarised in detail. The outstanding award under the CPP vested in 2006 to Mr Fish.

7 Environmental Issues

The Company is of the opinion that there are no environmental issues which may affect the Company’s utilisation of its tangible fixed assets.

8 Material Contracts

8.1 RBS

The following are all of the contracts (not being contracts entered into in the ordinary course of business) that have been entered into by members of the RBS Group (i) within the two years

immediately preceding the date of this document which are, or may be, material to the RBS Group; or (ii) at any time and contain obligations or entitlements which are, or may be, material to the RBS Group as at the date of this document:

(i) *Consortium and Shareholders' Agreement*

On 28 May 2007 Fortis, RBS, Santander and RFS Holdings entered into the Consortium and Shareholders' Agreement. The material terms of this agreement are described in Part IX.

(ii) *Standby Underwriting Commitment Letter*

On 28 May 2007, RBS and Merrill Lynch entered into the Standby Underwriting Commitment Letter. The material terms of this agreement are described in Part X.

8.2 ABN AMRO

So far as RBS is aware, the following are all of the contracts (not being contracts entered into in the ordinary course of business) that have been entered into by members of the ABN AMRO Group (i) within the two years immediately preceding the date of this document which are, or may be, material to the ABN AMRO Group; or (ii) at any time and contain obligations or entitlements which are, or may be, material to the ABN AMRO Group as at the date of this document:

(i) *Merger Protocol*

On 23 April 2007, Barclays and ABN AMRO entered into a merger protocol (the "Merger Protocol") providing for a merger of their businesses by way of an exchange offer by Barclays for all outstanding ABN AMRO Ordinary Shares and ABN AMRO ADSs (the "Barclays Offer"). Subject to the terms of the Merger Protocol, the Supervisory Board and the Management Board of ABN AMRO agreed to recommend the Barclays Offer to ABN AMRO Shareholders.

Under the Merger Protocol, Barclays' obligation to make the exchange offer is subject to a number of conditions having been satisfied or waived by Barclays and/or ABN AMRO (as the case may be). The obligations of Barclays and ABN AMRO to complete the merger is also subject to a number of conditions having been satisfied or waived by Barclays and/or ABN AMRO (as the case may be). The conditions to the obligations of Barclays and ABN AMRO to complete the merger include at least 80% of ABN AMRO Shareholders accepting the Barclays Offer, the receipt of all regulatory approvals necessary or appropriate in connection with the exchange offer or merger, the shareholders of Barclays having unconditionally passed all appropriate resolutions, the completion of the Bank of America Agreement and there being no material adverse change with respect to either Barclays or ABN AMRO. In addition, until the earlier of the date of the settlement of the Barclays Offer and the date on which the Merger Protocol is terminated, Barclays and ABN AMRO have agreed to conduct their respective businesses in the ordinary and usual course of business and have further agreed to comply during such period with a number of restrictions on the operation of their respective businesses.

The Merger Protocol provides for Barclays to be the holding company of the combined group following completion of the Barclays Offer and prescribes a corporate governance structure for the combined group which anticipates a UK-style unitary board with Barclays retaining a primary listing on the London Stock Exchange, its registered office in England and remaining UK tax resident. The Barclays head office would be located in Amsterdam.

Under the Merger Protocol, ABN AMRO has agreed to procure that those members of its Boards who hold shares in ABN AMRO irrevocably undertake with Barclays to tender their shares subject to the ABN AMRO Boards' recommendation not having been revoked.

Subject to the provisions relating to competing offers set out below, ABN AMRO has agreed not to withdraw its recommendation of the Barclays Offer. ABN AMRO has also agreed that until the earlier of 1 March 2008 and the termination of the Merger Protocol, it will not initiate, solicit or enter into discussions or negotiations with, or provide confidential information to, any third party regarding the making of a bona fide unsolicited offer for the whole or a substantial part of the shares or assets of ABN AMRO (an "Alternative

Proposal”). ABN AMRO may have contacts with a third party to understand the contents of any Alternative Proposal but must notify Barclays promptly of any communication, invitation or approach from a third party including the identity of the third party and the principal terms of any Alternative Proposal and must keep Barclays informed of any discussions or developments with respect to any Alternative Proposal. If the Boards of ABN AMRO conclude that an Alternative Proposal would be likely to develop into a competing offer for more than 50% of ABN AMRO’s voting or ordinary share capital which, in the reasonable opinion of the Boards of ABN AMRO, would be more beneficial than the Barclays Offer (a “Competing Offer”), ABN AMRO must give notice thereof to Barclays. If the Boards of ABN AMRO determine that they intend to withdraw their recommendation of the Barclays Offer and recommend the Competing Offer, they must notify Barclays promptly and Barclays then has five business days to communicate a revised offer. If, at the end of the five business day period, Barclays fails to communicate a revised offer or the Boards of ABN AMRO confirm their intention to recommend the Competing Offer notwithstanding any Barclays revised offer, each of ABN AMRO and Barclays may terminate the Merger Protocol and the Boards of ABN AMRO may withdraw their recommendation of the Barclays Offer and subsequently recommend the Competing Offer.

The Merger Protocol may also be terminated by either party on the material breach of the other party. The Merger Protocol will automatically terminate if the conditions to the commencement of the Barclays Offer have not been satisfied or waived on or before 1 November 2007 or if the Barclays Offer has not been declared unconditional on or before 1 March 2008.

An amount of €200 million shall be paid by ABN AMRO to Barclays if the Merger Protocol is terminated as a result of the Boards of ABN AMRO withdrawing their recommendation of the Barclays Offer, the Boards of ABN AMRO recommending a Competing Offer or as a result of a material breach of the Merger Protocol by ABN AMRO. An amount of €200 million shall be paid by Barclays to ABN AMRO if the Merger Protocol is terminated as a result of the board of Barclays withdrawing their recommendation of the Barclays Offer or as a result of a material breach of the Merger Protocol by Barclays.

(ii) *Agreement with Bank of America for the sale of LaSalle*

On 22 April 2007, ABN AMRO Bank and Bank of America entered into an agreement for the sale by ABN AMRO Bank to Bank of America of all of the outstanding shares of common stock of ABN AMRO North America Holding Company (“ABN AMRO North America”), a Delaware corporation whose subsidiaries include LaSalle. The consideration for the shares to be paid on closing is U.S.\$21,000,000,000, subject to a potential purchase price adjustment if ABN AMRO Bank’s estimate of the net income of ABN AMRO North America for the pre-closing period is less than a specified income threshold. The agreement also provides for approximately U.S.\$6 billion owed by ABN AMRO North America to other members of the ABN AMRO Group to be converted into common stock of ABN AMRO North America.

ABN AMRO Bank gave certain representations and warranties to Bank of America, including, *inter alia*, as to title to the shares, authority and capacity to enter into the agreement, financial statements, tax and employee benefits. The warranties given by ABN AMRO Bank are repeated on closing of the Agreement. ABN AMRO Bank is liable to indemnify and hold harmless Bank of America for damages arising out of certain specified events, including breach of any covenant that survives closing. The agreement includes restrictions on the conduct of the business of ABN AMRO North America during the period between the date of the agreement and closing, including an obligation on the non-solicitation of any alternative acquisition proposal by a third party, save for proposals by certain qualified purchasers in the period ending 14 days after the date of the agreement. Closing of the sale and purchase is subject to certain conditions having been satisfied, including regulatory approvals having been obtained and remaining in full force and effect.

9 Related Party Transactions

Save as disclosed in Note 45 to the financial information incorporated by reference into Part XVI of this document, there are no related party transactions between the Company and members of the RBS Group that were entered into during the financial years ended 31 December 2004, 2005 and 2006 and during the period between 1 January 2007 to 16 July 2007 (the latest practicable date prior to the publication of this document).

Save as disclosed in the financial information set out in note 46 in of the Appendix to this document, there are no related party transactions between ABN AMRO and members of the ABN AMRO Group that were entered into during the financial years ended 31 December 2004, 2005 and 2006 and during the period between 1 January 2007 to 16 July 2007 (the latest practicable date prior to the publication of this document).

10 Litigation

10.1 RBS

Save as disclosed in this paragraph 10.1, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which RBS is aware) during the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the financial position or profitability of the RBS Group.

Proceedings, including consolidated class actions on behalf of former Enron securities holders, have been brought in the United States against a large number of defendants, including the Group, following the collapse of Enron. The claims against the RBS Group could be significant but the class plaintiffs' position is that each defendant is responsible for an entire aggregate damage amount less settlements—they have not quantified claim damages against the RBS Group in particular. The RBS Group considers that it has substantial and credible legal and factual defences to these claims and it continues to defend them vigorously. A number of other defendants have reached settlements in the principal class action. The RBS Group is unable reliably to estimate the possible loss to it in relation to these matters or the effect that the possible loss might have on the RBS Group's consolidated net assets or its operating results or cash flows in any particular period. In addition, pursuant to requests received from the U.S. Securities and Exchange Commission and the Department of Justice, the RBS Group has provided copies of Enron-related materials to these authorities and has co-operated fully with them.

10.2 ABN AMRO

So far as RBS is aware, save as disclosed in this paragraph 10.2, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which RBS is aware) during the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the financial position or profitability of the ABN AMRO Group:

10.2.1 On 26 April 2007, Halpert Enterprises, an investor in ABN AMRO, filed a class action suit against ABN AMRO, individual ABN AMRO directors and Bank of America. It demanded, among other things, that ABN AMRO's management withdraw its consent to the sale of ABN AMRO North America and LaSalle, and that the court declare the U.S.\$200 million termination fee agreed with Bank of America to be unenforceable. The suit, originally filed in a New York State Court, has been moved to the United States District Court for the Southern District of New York where it is currently pending.

10.2.2 On 26 April 2007, VEB and certain individuals filed a request before the Enterprise Chamber of the Court of Appeal at Amsterdam for an inquiry into the policy of ABN AMRO as from 1 January 2006 as well as for injunctions to stay the execution of the Bank of America Agreement. On 3 May 2007, the Enterprise Chamber of the Court of Appeal at Amsterdam issued a judgement in which ABN AMRO and ABN AMRO Bank were prohibited by way of injunction from taking any further steps in the execution of the Bank of America Agreement unless the ABN AMRO Shareholders approved that agreement. On 15 May 2007, ABN AMRO and ABN AMRO Bank filed an appeal with the Dutch Supreme Court against the judgement of the Enterprise Chamber of the Court of Appeal at Amsterdam.

10.2.3 On 4 May 2007, Bank of America filed a complaint against ABN AMRO in the United States District Court for the Southern District of New York for breach of the Bank of America Agreement for U.S.\$21 billion. The initial pre-trial conference, originally scheduled for 15 June 2007, has been adjourned to 27 July 2007. Both ABN AMRO and Bank of America agreed to postpone proceedings in New York until the Dutch Supreme Court ruled on whether or not the LaSalle sale was to be put to a shareholder vote.

10.2.4 On 13 July 2007 the Dutch Supreme Court issued its ruling on the ABN AMRO appeal of 15 May 2007. That ruling was to the effect that ABN AMRO and ABN AMRO Bank were entitled to sell LaSalle without the prior approval of ABN AMRO Shareholders. As a result of the ruling, the injunction granted by the Dutch Enterprise Chamber ceased to exist. The Dutch Supreme Court decision did not deal with VEB's request to the Enterprise Chamber for an investigation into the policy of ABN AMRO as from 1 January 2006: this request is still pending before the Enterprise Chamber.

11 Offering Restrictions

This document has been approved by the FSA, being the competent authority in the United Kingdom. The Company has requested that the FSA provide a certificate of approval and a copy of this document to the relevant competent authorities in each of the Netherlands, France, Luxembourg, Germany, Belgium, Denmark, Finland, Norway, Spain, Sweden and Ireland, pursuant to passporting provisions of FSMA. In addition, the Offer will be extended to ABN AMRO Shareholders in Canada and Switzerland.

Accordingly, the making of the Offer to persons located or resident in, or who are citizens of, or who have a registered address in countries other than the Netherlands, France, Luxembourg, Germany, Belgium, Denmark, Finland, Norway, Sweden, Ireland, Spain, Switzerland, Canada and the United Kingdom may be affected by the law or regulatory requirements of the relevant jurisdiction. Any shareholder who is in any doubt as to his position should consult an appropriate professional adviser without delay.

The attention of Restricted Shareholders is drawn to the following in connection with the Offer.

11.1 General

Receipt of this document and/or an Offer Document will not constitute an invitation to accept the Offer in those jurisdictions in which it would be illegal to make such an invitation or any related offer and/or acceptance. No person receiving a copy of this document and/or an Offer Document in any territory other than the Netherlands, France, Luxembourg, Germany, Belgium, Denmark, Finland, Norway, Sweden, Ireland, Spain, Switzerland, Canada and the United Kingdom may treat the same as constituting an invitation or offer to him, unless, in the relevant territory, such an invitation or offer could lawfully be made to him and the Offer Document could lawfully be used or dealt with, and any transaction flowing from such use or dealing could be effected, without compliance with any registration or other legal or regulatory requirements other than any which may have been fulfilled.

This document and the related Offer Document are not being sent to ABN AMRO Shareholders with registered addresses in Australia, Italy, Japan or the United States (although ABN AMRO Shareholders resident in the United States will receive the U.S. Prospectus) and, subject as set out below, may not be treated as an invitation to accept the Offer by any Restricted Shareholder.

Accordingly, persons receiving a copy of this document and/or an Offer Document should not, in connection with the Offer or otherwise, distribute or send the same to any person in, or citizen or resident of, or into any Restricted Jurisdiction. If a copy of this document and/or an Offer Document is received by any person in any such territory, or by their agent or nominee in any such territory, he must not seek to accept the Offer. Any person who does forward this document and/or an Offer Document into any such Restricted Jurisdiction (whether under a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph 11.

Subject to the paragraphs entitled “United States”, “Italy”, “Japan” and “Restricted Jurisdictions other than Italy, Japan and the United States” below, any person (including, without limitation, nominees and trustees) outside the Netherlands, France, Luxembourg, Germany, Belgium, Denmark, Finland, Norway, Sweden, Ireland, Spain, Switzerland, Canada and the United Kingdom wishing to accept the Offer must satisfy himself as to full observance of the applicable laws of any relevant territory including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories. The comments set out in this paragraph 11 are intended as a general guide only and any ABN AMRO Shareholder who is in doubt as to his position should consult his professional adviser without delay.

RFS Holdings reserves the right to treat as invalid any acceptance or purported acceptance of the Offer which appears to RFS Holdings or its agents to have been executed, effected or dispatched in a manner which may involve a breach of the law or regulations of any jurisdiction or RFS Holdings believes or its agents believe that the same may violate applicable legal or regulatory requirements if it provides an address for delivery of share certificates for New RBS Ordinary Shares or, in the case of a credit of New RBS Ordinary Shares in CREST to a CREST member or CREST sponsored member whose registered address would be in the United States or any Restricted Jurisdiction or any other jurisdiction outside the Netherlands, France, Luxembourg, Germany, Belgium, Denmark, Finland, Norway, Sweden, Ireland, Spain, Switzerland, Canada and the United Kingdom in which it would be unlawful to deliver such share certificates. The attention of ABN AMRO Shareholders with registered addresses in or persons who are citizens of or who are resident or otherwise located in such jurisdictions is drawn to the paragraphs headed “United States”, “Italy”, “Japan” and “Restricted Jurisdictions other than Italy, Japan and the United States” below.

Notwithstanding any other provision of this document or the Offer Document, RFS Holdings reserves the right to permit any ABN AMRO Shareholder to the Offers if RFS Holdings in its sole and absolute discretion is satisfied that the transaction in question is exempt from, or not subject to, the legislation or regulations giving rise to the restrictions in question.

Specific restrictions relating to certain jurisdictions are set out below.

11.2 United States

The New RBS Ordinary Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Accordingly, this document and/or the Offer Document does not constitute an offer to sell, or an invitation to purchase or subscribe, securities in the United States, and the New RBS Ordinary Shares, subject to certain exceptions, may not be offered, sold, delivered or transferred, directly or indirectly, in or into the United States. The U.S. Offer is not being made in or into the United States other than by the U.S. Prospectus.

Subject to certain exceptions, this document and the related Offer Document are not being sent to, and acceptances will not be accepted from, any ABN AMRO Shareholder with a registered address in the United States unless otherwise determined by RFS Holdings in its sole discretion and effected in a lawful manner. Subject to certain exceptions, stock accounts in CREST of shareholders with registered addresses in the United States will not automatically be credited with New RBS Ordinary Shares issued pursuant to the Offer.

11.3 Japan

The New RBS Ordinary Shares have not been and will not be registered under the Securities and Exchange Law of Japan. Accordingly, the Offer (which involves an offer of New RBS Ordinary Shares) is not and will not, directly or indirectly, be made to or for the benefit of, and the New RBS Ordinary Shares will not, directly or indirectly, be offered or sold in Japan. Therefore, this document must not be distributed in whole or in part into Japan. This document and other documents related to the Offer may not be electronically provided to, nor accessed by persons in Japan. Copies of this document and other documents related to the Offer, are not being and must not be mailed or otherwise distributed or sent to, or for the benefit of persons in Japan. Persons (including custodians, nominees and trustees) receiving this document and other documents related to the Offer must not distribute or send them to, or for the benefit of persons in Japan.

The Offer will not be made, directly or indirectly, in or into or by the use of the mails or any other means or instrumentality (including, without limitation, facsimile transmission, telex, telephone or internet) of interstate or foreign commerce of, or any facilities of a national securities exchange of, Japan, and is not capable of acceptance by any such use, means, instrumentality or facilities from or within Japan.

11.4 Italy

The Offer and any solicitation in respect thereof are presently not being made, directly or indirectly, in or into the Republic of Italy and have not received clearance from the Commissione Nazionale per le Società e la Borsa pursuant to Italian securities laws and implementing regulations. Application for authorisation by the relevant Italian authorities for the launching of an offer for ABN AMRO Ordinary Shares in the Republic of Italy while being contemplated has not yet been, and may not be, made. Accordingly, Italian ABN AMRO Shareholders are hereby notified that, to the extent such ABN AMRO Shareholders are persons or entities resident and/or located in the Republic of Italy and until and to the extent that the relevant authorisation has been obtained from the Italian authorities, the Offer is not available to them and they may not accept the Offer and, as such, any tenders of ABN AMRO Ordinary Shares received from such persons or entities shall be ineffective and void. Neither this document nor the related Offer Document nor any other offering materials relating to the Offer or the ABN AMRO Ordinary Shares may be distributed or made available in the Republic of Italy.

11.5 Restricted Jurisdictions other than Italy, Japan and the United States

Due to restrictions under the securities laws of Australia, Italy and Japan, neither this document, the related Offer Document, or any other offering materials relating to the Offer or the ABN AMRO Ordinary Shares will be sent to, and no New RBS Ordinary Shares issued pursuant to the Offers will be credited to a stock account in CREST of, ABN AMRO Shareholders with registered addresses in, and the New RBS Ordinary Shares issued pursuant to the Offers may not be transferred or sold to or into or delivered in, any of those countries. Accordingly, no offer of New RBS Ordinary Shares is being made by virtue of this document or the related Offer Document into Australia, Italy or Japan.

ABN AMRO Shareholders in jurisdictions other than those specified above may, subject to the laws of their relevant jurisdiction, accept New RBS Ordinary Shares. Such shareholders who have registered addresses in, or who are resident in, or who are citizens of, countries other than the Netherlands, France, Luxembourg, Germany, Belgium, Denmark, Finland, Norway, Sweden, Ireland, Spain, Canada and the United Kingdom should, however, consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to accept the Offers.

If you are in any doubt as to your eligibility to take up the New RBS Ordinary Shares, you should contact your professional adviser immediately.

12 Working Capital

As RBS has only had limited access to non-public information of ABN AMRO, it has not been able to undertake appropriate procedures to support a statement in respect of the sufficiency of its working capital on the basis that the Transaction has taken place.

However, RBS is of the opinion that the working capital available to the RBS Group, excluding the ABN AMRO Group, is sufficient for its present requirements, that is, for at least the next 12 months following the date of this document. This working capital statement has been prepared on the basis that the acquisition of the ABN AMRO Group has not taken place. RBS will prepare and publish a supplementary prospectus containing a working capital statement on the basis that the acquisition of the ABN AMRO Group has taken place as soon as reasonably practicable following completion of the Offers.

13 No Significant Change

13.1 RBS

Save for the estimate that profit before tax, intangibles amortisation and integration costs for the six months to 30 June 2007 is expected to be not less than £5,000 million, as disclosed in the

paragraph entitled “Current Trading and Prospects” in Part XVIII of this document, there has been no significant change in the financial or trading position of the RBS Group since 31 December 2006 (the date to which the latest audited published financial information of the RBS Group was prepared).

13.2 ABN AMRO

So far as RBS is aware, there has been no significant change in the financial or trading position of ABN AMRO since 31 March 2007, being the end of the last financial period for which ABN AMRO has published financial information.

14 Consent

The auditors of the Company are Deloitte & Touche LLP, whose address is Saltire Court, 20 Castle Terrace, Edinburgh EH1 2DB. Deloitte & Touche LLP has given and has not withdrawn its written consent to the inclusion in this document of the report set out at Part XIX of this document in the form and context in which it appears and has authorised the contents of such report for the purposes of Prospectus Rule 5.5.

15 Dividends paid per RBS Ordinary Share

The following table sets forth the sterling amount of net dividends paid per RBS Ordinary Share in each of the financial years for the five years ended 31 December 2006.

	Dividend per share (pence per ordinary share)	
	Reported	Adjusted ⁽¹⁾
2006	77.3	25.8
2005	60.6	20.2
2004	52.5	17.5
2003	45.6	15.2
2002	39.7	13.2

(1) The reported dividend per share data are as published. The adjusted dividend per share data have been adjusted to reflect the two for one bonus issue in May 2007.

16 General

The total costs and expenses payable by the RBS Group in connection with the Transaction are estimated to amount to approximately £135 million (including amounts in respect of VAT).

The financial information contained in this document does not comprise the statutory accounts of any company within the meaning of Section 240 of the Companies Act. For each of the 2004, 2005 and 2006 financial years, the financial statements of the Company were audited by Deloitte & Touche LLP. All such financial statements received unqualified audit opinions and did not contain a statement under Section 237(2) or (3) of the Companies Act or its equivalent. Statutory accounts for each financial period have been delivered to the Registrar of Companies in Scotland pursuant to Section 242 of the Companies Act.

The New RBS Ordinary Shares when issued will be in registered form and no temporary documents of title will be issued. The New RBS Ordinary Shares may be held in Uncertificated Form.

17 Presentation of Information

17.1 Historical financial information for RBS

As required by the Companies Act and Article 4 of the European Union IAS Regulation, RBS’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (collectively “IFRS”) as adopted by the European Union. The EU has not adopted the complete text of IAS 39 “Financial Instruments: Recognition and Measurement”. It has relaxed

some of the standard's hedging requirements. RBS has not taken advantage of this relaxation and have adopted IAS 39 as issued by the IASB. On implementation of IFRS on 1 January 2005, RBS took advantage of the option in IFRS 1 "First-time Adoption of International Financial Reporting Standards" to implement IAS 39 "Financial Instruments: Recognition and Measurement", IAS 32 "Financial Instruments: Disclosure and Presentation" and IFRS 4 "Insurance Contracts" from 1 January 2005 without restating RBS's 2004 income statement and balance sheet. The date of transition to IFRS and the date of RBS's opening IFRS balance sheet was 1 January 2004.

RBS's historical financial information for the year ended 31 December 2004 was prepared in accordance with then current U.K. generally accepted accounting principles ("U.K. GAAP") comprising standards issued by the U.K. Accounting Standards Board, pronouncements of the Urgent Issues Task Force, relevant Statements of Recommended Accounting Practice and provisions of the Companies Act.

17.2 Historical financial information for ABN AMRO

For all periods up to and including the year ended 31 December 2004, ABN AMRO prepared its consolidated financial statements in accordance with generally accepted accounting principles in the Netherlands ("Dutch GAAP"). From 1 January 2005, it was required under EU regulations to prepare its consolidated financial statements in accordance with IFRS. ABN AMRO's financial statements for 2005 are its first financial statements prepared in accordance with IFRS.

17.3 Currencies

RBS's reporting currency is Pounds Sterling. ABN AMRO's reporting currency is euros. Following completion of the Transaction, the Enlarged Group's primary reporting currency will be Pounds Sterling.

17.4 Other information

Certain information is given as at 16 July 2007, which is the latest practicable date for the preparation of such information for inclusion in this document.

17.5 Sources of information

The sources and bases of statements relating to the market position of RBS or the Enlarged Group are set out in this document where the statement is made. Certain information has been obtained from external publications and is sourced in this document where the information is included. RBS confirms that this information has been accurately reproduced and, so far as RBS is aware and is able to ascertain from the information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Unless otherwise stated, such information has not been audited.

17.6 Financial Information

The financial information and certain other information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

17.7 Information incorporated by reference

The following table provides details of the page numbers of the Annual Report and Accounts for 2006, Annual Report and Accounts for 2005 and Annual Report and Accounts for 2004, on which certain information incorporated by reference into this document can be found:

	Annual Report and Accounts for the period ending		
	31 December 2004	31 December 2005	31 December 2006
Consolidated financial statements of RBS Group			
Accounting policies	pages 139 to 142	pages 136 to 144	pages 130 to 138
Profit and Loss Account	page 143	N/A	N/A
Income Statement	N/A	page 145	page 139
Balance Sheet	page 144	page 146	page 140
Statement of Total Recognised Gains and Losses	page 145	N/A	N/A
Statement of Recognised Income and Expense	N/A	page 147	page 141
Cash Flow Statement	page 146	page 148	page 142
Notes to accounts	pages 148 to 199	pages 149 to 229	pages 143 to 224
Report of the auditors	page 138	pages 134 to 135	pages 128 to 129
Other information			
The Operating and Financial Review of RBS Group	N/A	pages 51 to 106	pages 43 to 100
Information on the supervision and regulation of RBS	N/A	N/A	pages 246 to 249
Capital resources	N/A	N/A	page 78

18 Sources and Bases of Synergies

In arriving at the estimate of cost savings set out in Part VI and Part VII of this document, the RBS Directors have assumed the following:

- (1) RFS Holdings will acquire 100% of the issued and outstanding share capital of ABN AMRO pursuant to the Offers;
- (2) that there will be no significant impact on the business of the Enlarged Group arising from any decisions made by any competition or regulatory authorities;
- (3) the sources of information which the RBS Directors have used to arrive at the estimated cost savings referred to above include: (i) ABN AMRO's annual reports and accounts; (ii) brokers' research and other industry publications; and (iii) the RBS Directors' knowledge of the industry; and
- (4) the expected operating cost savings have been calculated on the bases of the existing cost and operating structures of RBS and ABN AMRO and by reference to current prices and exchange rates and the current regulatory environment.

19 Documents Available for Inspection

Copies of the following documents:

- (i) the existing Memorandum of Association and Articles of Association of the Company;
- (ii) the audited consolidated accounts of the RBS Group for the three years ended 31 December 2004, 2005 and 2006;

- (iii) the audited consolidated accounts of the ABN AMRO Group for the three years ended 31 December 2004, 2005 and 2006;
- (iv) the consent letter referred to in paragraph 14 above;
- (v) the Consortium and Shareholders' Agreement;
- (vi) the Offer Document;
- (vii) the RBS Shareholder Circular; and
- (viii) this document,

are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period from the date of publication of this document until Admission at:

- (i) RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ; and
- (ii) the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ.

Dated 20 July 2007

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

1995 Securities Decree	the Dutch 1995 Decree on the supervision of the securities trade
ABN AMRO	ABN AMRO Holding N.V., a company incorporated in the Netherlands (Trade Register number 33220369) whose registered office is at Gustav Mahlerlaan 10, 1082 PP Amsterdam, the Netherlands
ABN AMRO ADS	an American depository share of ABN AMRO, which may be evidenced by an American depository receipt, each representing one ABN AMRO Ordinary Share
ABN AMRO Bank	ABN AMRO Bank N.V., a wholly owned subsidiary of ABN AMRO
ABN AMRO Businesses	the businesses of ABN AMRO to be acquired by RFS Holdings, Fortis, RBS or Santander, as the case may be
ABN AMRO Convertible Preference Shares	depository receipts of convertible financing preference shares, in registered form, with a nominal value of €0.56 each in the capital of ABN AMRO
ABN AMRO Formerly Convertible Preference Shares	(formerly convertible) preference shares, in registered form, with a nominal value of €2.24 each in the capital of ABN AMRO
ABN AMRO Group	ABN AMRO, its subsidiaries and subsidiary undertakings
ABN AMRO Ordinary Share	an ordinary share in the capital of ABN AMRO, nominal value €0.56 per share (including such shares underlying ABN AMRO ADSs)
ABN AMRO Shareholder	a holder of an ABN AMRO Ordinary Share
Admission	the admission of the New RBS Ordinary Shares to the Official List and to trading on the London Stock Exchange's market for listed securities in accordance with, respectively, the Listing Rules and the Admission and Disclosure Standards
Admitted Institution	the institutions which hold ABN AMRO Ordinary Shares on behalf of their clients through Euroclear Nederland as admitted institutions of Euroclear Nederland
Annual Report and Accounts for 2006	the annual report and accounts of RBS for the year ended 31 December 2006, as filed with the FSA
Annual Report and Accounts for 2005	the annual report and accounts of RBS for the year ended 31 December 2005, as filed with the FSA
Annual Report and Accounts for 2004	the annual report and accounts of RBS for the year ended 31 December 2004, as filed with the FSA
Articles of Association	the articles of association of the Company details of which are set out in paragraph 4.2 of Part XXIV of this document
AFM	the Netherlands Authority for the Financial Markets (<i>Autoriteit Financiële Markten</i>)
Bank of America	Bank of America Corporation, a company incorporated under the laws of the State of Delaware, United States of America

Bank of America Agreement	the Purchase and Sale Agreement, dated as of 22 April 2007, between Bank of America and ABN AMRO Bank in respect of ABN AMRO North America Holding Company, the holding company for LaSalle, including the subsidiaries LaSalle N.A. and LaSalle Midwest N.A., including any amendment thereto
Banks	Fortis, RBS and Santander, collectively, and if the context so requires RFS Holdings
Barclays	Barclays plc, a public limited company organised under the laws of England and Wales whose registered office is at 1 Churchill Place, London E14 5HP
Board	the board of directors of RBS or ABN AMRO, as the context requires
Business Day	any day on which banks are open for business in both London and Amsterdam for the transaction of business other than a Saturday or Sunday or public holiday
Belgium	the Kingdom of Belgium
Certificated or in Certificated Form	recorded on the relevant register or other record of the share or other security concerned as being held in certificated form
Citizens	Citizens Financial Group, Inc., a wholly-owned subsidiary of RBS
Civil Code	the Dutch Civil Code (<i>Burgerlijk Wetboek</i>)
Combined Code	the U.K. Combined Code on Corporate Governance
Companies Act	the U.K. Companies Act 1985, as amended
Company	The Royal Bank of Scotland Group plc, a company incorporated under the laws of Scotland (registered under no. SC45551), with registered office at 36 St Andrew Square, Edinburgh EH2 2YB
Consortium and Shareholders' Agreement	the consortium and shareholders' agreement entered into between the Banks and RFS Holdings on 28 May 2007 as described in Part IX of this document
CREST	the relevant system (as defined in the CREST Regulations) in respect of which Euroclear UK is the operator
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended
Directors	the directors of RBS whose names are set out in paragraph 3 of Part V of this document
Dutch Exchange Agent	Fortis Bank (Nederland) N.V.
Dutch GAAP	generally accepted accounting principles in the Netherlands
EEA States	the 25 members of the European Union plus Iceland, Liechtenstein and Norway
Enlarged Group	the Company and its subsidiary undertakings following completion of the Offers
Executive Directors	the executive directors of RBS
EU or European Union	the European Union

euro or €	the single currency introduced at the start of the third stage of the European Economic and Monetary Union of 1 January 1999 pursuant to the Treaty establishing the European Economic Community, as amended by the Treaty on the European Union
Euroclear Nederland	the Dutch depository and settlement institute (<i>Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V.</i>)
Euroclear UK	Euroclear UK & Ireland Limited, the central securities depository for the United Kingdom, Republic of Ireland, Isle of Man, Jersey and Guernsey
Euronext Amsterdam	as the context requires, Euronext Amsterdam N.V. or Eurolist by Euronext Amsterdam
Euronext Amsterdam Trading Day	any day on which Euronext Amsterdam is open for trading
Exchange Act	United States Securities Exchange Act of 1934, as amended
Existing RBS Ordinary Shares	the ordinary shares of 25 pence each in the capital of the Company in issue as at the date of this document
Extraordinary General Meeting or EGM	the extraordinary general meeting of the Company to be held at the RBS Conference Centre, RBS Gogarburn, Edinburgh EH12 1HQ at 2.00 p.m. on 10 August 2007
Fortis	Fortis N.V., a company incorporated under the laws of the Netherlands (Trade Register number 30072145), with registered office at Archimedeslaan 6, 3584 BA Utrecht, the Netherlands and Fortis SA/NV, a company incorporated under the laws of Belgium, with registered office at Rue Royale 20, 1000 Brussels, Belgium
FSA	the U.K. Financial Services Authority
FSAP	Financial Services Action Plan
FSMA	the Financial Services and Markets Act 2000
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IRS	the Internal Revenue Service of the United States
LaSalle	LaSalle Bank Corporation, a wholly-owned subsidiary of ABN AMRO North America Holding Company, or where the context so requires, ABN AMRO North America Holding Company and its subsidiaries from time to time
Listing Rules	the listing rules of the FSA
LSE or London Stock Exchange	London Stock Exchange plc
Memorandum of Association	the memorandum of association of the Company details of which are set out in paragraph 4.1 of Part XXIV of this document
Merrill Lynch	Merrill Lynch International of Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ
NatWest	National Westminster Bank Plc, a company incorporated under the laws of England & Wales (registered under no. 929027), with registered office at 135 Bishopsgate, London EC2M 3UR
New RBS Ordinary Shares	ordinary shares of 25 pence each in the capital of the Company being offered to ABN AMRO Shareholders pursuant to the Offers

Non-Executive Directors	the non-executive directors of RBS
NYSE	New York Stock Exchange, Inc.
Offer	the offer being made by RFS Holdings on the terms and conditions set out in the Offer Document, which offer is open to (i) all holders of ABN AMRO Ordinary Shares who are located in the Netherlands, and to (ii) all holders of ABN AMRO Ordinary Shares who are located outside of the Netherlands and the United States, if, pursuant to the local laws and regulations applicable to such holders, they are permitted to participate in such offer
Offer Document	the offer document published on 20 July 2007 and all other documents incorporated by reference therein whereby RFS Holdings addresses the Offer to ABN AMRO Shareholders
Offer Period	the period during which the holders of ABN AMRO Ordinary Shareholders can tender their ABN AMRO Ordinary Shares to RFS Holdings in the Offer, which commences on 23 July Amsterdam time and ends on 5 October 2007 at 15.00 hours, Amsterdam time as may be extended in accordance with article 90 paragraph 5 of the 1995 Securities Decree
Offers	the U.S. Offer and the Offer, taken together
Official List	the list maintained by the FSA pursuant to Part VI of FSMA
Part VI Rules	the rules contained in Part VI of FSMA
Pounds Sterling or £	the lawful currency for the time being of the United Kingdom
Prospectus Rules	the Prospectus Rules brought into effect on 1 July 2005 pursuant to Commission Regulation (EC) No. 809/2004
RBS	the Company or, as the context requires, the Company and its subsidiary undertakings or any one of them
RBS ADS	an American depository share issued by RBS, which may be evidenced by an American depository receipt, each representing one RBS Ordinary Share
RBS Group or the Group	the Company and each of its subsidiaries from time to time
RBS Ordinary Shares	the ordinary shares of 25 pence each in the share capital of the Company (including, if the context requires, the New RBS Ordinary Shares)
RBS Shareholder Circular	the Class 1 circular sent to RBS Shareholders dated 20 July 2007 containing details of the Transaction and a notice of the EGM
RBS Shares	shares in the Company (including, if the context requires, the New RBS Ordinary Shares)
Resolution	the ordinary resolution set out in the notice of the EGM contained in the RBS Shareholder Circular
Restricted Jurisdiction	Australia, Italy and Japan, and any other jurisdiction where the extension or availability of the Offers would breach any applicable law
Restricted Shareholders	ABN AMRO Shareholders with registered addresses in, or who are citizens, nationals or residents of jurisdictions outside the Netherlands, France, Luxembourg, Germany, Belgium, Denmark, Finland, Norway, Sweden, Ireland, Spain, Switzerland, Canada and the United Kingdom

RFS Holdings	RFS Holdings B.V., a company incorporated under the laws of the Netherlands (Trade Register number 34273228) whose registered office is at Strawinskylaan 3105, 1077 ZX Amsterdam, the Netherlands
Royal Bank	The Royal Bank of Scotland plc, a company incorporated under the laws of Scotland (registered under number 90312), with registered office at 36 St. Andrew Square, Edinburgh EH2 2YB
Santander	Banco Santander, S.A., a company incorporated under the laws of Spain, with registered office in Santander, Spain at Paseo de Pereda 9-12. Santander's current legal name is Banco Santander Central Hispano, S.A. On 23 June 2007, the general meeting of shareholders of Santander approved the change of Santander's legal name to Banco Santander, S.A., which will become effective when regulatory approval has been obtained
Santander Group	Santander and each of its subsidiaries from time to time
SDRT	Stamp Duty Reserve Tax
SEC	the United States Securities and Exchange Commission
Securities Act	the United States Securities Act of 1933, as amended
Settlement of the Offers	the payment of cash and issuance of New RBS Ordinary Shares as consideration for the ABN AMRO Ordinary Shares and ABN AMRO ADSs exchanged in the Offers
Shared Assets	ABN AMRO's Head Office and central functions, private equity portfolio, stakes in Capitalia and Saudi Hollandi, and Prime Bank
The Netherlands or Holland	the European part of the Kingdom of the Netherlands
Transaction	the proposed acquisition by RFS Holdings of ABN AMRO pursuant to the Offers and the reorganisation of the ABN AMRO Group following completion of the Offers, as further described in the Offer Document
U.K. GAAP	generally accepted accounting principles in the United Kingdom
U.K. or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
U.K. Listing Authority	the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
Uncertificated or in Uncertificated Form	recorded on the relevant register or other record of the share or other security concerned as being held in uncertificated form in CREST, and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
Uncertificated Securities Regulations	the U.K. Uncertificated Securities Regulations 2001, as amended
U.S. or United States	The United States of America, its territories and possessions, and states of the United States and the District of Columbia
U.S. Business Day	any day, other than a Saturday, Sunday or U.S. federal holiday, consisting of the time period from 12:01 a.m. through 12:00 midnight Eastern Standard Time/New York City time
US Dollar or US\$	the lawful currency of the United States
U.S. Exchange Agent	The Bank of New York

U.S. GAAP	United States Generally Accepted Accounting Principles
U.S. Holder	a holder of ABN AMRO Ordinary Shares resident of the United States
U.S. Offer	the offer being made by RFS Holdings on the terms and conditions set out in the U.S. Prospectus, which offer is open to (i) all ABN AMRO Shareholders who are resident in the United States (within the meaning of Rule 14d-1(d) under the U.S. Securities Exchange Act of 1934, as amended) and to (ii) all holders of ABN AMRO ADSs, wherever located
U.S. Prospectus	the prospectus forming part of the registration statement in Form F-4 filed with the SEC in connection with the U.S. Offer
VEB	Vereniging van Effectenbezitters

APPENDIX

ABN AMRO FINANCIAL STATEMENTS

This information has been compiled from information published by ABN AMRO and has not been commented on or verified by ABN AMRO. RBS confirms that such information has been accurately reproduced from such sources and, so far as RBS is aware and is able to ascertain from information published by ABN AMRO, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Section A: Consolidated Financial Statements included in ABN AMRO's Annual Report for the year ended 31 December 2006

ACCOUNTING POLICIES

Corporate Information

ABN AMRO Holding N.V. is the ultimate parent company of the ABN AMRO consolidated group of companies (referred to as the "Group" or "ABN AMRO"). The Group provides a broad range of financial services on a worldwide basis, including consumer, commercial and investment banking. At 1 January 2006, the Group changed its organisational structure, to align the organisation with the Group's mid-market strategy, and to open up its network offering and product suite to all its clients. The change to the organisational structure and the principal activities of the Group are described in more detail in note 1, Segment reporting.

ABN AMRO Holding N.V. is a public limited liability company, incorporated under Dutch law on 30 May 1990, whose registered office is Gustav Mahlerlaan 10, 1082 PP Amsterdam, the Netherlands. The Group is listed on the Stock Exchanges of Amsterdam and New York. As ordinary shares in ABN AMRO Holding N.V. are listed on the New York Stock Exchange (NYSE) in the form of American Depositary Receipts, ABN AMRO also publishes an annual report on Form 20-F that conforms to the rules of the Securities and Exchange Commission (SEC) applicable to foreign registrants. The annual report on Form 20-F includes a reconciliation of equity and profit attributable to shareholders of the parent company to the comparable amounts using accounting principles generally accepted in the United States (U.S. GAAP).

The consolidated financial statements of the Group for the year ended 31 December 2006 incorporate figures of the parent, its controlled entities and interests in associates. These consolidated financial statements were authorised for issuance in accordance with a resolution of the Managing Board on 14 March 2007.

Basis of preparation

ABN AMRO Group applies International Financial Reporting Standards (IFRS). The consolidated financial statements are prepared on a mixed model valuation basis as follows:

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

The Group adopted IFRS on 1 January 2004. For all periods up to and including the year ended 31 December 2004, the Group prepared consolidated financial statements in accordance with Generally Accepted Principles in the Netherlands (Dutch GAAP). The effect of the transition to IFRS, and the elections and exemptions which were used as part of the transition process, are disclosed in note 47, First-time adoption of IFRS.

The consolidated financial statements are presented in euros, which is the presentation currency of the Group, rounded to the nearest million (unless otherwise noted). Certain amounts in the prior periods have been reclassified to conform to the current presentation.

Statement of compliance

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

Critical accounting policies

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

Allowance for loan losses

Allowances for loan losses are made to reserve for estimated losses in outstanding loans for which there is any doubt about the borrower’s capacity to repay the principal and/or the interest. The allowance for loan losses is intended to adjust the value of the Group’s loan assets for probable credit losses as of the balance sheet date. Allowances are determined through a combination of specific reviews, statistical modeling and estimates. Certain aspects require judgements, such as the identification of loans that are deteriorating, the determination of the probability of default, the expected loss, the value of collateral and current economic conditions. Though we consider the allowances for loan losses to be adequate, the use of different estimates and assumptions could produce different allowances for loan losses, and amendments to allowances may be required in the future, as a consequence of changes in the value of collateral, the amounts of cash to be received or other economic events. For a further discussion on our allowance for loan losses, see note 19 to our consolidated financial statements.

Fair value of financial instruments

For financial instruments that are actively traded and have quoted market prices or parameters readily available, there is little to no subjectivity to determine fair value. When observable market prices and parameters do not exist, management judgement is necessary to estimate fair value.

Where no active market exists, or quoted prices are unobtainable, the fair value is estimated using a variety of valuation techniques, including discounted cash flow and other pricing models. Input to pricing models are generally taken from reliable external data sources. The models used are validated prior to use by staff independent to the initial selection or creation of the model. The degree of management judgement involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. Other 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 38 to our consolidated financial statements.

Assessment of risk and rewards

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

Pension and post-retirement benefits

Significant pension and post-retirement benefit costs and credits are based on actuarial calculations. Inherent within these calculations are assumptions including: discount rates, salary increases and the

expected return on plan assets. Changes in pension and post-retirement costs may occur in the future as a consequence of changes in interest rates, the return on assets or other factors. For a further discussion on the underlying assumptions, see note 28 to our consolidated financial statements.

Goodwill and intangible assets

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. The initial recognition and measurement of goodwill and other intangibles, and subsequent impairment analysis, 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 over an extended timeframe. 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. Other intangibles are systematically amortised over their estimated useful lives, and are subject to impairment if events or circumstances indicate a possible inability to realise their carrying amount.

Basis of consolidation

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

Subsidiaries

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

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

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

Business combinations

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

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

As a consequence of measuring all the acquired assets and liabilities at fair value, minority interests are calculated by reference to these fair values.

Investments in associates

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

If significant influence is held in a Private Equity portfolio the investment is designated to be held at fair value with changes through income, consistent with the management basis for such investments.

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

Jointly controlled entities

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

Non-current assets held for sale and discontinued operations

Non-current assets and/or businesses are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction planned to occur within 12 months, rather than through continuing use. Held for sale assets are measured at the lower of their carrying amount and fair value less costs to sell. Assets and liabilities of a business held for sale are separately presented.

The results of discontinued operations (an operation 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 profit and/or net loss of the discontinued operation and the after tax gain or loss realised on disposal. Comparative income statement data is re-presented if in the current period an activity qualifies as discontinuing and qualifies for separate presentation.

Private equity

Investments of a private equity nature controlled by the Group are consolidated. All other investments of a private equity nature are designated at fair value through income.

Transactions eliminated on consolidation

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

Summary of significant accounting policies

Currency translation differences

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

Transactions in a currency that differs from the functional currency of the transacting entity are translated into the functional currency at the foreign exchange rate at transaction date. Accruals and deferrals are translated using the foreign exchange rate on the last day of the month to which the results relate. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities accounted for at cost, if

denominated in foreign currency, are translated at the foreign exchange rate prevailing at the date of initial recognition.

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

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

Fiduciary activities

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

Income statement

Interest income and expenses

Interest income and expense is recognised in the income statement using the effective interest rate method. The application of this method includes the amortisation of any discount or premium or other differences, including transaction costs and qualifying fees and commissions, between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. This item also includes interest income and expense in relation to trading balances.

Fee and commission income

Fees and commissions are recognised as follows:

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

Net trading income

Net trading income includes gains and losses arising from changes in the fair value and disposal of financial assets and liabilities held for trading and includes dividends received from trading instruments. Interest income or expenses on trading assets or liabilities are included within interest income or expense.

Results from financial transactions

Results from financial transactions include gains and losses on the sale of non-trading financial assets and liabilities, ineffectiveness of certain hedging programmes, the change in fair value of derivatives

used to hedge credit risks that are not included in hedge accounting relationships, fair value changes relating to assets and liabilities designated at fair value through income and changes in the value of any related derivatives. Dividend income from non-trading equity investments is recognised when entitlement is established.

Other operating income

Development property income is first recognised when the outcome of a construction contract can be estimated reliably after which contract income and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to the phases of work performed. An expected loss on a contract is recognised immediately in the income statement.

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Income from insurance activities is presented net of direct costs and provisions required for the insured risk.

Earnings per share

Earnings per share is calculated by dividing the profit attributable to shareholders of the parent company from continuing and discontinuing operations by the average number of shares in issuance during the year. Fully diluted earnings per share is calculated taking into account all dilutive instruments, including options and employee share plans, in issuance at the balance sheet date.

Segment reporting

Business segments are the primary reporting segments and are grouped by the nature of risks and rewards assessed by reference to product and service characteristics. Geographical segments are grouped based on a combination of proximity, relationships between operations and economic and currency similarities. Geographical data is presented according to the location of the transacting Group entity.

Financial assets and liabilities

Measurement classifications

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

Financial instruments held for trading are those that the Group holds primarily for the purpose of short-term profit-taking. These include shares, interest earning securities, and liabilities from short sales of financial instruments.

Derivatives are financial instruments that require little or no initial net investment, with future settlements dependent on a reference benchmark index, rate or price (such as interest rates or equity prices). Changes in expected future cash flows in response to changes in the underlying benchmark determine the fair value of derivatives. All derivatives are recorded in the balance sheet at fair value. Changes in the fair value of derivative instruments are recorded in income, except when designated in cash flow or net investment hedge relationship (see hedging below).

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

Held-to-maturity assets are non-derivative financial assets quoted on an active market with fixed or determinable payments (i.e. debt instruments) and a fixed maturity that the Group has the intention and ability to hold to maturity.

Designated at fair value through income are financial assets and financial liabilities that the Group upon initial recognition (or on transition to IFRS on 1 January 2004) designates to be measured at fair value with changes reported in income. Such a designation is done if:

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

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

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

Recognition and derecognition

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

Financial assets are generally derecognised when the Group loses control or the ability to obtain benefits over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are fully transferred. If a servicing function is retained, which is profitable, a servicing asset is recognised. A financial liability is derecognised when the obligations specified in the contract are discharged, are cancelled or expire.

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

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

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

Measurement

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

All derivatives are recorded in the balance sheet at fair value with changes recorded through income unless the derivative qualifies for cash flow hedging accounting.

Available-for-sale assets are held at fair value with unrealised gains and losses recognised directly in equity, net of applicable taxes. Premiums, discounts and qualifying transaction costs of interest earning available-for-sale assets are amortised to income on an effective interest rate basis. When available-for-sale assets are sold, collected or impaired the cumulative gain or loss recognised in equity is transferred to results from financial transactions in income. All other financial assets and liabilities are initially measured at cost including directly attributable incremental transaction costs. They are subsequently valued at amortised cost using the effective interest rate method. Through use of the effective interest rate method, premiums and discounts, including qualifying transaction costs, included in the carrying amount of the related instrument are amortised over the period to maturity or expected prepayment on the basis of the instrument's original effective interest rate.

When available, fair values are obtained from quoted market prices in liquid markets. Where no active market exists, or quoted prices are unobtainable, the fair value is estimated using a variety of valuation techniques—including discounted cash flow and other pricing models. Inputs to pricing models are generally market-based when available and taken from reliable external data sources. The models used are validated prior to the use for financial reporting by staff independent of the initial selection or creation of the model. Where inputs cannot be reliably sourced from external providers, the initial recognition value of a financial asset or liability is taken to be the settled value at trade inception. The initial change in fair value indicated by the valuation technique is then released 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 discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate applied is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Fair values include appropriate adjustments to reflect the credit quality of the instrument.

Professional securities transactions

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

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

Netting and collateral

The Group enters into master netting arrangements with counterparties wherever possible, and when appropriate, obtains collateral. If the Group has the right on the grounds of either legal or contractual provisions and the intention to settle financial assets and liabilities net or simultaneously, these are offset and the net amount is reported in the balance sheet. Due to differences in the timing of actual cash flows,

derivatives with positive and negative fair values are generally not netted, even if they are held with the same counterparty.

Hedge accounting

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

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

Both at the inception of the hedge and on an ongoing basis, the Group formally assesses whether the derivatives used in its hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of the hedged item, by assessing and measuring whether changes in the fair value or cash flows of the hedged item are offset by the changes in the fair value or cash flows of the hedging instrument, within the range of 80% to 125%.

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

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

Fair value hedges

Where a derivative financial instrument hedges the exposure to changes in the fair value of recognised or committed assets or liabilities, the hedged item is adjusted in relation to the risk being hedged. Gains or losses on remeasurement of both the hedging instrument and the hedged item are recognised in the income statement, typically within results from financial transactions. For hedges of mortgage service rights any hedging ineffectiveness is recorded in other income.

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

Cash flow hedges

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

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

Hedge of a net investment in a foreign operation

The Group uses foreign currency derivatives and currency borrowings to hedge various net investments in foreign operations. For such hedges, currency translation differences arising on translation of the currency of these instruments to euro are recognised directly in the currency translation account in equity, insofar as they are effective.

Impairment of financial assets

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

Loans and receivables

An indication that a loan may be impaired is obtained through the Group’s credit review processes, which include monitoring customer payments and regular loan reviews at least every 6 or 12 months depending on the obligors’ creditworthiness.

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

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

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

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

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

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

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

Other financial assets

In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the income statement within results on financial transactions. Held to maturity and available-for-sale debt investments are assessed and any impairment is measured on an individual basis, consistent with the methodology applied to loans and receivables.

Property and equipment

Own use assets

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

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

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

Software, presented as an intangible asset, is amortised over 3-7 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.

Development property

The majority of the Group's development and construction activities are undertaken for immediate sale or as part of a pre-agreed contractual arrangement. Property developed under a pre-agreed contractual arrangement is stated at cost plus profit recognisable to date less a provision for any foreseeable losses and less progress billings. Cost includes all expenditure (including accrued interest) related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. The specific components of development property are accounted for as follows.

Building and development sites are carried at cost including allocated interest and additional expenses for purchasing the site and making them ready for development. No interest is allocated to land which has not been zoned for a particular purpose, if there is no certainty that the land will be built on. Any provision deemed necessary for expected losses on sale is deducted from the carrying value of the site.

Work in progress relates to commercial property projects, as well as to unsold residential property under construction or preparation. Work in progress is carried at the costs incurred plus allocated interest and net of any provisions as required. Progress instalments invoiced to buyers and principals are deducted from work in progress. The profit and loss is recognised in accordance with the percentage of completion method. Until sold, commercial and residential developments are carried at cost of production net of any required provisions. If a decision is taken to retain an unsold property it is classified as investment property.

Investment property

Investment property is carried at fair value based on current market prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in profit and loss. Rental income from investment property is recognised on a straight-line basis over the term of the lease, with lease incentives granted recognised as an integral part of the rental income.

Leasing

As lessee: most of the leases that the Group has entered into are classified as operating leases (including property rental). The total payments made under operating leases are charged to the income

statement on a straight-line basis over the period of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense. When it is anticipated that an operating lease will be terminated or vacated before the lease period has expired, the lesser of any penalty payments required and the remaining payments due once vacated (less sub-leasing income) is recognised as an expense.

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

Intangible assets

Goodwill

Goodwill is capitalised and represents the excess of the cost of an acquisition over the fair value of the Group's share of the acquired entity's net identifiable assets at the date of acquisition. 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. Any change 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.

Software

Costs that are directly associated with identifiable and software products that are controlled by the Group, and likely to generate future economic benefits exceeding these costs, are recognised as intangible assets. Direct costs include staff costs of the software development team. Expenditure that enhances or extends the performance of computer software beyond its original specification is recognised as a capital improvement and added to the original cost of the software. Software is amortised over 3-7 years.

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

Mortgage servicing rights

Mortgage servicing rights (MSRs) represent the right to a stream of fee-based cash flows and an obligation to perform specified mortgage servicing activities. MSRs are initially recorded at fair value and amortised over the estimated future net servicing income stream of the underlying mortgages. The duration of the income stream relating to these servicing rights is dependent on the pre-payment behaviour of the customer, which is influenced by a number of factors including interest rate expectations. MSR assets are subject to hedging under a fair value hedge programme designed to limit the Group's exposure to changes in the fair value of the MSR. The change in the fair value of the hedged MSRs and the change in the fair value of the hedging derivatives are included as part of mortgage banking income within other operating income.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and any adjustment for impairment losses. Other intangible assets are comprised of separately identifiable items arising from acquisition of subsidiaries, such as customer relationships, and certain purchased trademarks and similar items. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible asset.

Impairment of property and equipment and intangible assets

Property and equipment and intangibles are assessed at each balance sheet date or more frequently, to determine whether there is any indication of impairment. If any such indication exists, the assets are subject to an impairment review. Regardless of any indications of potential impairment, the carrying amount of goodwill is subject to a detailed impairment review at least annually.

An impairment loss is recognised whenever the carrying amount of an asset that generates largely independent cash flows or the cash-generating unit to which it belongs exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and 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.

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

Pension and other post-retirement benefits

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

Defined contribution plans

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

Defined benefit plans

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

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

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

Other post-retirement benefits

The Group's net obligation with respect to long-term service benefits and postretirement healthcare is the amount of future benefit that employees have earned in return for their service in current and prior

periods. The obligation is calculated using the projected unit credit method. It is then discounted to its present value and the fair value of any related assets is deducted.

Share-based payments to employees

The Group engages in equity and cash settled share-based payment transactions in respect of services received from certain of its employees. The cost of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost related to the shares or share options granted is recognised in the income statement over the period that the services of the employees are received, which is the vesting period, with a corresponding credit in equity for equity settled schemes and a credit in liabilities for cash settled schemes.

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

Provisions

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

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

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

Other liabilities

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

Income taxes—current and deferred

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

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

to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

Issued debt and equity securities

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

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

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

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

Share capital

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

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

Other equity components

Currency translation account

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

Cash flow hedging reserve

The cash flow hedging reserve is comprised of the effective portion of the cumulative change in the fair value of cash flow hedging derivatives, net of taxes, where the hedged transaction has not yet occurred.

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

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

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

Cash flow statement

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

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

Future changes in accounting policies

IFRS standards not yet effective

IFRS 7 was issued in August 2005 and is effective for annual reporting periods beginning on or after 1 January 2007. It requires entities to provide additional disclosures on financial instruments within their financial statements but does not change the recognition and measurement rules of these financial instruments.

IFRS 8 was issued in November 2006 and is effective for annual reporting periods beginning on or after 1 January 2009. The standard replaces IAS 14 “Segment Reporting” in setting out requirements for disclosure of information about an entity’s operating segments and also about the entity’s products and services, the geographical areas in which it operates, and its major customers. The Group plans to adopt IFRS 8 in 2007.

IFRIC Interpretations not yet effective

IFRIC interpretation 8 “Scope of IFRS 2” was issued in January 2006 and is required to be applied for financial years beginning on or after 1 May 2006. It requires IFRS “2 Sharebased Payment” to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation has no impact on the financial position or results of the Group.

IFRIC interpretation 9 “Reassessment of Embedded Derivatives” was issued in March 2006 and becomes effective for financial years beginning on or after 1 June 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract with reassessment only if there is a change to the contract that significantly modifies the cash flows. This interpretation is consistent with our accounting policies and thus will have no impact on the Group’s financial statements when implemented in 2007.

IFRIC interpretation 10 “Interim Financial Reporting & Impairment” was issued in July 2006 and becomes effective for financial years beginning on or after 1 November 2006. It states that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. The adoption of this interpretation will have no impact on the financial position or results of the Group.

IFRIC interpretation 11 “Group & Treasury Share Transactions” was issued in November 2006 and becomes effective for financial years beginning on or after 1 March 2007. The interpretation provides further guidance on the implementation of IFRS 2 “Sharebased Payment”. The Group is still evaluating the effect of this interpretation for implementation in 2008.

Consolidated income statement for the year ended 31 December

	Note	2006	2005	2004
		<i>(in millions of euros)</i>		
Interest income		37,698	29,645	24,528
Interest expense		27,123	20,860	16,003
Net interest income	3	10,575	8,785	8,525
Fee and commission income		7,127	5,572	5,185
Fee and commission expense		1,065	881	700
Net fee and commission income	4	6,062	4,691	4,485
Net trading income	5	2,979	2,621	1,309
Results from financial transactions	6	1,087	1,281	905
Share of result in equity accounted investments	20	243	263	206
Other operating income	7	1,382	1,056	745
Income of consolidated private equity holdings	41	5,313	3,637	2,616
Operating income		27,641	22,334	18,791
Personnel expenses	8	8,641	7,225	7,550
General and administrative expenses	9	7,057	5,553	4,747
Depreciation and amortisation	10	1,331	1,004	1,218
Goods and materials of consolidated private equity holdings	41	3,684	2,519	1,665
Operating expenses		20,713	16,301	15,180
Loan impairment and other credit risk provisions	19	1,855	635	607
Total expenses		22,568	16,936	15,787
Operating profit before tax		5,073	5,398	3,004
Income tax expense	12	902	1,142	715
Profit from continuing operations		4,171	4,256	2,289
Profit from discontinued operations net of tax	45	609	187	1,651
Profit for the year		4,780	4,443	3,940
Attributable to:				
Shareholders of the parent company		4,715	4,382	3,865
Minority interests		65	61	75
Earnings per share attributable to the shareholders of the parent company (in euros)	13			
<i>From continuing operations</i>				
Basic		2.18	2.33	1.34
Diluted		2.17	2.32	1.34
<i>From continuing and discontinued operations</i>				
Basic		2.50	2.43	2.33
Diluted		2.49	2.42	2.33

Numbers stated against items refer to the notes.

The notes to the consolidated financial statements are an integral part of these statements.

Consolidated balance sheet at 31 December

	Note	2006	2005
		<i>(in millions of euros)</i>	
Assets			
Cash and balances at central banks	14	12,317	16,657
Financial assets held for trading	15	205,736	202,055
Financial investments	16	125,381	123,774
Loans and receivables – banks	17	134,819	108,635
Loans and receivables – customers	18	443,255	380,248
Equity accounted investments	20	1,527	2,993
Property and equipment	21	6,270	8,110
Goodwill and other intangible assets	22	9,407	5,168
Assets of businesses held for sale	45	11,850	—
Accrued income and prepaid expenses		9,290	7,614
Other assets	23	27,212	25,550
Total assets		<u>987,064</u>	<u>880,804</u>
Liabilities			
Financial liabilities held for trading	15	145,364	148,588
Due to banks	24	187,989	167,821
Due to customers	25	362,383	317,083
Issued debt securities	26	202,046	170,619
Provisions	27	7,850	6,411
Liabilities of businesses held for sale	45	3,707	—
Accrued expenses and deferred income		10,640	8,335
Other liabilities	29	21,977	18,723
Total liabilities (excluding subordinated liabilities)		<u>941,956</u>	<u>837,580</u>
Subordinated liabilities	31	19,213	19,072
Total liabilities		<u>961,169</u>	<u>856,652</u>
Equity			
Share capital	32	1,085	1,069
Share premium		5,245	5,269
Treasury shares		(1,829)	(600)
Retained earnings		18,599	15,237
Net gains/(losses) not recognised in the income statement		497	1,246
Equity attributable to shareholders of the parent company		<u>23,597</u>	<u>22,221</u>
Equity attributable to minority interests		<u>2,298</u>	<u>1,931</u>
Total equity		<u>25,895</u>	<u>24,152</u>
Total equity and liabilities		<u>987,064</u>	<u>880,804</u>
Credit related contingent liabilities	35	51,279	46,021
Committed credit facilities	35	145,418	141,010

Numbers stated against items refer to the notes.

The notes to the consolidated financial statements are an integral part of these statements.

Consolidated statement of changes in equity for the year ended 31 December

	2006	2005	2004
	(in millions of euros)		
Share capital			
Balance at 1 January	1,069	954	919
Issuance of shares	—	82	—
Exercised options and warrants	16	—	2
Dividends paid in shares	—	33	33
Balance at 31 December	1,085	1,069	954
Share premium			
Balance at 1 January	5,269	2,604	2,549
Issuance of shares	—	2,611	—
Exercised options and conversion rights	—	—	48
Share-based payments	111	87	40
Dividends paid in shares	(135)	(33)	(33)
Balance at 31 December	5,245	5,269	2,604
Treasury shares			
Balance at 1 January	(600)	(632)	(119)
Share buy back	(2,204)	32	(513)
Utilised for dividends paid in shares	832	—	—
Utilised for exercise of options and performance share plans	143	—	—
Balance at 31 December	(1,829)	(600)	(632)
Retained earnings*			
Balance at 1 January	15,237	11,580	8,469
Profit attributable to shareholders of the parent company	4,715	4,382	3,865
Cash dividends paid to shareholders of the parent company	(807)	(659)	(694)
Dividends paid in shares to shareholders of the parent company	(656)	—	—
Other	110	(66)	(60)
Balance at 31 December	18,599	15,237	11,580
Equity settled own share derivatives			
Balance at 1 January	—	—	(106)
Issuances and settlements	—	—	106
Balance at 31 December	—	—	—
Net gains/(losses) not recognised in the income statement			
<i>Currency translation account</i>			
Balance at 1 January	842	(238)	—
Transfer to income statement relating to disposals	(7)	(20)	2
Currency translation differences	(427)	1,100	(240)
Subtotal – Balance at 31 December	408	842	(238)
<i>Net unrealised gains/(losses) on available-for-sale assets</i>			
Balance at 1 January	1,199	830	572
Net unrealised gains/(losses) on available-for-sale assets	(233)	717	509
Net losses/(gains) reclassified to the income statement	(602)	(348)	(251)
Subtotal – Balance at 31 December	364	1,199	830
<i>Cash flow hedging reserve</i>			
Balance at 1 January	(795)	(283)	(165)
Net unrealised gains/(losses) on cash flow hedges	735	(386)	106
Net losses/(gains) reclassified to the income statement	(215)	(126)	(224)
Subtotal – Balance at 31 December	(275)	(795)	(283)
Net gains/(losses) not recognised in the income statement at 31 December	497	1,246	309
Equity attributable to shareholders of the parent company at 31 December	23,597	22,221	14,815
Minority interest			
Balance at 1 January	1,931	1,737	1,301
Additions	208	202	367
Reductions	—	(49)	—
Acquisitions/disposals	203	(136)	(30)
Profit attributable to minority interests	65	61	75
Currency translation differences	(46)	133	33
Other movements	(63)	(17)	(9)
Equity attributable to minority interests at 31 December	2,298	1,931	1,737
Total equity at 31 December	25,895	24,152	16,552

* The proposed final dividend of EUR 0.60 per share for 2006 is not reflected in the movement table above and will be recorded in 2007 at the time of distribution.

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

	2006	2005	2004
	<i>(in millions of euros)</i>		
Profit attributable to shareholders of the parent company . . .	4,715	4,382	3,865
<i>Gains/(losses) not recognised in income:</i>			
Currency translation differences	(427)	1,100	(240)
Available-for-sale assets	(233)	717	509
Cash flow hedges	735	(386)	106
	<u>75</u>	<u>1,431</u>	<u>375</u>
<i>Net unrealised (gains)/losses reclassified to income:</i>			
Currency translation differences relating to disposed subsidiaries	(7)	(20)	2
Available-for-sale assets	(602)	(348)	(251)
From cash flow hedging reserve	(215)	(126)	(224)
	<u>(824)</u>	<u>(494)</u>	<u>(473)</u>
Comprehensive income for the year	<u><u>3,966</u></u>	<u><u>5,319</u></u>	<u><u>3,767</u></u>

The statement of comprehensive income for the year presents all movements in equity attributable to shareholders of the parent company other than changes in issued share capital, distributions to shareholders and share buy backs

Consolidated cash flow statement for the year ended 31 December

	Note	2006	2005	2004
		<i>(in millions of euros)</i>		
Operating activities				
Profit for the year		4,780	4,443	3,940
Less: Profit from discontinued operations		609	187	1,651
Profit from continuing operations		4,171	4,256	2,289
<i>Adjustments for significant non-cash items included in income</i>				
Depreciation, amortisation and impairment		1,331	1,004	1,218
Loan impairment losses		2,108	871	777
Share of result in equity accounted investments		(243)	(263)	(206)
<i>Movements in operating assets and liabilities</i>				
Movements in operating assets	36	(77,392)	(105,368)	(119,343)
Movements in operating liabilities	36	64,981	80,461	98,722
<i>Other adjustments</i>				
Dividends received from equity accounted investments		72	63	59
Net cash flows from operating activities from continuing operations		(4,972)	(18,976)	(16,484)
Net cash flows from operating activities from discontinued operations		314	200	437
Investing activities				
Acquisition of investments		(180,228)	(142,423)	(78,760)
Sales and redemption of investments		172,454	129,811	76,338
Acquisition of property and equipment		(1,138)	(2,028)	(1,966)
Sales of property and equipment		255	1,063	1,131
Acquisition of intangibles (excluding goodwill and MSRs)		(800)	(431)	(335)
Sales of intangibles (excluding goodwill and MSRs)		12	9	50
Acquisition of subsidiaries and equity accounted investments		(7,449)	(1,702)	(276)
Disposal of subsidiaries and equity accounted investments		258	530	153
Net cash flows from investing activities from continuing operations		(16,636)	(15,171)	(3,665)
Net cash flows from investing activities from discontinued operations		1,574	(14)	2,513
Financing activities				
Issuance of subordinated liabilities		4,062	2,975	2,203
Repayment of subordinated liabilities		(4,430)	(1,664)	(2,690)
Issuance of other long-term funding		35,588	35,483	21,863
Repayment of other long-term funding		(14,343)	(6,453)	(6,180)
Proceeds from the issue of shares		—	2,491	—
Net (decrease)/increase in treasury shares		(2,061)	32	(513)
Other		276	92	334
Dividends paid		(807)	(659)	(694)
Net cash flows from financing activities from continuing operations		18,285	32,297	14,323
Net cash flows from financing activities from discontinued operations		—	(1,185)	2,422
Movement in cash and cash equivalents		(1,435)	(2,849)	(454)
Cash and cash equivalents at 1 January		6,043	8,603	9,016
Currency translation differences		264	289	41
Cash and cash equivalents at 31 December	36	4,872	6,043	8,603

Numbers stated against items refer to the notes.

The notes to the consolidated financial statements are an integral part of these statements.

Notes to the consolidated financial statements

(unless otherwise stated, all amounts are in millions of euros)

1 Segment reporting

Segment information is presented in respect of the Group's business. The primary format, business segments, is consistent with the Group's management and internal reporting structure applicable in the financial year.

Measurement of segment assets, liabilities, income and results is based on the Group's accounting policies. Segment assets, liabilities, income and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Transactions between segments are conducted at arm's length.

Business segments

Below the business segments are detailed. In the "Business review" chapter of the Annual Report more detailed descriptions of the activities of these segments have been included.

Netherlands

BU Netherlands serves a diverse client base that comprises consumer and commercial clients. BU Netherlands offers a broad range of investment, commercial and retail banking products and services via its multi-channel service model consisting of a network of branches, internet banking facilities, a customer contact center and ATMs throughout the Netherlands. BU Netherlands focuses increasingly on mass affluent customers and commercial mid-market clients. BU Netherlands also comprises the ABN AMRO Mortgage Group including the former Bouwfonds mortgage activities. The non-mortgage activities of Bouwfonds were sold during the year.

Europe (including Antonveneta)

BU Europe provides its consumer and commercial clients with a range of financial products and services. Its regional strategies and operations are closely aligned with those of ABN AMRO's global BUs.

BU Europe combines activities in 27 countries: 23 countries in Europe (excluding the Netherlands) along with Kazakhstan, Uzbekistan, Egypt and South Africa.

ABN AMRO acquired a majority stake in Antonveneta in January 2006 and launched a tender offer for the remaining shares on 27 February 2006. It acquired 100% of the bank in July 2006 after it exercised its right to purchase the shares it did not yet own following its tender offer.

Antonveneta is rooted in north-eastern Italy, and focuses on consumer and commercial mid-market clients.

North America

The core of BU North America is LaSalle Bank, headquartered in Chicago, Illinois. BU North America serves a large number of clients, including small businesses, mid-market companies, larger corporates, institutions, non-profit entities and municipalities in the U.S. and Canada. BU North America offers a broad range of investment, commercial and retail banking products and services through a network of branches and ATMs in Illinois, Michigan and Indiana. BU North America focuses increasingly on mass affluent customers and commercial mid-market clients. While based in the U.S. Midwest, BU North America reaches further through an expanding network of regional commercial banking offices across the U.S.

Latin America

BU Latin America has a presence in nine Latin American countries: Brazil, Argentina, Chile, Colombia, Ecuador, Mexico, Paraguay, Uruguay and Venezuela, with the presence of Banco Real representing the majority of the operations. In Brazil, Banco Real is a retail and commercial bank, offering full retail, corporate and investment banking products and services. It operates as a universal bank offering

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

1 Segment reporting (Continued)

financial services through an extensive network of branches, points-of-sale and ATMs. BU Latin America also has a strong presence in the Brazilian consumer finance business through its Aymoré franchise, focused on vehicle and other consumer goods financing.

Asia

ABN AMRO has been operating for well over 100 years in several Asian countries including Indonesia, China, Singapore and Japan. BU Asia now covers 16 countries and territories and is extending its branches and offices network. BU Asia's client base includes commercial clients as well as consumer and private banking clients.

Global Clients

BU Global Clients serves a range of major corporate and institutional clients that demand sophisticated financial solutions customised to their specific needs.

BU Global Clients is organised around six hubs (Amsterdam, London, New York, Hong Kong, São Paulo and Sydney). The financial results of BU Global Clients also reflect the contribution of ABN AMRO Mellon, a joint venture with the Mellon Financial Corporation that provides global custody and value added services to institutional investors worldwide.

Private Clients

BU Private Clients offers private banking services to wealthy individuals and institutions with EUR 1 million or more in net investable assets. In the past few years, BU Private Clients built up an onshore private banking network in continental Europe through organic growth in the Netherlands and France, and through the acquisition of Delbrück Bethmann Maffei in Germany and Bank Corluy in Belgium.

Asset Management

BU Asset Management is ABN AMRO's global asset management business. BU Asset Management operates in 26 countries worldwide, offering investment products in all major regions and asset classes. Its products are distributed directly to institutional clients such as central banks, pension funds, insurance companies and leading charities. Funds for private investors are distributed through ABN AMRO's consumer and private banking arms, as well as via third-party distributors such as insurance companies and other banks. The institutional client business represents just over half of the assets managed by BU Asset Management. Consumer and third-party clients account for a further 30%, and the remainder is in discretionary portfolios managed for BU Private Clients.

Private Equity

The business model of ABN AMRO's Private Equity unit – branded as ABN AMRO Capital – involves providing capital and expertise to non-listed companies in a variety of sectors. By obtaining, in most cases, a majority stake, Private Equity gains the ability to influence the company's growth strategy and increase its profitability. It then aims to sell its shareholding at a profit after a number of years. Private Equity specialises in European mid-market buyouts, but also manages a portfolio of investments in Australian buyouts, non-controlling and controlling shareholdings in small to medium sized Dutch companies ("participaties"), and dedicated media and telecom sector investments. It operates from seven offices across Europe and Australia.

Group Functions, including Group Services

Group Functions provides guidance on ABN AMRO's corporate strategy and supports the implementation of the strategy in accordance with our Managing for Value methodology, Corporate Values and Business Principles. By aligning and uniting functions across ABN AMRO's BUs and

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

1 Segment reporting (Continued)

geographical territories, Group Functions also facilitates Group-wide sharing of best practices, innovation and positioning to public authorities, and binds the bank together in both an operational and cultural sense.

Group Functions includes Group Asset and Liability Management, which manages an investment and derivatives portfolio in order to manage the liquidity and interest rate risks of the Group. Group Functions also holds the Group's strategic investments, proprietary trading portfolio and records any related profits or losses.

Business segment information for the year ended 31 December 2006

	Netherlands	Europe	North America	Latin America	Asia	Global Clients	Private Clients	Asset Management	Private Equity	Group Functions	Total
Net interest income – external	2,574	3,414	2,224	2,970	240	1,355	(959)	9	(160)	(1,092)	10,575
Net interest income – other segments	504	(2,098)	124	(65)	271	(800)	1,503	(24)	(139)	724	—
Net fee and commission income – external	711	1,011	653	449	496	1,256	671	704	18	93	6,062
Net fee and commission income – other segments	40	(228)	44	35	97	(10)	29	13	(6)	(14)	—
Net trading income	486	1,032	229	209	310	563	64	(4)	13	77	2,979
Result from financial transactions	28	169	155	34	12	41	4	40	422	182	1,087
Share of result in equity accounted investments	51	1	4	55	62	—	2	1	—	67	243
Other operating income	246	111	313	51	31	3	75	89	2	461	1,382
Income of consolidated private equity holdings	—	—	—	—	—	—	—	—	5,313	—	5,313
Total operating income	4,640	3,412	3,746	3,738	1,519	2,408	1,389	828	5,463	498	27,641
Total operating expenses	3,118	2,743	2,457	2,219	1,089	2,144	956	528	5,031	428	20,713
Loan impairment and credit risk provisions	359	397	38	722	218	(27)	40	—	26	82	1,855
Total expenses	3,477	3,140	2,495	2,941	1,307	2,117	996	528	5,057	510	22,568
Operating profit/(loss) before taxes	1,163	272	1,251	797	212	291	393	300	406	(12)	5,073
Income tax expense	319	229	167	149	101	(13)	121	65	(3)	(233)	902
Profit from continuing operations	844	43	1,084	648	111	304	272	235	409	221	4,171
Profit from discontinued operations net of tax	505	—	104	—	—	—	—	—	—	—	609
Profit for the year	1,349	43	1,188	648	111	304	272	235	409	221	4,780
Other information at 31 December 2006											
Total assets	169,862	390,326	163,276	36,169	60,187	69,443	20,510	1,402	7,706	68,183	987,064
Of which equity accounted investments	189	14	—	39	369	—	6	10	23	877	1,527
Total liabilities	168,755	385,016	156,100	31,415	58,307	61,314	19,012	1,044	6,560	73,646	961,169
Capital expenditure	373	130	181	142	85	1	39	17	451	204	1,623

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

1 Segment reporting (Continued)

Business segment information for the year ended 31 December 2005

	Netherlands	Europe	North America	Latin America	Asia	Global Clients	Private Clients	Asset Management	Private Equity	Group Functions	Total
Net interest income – external	758	2,163	2,291	2,225	323	1,549	(690)	(11)	(93)	270	8,785
Net interest income – other segments	2,570	(2,411)	(80)	(15)	241	(903)	1,219	17	(107)	(531)	—
Net fee and commission income – external	604	450	730	377	378	831	583	590	26	122	4,691
Net fee and commission income – other segments	106	(149)	4	2	43	—	29	6	(9)	(32)	—
Net trading income	392	957	269	57	131	711	44	14	(13)	59	2,621
Result from financial transactions	2	25	79	11	4	121	11	55	353	620	1,281
Share of result in equity accounted investments	13	3	4	37	73	—	1	18	—	114	263
Other operating income	184	72	224	369	44	13	100	23	1	26	1,056
Income of consolidated private equity holdings	—	—	—	—	—	128	—	—	3,509	—	3,637
Total operating income	4,629	1,110	3,521	3,063	1,237	2,450	1,297	712	3,667	648	22,334
Total operating expenses	3,282	1,208	2,299	1,848	914	1,869	915	501	3,391	74	16,301
Loan impairment and credit risk provisions	285	(35)	(86)	348	27	(50)	16	—	34	96	635
Total expenses	3,567	1,173	2,213	2,196	941	1,819	931	501	3,425	170	16,936
Operating profit/(loss) before taxes	1,062	(63)	1,308	867	296	631	366	211	242	478	5,398
Income tax expense	323	40	273	265	90	78	87	40	(21)	(33)	1,142
Profit/(loss) from continuing operations	739	(103)	1,035	602	206	553	279	171	263	511	4,256
Profit from discontinued operations net of tax	136	—	51	—	—	—	—	—	—	—	187
Profit/(loss) for the year	875	(103)	1,086	602	206	553	279	171	263	511	4,443
Other information at 31 December 2005											
Total assets	176,874	304,818	148,392	27,903	57,280	54,585	19,111	1,199	7,293	83,349	880,804
Of which equity accounted investments	163	27	—	40	371	—	5	13	7	2,367	2,993
Total liabilities	175,851	300,386	142,426	23,812	55,746	53,267	17,642	1,051	6,268	80,203	856,652
Capital expenditure	286	91	301	145	70	25	26	41	190	91	1,266

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

1 Segment reporting (Continued)

Business segment information for the year ended 31 December 2004

	Netherlands	Europe	North America	Latin America	Asia	Global Clients	Private Clients	Asset Management	Private Equity	Group Functions	Total
Net interest income – external	1,234	1,391	2,681	1,688	334	1,423	(429)	(12)	(80)	295	8,525
Net interest income – other segments	1,857	(1,180)	(349)	(152)	87	(855)	888	17	(33)	(280)	—
Net fee and commission income – external	628	458	632	340	394	860	537	531	8	97	4,485
Net fee and commission income – other segments	40	(46)	(13)	4	(11)	—	23	4	—	(1)	—
Net trading income	213	179	182	(6)	120	519	53	9	3	37	1,309
Result from financial transactions	19	(118)	(196)	(4)	(3)	133	1	10	579	484	905
Share of result in equity accounted investments	32	—	2	9	127	—	14	2	—	20	206
Other operating income	204	(6)	288	152	22	8	59	34	(25)	9	745
Income of consolidated private equity holdings	—	—	—	—	—	—	—	—	2,616	—	2,616
Total operating income	4,227	678	3,227	2,031	1,070	2,088	1,146	595	3,068	661	18,791
Total operating expenses	3,525	1,293	2,164	1,386	710	1,782	869	444	2,614	393	15,180
Loan impairment and credit risk provisions	177	(60)	161	230	3	49	7	—	16	24	607
Total expenses	3,702	1,233	2,325	1,616	713	1,831	876	444	2,630	417	15,787
Operating profit/(loss) before taxes	525	(555)	902	415	357	257	270	151	438	244	3,004
Income tax expense	159	(131)	161	174	83	68	78	46	33	44	715
Profit/(loss) from continuing operations	366	(424)	741	241	274	189	192	105	405	200	2,289
Profit from discontinued operations net of tax	146	—	58	—	240	—	—	—	—	1,207	1,651
Profit/(loss) for the year	512	(424)	799	241	514	189	192	105	405	1,407	3,940
Other information at 31 December 2004											
Total assets	174,102	236,558	129,834	18,371	46,943	32,137	16,416	954	4,136	68,003	727,454
Of which equity accounted investments	140	19	—	22	253	—	5	12	5	972	1,428
Total liabilities	202,650	196,839	123,702	15,703	41,164	35,899	45,307	1,113	2,843	45,682	710,902
Capital expenditure	367	57	380	112	50	26	48	6	83	23	1,152

Geographical segments

The geographical analysis presented below is based on the location of the Group entity in which the transactions are recorded.

	Operating income	2006 Total assets	Capital expenditure	Operating income	2005 Total assets	Capital expenditure	Operating income	2004 Total assets	Capital expenditure
The Netherlands	11,440	289,984	899	9,255	285,073	577	8,497	267,222	473
Europe	6,040	419,691	179	4,672	332,922	153	2,324	254,562	122
North America	4,041	168,533	315	3,911	167,128	314	4,467	133,592	391
Latin America	3,961	36,976	141	3,271	28,420	145	2,305	18,274	113
Asia Pacific	2,159	71,880	89	1,225	67,261	77	1,198	53,804	53
Total	27,641	987,064	1,623	22,334	880,804	1,266	18,791	727,454	1,152

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

2 Acquisitions and disposals of subsidiaries

Major acquisitions in 2006, 2005 and 2004

The following major acquisitions were made in 2006, 2005 and 2004 and were accounted for using the purchase method:

	<u>% acquired</u>	<u>Consideration</u>	<u>Total assets</u>	<u>Acquisition date</u>
Acquired companies				
2006				
Antonveneta	100	7,499	49,367	various
Private equity acquisitions	51-100	105	1,295	various
2005				
Bank Corluy	100	50	121	April 2005
Private equity acquisitions	51-100	43	2,174	various
2004				
Bethmann Maffei	100	110	812	January 2004
Private equity acquisitions	51-100	112	963	various

Acquisitions 2006

Antonveneta

On 2 January 2006 the Group acquired a controlling interest in Banca Antoniana Popolare Veneta (Antonveneta) in order to increase its mid-market footprint, and accelerate the existing partnership that gives access to the large Italian banking market and the customer base of Antonveneta.

During 2005 the Group had already increased its interest in Antonveneta from 12.7% to 29.9%. The purchase of 79.9 million shares of Antonveneta from Banca Popolare Italiana on 2 January 2006 resulted in the Group acquiring a controlling 55.8% share. Following purchases of shares in the open market, a public offering and the exercise of the Group's right under Italian law to acquire minority share holdings, ABN AMRO now owns 100% of the outstanding share capital of Antonveneta.

The Group paid EUR 26.50 per share for Antonveneta, representing a total consideration of EUR 7,499 million. Total goodwill arising from the acquisition amounted to EUR 4,399 million, reflecting final adjustments to the purchase price and an adjustment to the fair value of the purchased loan portfolio over and above the provisional goodwill amount calculated at EUR 4,273 million as at 2 January 2006. For further details on the purchase price adjustments and goodwill calculation please refer to note 22. In addition, the Group has recognised newly identifiable intangible assets amounting to EUR 1,194 million. For further details on intangible assets please refer to note 22.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

2 Acquisitions and disposals of subsidiaries (Continued)

The impact of consolidating Antonveneta in the figures of ABN AMRO Holding N.V. as at 31 December 2006 can be summarised as follows:

	Year ended 31 December 2006
Income statement	
Operating income	2,071
Operating expenses	1,310
Loan impairment and other credit risk provisions	382
Operating profit before tax	379
Income tax expense	187
Profit for the year	192
	31 December 2006
Balance sheet	
Loans and receivables – banks	4,640
Loans and receivables – customers	38,070
Sundry assets	8,775
Total assets	51,485
Due to banks	11,777
Due to customers	19,742
Issued debt securities	9,803
Sundry liabilities	6,623
Total liabilities	47,945

BU Asset Management

In February 2006, BU Asset Management acquired International Asset Management, a “fund of hedge funds” manager. The integration of this acquisition was completed in May 2006. In June 2006, BU Asset Management increased its share in its Beijing joint venture to 49% and changed local partner from XiangCai Securities to Northern Trust, a member of Tianjin TEDA holdings.

VermogensGroep

In October 2006, the Group acquired a majority share in VermogensGroep to expand its Private Clients business in the Netherlands.

Banco ABN AMRO Real

On 20 September 2006, ABN AMRO exercised its right to call Banca Intesa’s remaining 3.86% holding in Banco ABN AMRO Real. The total consideration for the acquisition of the shares amounted to EUR 233 million. After the exercise of the rights ABN AMRO owns 97.5% of the shares in Banco ABN AMRO Real.

Capitalia

On 18 October 2006 the Group purchased 24.6 million shares, representing a stake of 0.95%, in Capitalia from Pirelli S.p.A. After this purchase the Group has a stake of 8.60% in Capitalia. The consideration paid for the shares amounted to EUR 165 million.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

2 Acquisitions and disposals of subsidiaries (Continued)

Private Equity

Major new buy-out investments in 2006 were:

- U-pol (United Kingdom, automotive manufacturing)
- OFIC (France, isolation materials)
- Lucas Bols (Netherlands, branded liqueurs and spirits)
- Nextira One (France, integrated enterprise network solutions)
- Volution (United Kingdom, construction)
- Douglas Hanson (United States, manufacturing, add-on to Loparex, Sweden)
- Amitco (United Kingdom, manufacturing)
- Saunatec (Finland, manufacturing).

Disposals 2006

Asset Management

In April 2006 BU Asset Management disposed of its U.S. mutual fund business to Highbury Financial Inc. The sale involved 19 mutual funds accounting for USD 6 billion assets under management. The net profit on the sale amounted to EUR 17 million. In July 2006, BU Asset Management sold its onshore Taiwanese asset management business to ING Group. The profit on the sale amounted to EUR 38 million, included in other operating income.

Kereskedelmi és Hitelbank Rt

In May 2006, ABN AMRO completed the sale of its 40% participation in Kereskedelmi és Hitelbank Rt of Hungary, as announced in December 2005, for a consideration of EUR 510 million to KBC Bank. The profit recognised on the sale included in other operating income is EUR 208 million.

Global Futures business

On 30 September 2006 ABN AMRO sold the Global Futures business for an amount of EUR 305 million (USD 386 million). The net profit on the sale amounted to EUR 190 million (EUR 229 million gross). During 2006 the Global Futures business contributed EUR 163 million of operating income and a net loss of EUR 24 million.

Private Clients

In May 2006, BU Private Clients sold its business in Denmark and in December 2006 it disposed of its business in Monaco, to focus on growth in other private banking markets and further enhance the efficiency of its global structure.

Bouwfonds non-mortgage

On 1 December 2006 the Group disposed of the property development and management activities of its Bouwfonds subsidiary. The Bouwfonds Property Development, Bouwfonds Asset Management, Bouwfonds Fondsenbeheer, Rijnlandse Bank and Bouwfonds Holding were sold to Rabobank for a cash consideration of EUR 852 million and the Bouwfonds Property Finance activities were sold to SNS Bank for a cash consideration of EUR 825 million. The total net gain on the sale of Bouwfonds amounted to EUR 338 million.

The operating result and disposal gain of the Bouwfonds businesses sold have been reported as discontinued operations in the income statement.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

2 Acquisitions and disposals of subsidiaries (Continued)

Private Equity

In 2006 major divestments were:

- Holland Railconsult (Netherlands, railway engineering)
- Kreatel Communications (Sweden, telecommunications)
- Sogetrel (France, telecommunications)
- Radio Holland Group (Netherlands, maritime navigation and communication systems)
- RTD (Netherlands, industrial non-destructive testing services)
- Jessops (United Kingdom, retail)
- Dennis Eagle (United Kingdom, industrial).

Acquisitions 2005

Bank Corluy

In April 2005 the acquisition of the Belgian private bank Bank Corluy was completed. The purchase price amounted to EUR 50 million. Total Assets under Management of this entity were over EUR 1.5 billion. The net asset value acquired amounted to EUR 20 million, resulting in capitalised goodwill of EUR 30 million.

Bouwfonds

In April 2005, we exercised our right to acquire the cumulative preference shares of Bouwfonds in order to obtain full legal control, in addition to the 100% economic interest we acquired in 2000.

Artemis

In December 2005, we increased our shareholding in the UK based asset management company Artemis from 58% to 71%. The consideration paid for this increase amounted to EUR 107 million.

Private Equity

Major new buy-out investments in 2005 were:

- FlexLink (Sweden, engineering)
- Strix (UK, engineering)
- Fortex (Netherlands, support services)
- Loparex (Finland, industrial products)
- Everod (Australia, medical services)
- Bel'm (France, consumer products)
- IMCD (Netherlands, chemicals), Nueva Terrain (Spain, construction)
- Roompot (Netherlands, leisure)
- Scotts and McColls (Australia, transportation)
- Bonna Sabla (France, industrial products & services)
- Bianchi Vending (Italy, business products & supplies).

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

2 Acquisitions and disposals of subsidiaries (Continued)

Disposals 2005

ABN AMRO Trust Holding

In June 2005, the sale of ABN AMRO Trust Holding to Equity Trust was completed. The Trust and Management Services performed in Asia, Europe and the Caribbean were transferred to Equity Trust. The profit on the sale amounted to EUR 17 million.

Nachenius Tjeenk & Co.

In July 2005, the sale of Nachenius Tjeenk to BNP Paribas was completed. The net profit on sale amounted to EUR 38 million.

Real Seguros S.A.

In July 2005, ABN AMRO and Tokio Marine & Nichido Fire Insurance Co., Ltd. ("TMNF"), an integral subsidiary of Millea Holdings, Inc. announced that TMNF would purchase from ABN AMRO 100% of Real Seguros S.A., and establish a 50/50 joint venture in Real Vida e Previdência S.A. As part of the agreement, ABN AMRO agreed to distribute on an exclusive basis through its retail network in Brazil, insurance and pension products. The net profit on the sale amounted to EUR 196 million.

Private Equity

In 2005 major divestments were:

- Handicare (Norway, medical equipment)
- MobilTel (Bulgaria, communications)
- AUSDOC (Australia, support services)
- Puzzler Media (UK, media).

Dilution of investment 2005

Capitalia

In December 2005, Capitalia issued additional shares. Because we did not participate in this offering, our shareholding reflects a dilutive effect and decreased from 9% to 8%.

Acquisitions 2004

Bethmann Maffei

In January 2004, we acquired Bethmann Maffei, a private bank in Germany for EUR 110 million. We then merged it with Delbrück & Co to form Delbrück Bethmann Maffei. With more than EUR 10 billion in Assets under Management, Delbrück Bethmann Maffei is one of the top five private banks in Germany.

Sparebank 1 Aktiv Forvaltning

In February 2004, we acquired the asset management activities of Sparebank 1 Aktiv Forvaltning of Norway.

Disposals 2004

Bank Austria

In February 2004, we sold our stake in Bank Austria for a net profit of EUR 115 million.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

2 Acquisitions and disposals of subsidiaries (Continued)

US Professional Brokerage

In April 2004, we sold our US Professional Brokerage unit to Merrill Lynch, Pierce, Fenner & Smith Incorporated.

Bank of Asia

In July 2004, we sold our controlling 80.77% interest in Bank of Asia in Thailand to the United Overseas Bank for a total cash consideration of THB 22,019 million or EUR 442 million as per 27 July 2004. The operating result and disposal gain of EUR 224 million have been reported as discontinued operations in the profit and loss account.

LeasePlan Corporation

In November 2004, we sold LeasePlan Corporation of the Netherlands for a net profit of EUR 844 million (under Dutch GAAP) to a consortium of investors led by Volkswagen Group. The operating result and disposal gain have been reported as discontinued operations in the profit and loss account.

Executive Relocation Corporation

In November 2004, we sold our U.S. employee relocation management and consulting firm, Executive Relocation Corporation, to SIRVA Inc. of the United States for USD 100 million.

U.S. defined contribution pensions administration business

On 31 December 2004, Business Unit Asset Management sold its U.S. defined contribution pensions (401(k)) administration business to Principal Financial Group of the United States.

3 Net interest income

	2006	2005	2004
Interest income from:			
Cash and balances at central banks	459	348	218
Financial assets held for trading	2,101	1,559	1,389
Financial investments	5,433	5,191	4,186
Loans and receivables – banks	4,001	2,660	2,078
Loans and receivables – customers	25,704	19,887	16,657
Subtotal	37,698	29,645	24,528
Interest expense from:			
Financial liabilities held for trading	1,289	1,054	976
Due to banks	5,449	5,037	3,941
Due to customers	12,208	9,616	7,254
Issued debt securities	7,140	4,160	2,744
Subordinated liabilities	1,037	993	1,088
Subtotal	27,123	20,860	16,003
Total	10,575	8,785	8,525

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

4 Net fee and commission income

	2006	2005	2004
Fee and commission income			
Securities brokerage fees	1,785	1,560	1,548
Payment and transaction services fees	2,123	1,530	1,401
Asset management and trust fees	1,562	1,153	1,041
Fees generated on financing arrangements	248	180	158
Advisory fees	500	336	311
Insurance related commissions	168	168	130
Guarantee fees	223	218	160
Other fees and commissions	518	427	436
Subtotal	7,127	5,572	5,185
Fee and commission expense			
Securities brokerage expense	330	321	281
Payment and transaction services expense	287	165	125
Asset management and trust expense	151	127	126
Other fee and commission expense	297	268	168
Subtotal	1,065	881	700
Total	6,062	4,691	4,485

5 Net trading income

	2006	2005	2004
Securities	61	978	179
Foreign exchange transactions	789	662	687
Derivatives	2,199	933	380
Other	(70)	48	63
Total	2,979	2,621	1,309

Interest income and expense on trading positions are included in interest income and expense.

6 Results from financial transactions

	2006	2005	2004
Net gain from the disposal of available-for-sale debt securities	634	431	179
Net gain from the sale of available-for-sale equity investments	158	55	154
Dividend on available-for-sale equity investments	71	54	48
Net gain on other equity investments	491	514	694
Hedging ineffectiveness	58	39	(112)
Fair value change of credit default swaps	(280)	(51)	(12)
Other	(45)	239	(46)
Total	1,087	1,281	905

The net gain on other equity investments includes gains and losses arising on investments held at fair value and the result on the sale of consolidated holdings of a private equity nature.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

6 Results from financial transactions (Continued)

The Group enters into credit default swaps for managing portfolio credit risk. However, these are generally not included in hedge accounting relationships due to difficulties in demonstrating that the relationship will be highly effective. Accordingly any fair value changes are recorded directly in income, while the gains and losses on the credit positions hedged are accrued in interest income and expense and as impairment and other credit related provisions if any.

7 Other operating income

	2006	2005	2004
Insurance activities	103	150	177
Leasing activities	61	60	63
Disposal of operating activities and equity accounted investments	553	347	187
Other	665	499	318
Total	1,382	1,056	745

Income from insurance activities can be analysed as follows

	2006	2005	2004
Premium income	1,273	1,182	1,243
Investment income	308	406	300
Provision for insured risk	(1,478)	(1,438)	(1,366)
Total	103	150	177

The 2006 result on disposal of operating activities (not qualifying as discontinued operations) and equity accounted investments includes the profit recognised on the following sales: Kereskedelmi és Hitelbank Rt to KBC Bank of EUR 208 million, the Global Futures business to UBS of EUR 229 million, Asset Management Taiwan to ING Group of EUR 38 million and Asset Management Mutual Funds USA to Highbury Financial Inc. of EUR 17 million.

In 2006 an amount of EUR 110 million has been recognised in relation to the settlement of a claim regarding a former subsidiary of our U.S. operations in the line Other.

8 Personnel expenses

	Note	2006	2005	2004
Salaries (including bonuses and allowances)		6,469	5,686	5,413
Social security expenses		873	710	592
Pension and post-retirement healthcare costs		404	11	373
Share-based payment expenses		78	61	4
Temporary staff costs		309	228	196
Termination payments		144	174	191
Restructuring related costs	11	153	42	502
Other employee costs		211	313	279
Total		8,641	7,225	7,550

Average number of employees (fte):

Banking activities Netherlands		26,260	26,960	27,819
Banking activities foreign countries		79,173	66,054	65,957
Consolidated private equity holdings	41	29,945	22,201	17,938
Total		135,378	115,215	111,714

The 2006 increase in Salaries is mainly due to the consolidation of Antonveneta and increased bonus expenses in relation to our BU Global Markets activities.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

9 General and administrative expenses

	Note	2006	2005	2004
Professional fees		1,376	1,055	763
Information technology expenses		1,311	909	800
Property costs		918	751	725
Staff related expenses (including training)		204	179	149
Travel and transport		350	296	258
Stationary and printing expense		112	114	111
Communication and information		603	461	455
Commercial expenses		656	547	410
Expenses of consolidated private equity holdings . .		466	352	284
Restructuring related costs	11	(27)	(9)	179
Sundry expenses		1,088	898	613
Total		7,057	5,553	4,747

10 Depreciation and amortisation

	Note	2006	2005	2004
Property depreciation		207	145	153
Equipment depreciation		551	538	512
Software amortisation		385	272	274
Amortisation of other intangible assets		170	16	2
Impairment losses on goodwill of private equity investments		1	19	124
Impairment losses on property and equipment		1	9	38
Impairment of property and equipment from restructuring	11	16	4	109
Impairment of software		—	1	6
Total		1,331	1,004	1,218

This item includes EUR 212 million (2005: EUR 133 million and 2004: EUR 151 million) of depreciation, amortisation and impairments charged by consolidated private equity holdings (see note 41). Amortisation of other intangible assets in 2006 mainly relate to Antonveneta (see note 22).

11 Restructuring costs

The following table summarises the Group's restructuring costs as included in the relevant cost categories.

	2006	2005	2004
Personnel related costs	153	42	502
Other administrative expenses	(27)	(9)	179
Impairment of property and equipment	16	4	109
Total	142	37	790

Restructuring charges and releases in income statements

Restructuring charges of EUR 137 million have been accounted for in relation to the services and IT alignment initiatives. Also restructuring costs of EUR 123 million have been recognised in respect of the

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

11 Restructuring costs (Continued)

efficiency improvement initiatives in Group Functions, North America and Global Markets activities, as included in our regional BUs:

- The Group has identified opportunities to improve productivity and efficiency whilst maintaining an effective control framework at all times. This affects mainly the head office and predominantly Group Risk Management and corporate IT projects through acceleration of the implementation of the IT operating model for Group Functions. The restructuring provision accounted for in relation to this amounts to EUR 47 million.
- In order to bring the efficiency ratio in line with peers a process of continuous efficiency improvement has started in BU North America. The first step was the announcement at the end of 2006 to reduce BU North America's workforce. A provision expense of EUR 41 million has been recorded in respect of this.
- Global Markets, as reflected in the regions, announced further initiatives to improve the efficiency ratio. A provision of EUR 85 million, including EUR 25 million in the Services initiative and EUR 25 million in the Europe IT provision, has been recorded to support the initiative.
- The Services Operations organisation is responsible for the Group's internal services such as transaction processing, clearing and settlement. The Services Operations initiative brings together a portfolio of projects, covering the whole scope of the global banking operations and improving the efficiency of the internal processes. The initiative is being implemented over a three-year timeframe (2006-2008). The initiative will mainly impact operations in the Netherlands, United States, Brazil and United Kingdom. The total amount provided is EUR 108 million, of which EUR 25 million relating to Global Markets, as reflected in the regions.
- ABN AMRO will further aligns all IT areas within the bank to the global Services IT model previously established. All sourcing is brought under a single governance structure, supported by a multi-vendor operating model. In Europe, the IT alignment primarily has consequences for the IT-related activities in the UK. This happens through consolidation of infrastructure estate and further off shoring of application development. It will also leads to a significant reduction in contractors and consultants. Total amount provided is EUR 29 million, of which EUR 25 million to Global Markets, as reflected in the regions.

A review performed on various restructuring provisions established in prior years has led to a release of EUR 118 million. This review assessed the status of existing restructuring initiatives, contemplated the impact of new plans and identified releases including those arising from higher levels of voluntary leavers due to stronger than expected employment markets.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

12 Income tax expense

Recognised in the income statement

	2006	2005	2004
Current tax expense			
Current year	944	1,106	1,186
Under/(over) provided in prior years	(96)	(87)	(30)
Subtotal	848	1,019	1,156
Deferred tax expense			
Origination and reversal of timing differences	322	257	(373)
Reduction in tax rate	(141)	(35)	(13)
Subtotal	181	222	(386)
Total	1,029	1,241	770
Continuing operations	902	1,142	715
Discontinued operations	138	99	55
Taxation on disposal	(11)	—	—
Total	1,029	1,241	770

The Group made net cash income tax payments of EUR 1.2 billion in 2006 (2005: EUR 1.1 billion).

Reconciliation of the total tax charge

The effective tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Netherlands. The difference can be explained as follows:

(in percentages points)	2006	2005	2004
Dutch tax rate	29.6	31.5	34.5
Effect of tax rate in foreign countries	(2.1)	(5.0)	(4.2)
Effect of previously unrecognised tax losses utilised	—	(0.8)	—
Effect of tax-exempt income in the Netherlands	(7.2)	(1.2)	(3.7)
Other	(2.6)	(2.7)	(3.0)
Effective tax rate on operating profit	17.7	21.8	23.6

Recognised directly in equity

(benefits)/charges	2006	2005	2004
Relating to currency translation	114	(198)	51
Relating to cash flow hedges	(223)	(235)	(54)
Relating to available-for-sale assets	190	169	118
Total	81	(264)	115

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

13 Earnings per share

The calculations for basic and diluted earnings per share are presented in the following table.

	2006	2005	2004
Profit for the year attributable to shareholders of the parent company	4,715	4,382	3,865
Profit from continuing operations attributable to shareholders of the parent company	4,106	4,195	2,214
Profit from discontinued operations attributable to shareholders of the parent company	609	187	1,651
Weighted average number of ordinary shares outstanding (in millions)	1,882.5	1,804.1	1,657.6
Dilutive effect of staff options (in millions)	7.5	4.3	3.1
Conditional share awards (in millions)	5.5	1.3	1.0
Diluted number of ordinary shares (in millions)	1,895.5	1,809.7	1,661.7
<i>Earnings per share from continuing operations</i>			
Basic earnings per ordinary share (in euros)	2.18	2.33	1.34
Fully diluted earnings per ordinary share (in euros)	2.17	2.32	1.34
<i>Earnings per share from continuing and discontinued operations</i>			
Basic earnings per ordinary share (in euros)	2.50	2.43	2.33
Fully diluted earnings per ordinary share (in euros)	2.49	2.42	2.33
Number of ordinary shares outstanding as at 31 December (in millions)	1,853.8	1,877.9	1,669.2
Net asset value per ordinary share (in euros)	12.73	11.83	8.88
Number of preference shares outstanding as at 31 December (in millions)	1,369.8	1,369.8	1,369.8
Return on average shareholders' equity (in %)	20.7	23.5	29.7

14 Cash and balances at central banks

This item includes cash on hand and deposits with central banks in countries in which the bank has a presence.

	2006	2005
Cash on hand	1,887	1,590
Balances at central bank	10,430	15,067
Total	12,317	16,657

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

15 Financial assets and liabilities held for trading

	2006	2005
Financial assets held for trading		
Interest-earning securities:		
Dutch government	976	2,520
U.S. treasury and U.S. government agencies	1,115	7,843
Other OECD governments	29,529	37,855
Other interest-earning securities	28,670	13,789
Subtotal	60,290	62,007
Equity instruments	40,112	34,676
Derivative financial instruments	105,334	105,372
Total	205,736	202,055
Financial liabilities held for trading		
Short positions in financial assets	45,861	52,060
Derivative financial instruments	99,503	96,528
Total	145,364	148,588

Gains and losses on derivative financial instruments and changes in fair value of other trading instruments are recognised in net trading income. Interest income and expense from debt and other fixed-income instruments that are held for trading are recognised in net interest income.

Trading portfolio derivative financial instruments

		2006			2005		
		Notional amounts	Fair values		Notional amounts	Fair values	
			Assets	Liabilities		Assets	Liabilities
Interest rate derivatives							
OTC	Swaps	5,788,088	57,947	55,768	4,846,112	70,644	64,527
	Forwards	342,962	73	69	220,612	80	73
	Options (purchased)	280,482	4,679	—	243,296	6,072	—
	Options (sold)	334,774	—	4,685	266,718	—	6,321
Exchange	Futures	277,120	64	41	209,197	1	2
	Options (purchased)	19	—	—	292	3	—
	Options (sold)	—	—	—	293	—	1
	Subtotal	7,023,445	62,763	60,563	5,786,520	76,800	70,924
Currency derivatives							
OTC	Swaps	648,243	14,694	11,582	518,012	12,356	10,431
	Forwards	637,773	7,460	6,723	507,385	5,004	5,661
	Options (purchased)	62,697	2,183	—	63,835	1,524	—
	Options (sold)	62,168	—	2,291	66,174	—	1,313
Exchange	Futures	8,462	18	12	2,855	5	8
	Options	2,752	15	9	7,243	71	70
	Subtotal	1,422,095	24,370	20,617	1,165,504	18,960	17,483
Other							
OTC	Equity, commodity and other	1,540,334	11,271	10,340	511,791	4,747	4,589
	Equity options (purchased)	29,467	4,579	—	24,116	3,507	—
	Equity options (sold)	27,630	—	5,495	26,987	—	2,472
Exchange	Equity, commodity and other	12,439	338	27	12,389	288	23
	Equity options (purchased)	20,571	2,013	—	14,848	1,070	—
	Equity options (sold)	22,916	—	2,461	15,794	—	1,037
	Subtotal	1,653,357	18,201	18,323	605,925	9,612	8,121
Total		10,098,897	105,334	99,503	7,557,949	105,372	96,528

For an analysis of the market and liquidity risks involved, please refer to note 39.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

16 Financial investments

	2006	2005
<i>Interest-earning securities: available-for-sale</i>		
Dutch government	2,537	2,781
U.S. treasury and U.S. government	4,800	6,618
Other OECD governments	38,437	51,760
Mortgage-backed securities	14,655	12,100
Other interest-earning securities	57,129	39,918
Subtotal	117,558	113,177
<i>Interest-earning securities: held-to-maturity</i>		
Dutch government	1,285	2,136
U.S. treasury and U.S. government	14	22
Other OECD governments	2,001	3,660
Mortgage-backed securities	26	36
Other interest-earning securities	403	718
Subtotal	3,729	6,572
Total	121,287	119,749
<i>Equity investments</i>		
Available for sale	1,866	2,337
Designated at fair value through income	2,228	1,688
Subtotal	4,094	4,025
Total	125,381	123,774

Other interest-earning securities include investments in covered bonds. Income from debt and other fixed income instruments is recognised using the effective interest method in interest income. Dividend income from other equity instruments is recognised in results from financial transactions.

17 Loans and receivables – banks

This item is comprised of amounts due from or deposited with banking institutions.

	Note	2006	2005
Current accounts		9,473	5,479
Time deposits placed		15,396	11,613
Professional securities transactions	33	105,969	87,281
Loans to banks		3,986	4,279
Subtotal		134,824	108,652
Allowances for impairment	19	(5)	(17)
Total		134,819	108,635

The movements during the year are mainly due to an increase in professional securities transactions in the UK.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

18 Loans and receivables – customers

This item is comprised of amounts receivable, mainly regarding loans and mortgages balances with non-bank customers.

	Note	2006	2005
Public sector		11,567	7,461
Commercial		180,262	152,411
Consumer		135,484	122,708
Professional securities transactions	33	93,716	74,724
Multi-seller conduits		25,872	25,931
Subtotal		446,901	383,235
Allowances for impairment	19	(3,646)	(2,987)
Total		443,255	380,248

The increase year-on-year reflects the consolidation of Antonveneta, impact EUR 38 billion, and growth in the loan portfolio of BU Asia and BU Latin America.

The amount advanced held by multi-seller conduits is typically collateralised by a pool of customer receivables in excess of the amount advanced, such that credit risk is very low (see note 39). These conduits issue commercial paper as specified in note 26.

The risk management disclosures section on credit risk (see note 39) contains information about the concentration of credit risk by business sector and geographical location, as well as a breakdown of the amounts by type of collateral.

19 Loan impairment charges and allowances

	2006	2005
Balance at 1 January	3,004	3,177
Loan impairment charges and other credit risk provisions:		
New impairment allowances	2,563	1,409
Reversal of impairment allowances no longer required	(455)	(544)
Recoveries of amounts previously written off	(253)	(236)
Other credit related charges	—	6
Total loan impairment and other credit risk provisions	1,855	635
Amount recorded in interest income from unwinding of discounting	(62)	(32)
Currency translation differences	(56)	208
Amounts written off (net)	(1,136)	(1,070)
Disposals of businesses and discontinued operations	(70)	13
Reserve for unearned interest accrued on impaired loans	116	73
Balance at 31 December	3,651	3,004

All loans are assessed for potential impairment either individually and/or on a portfolio basis. The allowance for impairment is apportioned as follows:

	2006	2005
Commercial loans	2,344	2,146
Consumer loans	1,302	841
Loans to banks	5	17
Total	3,651	3,004

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

19 Loan impairment charges and allowances (Continued)

Loan provisioning-commercial loans

The Group reviews the status of credit facilities issued to commercial clients at least every 6 or 12 months. Additionally, credit officers continually monitor the quality of the credit, the client and the adherence to contractual conditions. Should the quality of a loan or the borrower's financial position deteriorate to the extent that doubts arise over the borrower's ability to meet their contractual obligations, management of the relationship is transferred to the Financial Restructuring and Recovery function.

After making an assessment, Financial Restructuring and Recovery determines the amount, if any, of the specific allowances that should be made, after taking into account the value of collateral. We partly or fully release specific allowances when the debt is repaid or expected future cash flows improve due to positive changes in economic or financial circumstances.

Loan provisioning-consumer loan products

The bank offers a wide range of consumer loan products and programmes such as personal loans, home mortgages, credit cards and home improvement loans. Provisioning for these products is carried out on a portfolio basis, with a specific provision for each product being determined by the portfolio's size and loss experience.

Our consumer loan portfolio policy states that, in general, when interest or principal on a consumer loan is 90 days or more past due, such loans are classified as non-performing and as a result the loans are considered impaired.

Provisions for a given portfolio may be released where there is improvement in the quality of the portfolio. For consumer loans, our write-off rules are time-based and vary by type of product. For example, unsecured facilities, such as credit cards and personal loans, are generally written off at 180 days past due and cashbacked and debt and/or equity-backed facilities are generally written off at 90 days past due.

Allowance for incurred but not identified losses

In addition to impairment allowances calculated on a specific or portfolio basis, the Group 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.

20 Equity accounted investments

	2006	2005
Banking institutions	1,436	2,885
Other investments	91	108
Total	1,527	2,993
Balance at 1 January	2,993	1,428
Movements:		
Purchases	194	1,554
Sales/reclassifications	(1,833)	(265)
Share of results in equity accounted investments	243	263
Dividends received from equity accounted investments	(72)	(63)
Currency translation differences	(43)	31
Other	45	45
Balance at 31 December	1,527	2,993

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

20 Equity accounted investments (Continued)

In this balance an 8.6% interest in Capitalia is included. ABN AMRO equity accounts for this interest because ABN AMRO is the largest party of a shareholder pact and has representation in the Supervisory Board.

Reclassifications mainly relate to Antonveneta, which became a consolidated operating entity as of 2 January 2006.

Purchases in 2005 include our increased stake in Antonveneta. During 2005 our investment in Kereskedelmi és Hitelbank Rt. was reclassified to available-for-sale assets upon the loss of significant influence, prior to being sold in 2006.

Included in the Group's cash flow hedging and available-for-sale reserve is EUR 53 million (2005: EUR 95 million) of unrealised gains relating to equity accounted investments.

Investments with a book value of EUR 875 million (2005: EUR 2,345 million) that are traded on a recognised stock exchange had a combined market value of EUR 1,601 million (2005: EUR 3,399 million).

Amounts receivable from and payable to equity accounted investments included in the various balance sheet items totalled:

	2006	2005
Loans and receivables – banks	11	1,151
Loans and receivables – customers	212	495
Due to banks	61	138
Due to customers	258	246

The principal equity accounted investments of the Group on an aggregated basis (not adjusted for the Group's proportionate interest) have the following balance sheet and income statement totals:

	2006	2005
Total assets	155,000	192,927
Total liabilities	134,741	180,577
Total operating income	7,432	8,887
Profit before tax	2,355	1,524

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

21 Property and equipment

The book value of property and equipment in 2006 and 2005 changed as follows:

	Property		Equipment	Total
	Used in operations	Other		
Balance at 1 January 2006	3,340	2,979	1,791	8,110
Movements:				
Business combinations	1,010	98	215	1,323
Divestment of businesses	(269)	(2,846)	(171)	(3,286)
Additions	450	783	688	1,921
Disposals	(108)	(767)	(148)	(1,023)
Impairment losses	(17)	—	—	(17)
Depreciation	(203)	(4)	(551)	(758)
Currency translation differences	(93)	(7)	(43)	(143)
Other	153	11	(21)	143
Balance at 31 December 2006	4,263	247	1,760	6,270
Representing:				
Cost	5,881	276	4,448	10,605
Cumulative impairment	(44)	(17)	(4)	(65)
Cumulative depreciation	(1,574)	(12)	(2,684)	(4,270)

	Property		Equipment	Total
	Used in operations	Other		
Balance at 1 January 2005	2,994	2,677	1,502	7,173
Movements:				
Business combinations	308	24	508	840
Divestment of businesses	(36)	(182)	(186)	(404)
Additions	379	763	453	1,595
Disposals	(294)	(722)	(45)	(1,061)
Impairment losses	(13)	(11)	(1)	(25)
Depreciation	(145)	—	(538)	(683)
Discontinued operations	(2)	391	2	391
Currency translation differences	149	39	96	284
Balance at 31 December 2005	3,340	2,979	1,791	8,110
Representing:				
Cost	4,802	3,091	3,801	11,694
Cumulative impairment	(48)	(103)	(2)	(153)
Cumulative depreciation	(1,414)	(9)	(2,008)	(3,431)

Divestment of businesses in 2006 mainly relates to development property of Bouwfonds.

As lessee

The Group leases equipment under a number of finance lease agreements. At 31 December 2006 the net carrying amount of leased equipment included in property and equipment was EUR 8 million (2005: EUR 23 million).

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

21 Property and equipment (Continued)

As lessor

The Group also leases out various assets, included in "Other", under operating leases. Non-cancellable operating lease rentals are as follows:

	2006	2005
Less than one year	56	27
Between one and five years	140	100
More than five years	49	30
	<u>245</u>	<u>157</u>

During the year ended 31 December 2006, EUR 59 million (2005: EUR 60 million) was recognised as rental income in the income statement and EUR 48 million (2005: EUR 51 million) in respect of directly related expenses.

22 Goodwill and other intangible assets

	2006	2005
Goodwill	4,714	198
Private equity goodwill	2,436	2,128
Software	959	758
Other intangibles	1,298	99
Subtotal	<u>9,407</u>	<u>3,183</u>
Mortgage servicing rights	—	1,985
Total	<u>9,407</u>	<u>5,168</u>

The book value of goodwill and other intangibles, excluding mortgage servicing rights, changed as follows:

	Goodwill	Private equity goodwill	Software	Other intangibles	Total
Balance at 1 January 2006	198	2,128	758	99	3,183
Movements:					
Business combinations	4,399	270	133	1,095	5,897
Divestments of businesses	—	(171)	(1)	(35)	(207)
Other additions	115	297	485	315	1,212
Disposals	—	(87)	(6)	(6)	(99)
Impairment losses	—	(1)	—	—	(1)
Amortisation	—	—	(385)	(170)	(555)
Currency translation differences	2	—	(36)	(1)	(35)
Other	—	—	11	1	12
Balance at 31 December 2006	<u>4,714</u>	<u>2,436</u>	<u>959</u>	<u>1,298</u>	<u>9,407</u>
Representing:					
Cost	4,716	2,580	2,133	1,486	10,915
Cumulative impairment	(2)	(144)	(3)	—	(149)
Cumulative amortisation	—	—	(1,171)	(188)	(1,359)

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

22 Goodwill and other intangible assets (Continued)

	Goodwill	Private equity goodwill	Software	Other intangibles	Total
Balance at 1 January 2005	67	877	602	93	1,639
Movements:					
Business combinations	35	1,281	5	51	1,372
Divestments of businesses	(2)	(91)	(14)	(70)	(177)
Other additions	97	80	425	42	644
Disposals	—	—	(9)	—	(9)
Impairments	—	(19)	(1)	—	(20)
Amortisation	—	—	(272)	(16)	(288)
Discontinued operations	—	—	(7)	(2)	(9)
Currency translation differences . .	1	—	29	1	31
Balance at 31 December 2005 . .	198	2,128	758	99	3,183
Representing:					
Cost	200	2,271	1,572	120	4,163
Cumulative impairment	(2)	(143)	(15)	—	(160)
Cumulative amortisation	—	—	(799)	(21)	(820)

Business combinations

On 2 January 2006 the Group acquired Antonveneta, refer to note 2 for further details. The fair values of the identifiable assets and liabilities of Antonveneta as at 2 January 2006, and the goodwill arising on acquisition are as follows:

	Recognised on acquisition by the group	Carrying value Antonveneta
Intangible assets	1,233	848
Property and equipment	752	751
Financial assets	43,058	41,936
Deferred tax assets	958	736
All other assets	3,366	3,461
Total identifiable assets	49,367	47,732
Deferred tax liabilities	654	147
All other liabilities	45,463	44,487
Total identifiable liabilities	46,117	44,634
Total net assets	3,250	3,098
Purchase price (100%)	7,499	
Net assets	(3,250)	
Fair value adjustment of pre-existing 12.7% investment included in shareholders' equity	150	
Goodwill arising on acquisition of 100% outstanding shares .	4,399	

Impairment testing of goodwill

Goodwill has been allocated for impairment testing purposes to individual cash-generating units within the business. The EUR 4,399 million of goodwill allocated to the Antonveneta cash-generating unit is the only significant individual carrying amount. The remaining goodwill is allocated across multiple cash-generating units whose recoverable amounts are assessed independently of one another.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

22 Goodwill and other intangible assets (Continued)

The recoverable amount of Antonveneta has been determined based on a value in use basis, calculated using a discounted dividend model, which applies a dividend payout ratio to the cash flow of the business.

Cash flows for an initial five-year period are based on financial forecasts used in target setting by management, in this case a two-year detailed forecast with subsequent three-year extrapolation. Beyond the initial five-year period a maximum dividend payout ratio, subject to the special features of the banking business and its regulatory environment has been applied to cash flows estimated with reference to the following key assumptions:

- Expected long term return on equity 18.0%
- Expected growth rate 1.5%.

Management has benchmarked these key assumptions against market forecasts and expectations. The dividend model is based on post-tax cash flows. Therefore these cash flows have been discounted using a post-tax discount rate of 8.5%, reflecting the risk-free interest rate with an appropriate market risk premium for the business.

Management believes that it may be reasonably possible that changes in the key assumptions would cause the carrying amount of the Antonveneta cash-generating unit to exceed its recoverable amount. The calculated recoverable amount of Antonveneta currently exceeds its carrying amount by EUR 126 million. The recoverable amount of Antonveneta would be equal to its carrying amount if the actual value of each key assumption, assuming the other assumptions were constant, was as follows:

- Actual growth rate fell to 1.3%
- Actual return on equity . . . fell to 17.7%, or
- Discount rate increased to 8.6%.

Other Intangibles

As a result of the acquisition of Antonveneta, the Group has recognised newly identifiable intangible assets as follows:

Core deposit intangible assets	400
Core overdraft intangible assets	224
Other customer relationship intangible assets	325
Other intangible assets	<u>245</u>
Total	<u>1,194</u>

The amortisation period for all newly identifiable intangible assets is on average approximately 8 years. The Group estimates that the total amortisation expense (pre-tax) related to the newly identifiable intangible assets amounts to EUR 174 million in each of the next two years up to and including 2008, and to EUR 142 million for 2009 and to EUR 135 million for each of the three years thereafter up to and including 2012.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

23 Other assets

	Note	2006	2005
Deferred tax assets	30	3,479	2,682
Current tax assets		1,189	337
Derivative assets used for hedging	37	3,214	3,213
Mortgages originated-for-sale		331	4,311
Unit-linked investments held for policyholder accounts		5,462	3,624
Pension assets	28	145	119
Other assets of consolidated private equity holdings, including inventories		1,733	1,531
Sundry assets and other receivables		11,659	9,733
Total		27,212	25,550

Mortgages originated-for-sale and unit-linked investments held for policyholders are designated at fair value with changes through income. Mortgages originated-for-sale are originated by our mortgage banking business in North America. In the prior year, the volume of originated-for-sale loans was significantly higher due to the inclusion of those loans originated by ABN AMRO Mortgage Group, Inc., which is now classified as held for sale.

Sundry assets include insurance related deposits and other short-term receivables.

24 Due to banks

This item is comprised of amounts due to banking institutions, including central banks and multilateral development banks.

	Note	2006	2005
Professional securities transactions	33	87,762	71,231
Current accounts		20,273	23,573
Time deposits		70,127	63,836
Advances from Federal Home Loan banks		7,293	7,239
Other		2,534	1,942
Total		187,989	167,821

25 Due to customers

This item comprises amounts due to non-banking customers.

	Note	2006	2005
Consumer current accounts		35,358	21,502
Commercial current accounts		75,689	67,133
Consumer savings accounts		89,893	84,166
Commercial deposit accounts		96,577	87,099
Professional securities transactions	33	57,828	48,982
Other		7,038	8,201
Total		362,383	317,083

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

26 Issued debt securities

	2006		2005	
	Effective rate %		Effective rate %	
Bonds and notes issued	4.1	117,122	3.2	90,050
Certificates of deposit and commercial paper . .	4.8	56,375	2.9	51,873
Cash notes, savings certificates and bank certificates	5.6	2,269	4.2	2,657
Subtotal		175,766		144,580
Commercial paper issued by multi-seller conduits	5.0	26,280	3.4	26,039
Total		<u>202,046</u>		<u>170,619</u>

Bonds are issued in the capital markets with a focus on the euro market and are denominated mostly in euro and U.S. dollars. The commercial paper programmes are issued globally with the majority issued in the United States and Europe. The other debt securities are instruments used in markets in which ABN AMRO is active and are usually denominated in local currencies. Of the total amount, EUR 75.3 billion (2005: EUR 60.6 billion) are variable interest bearing securities. EUR 20.1 billion (2005: EUR 16.5 billion) of issued debt of a fixed rate nature has been designated in fair value hedge relationships.

Issued debt securities in (currency):

	2006	2005
EUR	95,452	77,660
USD	84,308	75,243
Other	22,286	17,716
Total	<u>202,046</u>	<u>170,619</u>

Included in the balance above are various structured liabilities that have been designated at fair value through income due to the inclusion of embedded derivative features. These liabilities had a fair value at 31 December 2006 of EUR 2,540 million (2005: EUR 2,815 million) and an amortised cost value of EUR 2,661 million (2005: EUR 2,882 million).

Maturity analysis

	2006	2005
Within one year	103,531	102,368
After one and within two years	18,231	11,770
After two and within three years	19,380	7,175
After three and within four years	13,402	7,521
After four and within five years	7,903	8,082
After five years	39,599	33,703
Total	<u>202,046</u>	<u>170,619</u>

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

27 Provisions

	Note	2006	2005
Provision for pension commitments	28	649	942
Provision for contributions to post-retirement healthcare	28	111	101
Other staff provision		672	459
Insurance fund liabilities		4,080	3,169
Restructuring provision		415	501
Other provisions		1,923	1,239
Total		7,850	6,411

The other staff provisions relate in particular to occupational disability and other benefits, except early retirement benefits, payable to non-active employees. Provisions created for staff benefit schemes due to restructuring are accounted for as restructuring provision. Insurance fund liabilities include the actuarial reserves and the premium and claims reserves of the Group's insurance companies.

	Other staff provisions	Restructuring	Other provisions
Balance at 1 January 2006	459	501	1,239
Movements:			
Additions from income statement	74	126	430
Expenses charged to provisions	(203)	(178)	(512)
Acquisitions/disposals	89	(40)	416
Currency translation differences	(15)	(8)	(26)
Other	268	14	376
Balance at 31 December 2006	672	415	1,923

	Other staff provisions	Restructuring	Other provisions
Balance at 1 January 2005	448	752	880
Movements:			
Additions from income statement	316	33	513
Expenses charged to provisions	(320)	(298)	(289)
Acquisitions/disposals	—	—	28
Currency translation differences	15	14	107
Balance at 31 December 2005	459	501	1,239

Insurance fund liabilities movements are as follows:

	2006	2005
Balance at 1 January	3,169	3,111
Premium carried from income statement	370	294
Claims paid	(210)	(14)
Interest	21	34
Acquisitions/disposals	825	(637)
Changes in estimates and other movements	(78)	97
Currency translation differences	(17)	284
Balance at 31 December	4,080	3,169

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

28 Pension and other post-retirement employee benefits

Pension costs and contributions for post-retirement healthcare borne by the Group are included in personnel expenses and are shown in the following table:

	Pension		Healthcare	
	2006	2005	2006	2005
Service cost	374	320	5	24
Interest cost	529	510	10	39
Expected return on plan assets	(632)	(585)	(5)	(5)
Net amortisation of net actuarial (gain)/loss . . .	27	1	(1)	9
Net amortisation of prior-service cost	(72)	1	—	—
(Gain)/loss on curtailment or settlements	1	(11)	—	(453)
Defined benefit plans	227	236	9	(386)
Defined contribution plans	168	161	—	—
Total costs	395	397	9	(386)

Liability for defined benefit obligations

The Group makes contributions to 44 (2005: 58) defined benefit plans that provide pension benefits for employees upon retirement. The amounts recognised in the balance sheet are as follows:

	Pension		Healthcare	
	2006	2005	2006	2005
Present value of funded obligations	12,167	12,316	81	88
Present value of unfunded obligations	134	87	58	51
Less: Fair value of plan assets	11,149	10,212	60	63
Present value of net obligations	1,152	2,191	79	76
Unrecognised prior year service cost	(7)	(10)	—	—
Unrecognised actuarial (losses)/gains	(683)	(1,400)	32	25
Unrecognised assets	42	42	—	—
Net recognised liability for defined benefit obligations	504	823	111	101

Included in the net recognised liability for pension is a pension asset of EUR 145 million (2005: EUR 119 million).

Movements in the net liability/asset recognised in the balance sheet are as follows:

	Pension		Healthcare	
	2006	2005	2006	2005
Net liability at 1 January	823	1,144	101	524
Acquisition/disposals	30	(1)	—	—
Contributions paid	(582)	(572)	(6)	(56)
Expense recognised in the income statement . .	227	236	9	(386)
Currency translation differences	6	16	7	19
Net liability at 31 December	504	823	111	101

Explanation of the assets and liabilities

The following tables summarise the changes in benefit obligations and plan assets of the main pension plans and other employee benefit plans.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

28 Pension and other post-retirement employee benefits (Continued)

Movements in projected benefit obligations:

	Pension		Healthcare	
	2006	2005	2006	2005
Balance at 1 January	12,403	10,715	139	760
Service cost	374	320	5	24
Interest cost	529	510	10	39
Employee contributions/refunds	5	15	—	—
Actuarial (gain)/loss	(518)	925	(3)	45
Benefits paid	(333)	(312)	(9)	(50)
Acquisitions/disposals	30	(1)	—	—
Plan amendments	(87)	2	—	—
Settlement/curtailment	(2)	(25)	—	(707)
Currency translation differences	(100)	212	(10)	28
Other	—	42	7	—
Balance at 31 December	12,301	12,403	139	139

Movements in fair value of plan assets:

	Pension		Healthcare	
	2006	2005	2006	2005
Balance at 1 January	10,212	8,754	63	46
Actual return on plan assets	782	984	7	2
Employee contributions/refunds	5	15	—	—
Employer's contribution	571	572	—	9
Benefits paid	(322)	(298)	(3)	(3)
Currency translation differences	(100)	195	(7)	9
Recognised settlement/curtailment	—	(10)	—	—
Other	1	—	—	—
Balance at 31 December	11,149	10,212	60	63

The weighted averages of the main actuarial assumptions used to determine the value of the provisions for pension obligations and contributions to health insurance as at 31 December were as follows:

	2006	2005
Pensions		
Discount rate	4.6%	4.3%
Expected increment in salaries	2.8%	2.4%
Expected return on investments	6.0%	6.2%
Healthcare		
Discount rate	8.2%	7.8%
Average rise in the costs of healthcare	9.0%	9.5%

The expected return on investments regarding pension obligations is weighted on the basis of the fair value of these investments. The average rise in cost of healthcare is weighted on the basis of the healthcare cost of 2006. All other assumptions are weighted on the basis of the defined benefit plan obligations.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

28 Pension and other post-retirement employee benefits (Continued)

For the pension plans, the target and actual allocation of the plan assets are as follows:

Allocation of plan assets

	Target allocation 2006	Actual allocation 2006	Actual allocation 2005
Plan asset category			
Equity securities	53.2%	53.2%	52.8%
Issued debt securities	46.1%	45.6%	45.3%
Real estate	0.3%	0.2%	0.1%
Other	0.4%	1.0%	1.8%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Plan assets for 2006 and 2005 do not include investments in ordinary shares, debt issued or property occupied by the Group.

Forecast of pension benefits payments

2007	338
2008	357
2009	386
2010	417
2011	447
Years after 2011	<u>2,663</u>

The Group's expected contribution to be paid to defined pension schemes in 2007 is EUR 407 million (2006: EUR 598 million).

A one percentage point change in the assumed rate of increase in healthcare costs would have the following effects:

	<u>Increase</u>	<u>Decrease</u>
2006		
Effect on the aggregate current service cost and interest cost	2	(1)
Effect on the defined benefit obligation	9	(7)
2005		
Effect on the aggregate current service cost and interest cost	1	(1)
Effect on the defined benefit obligation	<u>11</u>	<u>(9)</u>

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

28 Pension and other post-retirement employee benefits (Continued)

Amounts for current and previous periods, under which the Group reported under IFRS, are as follows:

	2006	2005	2004
Pension			
Defined benefit obligation	(12,301)	(12,403)	(10,715)
Plan assets	11,149	10,212	8,754
(Deficit)/surplus	(1,152)	(2,191)	(1,961)
Experience adjustments on plan liabilities	518	(925)	(962)
Experience adjustments on plan assets	150	399	63
Healthcare			
Defined benefit obligation	(139)	(139)	(760)
Plan assets	60	63	46
(Deficit)/surplus	(79)	(76)	(714)
Experience adjustments on plan liabilities	3	(45)	(192)
Experience adjustments on plan assets	2	(3)	2

29 Other liabilities

	Note	2006	2005
Deferred tax liabilities	30	2,463	2,471
Current tax liabilities		2,026	1,032
Derivative liabilities used for hedging	37	3,965	4,712
Liability to unit-linked policyholders		5,462	3,624
Other liabilities of consolidated private equity holdings		1,053	768
Sundry liabilities and other payables		7,008	6,116
Total		21,977	18,723

30 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Recognised in income	
	2006	2005	2006	2005	2006	2005
Property and equipment	9	44	160	155	(151)	(111)
Intangible assets including goodwill	613	341	457	—	156	341
Derivatives	68	52	128	330	(60)	(278)
Investment securities	170	127	170	146	—	(19)
Employee benefits	288	471	—	12	288	459
Servicing rights	1	—	521	613	(520)	(613)
Allowances for loan losses	978	650	—	42	978	608
Leasing	—	—	399	469	(399)	(469)
Tax credits	13	77	—	—	13	77
Other	389	309	61	193	328	116
Tax value of carry-forward losses recognised	950	611	567	511	383	100
Total	3,479	2,682	2,463	2,471	1,016	211

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

30 Deferred tax assets and liabilities (Continued)

Unrecognised deferred tax assets

Deferred tax assets that have not been recognised in respect of carry-forward losses amount to EUR 898 million (2005: EUR 252 million). Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available where the Group can utilise the benefits from them.

Expiration of carry-forward losses

At 31 December 2006 carry-forward losses expire as follows:

2007	19
2008	116
2009	27
2010	50
2011	69
Years after 2011	2,455
Total	2,736

Tax exposure to distributable reserves

ABN AMRO considers approximately EUR 1.4 billion (2005: EUR 2.1 billion) in distributable invested equity of foreign operations to be permanently invested. If retained earnings were to be distributed, no foreign income taxes would have to be paid. The estimated impact of foreign withholding tax is EUR 6 million (2005: EUR 9 million).

31 Subordinated liabilities

Issued liabilities qualify as subordinated debt if claims by the holders are subordinated to all other current and future liabilities of, respectively, ABN AMRO Holding N.V, ABN AMRO Bank N.V. and other Group companies. These liabilities qualify as capital, taking into account remaining maturities, for the purpose of determining the consolidated capital adequacy ratio for the Dutch central bank.

The maturity profile of subordinated liabilities is as follows:

	2006	2005
Within one year	1,384	1,156
After one and within two years	726	1,452
After two and within three years	2,165	704
After three and within four years	811	1,550
After four and within five years	21	1,395
After five years	14,106	12,815
Total	19,213	19,072

The average interest rate on subordinated liabilities was 5.2% (2005: 5.4%). Subordinated liabilities as at 31 December 2006 denominated in euros amounted to EUR 10,259 million (2005: EUR 9,240 million) and in U.S. dollars an amount of EUR 7,332 million (2005: EUR 9,745 million). EUR 8,522 million (2005: EUR 5,703 million) is of a variable interest rate nature.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

31 Subordinated liabilities (Continued)

The following table analyses the subordinated liabilities by issuer:

	2006	2005
ABN AMRO Holding N.V. preference financing shares	768	768
ABN AMRO Bank N.V.	13,101	13,051
Other Group companies	5,344	5,253
Total	19,213	19,072

Total subordinated liabilities include EUR 6,122 million (2005: EUR 5,261 million) which qualify as tier 1 capital for capital adequacy purposes.

Preference financing shares

At 31 December 2006, 2005 and 2004, there were 1,369,815,864 (EUR 767,096,884) preference financing shares convertible into ordinary shares ("preference shares") in issue. Each share has a nominal value of EUR 0.56. The holders of these shares will receive a dividend of EUR 0.02604 per share, representing 4.65% of the face value. As of 1 January 2011, and every ten years thereafter, the dividend percentage on the preference shares will be adjusted in line with the arithmetical average of the ten-year euro-denominated interest rate swap as published by Reuters on the dividend calculation dates thereof, plus an increment to be set by the Managing Board with the approval of the Supervisory Board, of no less than 25 basis points and no more than one hundred basis points, depending on the market situation at that time.

(Formerly convertible) preference shares

Only 44,988 (EUR 100.8 million par value) preference shares that were formerly convertible into ordinary shares ("convertible shares") remain outstanding. The holders of these shares will receive a dividend of EUR 0.95 per share, representing 3.32% of the amount paid on each share as of 1 January 2004. As of 1 January 2014, and every ten years thereafter, the dividend on the convertible preference shares will be adjusted in the manner described in the Articles of Association.

Notes to the consolidated financial statements

(unless otherwise stated, all amounts are in millions of euros)

32 Share capital

The table below provides a breakdown of our issued share capital, issued and fully paid ordinary shares, treasury shares, preference financing shares and (formerly convertible) preference shares.

	Nominal value	Millions of euros
Issued share capital		
<i>Authorised</i>		
4,000,000,400 ordinary shares	of EUR 0.56	2,240
4,000,000,000 convertible financing preference shares	of EUR 0.56	2,240
100,000,000 convertible preference shares	of EUR 2.24	224
	Number	Millions of euros
Ordinary shares		
<i>Issued and fully paid</i>		
At 1 January 2006	1,909,738,427	1,069
Exercised options and warrants	27,109,089	16
Balance at 31 December 2006	1,936,847,516	1,085
At 1 January 2005	1,702,888,861	954
New issue	145,278,482	82
Dividends paid in shares	61,571,084	33
Balance at 31 December 2005	1,909,738,427	1,069
At 1 January 2004	1,643,220,517	919
Exercised options and warrants	3,159,695	2
Dividends paid in shares	56,508,649	33
Balance at 31 December 2004	1,702,888,861	954
There are no issued ordinary shares that have not been fully paid.		
	Number	Millions of euros
Treasury shares		
At 1 January 2006	31,818,402	600
Used for options exercised and performance share plans	(8,454,965)	(143)
Share buy back	95,899,360	2,204
Dividends paid in shares	(36,202,072)	(832)
Balance at 31 December 2006	83,060,725	1,829
At 1 January 2005	33,686,644	632
Used for options exercised	(1,868,242)	(32)
Balance at 31 December 2005	31,818,402	600
At 1 January 2004	5,337,689	119
Share buy back	28,348,955	513
Balance at 31 December 2004	33,686,644	632

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

33 Professional securities transactions

Professional security transactions include balances relating to reverse repurchase activities, cash collateral on securities borrowed and security settlement accounts. The Group minimises credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group when deemed necessary.

	2006		2005	
	Banks	Customers	Banks	Customers
Assets				
Cash advanced under securities borrowing . . .	1,268	47,422	662	29,811
Reverse repurchase agreements	101,593	35,365	83,260	29,548
Unsettled securities transactions	3,108	10,929	3,359	15,365
Total	<u>105,969</u>	<u>93,716</u>	<u>87,281</u>	<u>74,724</u>
Liabilities				
Cash received under securities lending	1,289	7,203	1,715	7,616
Repurchase agreements	83,687	42,848	65,891	26,982
Unsettled securities transactions	2,786	7,777	3,625	14,384
Total	<u>87,762</u>	<u>57,828</u>	<u>71,231</u>	<u>48,982</u>

Under reverse repurchase, securities borrowing, and other collateralised arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others.

	2006	2005
Securities received under reverse repurchase and/or securities borrowing arrangements which can be repledged or resold	40,149	66,676
Of the above amount, the amount that has either been repledged or otherwise transferred to others in connection with the Group's financing satisfy its commitments under short sale transactions	<u>35,700</u>	<u>27,329</u>

34 Securitisations and assets pledged as security

Details of the carrying amounts of assets pledged as collateral are as follows:

	2006	2005
Cash and balances at central banks	10,430	10,737
Financial investments	2,780	12,074
Loans and receivables – customers	7,302	32,656
Total	<u>20,512</u>	<u>55,467</u>

These assets have been pledged in respect of the following liabilities and contingent liabilities:

	2006	2005
Due to banks	9,355	17,782
Due to customers	741	4,266
Issued debt securities	3	21,440
Total	<u>10,099</u>	<u>43,488</u>

The decrease in assets pledged as collateral and liabilities for which they have been pledged, is mainly the result of Bouwfonds non-mortgage business.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

34 Securitisations and assets pledged as security (Continued)

Securitisation

As part of the Group's funding and credit risk mitigation activities, the cash flows of selected financial assets are transferred to third parties. Substantially all financial assets included in these transactions are mortgage or other loan portfolios. The extent of the Group's continuing involvement in these financial assets varies by transaction.

The Group participates in sales transactions where cash flows relating to various financial assets are transferred to a consolidated special purpose entity (SPE). When in these transactions neither substantially all risks and rewards nor control over the financial assets has been transferred, the entire asset continues to be recognised in the consolidated balance sheet. In the case of sales transactions involving a consolidated SPE, the retained risks and rewards are usually interest related spread and/or an exposure on first credit losses. The carrying amounts of the assets and associated liabilities approximated EUR 5,554 million, EUR 6,290 million and EUR 7,786 million at 31 December 2006, 2005 and 2004, respectively.

Synthetic transactions

In addition the Group has synthetic securitisations for an amount of EUR 83,588 million (2005: EUR 59,255 million). Through a synthetic securitisation the Group is able to buy protection without actual transference of any assets to an SPE. In general, the Group as the owner of the assets, buys protection to transfer the credit risk of a portfolio of assets to another entity that sells the protection. Although the credit risk of the portfolio is transferred, actual ownership of the portfolio of assets remains with the Group.

Continuing involvement

Additionally the Group participates in various mortgage related transactions in the Netherlands that have been conducted without the involvement of an SPE. In these transactions, the derecognition criteria are not fully met and the entire asset continues to be recognised in the consolidated balance sheet. The Group also retains exposure to certain interest rate risks. The carrying amounts of these mortgage assets and associated liabilities approximate EUR 272 million, EUR 772 million and EUR 850 million at 31 December 2006, 2005 and 2004, respectively.

The Group has not participated in any transaction where partial derecognition of specified portions of an entire financial asset have occurred.

Credit default swaps

In addition to the transactions mentioned above, the Group also uses credit default swaps to reduce credit risk for parts of the loan portfolio by selling these risks directly to the capital markets. At 31 December 2006 the Group has bought credit protection for an amount of EUR 56,801 million (2005: EUR 30,352 million).

Derecognition

Though the Group has sold a part of its loan portfolio in North America, it still holds legal title to some of these loans. In most cases these loans are also serviced by the Group. The Group also services loans originated by other institutions. The following table states the total outstandings at 31 December 2006.

Transaction type

	2006	2005
Legal title to loans sold	86	136
Loans serviced for third parties	159,377	160,654

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

35 Commitments and contingent liabilities

Credit facilities

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans, overdraft facilities and credit card limits. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one to three months.

Guarantees

The Group 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 a period of up to five years. Expirations are not concentrated in any particular period. The Group also provides guarantees by acting as a settlement agent in securities borrowing and lending 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 will 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 stated above, non-quantified guarantees have been given for the ABN AMRO's securities custody operations, for inter-bank bodies and institutions and for participating interests. Collective guarantee schemes are applicable to Group companies in various countries. Furthermore, statements of liability have been issued for a number of Group companies.

Our commitments at 31 December are summarised below.

		Payments due by period			
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
		(in millions of euros)			
2006					
Committed facilities	145,418	93,365	19,129	21,458	11,466
Commitments with respect to:					
Guarantees granted	46,026	27,506	8,432	3,448	6,640
Irrevocable letters of credit	5,241	4,823	301	78	39
Recourse risks arising from discounted bills	12	12	—	—	—
2005					
Committed facilities	141,010	82,165	17,801	24,269	16,775
Commitments with respect to:					
Guarantees granted	41,536	22,699	6,361	3,656	8,820
Irrevocable letters of credit	4,467	4,097	135	214	21
Recourse risks arising from discounted bills	18	18	—	—	—

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

35 Commitments and contingent liabilities (Continued)

Leases as lessee

Operating lease rentals are payable as follows:

	2006	2005
Less than one year	367	255
Between one and five years	693	614
More than five years	632	912
	<u>1,692</u>	<u>1,781</u>

During 2006, EUR 403 million (2005: EUR 303 million) of operating lease expense and EUR 30 million (2005: EUR 48 million) of sub-lease income was recognised in income statement.

Contractual and contingent obligations

	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	After 5 years
		(in millions of euros)			
2006					
Issued debt securities ⁽¹⁾	202,046	103,531	37,611	21,305	39,599
Subordinated liabilities ⁽¹⁾	19,213	1,384	2,891	832	14,106
Purchase obligations	254	254	—	—	—
Other obligations	695,736	647,484	15,239	8,051	24,962
2005					
Issued debt securities ⁽¹⁾	170,619	102,368	17,300	17,248	33,703
Subordinated liabilities ⁽¹⁾	19,072	1,156	2,156	2,944	12,816
Purchase obligations	243	243	—	—	—
Other obligations	633,492	583,119	15,820	7,010	27,543

(1) Contractual obligations for finance lease agreements totaled EUR 5 million as of 31 December 2006 (2005: EUR 15 million), with EUR 1 million payable after one year (2005: EUR 5 million).

At 31 December 2006, other obligations consisted of deposits and other client accounts (EUR 272,490 million, 2005: EUR 232,917), banks (EUR 187,989 million, 2005: EUR 167,821 million), savings accounts (EUR 89,893 million, 2005: EUR 84,166 million) and financial liabilities held for trading (EUR 145,364 million, 2005: EUR 148,588 million). For further information see note 39 to our consolidated financial statements. For an analysis of the maturities of our liabilities at 31 December, see note 39 (liquidity gap).

Other contingencies

Legal proceedings have been initiated against the Group in a number of jurisdictions, but on the basis of information currently available, and having taken legal counsel with legal advisors, the Group is of the opinion that the outcome of these proceedings net of any related insurance claims is unlikely to have a material adverse effect on the consolidated financial position and the consolidated profit of the Group.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

36 Cash flow statement

The following table analyses the determination of cash and cash equivalents:

	2006	2005	2004
Cash and balances at central banks	12,317	16,657	17,896
Loans and receivables – banks	9,464	5,455	3,954
Due to banks	(16,909)	(16,069)	(13,247)
Cash and cash equivalents	4,872	6,043	8,603

The following table analyses movements resulting from acquisitions and disposals:

	2006	2005	2004
Cash and cash equivalents in acquired/disposed of subsidiaries	(6,827)	309	(157)
Net amounts paid/received in cash and cash equivalents on acquisitions/disposals of subsidiaries	(209)	57	(16)
	<u>(7,036)</u>	<u>366</u>	<u>(173)</u>
Net movement in assets and liabilities:			
Financial assets held for trading	378	(131)	—
Financial investments	1	(112)	—
Loans and receivables – banks	491	(866)	—
Loans and receivables – customers	16,672	186	(4)
Property and equipment	(2,174)	396	108
Other assets	6,523	1,109	366
Total assets	21,981	582	470
Due to banks	(6,632)	1,514	281
Due to customers	9,659	(812)	108
Issued debt securities	8,655	—	21
Accruals and deferred income	(621)	57	56
Subordinated liabilities	1,842	45	56
Other liabilities	9,555	(192)	(96)
Total liabilities	22,458	612	426
Cash flows from operating activities include:			
Interest received	36,036	29,388	25,154
Interest paid	26,311	21,456	16,659
Dividends received	164	158	170
Income taxes paid	1,286	1,056	511

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

36 Cash flow statement (Continued)

The following table analyses movements in operating assets and liabilities:

	2006	2005	2004
Movement in operating assets:			
Financial assets held for trading	(2,567)	(28,235)	(47,100)
Loans and receivables	(77,182)	(60,516)	(73,145)
Net increase/(decrease) in accrued income and prepaid expenses	(2,231)	(1,586)	(121)
Net increase/(decrease) in other assets	4,588	(15,031)	1,023
Total movement in operating assets	(77,392)	(105,368)	(119,343)
Movement in operating liabilities:			
Financial liabilities held for trading	(4,907)	15,001	35,465
Due to banks	19,930	21,630	38,734
Due to customers	44,365	18,056	82
Issued debt securities maturing within 1 year	13,048	20,760	21,436
Provisions	(75)	(567)	380
Net increase/(decrease) in accrued expenses and deferred income	3,129	(126)	202
Net increase/(decrease) in other liabilities	(10,509)	5,707	2,423
Total movement in operating liabilities	64,981	80,461	98,722

37 Hedge accounting

The Group enters into various derivative instrument transactions to hedge risks on assets, liabilities, net investments and forecasted cash flows. The accounting treatment of the hedged item and the hedging derivative is dependent on whether the hedge relationship qualifies for hedge accounting. Qualifying hedges may be designated as either fair value or cash flow hedges.

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

Fair value hedges

The Group's fair value hedges 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, notably available-for-sale securities, and liabilities due to changes in market interest rates.

For qualifying fair values 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.

Cash flow hedges

For qualifying cash flow hedges, the effective portion of the change in the fair value of the hedge instrument is recorded in the cash flow hedge reserve and recognised in the income when the hedged item occurs. The ineffective portions of designated cash flow hedges are recorded in income immediately. If the hedge relationship is terminated, then the change in fair value of the derivative recorded in the hedge reserve is recognised when the cash flows that were hedged occur, consistent with the original hedge strategy. Gains and losses on derivatives reclassified from the cash flow hedge

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

37 Hedge accounting (Continued)

reserve to income are included in net interest income. The Group's main cash flow hedge programmes are operated by Group Asset and Liability Management and BU North America.

Cash flow hedge accounting for Group Asset and Liability Management

Cash flow hedge accounting operated by Group Asset and Liability Management relates to portfolio cash flow hedge accounting for the hedging activities of the Group's non-trading financial assets and liabilities. The Group Asset and Liability Committee is the governing body for the risk management of the Group's banking portfolio and determines the interest rate risk level, sets risk measurement and modelling including applicable assumptions, sets limits, and is responsible for the asset and liability management policy.

ABN AMRO manages its exposure to interest rate risk per currency in the non-trading portfolios on a Group wide basis. In order to manage the sensitivity of the interest income per currency, the Group projects future interest income under different growth and interest rate scenarios. Systems are available to accumulate the relevant critical information throughout the Group about the existing financial assets, financial liabilities and forward commitments, including loan commitments. For the major currencies these positions are placed into a projected balance sheet available for asset liability management activities. 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.

The information gathered in the Group Asset and Liability Management's systems relates to the contractual terms and conditions, such as nominal amounts, currency, duration, interest basis, effective interest rate and interest re-pricing date. In addition other information such as estimates of prepayments, growth rate and interest scenarios is used in the interest sensitivity models of Group Asset and Liability Management. These assumptions are determined following agreed upon principles based amongst others on statistical market and client data and an economic outlook. Projected assets and liabilities are superimposed on the run-off of the currently existing positions. This information is used to create projected balance sheets that form the basis for measuring interest rate sensitivity. The 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, two months, three months, six months, one year, etc). In this way a new asset or liability that is for example based on a three months rate, is mapped to a specific three month rate index. For each projected month into the future, the assets and liabilities are grouped per interest rate-index and currency. The balance sheet projection that is embedded in the Group's interest rate risk management, not only allows the Group to estimate future interest income and perform scenario analysis, but also provides the opportunity to define the projected transactions that are eligible as hedged items in a cash flow hedge. The hedged positions are the monthly asset and liability clusters per currency and per interest rate index. These clusters are homogeneous in respect of the interest rate risk that is being hedged, because they are designed to:

- (a) Share the interest rate risk exposure that is being hedged, and
- (b) Be sensitive to interest rate changes proportional to the overall sensitivity to interest rate changes in the cluster.

ABN AMRO uses derivatives, mainly interest rate swaps, to offset identified exposures to interest rate risk in the projected balance sheet. For asset liability management purposes, assets and liabilities in a similar interest rate index cluster in a particular month are first considered as a natural off-set for economic hedging. A swap transaction may be entered into to risk manage the remaining interest income sensitivity. The notional amount of a pay- or receive-floating swap is 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. The swap transaction is designated for hedge accounting purposes as a hedge of a gross position of being a cluster of projected assets or a cluster of projected liabilities. As a result, the swap will only hedge an identified portion of a cluster of projected assets or projected liabilities. Also the swap will only hedge the applicable floating swap rate portion of the interest re-pricing and re-investment risk of the cluster.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

37 Hedge accounting (Continued)

The longer the term of the hedge, the larger the excess of available cash flows from projected assets or liabilities in the clusters has to be, given that the cash flow projections further in 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 sensitivity model for interest risk management purposes. This back testing also supports cash flow hedge accounting. The back testing relates to the interest sensitivity models applied and the assumptions used in the information gathering process for the balance sheet projection. Historical data are used to review the assumptions applied.

Cash flow hedge accounting in North America

Cash flow hedge accounting is utilised in the North American operations to mitigate the variability of cash flows of certain interest-earning assets or certain interest-bearing liabilities caused by interest rate changes. Utilising interest rate swaps, the Group lengthens the duration (thus mitigating the interest rate variability) of forecasted cash flows attributable both to certain floating rate commercial loans and to the re-pricing of fixed rate, short term, wholesale liabilities. In all cases, the individual hedged forecasted cash flows are grouped with other items that share the same interest rate risk exposure, by reference to the rate index and frequency of re-pricing. In addition, the hedged forecasted cash flow may not be based on commercial loans with contractual terms that include an embedded interest rate cap or floor nor on floating rate loans considered “at risk” for potential default during the hedge period (typically hedging designations are reviewed and adjusted, as required, monthly) as identified by the Group’s internal credit rating system.

Hedges of net investments in foreign operations

As explained in note 39, the Group limits its exposure to investments in foreign operations by hedging its net investment in its foreign operations with forward foreign exchange contracts in the currency of the foreign operations or a closely correlated currency to mitigate foreign exchange risk.

For qualifying net investment hedges, changes in the fair value of the derivative are recorded in the currency translation account differences reserve within equity.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

37 Hedge accounting (Continued)

Overview of the fair value of hedging derivatives

	2006		2005	
	Positive	Negative	Positive	Negative
Qualifying for hedge accounting				
Fair value hedges				
<i>Interest</i>				
Swaps	2,315	2,280	2,228	2,198
Options and futures	30	235	—	940
<i>Foreign currency</i>				
Swaps	339	399	464	289
Forwards	132	380	2	2
Cash flow hedges				
<i>Interest</i>				
Swaps	369	584	452	1,283
<i>Foreign currency</i>				
Swaps	3	7	63	—
Forwards	26	80	4	—
Total	<u>3,214</u>	<u>3,965</u>	<u>3,213</u>	<u>4,712</u>

Notional amounts

	2006	2005
Interest rate risk	234,643	224,871
Foreign currency risk	21,797	142,222

38 Fair value information

Determination of fair values

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. Market prices or market rates are used to determine fair value where an active market exists (such as a recognised stock exchange), as it is the best evidence of the fair value of a financial instrument.

Market prices are not, however, available for all financial assets and liabilities held and issued by the Group. Where no active market price or rate is available, fair values are estimated using present value or other valuation techniques using inputs based on market conditions existing at the balance sheet dates.

Valuation techniques are generally applied to OTC derivatives, unlisted trading portfolio assets and liabilities, and unlisted financial investments (including private equity investments). The most frequently applied pricing models and valuation techniques include forward pricing and swap models using present value calculations, option models such as the Black and Scholes model, and credit models such as default rate models or credit spread models.

The values derived from applying these techniques can be significantly affected by the choice of valuation model used and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility, and credit risk.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

38 Fair value information (Continued)

The following methods and significant assumptions have been applied in determining the fair values of financial instruments carried at fair value:

- (i) Assets and liabilities held for trading are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or other recognised valuation techniques.
- (ii) Financial investments classified as available for sale (interest-earning securities and equities) are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques.
- (iii) In general private equity investments fair values cannot be obtained directly from quoted market prices, or by using valuation techniques supported by observable market prices or rates. The fair value is estimated indirectly using valuation techniques or models for which the inputs are reasonable assumptions, based on market conditions. Valuation techniques applied are in accordance with EVCA (European Private Equity and Venture Capitalist Association) guidelines.

The following table presents the valuation methods used to determine fair values of financial instruments carried at fair value:

	Valuation techniques 2006			
	Quoted market price	Market observable	Non-market observable	Total
Financial assets				
Financial assets held for trading	100,032	104,233	1,471	205,736
Available-for-sale interest earning securities . . .	100,450	7,912	9,196	117,558
Available-for-sale equities	1,313	340	213	1,866
Equities designated at fair value through income	534	951	743	2,228
Other assets – derivatives held for hedging . . .	476	2,738	—	3,214
Other assets – unit-linked investments	5,252	210	—	5,462
Other assets – mortgages originated-for-sale . .	—	331	—	331
Total assets at fair value	208,057	116,715	11,623	336,395
Financial liabilities				
Financial liabilities held for trading	46,990	92,029	6,345	145,364
Issued debt	—	2,540	—	2,540
Other liabilities – unit-linked liability	5,252	210	—	5,462
Other liabilities – derivatives held for hedging . .	880	3,083	2	3,965
Total liabilities at fair value	53,122	97,862	6,347	157,331

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

38 Fair value information (Continued)

	Valuation techniques 2005			
	Quoted market price	Market observable	Non- market observable	Total
Financial assets				
Financial assets held for trading	97,026	103,683	1,346	202,055
Available-for-sale interest earning securities . . .	113,177	—	—	113,177
Available-for-sale equities	1,016	391	930	2,337
Equities designated at fair value through income	445	—	1,243	1,688
Other assets – derivatives held for hedging . . .	—	3,213	—	3,213
Other assets – unit-linked investments	3,624	—	—	3,624
Other assets – mortgages originated-for-sale . .	—	4,311	—	4,311
Total assets at fair value	215,288	111,598	3,519	330,405
Financial liabilities				
Financial liabilities held for trading	52,410	95,570	608	148,588
Issued debt	—	2,815	—	2,815
Other liabilities – unit-linked liability	3,624	—	—	3,624
Other liabilities – derivatives held for hedging . .	—	4,712	—	4,712
Total liabilities at fair value	56,034	103,097	608	159,739

Sensitivity of fair values

Included in the fair value of financial instruments carried at fair value on the balance sheet are those estimated in full or in part using valuation techniques based on assumptions that are not supported by observable market prices or rates. The models used in these situations undergo an internal validation process before they are certified for use. Any related model valuation uncertainty is quantified, and deducted from the fair values produced by the models. Management believes the resulting estimated fair values recorded in the balance sheet and the changes in fair values recorded in the income statement are reasonable, and are the most appropriate values at the balance sheet date.

The potential effect of using reasonably possible alternative assumptions as inputs to valuation models, relying on non market-observable inputs, has been estimated as a reduction of approximately EUR 157 million (2005: EUR 150 million) using less favourable assumptions, and an increase of approximately EUR 157 million (2005: EUR 175 million) using more favourable assumptions.

The total amount of the change in fair value estimated using a valuation technique that was recognised in the profit and loss account for the year 2006 amounts to EUR 1,516 million (2005: EUR 1,354 million).

Assets and liabilities elected at fair value

The Group has elected to fair value non-controlling private equity investments, mortgages originated-for-sale and certain structured notes. The changes in fair value recognised in income on these assets and liabilities was a loss of EUR 141 million (2005: gain of EUR 401 million).

Financial assets and liabilities not carried at fair value

The following methods and significant assumptions have been applied in determining the fair values of financial instruments carried at cost:

- (i) The fair value of assets maturing within 12 months is assumed to approximate their carrying amount

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

38 Fair value information (Continued)

- (ii) The fair value of demand deposits and savings accounts (included in due to customers) with no specific maturity is assumed to be the amount payable on demand at the balance sheet date
- (iii) The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the allowances for credit losses from both carrying amounts and fair values
- (iv) 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. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amounts of the allowances for credit losses from both carrying amounts and fair values.

The following table compares the carrying amount of financial assets and liabilities measured at cost to estimated fair values:

	Carrying amount	2006 Fair value	Difference	Carrying amount	2005 Fair value	Difference
Financial assets						
Interest earning securities held-to-maturity	3,729	3,763	34	6,572	6,717	145
Loans and receivables – banks	134,819	134,819	—	108,635	109,248	613
Loans and receivables – customer	443,255	446,589	3,334	380,248	383,547	3,299
Total	<u>581,803</u>	<u>585,171</u>	<u>3,368</u>	<u>495,455</u>	<u>499,512</u>	<u>4,057</u>
Financial liabilities						
Due to banks	187,989	187,982	7	167,821	168,469	(648)
Due to customers	362,383	362,303	80	317,083	317,714	(631)
Issued debt securities	199,506	198,531	975	167,804	170,271	(2,467)
Subordinated liabilities	19,213	19,364	(151)	19,072	19,551	(479)
Total	<u>769,091</u>	<u>768,180</u>	<u>911</u>	<u>671,780</u>	<u>676,005</u>	<u>(4,225)</u>

39 Financial risk management and use of derivatives

This section provides details of the Group's financial risk management objectives and policies and describes the methods used by management to control risk. In addition this note includes a discussion of the extent to which financial instruments are used, the associated risks and the business purpose served. This note should be read in conjunction with the section Risk and the Capital Framework included in the Annual Report from page 69 to page 81.

Financial risk management and control

Risks of financial instruments

The most important types of risk associated with financial instruments to which the Group is exposed are:

- Credit risk and country event risk
- Interest rate risk (banking book positions)

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

39 Financial risk management and use of derivatives

- Market risk (including currency risk, interest rate risk, equity price risk and commodity risk of the trading book)
- Currency risk (banking book positions)
- Liquidity risk.

Below is a discussion of the various risks the Group is exposed to as a result of its activities and the approach taken to manage those risks.

Credit risk

Measurement and control

The Group is subject to credit risk through its lending, trading, hedging and investing activities as well as in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.

The Group's senior management is responsible for establishing the credit policies and the mechanisms, organisation and procedures required to analyse, manage and control credit risk. In this respect, counterparty limits are set and an internal system of credit ratings is applied.

The Group's primary exposure to credit risk arises through its loans, credit facilities and guarantees issued. The Group is also exposed to credit risk on various other financial assets, including financial investments (interest earning securities), loans and receivables from banks, financial assets held for trading (interest earning securities and derivatives) and derivatives used for hedging.

The risk that counterparties might default on their obligations is monitored on an ongoing basis. For each transaction the Group evaluates whether collateral or a master netting agreement is required to mitigate the credit risk.

Maximum credit exposure

In the table below we have detailed the maximum credit exposure:

	2006	2005
Derivative assets held for trading	105,334	105,372
Financial investments – interest-earning securities	121,287	119,749
Loans and receivables – banks	28,855	21,371
Loans and receivables – customers	327,313	282,580
Professional securities transactions	199,685	162,005
Multi-seller conduits	25,872	25,931
Committed credit facilities	145,418	141,010
Credit related contingent liabilities	51,279	46,021
Total	1,005,043	904,039

The credit risk exposure on derivative assets held for trading is measured as the current positive replacement value. For interest-earning securities the amortised cost is included to reflect to credit risk exposure. The credit risk on professional security transactions is limited as a result of the nature of these transactions. The loans and receivables due from multi-seller conduits bear limited credit risk as these are fully collateralised.

Credit risk concentrations

Concentrations of credit risk (whether on- or off-balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

39 Financial risk management and use of derivatives (Continued)

ability to meet contractual obligations to be affected in a similar way by changes in economic or other conditions. As part of managing risk concentrations, country risk in emerging markets and sector risk are managed on a portfolio basis. Refer to the following tables for details of the credit risk concentrations on the customer portfolio.

Credit risk concentrations from loans and receivables – customers:

	2006		2005	
		% ⁽¹⁾		% ⁽¹⁾
Netherlands				
Public sector	3,286	29	2,300	31
Commercial	55,951	31	56,182	37
Consumer	97,600	72	94,603	77
Total	156,837		153,085	
Europe (excluding Netherlands)				
Public sector	1,527	13	1,454	19
Commercial	57,425	32	30,882	20
Consumer	12,529	9	1,539	1
Total	71,481		33,875	
North America				
Public sector	677	6	735	10
Commercial	42,179	23	44,693	29
Consumer	13,017	10	15,218	13
Total	55,873		60,646	
Latin America				
Public sector	507	4	596	8
Commercial	10,095	6	8,024	5
Consumer	8,320	6	7,270	6
Total	18,922		15,890	
Asia Pacific				
Public sector	5,570	48	2,376	32
Commercial	14,612	8	12,630	9
Consumer	4,018	3	4,078	3
Total	24,200		19,084	
Group				
Public sector	11,567		7,461	
Commercial	180,262		152,411	
Consumer	135,484		122,708	
Total	327,313		282,580	
Professional securities transactions	93,716		74,724	
Multi-seller conduits	25,872		25,931	
Total loans and receivables – customers	<u>446,901</u>		<u>383,235</u>	

(1) Calculated as a percentage of Group totals for public, commercial and consumer sectors respectively.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

39 Financial risk management and use of derivatives (Continued)

Credit risk concentrations from credit facilities and guarantees issued:

	2006		2005	
		% ⁽¹⁾		% ⁽¹⁾
Netherlands				
Credit related contingent liabilities	3,445	7	4,194	9
Committed credit facilities	14,487	10	17,881	13
Total	17,932		22,075	
Europe (excluding Netherlands)				
Credit related contingent liabilities	24,839	48	20,222	44
Committed credit facilities	38,512	26	28,400	20
Total	63,351		48,622	
North America				
Credit related contingent liabilities	15,662	31	15,830	34
Committed credit facilities	72,580	50	78,660	55
Total	88,242		94,490	
Latin America				
Credit related contingent liabilities	1,877	4	1,364	3
Committed credit facilities	6,682	5	5,214	4
Total	8,559		6,578	
Asia Pacific				
Credit related contingent liabilities	5,456	10	4,411	10
Committed credit facilities	13,157	9	10,855	8
Total	18,613		15,266	
Group				
Credit related contingent liabilities	51,279		46,021	
Committed credit facilities	145,418		141,010	
Total	196,697		187,031	

(1) Calculated as a percentage of Group totals for credit related contingent liabilities and committed credit facilities respectively.

Total commercial loans and receivables by industry are presented in the table below:

	2006		2005	
		% ⁽¹⁾		% ⁽¹⁾
Basic materials	15,126	8	8,263	5
Real estate	23,712	13	26,301	17
Industrials	39,666	22	22,757	15
Energy	5,424	3	7,391	5
Financial services	21,407	12	22,555	15
TMT (media and communications)	10,092	6	10,575	7
Consumer cyclical	43,775	24	36,673	24
Consumer non-cyclical	16,204	9	12,291	8
Health	4,856	3	5,605	4
Total	180,262		152,411	

(1) [•]

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

39 Financial risk management and use of derivatives (Continued)

The amounts stated in the tables represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. So the amounts significantly exceed expected losses in the event of counterparty default.

For a breakdown of counterparties for interest-earning securities in the available-for-sale and held-to-maturity portfolio, please refer to note 16. The Group has no significant exposure in loans and receivables – customers to any individual customer or counterparty, according to the requirements of the Dutch Central Bank.

Collateral

The Group's policy is to obtain collateral if and when required prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The transactions specify monetary limits to the Group's obligations. The extent of collateral held for guarantees and letters of credit is on average 25% (2005: 20%).

The following table details loans and receivables from commercial and consumer clients by type of collateral obtained.

	2006	2005
Commercial customers		
Public authority guarantees	5,417	4,404
Mortgages	18,490	28,441
Securities	2,039	3,487
Bank guarantees	2,954	3,121
Other types of collateral	31,206	50,439
Unsecured	120,156	62,519
Total	180,262	152,411
Consumer customers		
Public authority guarantees	159	3
Mortgages	103,272	93,826
Securities	872	2,074
Bank guarantees	31	856
Other types of collateral	12,062	7,077
Unsecured	19,088	18,872
Total	135,484	122,708

Interest rate risk (banking book)

Measurement and control

Several measures are used to monitor and limit banking book interest rate risk. The methods employed include earnings simulation, duration and present value per base point limits. Limits are set on the earnings and market value sensitivity. Model-based scenario analysis is used to monitor the interest rate risk positions denominated in euros, Brazilian reals and U.S. dollars to the extent that these positions are held in Europe, Brazil and the U.S., which relates to some 85% to 90% (2005: 85% to 90%) of the total exposure of the Group. Interest rate risk positions in other currencies and other countries are controlled by present value per base point limits and/or market value limits, as these positions are typically less complex.

Net interest income is the sum of interest received less interest paid on large volumes of contracts and transactions, and numerous different products. Simulation models and estimation techniques are used to forecast the net interest income and to assess its sensitivity to movements in the shape and level of the

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

39 Financial risk management and use of derivatives (Continued)

yield curve. Assumptions about client behaviour play an important role in these calculations. This is particularly relevant for loans such as mortgages where the client has the option to repay before the scheduled maturity. On the liability side, the repricing characteristics of savings and deposits are based on estimates using historical data, since the rates attached to these products are not coupled to a specified market rate or maturity date. The bank uses a statistical approach for forecasting and sensitivity analyses because it is the method best suited to these products. Details are used to carry out our hedging strategy. Please refer to note 37 for more information on hedge accounting.

Interest rate sensitivity disclosure banking book positions

For assessing interest rate risk in the banking books, Group Asset and Liability Management provides a set of measures – the Earnings-at-Risk and Market Value Risk for the EUR, USD and BRL currencies – and reports these to the Group Asset and Liability Committee. This set covers 85% to 90% (2005: 85% to 90%) of our net interest revenue in the banking book. The interest rate sensitivity of our trading books is measured under market risk.

The Earnings-at-Risk table shows the cumulative sensitivity of net interest income over a time horizon of 6, 12, and 24 months, and under a number of predefined scenarios. Sensitivity is defined as the percentage change in the interest income relative to a base case scenario. The base case scenario assumes continuation of the present yield curve environment. The “rates rise” and “rates fall” scenarios assume a gradual parallel shift of the yield curve during 12 months, after which the curve remains unchanged. In order to reflect the differences in yield curve across markets, the scenarios are currency-dependent.

Due to the low interest environment the EUR “rates fall” scenario is 150 bp (2005: 100 bp), whereas the “rates rise” scenario is 200 bp for both years presented. The change in scenario, we applied from the first quarter 2006, reflects the higher EUR yield curve and the subsequent increased downward potential. For USD, the scenarios reflect a gradual change of 200 bp upwards and 200 bp downwards for both years. For BRL, the “rates rise” scenario is 1,100 bp and the “Rates Fall” is 800 bp for both years presented.

In all cases, the volume scenario assumes new business volume in line with the business forecast during the first year, and a constant balance sheet thereafter.

The following table shows the cumulative % change in income over the relevant time horizon:

Earnings-at-Risk

		December 2006			December 2005		
	Horizon	EUR	USD	BRL	EUR	USD	BRL
Rates rise	Six months	(1.7%)	(0.2%)	(1.2%)	(2.4%)	(2.1%)	(4.2%)
	One year	(2.6%)	2.6%	(2.2%)	(2.9%)	(1.6%)	(2.8%)
	Two years	(1.6%)	4.2%	1.8%	0.7%	0.3%	3.1%
Rates fall	Six months	1.2%	(6.9%)	1.3%	1.1%	(2.2%)	2.6%
	One year	1.6%	(4.5%)	2.3%	1.3%	(1.1%)	1.3%
	Two years	(1.5%)	(3.7%)	(0.7%)	(1.1%)	(8.8%)	(3.1%)

The Earnings-at-Risk table below gives the 2006 cumulative change in income over the relevant time horizon as absolute numbers using exchange rates at 31 December 2006.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

39 Financial risk management and use of derivatives (Continued)

Earnings-at-Risk

		December 2006			December 2005		
		EUR	USD	BRL	EUR	USD	BRL
		<i>(in millions of euros)</i>					
Rates rise	Six months	(31)	(2)	(19)	(30)	(19)	(55)
	One year	(97)	44	(71)	(75)	(30)	(77)
	Two years	(123)	150	123	35	12	179
Rates fall	Six months	23	(58)	20	15	(20)	35
	One year	59	(76)	74	33	(21)	36
	Two years	(115)	(131)	(46)	(58)	(343)	(180)

The Market Value Risk table below shows the sensitivity of the market value of equity to changes in interest rates for the EUR, USD and BRL currencies. Market value of equity is defined as the calculated discounted value of assets, minus calculated discounted value of liabilities, plus market value of derivatives and other interest sensitive items in the banking book. Sensitivity is measured as the percentage value change due to an overnight shock.

In 2006 all market value shocks have been reviewed and now reflect an overnight shock. The size of the shock is based on observed changes of the curve in a month and a 99% confidence level. End of 2005 the shocks were based on yearly changes. For EUR the 2006 shock was 50 bp (2005: downward shock 100 bp, upward shock 200 bp). For USD, the 2006 shock was 50 bp (2005: 200 bp). For BRL the 2006 downward shock was 230 bp (2005: 800 bp) and the 2006 upward shock was 320 bp (2005: 1,100 bp).

Market Value Risk (2006 scenarios)

	December 2006		
	EUR	USD	BRL
Rates rise	(1.8%)	(1.7%)	(4.9%)
Rates fall	1.4%	0.3%	3.8%

Market Value Risk (2005 scenarios)

	December 2006			December 2005		
	EUR	USD	BRL	EUR	USD	BRL
Rates rise	(8.3%)	(11.4%)	(15.0%)	(2.7%)	(4.1%)	(11.3%)
Rates fall	2.6%	(9.1%)	14.8%	0.7%	(13.4%)	4.7%

Market risk

Exposures

All trading portfolios are subject to market risk. Several major sources of market risk are: interest rate, foreign exchange, equity price, commodity price, credit spread, volatility risks and correlation risks. We define market risk as the risk that changes in financial market prices will decrease the value of our trading portfolios. The instruments in our trading portfolios are recognised at fair value, and all changes in market conditions directly affect net trading income.

Measurement and control

The Group applies a Value-at-Risk (VaR) methodology to estimate the market risk of trading portfolios and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Group uses VaR as its primary tool for the day-to-day monitoring of market risks. Group

Notes to the consolidated financial statements (Continued)

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39 Financial risk management and use of derivatives (Continued)

Asset and Liability Committee sets limits on the maximum levels of the VaR on high aggregate levels. The risk committees can set VaR limits on various lower aggregate levels.

Other non-statistical control measures used in the market risk management process include historical and stress scenarios and limits on net open positions, interest rate sensitivity per basis point, spread sensitivities, option parameters, position concentrations and position ageing.

Value-at-Risk

VaR is a methodology for assessing market risk exposure in a single number. VaR is a statistical measure that estimates potential losses, and is defined as the predicted worst-case loss that might be caused by changes in risk factors under normal circumstances, over a specified period of time and at a specific level of statistical confidence. The Group uses a proprietary VaR model that has been approved by the Dutch Central Bank.

The VaR methodology adopted by the bank for its VaR calculation is Historical Simulation, using approximately 1.5 years of weighted historical data (using the decay method). The VaR is calculated at a 99% confidence level for a one-day holding period, using absolute changes in historical rates and prices for interest rate related, and all implied volatility risk factors and relative changes in historical rates and prices for other risk factors. The positions captured by our VaR calculations include derivative and cash positions that are reported as assets and liabilities held for trading. The VaR is reported on a daily basis per trading portfolio, per product line and for the Group as a whole. It is reported daily to the senior management of the BUs, Group Risk Management and the responsible members of the Managing Board.

From 1 January 2006 we have implemented a revised VaR methodology to measure our market risk. We made the following enhancements to our 2005 model:

- For interest rate related, and all implied volatility related risk factor we moved to absolute historical changes as the model input instead of relative historical changes
- Using an approximately 1.5 year historical period instead of a 4 year period
- Introduction of a weighting factor for the historical data.

Observations and back testing of our previous model (which involves determining the number of days on which the losses were bigger than the estimated VaR of those days) learned that in particular circumstances the results from our previous model were no longer reflecting the best estimate of our market risk. Adoption of a shorter historical period and the introduction of a weighting factor for the historical data resulted in recent market movements to have a greater impact on future risk estimations and so made to the model more responsive to the current market conditions. The enhancements to the model have led to improved risk estimation. As a result of the implementation of the new model in combination with benign markets over a significant period, our VaR number decreased significantly. We are of the opinion that the current model better reflects the actual market risk we are exposed to at every single point in time.

The table below provides the 2006 VaR numbers according to our new methodology and for 2006 and 2005 also according to the old methodology.

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(unless otherwise stated, all amounts are in millions of euros)

39 Financial risk management and use of derivatives (Continued)

Value-at-Risk (VaR) per risk category (99% confidence level, one-day holding period) per our 2006 methodology

	For the year ended 31 December 2006			
	Minimum	Maximum	Average	Year-end
	(in millions of euros)			
Interest rate risk	10.5	34.6	18.7	12.9
Equity price risk	11.4	35.3	23.3	15.2
Foreign exchange risk	1.8	10.8	4.7	3.2
Commodity price risk	1.6	13.6	3.4	1.7
Diversification effect	—	—	—	(13.6)
Aggregate VaR ⁽¹⁾	19.4	49.8	31.8	19.4

(1) The maximum (and minimum) for each category occurred on different days and therefore have no direct relation to the maximum (and minimum) of the aggregate Value-at-Risk. The aggregate Value-at-Risk includes the diversification effect of imperfect or negative correlations between certain risk types. Therefore the aggregate Value-at-Risk can be lower than the sum of the individual risk types on the same day (e.g. year-end)

Value-at-Risk (VaR) per risk category (99% confidence level, one-day holding period) per our 2005 methodology

	For the year ended 31 December 2006				For the year ended 31 December 2005			
	Minimum	Maximum	Average	Year-end	Minimum	Maximum	Average	Year-end
	(in millions of euros)							
Interest rate risk	18.4	63.7	30.4	20.8	17.7	68.3	30.4	23.3
Equity price risk	11.6	72.6	31.1	17.3	13.0	70.6	36.8	36.2
Foreign exchange risk	2.3	12.3	5.2	4.2	1.2	15.7	4.2	3.0
Commodity price risk	1.6	12.7	3.0	1.9	0.7	5.9	2.0	2.1
Diversification effect	—	—	—	(17.1)	—	—	—	(20.9)
Aggregate VaR ⁽¹⁾	27.1	84.1	46.8	27.1	25.3	80.2	50.0	43.7

(1) The maximum (and minimum) for each category occurred on different days and therefore have no direct relation to the maximum (and minimum) of the aggregate Value-at-Risk. The aggregate Value-at-Risk includes the diversification effect of imperfect or negative correlations between certain risk types. Therefore the aggregate Value-at-Risk can be lower than the sum of the individual risk types on the same day (e.g. year-end).

At a 99% confidence level, the statistical expectation is that on one out of every 100 trading days a loss exceeding the VaR for such a day occurs. The back testing is performed both on the actual profit and loss and on a hypothetical profit and loss, which measures a result net of commissions, origination fees and intra-day trading. The results of this back testing on the actual and the hypothetical results are reported to the Dutch Central Bank on a quarterly basis. Back testing is an essential instrument for the ex-post validation of our internal VaR model.

Stress testing

Although the VaR represents a good estimate of potential losses under normal market circumstances, it fails to capture “one-off” events. The limitations of the VaR model mean that we must supplement it with other statistical tests. These include a series of stress tests scenarios and sensitivity stress tests that shed light on the hypothetical behaviour of our portfolio and the impact on our financial results under extreme market movements. Sensitivity stress tests and stress test scenarios have been developed internally to reflect specific characteristics of the Group’s portfolios and are performed on a daily basis for each trading portfolio and at several aggregation levels. These apply parallel increase and decreases in a number of risk elements or in one risk element, upon actual historical scenarios (non-parallel moves in a number of risk elements) or upon plausible future shocks.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

39 Financial risk management and use of derivatives (Continued)

Currency risk (banking book positions)

The Group's operating entities are required to manage any currency exposure arising on local transactions with funding in the same currency or to transfer the currency risk to the Group. Accordingly the Group is able to manage currency risk through its net investments in its non-euro operations.

We apply various hedging strategies to our net investments in our non-euro operations, in order to manage and minimise any adverse effects from translating the relevant foreign currency into euro.

Capital ratio hedge

To protect our capital ratios (core tier 1, tier 1 and total capital as a portion of risk-weighted assets) against adverse effects of the U.S. dollar, our main foreign currency, the USD-sensitive part of our capital base has to be equal to the USD-sensitive part of our risk-weighted assets. On this basis, there will be no material impact on our capital ratios, as the ratios are hedged against changes in the EUR/USD exchange rate.

Capital hedge

The capital ratio hedge strategy implies that a part of our capital has to be USD-sensitive to neutralise the USD sensitivity of our risk-weighted assets. Hence a part of our equity is also exposed to EUR/USD fluctuations.

Our investments in foreign operations in currencies other than the USD are hedged on a selective basis. We consider the use of hedging in cases where the expected currency loss is larger than the interest rate differential between the two currencies that represents the cost of the hedge.

At December 2006, 29% (2005: 56%) of our net investment in foreign operations was hedged leaving approximately EUR 9.4 billion (2005: EUR 5 billion) unhedged including USD 2.6 billion and BRL 4.6 billion (2005: USD 1 billion and BRL 2 billion) where USD and BRL are both stated in EUR amounts. The table shows the sensitivity of our capital to, respectively, a 10% appreciation and 10% depreciation in the euro against all foreign currencies.

	2006	2005
	(in millions of euros)	
Euro appreciates 10%	(944)	(559)
Euro depreciates 10%	944	559

Liquidity risk

Measurement and control

Liquidity risk arises in any bank's general funding of its activities. For example, a bank may be unable to fund its portfolio of assets at appropriate maturities and rates, or may find itself unable to liquidate a position in a timely manner at a reasonable price. The Group holds capital to absorb unexpected losses, and manages liquidity to ensure that sufficient funds are available to meet not only the known cash funding requirements, but also any unanticipated ones that may arise. At all times, the Group maintains what we believe to be adequate levels of liquidity on a Group-wide basis to meet deposit withdrawals, repay borrowings and fund new loans, even under stressed conditions.

We manage liquidity on a daily basis in all the countries in which we operate. Each national market is unique in terms of the scope and depth of its financial markets, competitive environment, products and customer profile. Therefore local line management is responsible for managing our local liquidity requirements under the supervision of Group Asset and Liability Management on behalf of the Group Asset and Liability Committee.

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39 Financial risk management and use of derivatives (Continued)

On a day-to-day basis our liquidity management depends on, among other things, the effective functioning of local and international financial markets. As this is not always the case, we have Group-wide contingency funding plans. These plans are put into effect in the event of a dramatic change in our normal business activities or in the stability of the local or international financial markets. The Group Strategic Funding Committee has full authority to manage such a crisis. As part of this liquidity management contingency planning, we continually assess potential trends, demands, commitments, events and uncertainties that could reasonably result in increases or decreases in our liquidity. More specifically, we consider the impact of these potential changes on our sources of short-term funding and long-term liquidity planning.

As we have entered into committed credit facilities, our liquidity management process also involves assessing the potential effect of the contingencies inherent in these types of transactions on our normal sources of liquidity and finance.

Liquidity gap

The following table provides an analysis that categorises the balance sheet of the Group into relevant maturity groupings based on the remaining contractual periods to repayment.

Maturity for the year ended 31 December 2006:

	On demand	< 1 year	≥ 1 year- < 5 years	≥ 5 years	Total
Assets					
Cash and balances at central banks	12,317	—	—	—	12,317
Financial assets held for trading ⁽¹⁾	205,736	—	—	—	205,736
Financial investments	—	29,999	33,097	62,285	125,381
Loans and receivables – banks	9,473	90,637	18,595	16,114	134,819
Loans and receivables – customers	17,202	202,880	61,100	162,073	443,255
Other assets ⁽¹⁾	3,212	26,560	—	35,784	65,556
Total	<u>247,940</u>	<u>350,076</u>	<u>112,792</u>	<u>276,256</u>	<u>987,064</u>
Liabilities					
Financial liabilities held for trading ⁽¹⁾	145,364	—	—	—	145,364
Due to banks	20,273	148,157	6,911	12,648	187,989
Due to customers	111,250	222,440	16,379	12,314	362,383
Issued debt securities	—	103,531	58,916	39,599	202,046
Subordinated liabilities	—	1,384	3,723	14,106	19,213
Other liabilities ⁽¹⁾	3,965	18,836	—	21,373	44,174
Total	<u>280,852</u>	<u>494,348</u>	<u>85,929</u>	<u>100,040</u>	<u>961,169</u>
Net liquidity gap	<u>(32,912)</u>	<u>(144,272)</u>	<u>26,863</u>	<u>176,216</u>	<u>25,895</u>

(1) Financial assets and liabilities held for trading and hedging derivatives are shown as on demand which management believes most accurately reflects the short-term nature of the trading and derivative activities.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

39 Financial risk management and use of derivatives (Continued)

Maturity for the year ended 31 December 2005:

	On demand	< 1 year	≥ 1 year- < 5 years	≥ 5 years	Total
Assets					
Cash and balances at central banks	16,657	—	—	—	16,657
Financial assets held for trading ⁽¹⁾	202,055	—	—	—	202,055
Financial Investments	12,366	12,047	35,425	63,936	123,774
Loans and receivables – banks . .	7,251	80,091	5,922	15,371	108,635
Loans and receivables – customers	24,101	171,824	84,497	99,826	380,248
Other assets ⁽¹⁾	3,213	21,268	4,341	20,613	49,435
Total	265,643	285,230	130,185	199,746	880,804
Liabilities					
Financial liabilities held for trading ⁽¹⁾	148,588	—	—	—	148,588
Due to banks	30,905	117,150	8,349	11,417	167,821
Due to customers	147,846	138,630	14,481	16,126	317,083
Issued debt securities	1,495	100,873	34,548	33,703	170,619
Subordinated liabilities	—	1,156	5,101	12,815	19,072
Other liabilities ⁽¹⁾	4,712	15,335	2,771	10,651	33,469
Total	333,546	373,144	65,250	84,712	856,652
Net liquidity gap	(67,903)	(87,914)	64,935	115,034	24,152

(1) Financial assets and liabilities held for trading and hedging derivatives are shown as on demand which management believes most accurately reflects the short-term nature of the trading and derivative activities.

Use of derivatives

Derivative instruments

The Group uses derivative instruments (a) to provide risk management solutions to its clients, (b) to manage the Group's own exposure to various risks (including interest, currency and credit risks) and (c) for proprietary trading purposes.

A derivative is a financial instrument that is settled at a future date and requires little or no initial net investment, and whose value varies in response to changes in the price of another financial instrument, an index or some other variable.

The majority of derivative contracts are arranged as to amount ("notional"), tenor and price directly with the counterparty (over-the-counter). The remainder are standardised in terms of their amounts and settlement dates and are bought and sold in organised markets (exchange traded).

The notional, or contractual, amount of a derivative represents the reference quantity of the underlying financial instrument on which the derivative contract is based. The value of the derivative contract is typically determined by applying a calculated price to this notional amount, and is the basis upon which changes in the value of the contract are measured. The notional amount provides an indication of the underlying volume of business transacted by the Group but does not provide any measure of risk, and is not included on the balance sheet.

Positive and negative fair values on different transactions are only netted if the transactions are with the same counterparty and the cash flows will be settled on a net basis, and the Group has the legal right to offset separate transactions with that counterparty.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

39 Financial risk management and use of derivatives (Continued)

Types of derivative instruments

The most common types of derivatives used are as follows:

Forwards are binding contracts to buy or sell financial instruments, most typically currency, on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter (OTC) market.

Futures are exchange traded agreements to buy or sell a standard quantity of specified grade or type of financial instrument, currency or commodity at a specified future date.

Commodity derivatives are contracts to buy or sell a non-financial item. They can be either exchange traded or OTC.

Swaps are agreements between two parties to exchange cash flows on a specified notional amount for a predetermined period. Most swaps are traded OTC. The major types of swap transactions undertaken by the Group are as follows:

- Interest rate swap contracts – typically the contractual exchange of fixed and floating rate interest payments in a single currency, based on a notional amount and a reference interest rate, most commonly LIBOR.
- Cross currency swaps – the exchange of interest payments based on two different currency principal balances and reference interest rates, and usually the exchange of principal amounts at the start and end of the contract.
- Credit default swaps (CDSs) – bilateral agreements under which one party (protection buyer) makes one or more payments to the other party (protection seller) in exchange for an undertaking by the seller to make a payment to the buyer following a specified credit event. Credit default swaps may be on a single name (counterparty) or on a multiple (or basket) of names (counterparties). Settlement following a credit event may be a net cash amount, or cash in return for physical delivery of one or more obligations of the credit entity and is made regardless of whether the protection buyer has actually suffered a loss.
- Total rate of return swaps give the total return receiver exposure to all of the cash flows and economic benefits and risks of an underlying asset, without having to own the asset, in exchange for a series of payments, often based on a reference interest rate, such as LIBOR. The total return payer has an equal and opposite position. A specific type of total return swap is an equity swap.

Options are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right. Options may be traded OTC or on a regulated exchange, and may be traded in the form of a security (warrant).

Derivatives transacted for trading purposes

Most of the Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks.

Trading activities are entered into principally for the purpose of generating profits from short term fluctuations in price or margin, and include market-making, positioning and arbitrage activities:

- Market making involves quoting bid and offer prices to other market participants with the intention of generating income based on spread and volume
- Positioning means managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

39 Financial risk management and use of derivatives (Continued)

- Arbitrage activities involve identifying and profiting from price differentials between markets and products.

Derivatives transacted for hedging purposes

The Group enters into derivative transactions for the purposes of hedging assets, liabilities, forecast transactions, cash flows and credit exposures. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies for accounting purposes (see accounting policies).

The Group also enters into derivative transactions which provide economic hedges for credit risk exposures but do not meet the requirements for hedge accounting treatment; for example, the Group uses CDSs as economic hedges for credit risk exposures in the loan and traded product portfolios, but cannot always apply hedge accounting to such positions.

Risks of derivative instruments

Derivative instruments are transacted in many trading portfolios, which generally include several types of instruments, not just derivatives. The market risk of derivatives is managed and controlled as an integral part of the market risk of these portfolios. The Group's approach to market risk is described in the market risk section of this note starting on page 211.

Derivative instruments are transacted with many different counterparties. The credit risk of derivatives is managed and controlled in the context of the Group's overall credit exposure to each counterparty. The Group's approach to credit risk is described in the financial risk section of this footnote. It should be noted that although the values shown on the balance sheet can be an important component of the Group's credit exposure, the positive fair values for any one counterparty are rarely an adequate reflection of the Group's credit exposure on its derivatives business with that counterparty. This is because, on the one hand, fair values can increase over time ("potential future exposure"), while on the other hand, exposure may be mitigated by entering into master netting agreements and bilateral collateral arrangements with counterparties.

40 Capital adequacy

To monitor the adequacy of capital the Group uses ratios established by the Bank for International Settlements (BIS). These ratios measure capital adequacy (minimum 8% as required by the BIS) by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount. Off-balance-sheet credit related commitments and derivative instruments are taken into account by applying different categories of conversion factors, which are designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for non-derivative assets.

Tier 1 capital consists of shareholders' equity and qualifying subordinated liabilities less goodwill and some intangible assets. Tier 2 capital represents additional qualifying subordinated liabilities, taking into account the remaining maturities.

Core tier 1 capital is tier 1 capital excluding preference shares.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

40 Capital adequacy (Continued)

The Group's capital adequacy level was as follows:

	Balance sheet/ unweighted amount		Risk weighted amount, including effect of contractual netting	
	2006	2005	2006	2005
Balance sheet assets (net of provisions):				
Cash and balances at central banks	12,317	16,657	296	432
Financial assets held for trading	205,736	202,055	—	—
Financial investments	125,381	123,774	14,142	11,620
Loans and receivables — banks	134,819	108,635	7,215	4,992
Loans and receivables — customers	443,255	380,248	162,315	152,044
Equity accounted investments	1,527	2,993	943	727
Property and equipment	6,270	8,110	4,419	6,638
Goodwill and other intangibles	9,407	5,168	2,801	4,437
Assets of business held for sale	11,850	—	6,433	—
Prepayment and accrued income	9,290	7,614	3,794	2,952
Other assets	27,212	25,550	6,776	8,893
Subtotal	987,064	880,804	209,134	192,735
Off-balance sheet positions and derivatives:				
Credit-related commitments and contingencies	196,697	187,031	53,336	48,621
Credit equivalent of derivatives			13,960	10,815
Insurance companies and other			193	275
Subtotal			67,489	59,711
Total credit risks			276,623	252,446
Market risk requirements			4,081	5,408
Total Risk Weighted Assets			280,704	257,854

The following table analyses actual capital and the minimum standard needed in order to comply with supervisory requirements.

	2006		2005	
	Required	Actual	Required	Actual
Total capital	22,457	31,275	20,628	33,874
Total capital ratio	8.0%	11.14%	8.0%	13.14%
Tier 1 capital	11,228	23,720	10,314	27,382
Tier 1 capital ratio	4.0%	8.45%	4.0%	10.62%
Core tier 1	—	17,336	—	21,828
Core tier 1 ratio	—	6.18%	—	8.47%

In determining the capital adequacy requirement, both existing and future credit risk is taken into account. To this end the current potential loss on derivatives, which is the fair value based on market conditions at balance sheet date, is increased by a percentage of the relevant notional amounts, depending on the nature and remaining term of the contract. This method takes into account the possible adverse development of the fair value during the remaining term of the contract. The following analysis shows the resulting credit equivalent, both unweighted and weighted for counterparty risk (mainly banks). The figures allow for the impact of netting transactions and other collateral.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

40 Capital adequacy (Continued)

Credit equivalent of derivative contracts

	2006	2005
Interest rate contracts	76.1	84.8
Currency contracts	35.0	28.2
Other contracts	70.9	32.2
	182.0	145.2
Effect of contractual netting	126.7	97.4
Unweighted credit equivalent	55.3	47.8
Weighted credit equivalent	13.9	10.8

41 Private equity investments

Private equity investments are either consolidated or held at fair value.

Consolidated private equity holdings

Investments of a private equity nature that are controlled by the Group are consolidated. Such holdings represent a wide range of non-banking activities. Personnel and other costs relating to production and manufacturing activities are presented within material expenses. The impact of consolidating on the income statement these investments is set out in the following table.

	2006	2005	2004
Income of consolidated private equity holdings	5,313	3,637	2,616
Other income included in operating income	(340)	(242)	(96)
Total operating income of consolidated private equity holdings	4,973	3,395	2,520
Goods and material expenses of consolidated private equity holdings	3,684	2,519	1,665
Included in personnel expenses	577	362	399
Included in administrative costs	466	352	284
Included in depreciation and amortisation	212	133	151
Total operating expenses	4,939	3,366	2,499
Operating profit before tax of consolidated private equity holdings	34	29	21

Goods and material expenses includes personnel costs relating to manufacturing and production activities.

The assets and liabilities of these consolidated holdings are included in the Group balance sheet. Given the non-banking nature of the underlying activities, the main lines impacted are goodwill, property and equipment, other assets and issued debt securities. The total assets of these consolidated entities at 31 December 2006 were EUR 4,537 million (2005: EUR 3,477 million), excluding goodwill.

Unconsolidated private equity investments

The private equity investments over which the Group does not have control are accounted for at fair value with change through income. Although control is not with the Group, in many cases the Group has significant influence, usually evidenced by an equity stake of between 20% and 50%. Significant influence is held in approximately 88 (2005: 100) investments with a fair value of EUR 387 million at 31 December 2006 (2005: EUR 03 million), operating in various sectors including information technology, life sciences, media and telecommunications.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Joint ventures

The Group's activities conducted through joint ventures include insurance, trust and property development activities. See note 49 for further details. The consolidated financial statements of the joint ventures include the following assets and liabilities, income and expenses, which represent the Group's proportionate share:

	2006	2005
Assets		
Cash and balances at central banks	12	11
Financial investments	3,355	2,748
Loans and receivables – banks and customers	1,722	925
Equity accounted investments	—	6
Property and equipment	4	1,011
Accrued income and prepaid expenses	84	58
Other assets	4,080	2,161
Total	9,257	6,920
Liabilities		
Financial liabilities held for trading	6	871
Due to customers	1,128	896
Issued debt securities	22	7
Accrued expenses and deferred income	35	23
Other liabilities	7,827	4,994
Total	9,018	6,791
Total operating income	102	150
Operating expenses	51	71
Operating profit	51	79
Income tax expense	16	21
Net profit	35	58

43 Remuneration of Managing Board and Supervisory Board

Remuneration Managing Board

The current compensation policy for the Managing Board was introduced in 2001 and changed in the years 2005 and 2006. The main objective is to ensure that ABN AMRO is able to recruit both internally and externally and retain expert and experienced Managing Board members. To achieve this, the Managing Board remuneration has several elements that, as a package, make it comparable with the remuneration offered by relevant peers in the market. Peers are defined as other major Dutch companies and other European-parented banks.

The compensation package for the Managing Board has the following elements:

- Base salary
- Performance bonus
- Long-term incentives – Performance Share Plan and Share Investment & Matching Plan.

In addition there are a number of other benefits.

Base salary

A common base salary applies to all Managing Board members except the Chairman, to whom a 40% differential applies. In addition to the base salary, the non-Dutch Board member receives a market

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Remuneration of Managing Board and Supervisory Board (Continued)

competitive allowance. Salaries are reviewed annually with adjustments taking effect from 1 January. In 2006 Managing Board base salaries were adjusted upwards by 1.5% to compensate for the effects of inflation. The gross annual base salary for the Managing Board members was adjusted from EUR 650,000 to EUR 659,750 and from EUR 910,000 to EUR 923,650 for the Chairman.

Performance bonus

The annual performance bonus for Managing Board members is based upon ABN AMRO's quantitative and qualitative performance objectives at both the corporate and BU level. The objectives are set annually by the Nomination & Compensation Committee and endorsed by the Supervisory Board. With effect from 2006 all individual Managing Board members' performance is assessed wholly against Group performance objectives. Previous links to the various Business Unit targets were abandoned.

In 2006 objectives such as economic profit, efficiency ratio and operating result were used to measure quantitative corporate performance. All three of these objectives are aimed at growth and profitability and carried an equal weighting of one-third. In addition, qualitative objectives are set such as Compliance and Leadership/Employee Engagement. Specific annual performance targets are not disclosed as they are considered competitively sensitive.

If the quantitative performance objectives are fully met, the 2006 bonus will be 150% of base salary with an upper limit of 200% for performance well above target. The Nomination & Compensation Committee may, on the basis of their assessment of a Managing Board member's individual performance against qualitative performance objectives, adjust the bonus outcome upwards or downwards within a range of plus or minus 20% of base salary.

The 2006 performance bonuses for Managing Board members have been set at the newly agreed 2006 bonus levels. The Committee assessed the 2006 performance against the set and realised quantitative objectives.

The bonuses with respect to the 2006 performance year for all Managing Board members, including the Chairman of the Managing Board, are set at 125% of the 2006 annual base salary. The assessment of the qualitative objectives did not give the Nomination & Compensation Committee reason to use its discretion to differentiate in the individual bonus results. Bonuses for the Managing Board members who left the bank in 2006 were also set at 125% of the salary earned while they were in active service in 2006. The individual bonus awards are shown in the table on page 224.

ABN AMRO Share Investment & Matching Plan

In 2004 shareholders' approval was obtained to encourage executive share ownership. Under this plan, the Board members may defer a maximum of 25% of their annual salary into ABN AMRO Holding N.V. shares (investment shares). This amount must be funded from the net bonus outcome of the relevant performance year. If the net bonus outcome is insufficient to fund the full investment amount the participation will be withdrawn.

At the end of a three-year vesting period the investment shares will be matched by the bank on the basis of one ABN AMRO share (matching share) for each investment share, provided that the Managing Board member remains employed within the ABN AMRO Group during the vesting period. The investment shares, together with the built-up dividends, will be released three years after deferral. The matching shares must be held for at least five years from vesting, with the possibility of selling some of the shares to settle the tax obligation.

In 2006 – with respect to the 2005 bonus – all Managing Board members have participated in this plan. Of the six Managing Board members who were already a Board member in 2005, five participated for the maximum amount of 25% of base salary and one Managing Board member for 12.5% of base salary. The three newly appointed Managing Board members each participated for a fixed investment amount of EUR 100,000 that was applicable for them as being a SEVP in 2005. The total amount that was used to purchase Investment Shares was EUR 1,258,596 for all nine Managing Board members. With respect to

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Remuneration of Managing Board and Supervisory Board (Continued)

the bonus for 2006 six of the current seven Managing Board members participated for 25% of annual salary and one member chose to invest an amount of EUR 75,000.

Share options

Share options have been an integral part of ABN AMRO top executives' compensation for several years.

As of 2005 share options no longer form part of the long-term reward package for the Managing Board or for the Top Executive Group as a whole. The options granted in the years up to and including 2004 will remain in place. In 2006 no options expired. The options granted in 2003 vested on 24 February 2006 and will remain exercisable during the remainder of the ten-year option period, which runs up to and including 23 February 2013. The options granted in 2004 have vested on 13 February 2007, because the set return on equity performance condition for this award was met by the end of the three year performance period in 2006. The options will remain exercisable up to and including 12 February 2014.

The Managing Board announced to the Nomination & Compensation Committee on 30 January 2006 their collective decision to limit the exercise of their options going forward exclusively to the first day of the first open period after vesting and/or expiration periods, or to earlier equivalent contractual dates in line with the plan rules, such as the date of retirement. For the 2004 options this means that the first possible date to exercise will be the first day of the second open period in 2007. Although this limits the theoretical value of the options, the Managing Board believes the increase in transparency to the market outweighs this theoretical disadvantage.

Performance Share Plan

The Performance Share Plan was introduced in 2001 and forms an important though stretching part of the Managing Board's reward package. SEVPs are also eligible for a yearly grant under this plan.

In 2006 Managing Board members received a conditional award of 60,000 shares and the Chairman 84,000 shares. The Performance Share Plan grant in 2006 was based half on the relative total return to shareholders (TRS) performance and half on the average return on equity (ROE) achieved by the bank over the four-year performance period, defined as the year of grant and three subsequent years.

The vesting schedule for the TRS-linked award is the same as in previous years. The full award will be paid if the TRS generated by the bank in the fourth year of the performance period is fifth out of 21 relative to the peer group. There will be a sliding scale ranging from no award if the bank is lower than tenth to 150% of the conditional award if the bank has progressed to the very top of the TRS rankings.

The ROE linked part of the award was introduced in 2005. The pay-out of this part of the award will be linked to the average ROE target for the performance period using a sliding scale, with a threshold at 25% and a maximum award of 100%.

Another condition is that the recipient must still be in service with the Group at the end of the performance period. The four-year performance cycle for the conditional shares as awarded in 2003 came to a close at the end of 2006, and ABN AMRO's position in the peer group was position 16, meaning that the performance share award has not vested.

Pension

The Managing Board's pensionable salary is 100% of annual base salary. Until 31 December 2005 the normal retirement age of the Managing Board members was 62. Since 1 January 2006 the plan has been changed in such a way that the normal retirement age is 65, based on average income (2.15% per year). It is possible to retire earlier. The ABN AMRO Pension Fund manages the pension plan.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Remuneration of Managing Board and Supervisory Board (Continued)

Specific benefits

The Managing Board's compensation package also includes:

- The use of a company lease car with driver
- Reimbursement of the cost of adequate security measures for their main private residence
- A 24-hour personal accident insurance policy with a fixed covered amount of EUR 1.8 million for members and EUR 2.5 million for the Chairman
- Contributions towards private health insurance, according to the policies applicable to all other ABN AMRO employees in the Netherlands
- Preferential rates on bank products such as mortgages and loans, according to the same policies that apply to all other ABN AMRO staff in the Netherlands.

The following table summarises total reward, ABN AMRO options and shares, and outstanding loans of the members of the Managing Board and Supervisory Board.

	Managing Board		Supervisory Board	
	2006	2005	2006	2005
	<i>(in thousands of euros)</i>			
Payments	9,247 ⁽¹⁾	4,639	1,041	787
Profit-sharing and bonus payments	6,999	4,787	—	—
Share-based payments	6,882	6,063	—	—
Pension benefits	1,683	1,324	—	—
Loans (outstanding)	11,667	11,518	257	2,100
	<i>(number of shares, share awards, options)</i>			
ABN AMRO share awards (conditional, granted)	610,299	429,058	—	—
ABN AMRO staff options (outstanding)	1,955,857	2,380,835	—	—
ABN AMRO share awards (outstanding)	1,161,322	1,196,835	—	—
ABN AMRO shares/ADRs (owned)	341,354	124,004	27,567	34,847

(1) Included in this balance is a termination payment to Mr C.H.A. Collee of EUR 3 million in 2006.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Remuneration of Managing Board and Supervisory Board (Continued)

The following table summarises the salaries, other rewards and bonuses of individual Managing Board members.

	2006					2005				
	Base Salary	Other payments ⁽¹⁾	Bonus	Share-based payments ⁽²⁾	Pension costs ⁽³⁾	Base Salary	Other payments ⁽¹⁾	Bonus	Share-based payments ⁽²⁾	Pension costs ⁽³⁾
	<i>(in thousands of euros)</i>									
R.W.J. Groenink	924	—	1,155	1,290	286	910	4	1,047	1,331	263
W.G. Jiskoot	660	—	825	922	205	650	2	748	951	185
T. de Swaan ⁽⁴⁾	220	—	275	877	75	650	2	748	951	206
J.Ch.L. Kuiper	660	—	825	922	284	650	4	748	951	264
C.H.A. Collee ⁽⁵⁾	660	3,000	619	938	184	650	3	748	951	168
H.Y. Scott-Barrett	660	483	825	880	189	650	464	748	928	238
H. G. Boumeester	660	—	825	331	203					
P. S. Overmars	660	—	825	361	128					
R. Teerlink	660	—	825	361	129					

(1) Other payments are comprised of contributions towards private health insurance and foreigner allowance as well as a termination payment. Mr H.Y. Scott-Barrett received a foreigner allowance of EUR 471 thousand and a tax allowance of EUR 12 thousand. In 2005 the allowance amounted to EUR 464 thousand. Mr C.H.A. Collee received EUR 3 million termination payment.

(2) Share-based payments are calculated in accordance with IFRS 2 by recognising the fair value of the shares or options at grant date over the vesting period.

(3) Pension costs exclusively comprise pension service cost computed on the basis of IAS 19.

(4) Mr T. de Swaan retired on 1 May 2006.

(5) Mr C.H.A. Collee stepped down on 31 December 2006.

The following tables reflect movements in the option holdings of the Managing Board as a whole and of individual Board members. The conditions governing the granting of options are included in note 44.

	2006		2005	
	Options held by Managing Board	Average exercise price	Options held by Managing Board	Average exercise price
		<i>(in euros)</i>		<i>(in euros)</i>
Movements:				
Balance at 1 January	2,380,835	18.83	2,382,251	18.84
Options exercised/cancelled	252,500	14.45	1,416	22.23
Other	172,478	21.34	—	—
Balance at 31 December	1,955,857	19.18	2,380,835	18.83

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Remuneration of Managing Board and Supervisory Board (Continued)

	Balance at 1 January	Exercise price <i>(in euros)</i>	Exercised/ cancelled	Entered/ (Left)	Balance at 31 December	Weighted average share price at exercise	Year of expiration date
R.W.J. Groenink							
Executive 2000	60,000	21.30	—	—	60,000	—	2007
Executive 2001	55,000	23.14	—	—	55,000	—	2008
Executive 2002 ⁽¹⁾⁽²⁾	112,000	19.53	—	—	112,000	—	2012
Executive 2003 ⁽¹⁾⁽³⁾	133,000	14.45	—	—	133,000	—	2013
Executive 2004 ⁽¹⁾⁽⁴⁾	126,000	18.86	—	—	126,000	—	2014
AOR 2001	271	22.34	—	—	271	—	2008
AOR 2002	296	20.42	—	—	296	—	2009
	<u>486,567</u>		—	—	<u>486,567</u>		
W.G. Jiskoot							
Executive 2000	60,000	21.30	—	—	60,000	—	2007
Executive 2001	55,000	23.14	—	—	55,000	—	2008
Executive 2002 ⁽¹⁾⁽²⁾	80,000	19.53	—	—	80,000	—	2012
Executive 2003 ⁽¹⁾⁽³⁾	95,000	14.45	(95,000)	—	—	21.55	2013
Executive 2004 ⁽¹⁾⁽⁴⁾	90,000	18.86	—	—	90,000	—	2014
AOR 2001	271	22.34	—	—	271	—	2008
AOR 2002	296	20.42	—	—	296	—	2009
	<u>380,567</u>		(95,000)	—	<u>285,567</u>		
T. de Swaan⁽⁵⁾							
Executive 2000	60,000	21.30	—	(60,000)	—	—	2007
Executive 2001	55,000	23.14	—	(55,000)	—	—	2008
Executive 2002 ⁽¹⁾⁽²⁾	80,000	19.53	—	(80,000)	—	—	2012
Executive 2003 ⁽¹⁾⁽³⁾	95,000	14.45	—	(95,000)	—	—	2013
Executive 2004 ⁽¹⁾⁽⁴⁾	90,000	18.86	—	(90,000)	—	—	2014
AOR 2001	271	22.34	—	(271)	—	—	2008
AOR 2002	296	20.42	—	(296)	—	—	2009
	<u>380,567</u>		—	(380,567)	—		
J.Ch.L. Kuiper							
Executive 2000	60,000	21.30	—	—	60,000	—	2007
Executive 2001	55,000	23.14	—	—	55,000	—	2008
Executive 2002 ⁽¹⁾⁽²⁾	80,000	19.53	—	—	80,000	—	2012
Executive 2003 ⁽¹⁾⁽³⁾	95,000	14.45	(95,000)	—	—	21.55	2013
Executive 2004 ⁽¹⁾⁽⁴⁾	90,000	18.86	—	—	90,000	—	2014
AOR 2001	271	22.34	—	—	271	—	2008
AOR 2002	296	20.42	—	—	296	—	2009
	<u>380,567</u>		(95,000)	—	<u>285,567</u>		

(1) Conditionally granted.

(2) Vested on 25 February 2005.

(3) Vested on 24 February 2006.

(4) Vested on 13 February 2007.

(5) Mr T. de Swaan retired on 1 May 2006.

(6) Mr C.H.A. Collee stepped down on 31 December 2006.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Remuneration of Managing Board and Supervisory Board (Continued)

	Balance at 1 January	Exercise price <i>(in euros)</i>	Exercised/ cancelled	Entered/ (Left)	Balance at 31 December	Weighted average share price at exercise	Year of expiration date
C.H.A. Collee⁽⁶⁾							
Executive 2000	56,000	21.30	—	(56,000)	—	—	2007
Executive 2001	55,000	23.14	—	(55,000)	—	—	2008
Executive 2002 ⁽¹⁾⁽²⁾	80,000	19.53	—	(80,000)	—	—	2012
Executive 2003 ⁽¹⁾⁽³⁾	95,000	14.45	(35,000)	(60,000)	—	21.55	2013
Executive 2004 ⁽¹⁾⁽⁴⁾	90,000	18.86	—	(90,000)	—	—	2014
AOR 2001	271	22.34	—	(271)	—	—	2008
AOR 2002	296	20.42	—	(296)	—	—	2009
	<u>376,567</u>		<u>(35,000)</u>	<u>(341,567)</u>	<u>—</u>		
H.Y. Scott-Barrett							
Executive 2000	56,000	21.30	—	—	56,000	—	2007
Executive 2001	55,000	23.14	—	—	55,000	—	2008
Executive 2002 ⁽¹⁾⁽³⁾	80,000	19.53	—	—	80,000	—	2012
Executive 2003 ⁽¹⁾⁽³⁾	95,000	14.45	—	—	95,000	—	2013
Executive 2004 ⁽¹⁾⁽⁴⁾	90,000	18.86	—	—	90,000	—	2014
	<u>376,000</u>		<u>—</u>	<u>—</u>	<u>376,000</u>		
H.G. Boumeester							
Executive 2000	—	21.30	—	20,000	20,000	—	2007
Executive 2001	—	23.14	—	16,875	16,875	—	2008
Executive 2002 ⁽¹⁾⁽²⁾	—	19.53	—	25,000	25,000	—	2012
Executive 2003 ⁽¹⁾⁽³⁾	—	14.45	(27,500)	27,500	—	21.55	2013
Executive 2004 ⁽¹⁾⁽⁴⁾	—	18.86	—	52,500	52,500	—	2014
	<u>—</u>		<u>(27,500)</u>	<u>141,875</u>	<u>114,375</u>		
P.S. Overmars							
Executive 2000	—	21.30	—	25,000	25,000	—	2007
Executive 2001	—	23.14	—	16,875	16,875	—	2008
Executive 2002 ⁽¹⁾⁽²⁾	—	19.53	—	50,000	50,000	—	2012
Executive 2003 ⁽¹⁾⁽³⁾	—	14.45	—	55,000	55,000	—	2013
Executive 2004 ⁽¹⁾⁽⁴⁾	—	18.86	—	52,500	52,500	—	2014
	<u>—</u>		<u>—</u>	<u>199,375</u>	<u>199,375</u>		
R. Teerlink							
Executive 2000	—	21.30	—	15,000	15,000	—	2007
Executive 2001	—	23.14	—	16,406	16,406	—	2008
Executive 2002 ⁽¹⁾⁽²⁾	—	19.53	—	50,000	50,000	—	2012
Executive 2003 ⁽¹⁾⁽³⁾	—	14.45	—	74,500	74,500	—	2013
Executive 2004 ⁽¹⁾⁽⁴⁾	—	18.86	—	52,500	52,500	—	2014
	<u>—</u>		<u>—</u>	<u>208,406</u>	<u>208,406</u>		

(1) Conditionally granted.

(2) Vested on 25 February 2005.

(3) Vested on 24 February 2006.

(4) Vested on 13 February 2007.

(5) Mr T. de Swaan retired on 1 May 2006.

(6) Mr C.H.A. Collee stepped down on 31 December 2006.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Remuneration of Managing Board and Supervisory Board (Continued)

The following table shows movements in shares conditionally awarded under the Performance Share Plan. For the years to 2005 the conditional award was based 100% on the bank's ranking in the peer group (TRS ranking). For the year 2005 and 2006, 50% of the award is on the TRS ranking and 50% on the average ROE target for the reference period. The number of shares conditionally awarded on the TRS ranking in the table below assumes a ranking of fifth in the peer group, in line with our ambition. The number of shares conditionally awarded on the ROE target assumes that we will achieve an average ROE above 20% per annum, our target for the performance cycle 2005-2008 and 2006-2009.

	Type of condition	Reference period	Balance at 1 January	Granted	Entered	Left	Expired/ forfeited	Balance at 31 December
R.W.J. Groenink . . .	TRS	2003-2006	98,000	—	—	—	(98,000)	—
	TRS	2004-2007	70,000	—	—	—	—	70,000
	TRS	2005-2008	42,000	—	—	—	—	42,000
	ROE	2005-2008	42,000	—	—	—	—	42,000
	TRS	2006-2009	—	42,000	—	—	—	42,000
	ROE	2006-2009	—	42,000	—	—	—	42,000
W.G. Jiskoot	TRS	2003-2006	70,000	—	—	—	(70,000)	—
	TRS	2004-2007	50,000	—	—	—	—	50,000
	TRS	2005-2008	30,000	—	—	—	—	30,000
	ROE	2005-2008	30,000	—	—	—	—	30,000
	TRS	2006-2009	—	30,000	—	—	—	30,000
	ROE	2006-2009	—	30,000	—	—	—	30,000
T. de Swaan ⁽¹⁾	TRS	2003-2006	70,000	—	—	—	(70,000)	—
	TRS	2004-2007	50,000	—	—	(37,500)	(12,500)	—
	TRS	2005-2008	30,000	—	—	(15,000)	(15,000)	—
	ROE	2005-2008	30,000	—	—	(15,000)	(15,000)	—
	TRS	2006-2009	—	30,000	—	(7,500)	(22,500)	—
	ROE	2006-2009	—	30,000	—	(7,500)	(22,500)	—
J.Ch.L. Kuiper	TRS	2003-2006	70,000	—	—	—	(70,000)	—
	TRS	2004-2007	50,000	—	—	—	—	50,000
	TRS	2005-2008	30,000	—	—	—	—	30,000
	ROE	2005-2008	30,000	—	—	—	—	30,000
	TRS	2006-2009	—	30,000	—	—	—	30,000
	ROE	2006-2009	—	30,000	—	—	—	30,000
C.H.A. Collee ⁽²⁾	TRS	2003-2006	70,000	—	—	—	(70,000)	—
	TRS	2004-2007	50,000	—	—	(37,500)	(12,500)	—
	TRS	2005-2008	30,000	—	—	(15,000)	(15,000)	—
	ROE	2005-2008	30,000	—	—	(15,000)	(15,000)	—
	TRS	2006-2009	—	30,000	—	(7,500)	(22,500)	—
	ROE	2006-2009	—	30,000	—	(7,500)	(22,500)	—
H.Y. Scott-Barrett . . .	TRS	2003-2006	70,000	—	—	—	(70,000)	—
	TRS	2004-2007	50,000	—	—	—	—	50,000
	TRS	2005-2008	30,000	—	—	—	—	30,000
	ROE	2005-2008	30,000	—	—	—	—	30,000
	TRS	2006-2009	—	30,000	—	—	—	30,000
	ROE	2006-2009	—	30,000	—	—	—	30,000
H.G. Boumeester . . .	TRS	2004-2007	—	—	20,000	—	—	20,000
	TRS	2005-2008	—	—	15,000	—	—	15,000
	ROE	2005-2008	—	—	15,000	—	—	15,000
	TRS	2006-2009	—	30,000	—	—	—	30,000
	ROE	2006-2009	—	30,000	—	—	—	30,000
	ROE	2006-2009	—	30,000	—	—	—	30,000
P.S. Overmars	TRS	2003-2006	—	—	20,000	—	(20,000)	—
	TRS	2004-2007	—	—	20,000	—	—	20,000
	TRS	2005-2008	—	—	15,000	—	—	15,000
	ROE	2005-2008	—	—	15,000	—	—	15,000
	TRS	2006-2009	—	30,000	—	—	—	30,000
	ROE	2006-2009	—	30,000	—	—	—	30,000

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Remuneration of Managing Board and Supervisory Board (Continued)

	Type of condition	Reference period	Balance at 1 January	Granted	Entered	Left	Expired/ forfeited	Balance at 31 December
R. Teerlink	TRS	2003-2006	—	—	20,000	—	(20,000)	—
	TRS	2004-2007	—	—	20,000	—	—	20,000
	TRS	2005-2008	—	—	15,000	—	—	15,000
	ROE	2005-2008	—	—	15,000	—	—	15,000
	TRS	2006-2009	—	30,000	—	—	—	30,000
	ROE	2006-2009	—	30,000	—	—	—	30,000

(1) Mr T. de Swaan retired on 1 May 2006.

(2) Mr C.H.A. Collee stepped down on 31 December 2006.

The following table reflects the number of matched shares the Managing Board will receive under the ABN AMRO Share Investment & Matching Plan at the end of the vesting period, provided the member of the Managing Board remains employed within ABN AMRO during the vesting period.

	Balance at 1 January	Granted	Entered	Left	Expired/ cancelled	Balance at 31 December	Vesting period
R.W.J. Groenink	10,692	9,530	—	—	—	20,222	2005-2008
W.G. Jiskoot	7,637	6,807	—	—	—	14,444	2005-2008
T. de Swaan ⁽¹⁾	7,637	378	—	(3,348)	(4,667)	—	2006-2007
J.Ch.L. Kuiper	7,637	6,807	—	—	—	14,444	2005-2008
C.H.A. Collee ⁽²⁾	7,637	6,807	—	(6,557)	(7,887)	—	2005-2008
H.Y. Scott-Barrett	3,818	3,403	—	—	—	7,221	2005-2008
H. G. Boumeester	—	4,189	4,808	—	—	8,997	2005-2008
P. S. Overmars	—	4,189	4,808	—	—	8,997	2005-2008
R. Teerlink	—	4,189	4,808	—	—	8,997	2005-2008

(1) Mr T. de Swaan retired on 1 May 2006.

(2) Mr C.H.A. Collee stepped down on 31 December 2006.

ABN AMRO ordinary shares held by Managing Board members at 31 December⁽¹⁾

	2006	2005
R.W.J. Groenink	77,012	30,574
W.G. Jiskoot	62,377	28,827
T. de Swaan ⁽²⁾	—	15,259
J.Ch.L. Kuiper	65,315	16,442
C.H.A. Collee ⁽³⁾	—	8,778
H.Y.Scott-Barrett	51,577	24,124
H. G. Boumeester	47,465	—
P. S. Overmars	16,842	—
R. Teerlink	20,766	—
Total	341,354	124,004

(1) No preference financing shares were held by any Managing Board member.

(2) Mr T. de Swaan retired on 1 May 2006.

(3) Mr C.H.A. Collee stepped down on 31 December 2006.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Remuneration of Managing Board and Supervisory Board (Continued)

Loans from ABN AMRO to Managing Board members

	2006		2005	
	Outstanding on 31 December	Interest rate	Outstanding on 31 December	Interest rate
	<i>(in thousands of euros)</i>			
R.W.J. Groenink	4,800	3.46	5,136	3.58
W.G. Jiskoot	1,674	3.60	1,674	3.94
T. de Swaan ⁽²⁾	—	—	1,407	2.75 ⁽¹⁾
J.Ch.L. Kuiper	655	3.83	681	3.72
C.H.A. Collee ⁽³⁾	—	—	2,620	3.27
H. G. Boumeester	2,649	4.64		
P. S. Overmars	1,163	4.00		
R. Teerlink	726	4.50		

(1) Variable rate.

(2) Mr T. de Swaan retired on 1 May 2006.

(3) Mr C.H.A. Collee stepped down on 31 December 2006.

The decrease in outstandings between 31 December 2005 and 31 December 2006 is caused by repayments.

The following table provides information on the remuneration of individual members of the Supervisory Board. As of 1 May 2006 the remuneration was adjusted. The members of the Supervisory Board receive an equal remuneration of EUR 60,000 per annum. For the Vice Chairman this remuneration is EUR 70,000 and for the Chairman EUR 85,000 per annum. For the membership of the Audit Committee an additional allowance of EUR 15,000 for the members is applied on an annual basis. The annual allowance for the members of the Nomination & Compensation Committee and the Compliance Oversight Committee is EUR 10,000. The annual allowance for the Chairman of the Audit Committee is EUR 20,000 and for the Chairmen of the two other Committees EUR 15,000 per annum. The general expenses allowances were abolished and actual business expenses incurred can be declared and are eligible for reimbursement. Supervisory Board members that are not resident in the Netherlands are entitled to general allowances for each Supervisory Board meeting that they attend, namely EUR 7,500 for members who live outside Europe and EUR 5,000 for members who live in Europe. This allowance applies to meetings of both the Supervisory Board and the various committees and is paid only once when meetings are being held on the same day or on consecutive days and is only paid when the members physically attend the meetings.

All amounts are based on a full year, but the actual payment depends on the period of membership during the year. Members of the Supervisory Board are not entitled to emoluments in the form of ABN AMRO shares or options on ABN AMRO shares.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Remuneration of Managing Board and Supervisory Board (Continued)

Remuneration of the Supervisory Board

	2006	2005
	(in thousands of euros)	
A.C. Martinez ⁽¹⁾	113	56
A.A. Olijslager	73	45
Mrs L.S. Groenman	53	40
D.R.J. Baron de Rothschild ⁽¹⁾	53	40
Mrs T.A. Maas-de-Brouwer	75	48
M.V. Pratini de Moraes ⁽¹⁾	66	45
P. Scaroni ⁽¹⁾	53	40
Lord Sharman of Redlynch ⁽¹⁾	69	48
R. van den Bergh ⁽¹⁾	60	27
A. Ruys	60	27
G.J. Kramer	40	—
H.G. Randa	40	—
A.A. Loudon ⁽²⁾	21	63
A. Burgmans ⁽²⁾	22	48
W. Dik ⁽³⁾	—	16
M.C. van Veen ⁽³⁾	—	20

(1) Excluding an attendance fee.

(2) Messrs A.A. Loudon and A. Burgmans resigned on 27 April 2006.

(3) Messrs W. Dik and M.C. van Veen resigned on 29 April 2005.

ABN AMRO ordinary shares held by Supervisory Board members⁽¹⁾

	2006	2005
A.C. Martinez ⁽²⁾	3,000	3,000
A.A. Olijslager	3,221	3,221
M.V. Pratini de Moraes ⁽²⁾	5,384	5,384
R.F. van den Bergh	13,112	8,167
A. Ruys	2,850	—
A.A. Loudon ⁽³⁾	—	5,421
A. Burgmans ⁽³⁾	—	9,654
Total	27,567	34,847

(1) No financing preference shares were held by any Supervisory Board member.

(2) ADRs.

(3) Messrs A.A. Loudon and A. Burgmans resigned on 27 April 2006.

Loans from ABN AMRO to Supervisory Board members

The outstanding loans at 31 December 2006 amounts to EUR 0.3 million with an interest rate of 3.83% (2005: EUR 2.1 million – 3.00%) and relates to Mrs L.S. Groenman (2005: related to Mr A. Burgmans).

Senior Executive Vice Presidents (SEVPs) Compensation 2006

The reward package for ABN AMRO's SEVPs, the second level of Top Executives, was also introduced in 2001 and – as with the Managing Board – was primarily aimed at maximising total returns to our shareholders.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Remuneration of Managing Board and Supervisory Board (Continued)

The compensation for ABN AMRO SEVPs consists of the following core elements:

- *Base salary.* The base salaries are benchmarked against the relevant local markets. The current median base salary is EUR 402,000 (2005: EUR 396,000)
- *Performance bonus.* The annual performance bonus is linked to the respective markets within the various countries where we operate. The median bonus amount paid with respect to the 2006 performance year was EUR 1.3 million (2005: EUR 1 million). Bonuses for individual SEVPs vary widely, again reflecting market and location. No absolute maximum level of bonus has been defined for SEVPs
- *Long-term incentives such as the Performance Share Plan and the Share Investment & Matching Plan.* Long-term incentives are set at a lower level than the applicable yearly grants to Managing Board members. SEVPs received an award under the Top Executive Performance Share Plan and are eligible to participate on a voluntary basis in the Share Investment & Matching Plan. All SEVPs receive identical grants.

In addition, a number of benefits apply in relation to the respective markets and countries of residence.

The total compensation for SEVP's in 2006 amounts to EUR 47 million (2005: EUR 51 million).

44 Share-based payment plans

ABN AMRO grants long-term share-based incentive awards to members of the Managing Board, other top executives and key staff under a number of plans.

The current plans for the Managing Board (Performance Share Plan and Share Investment & Matching Plan) are described in note 43. At a lower level, the Performance Share Plan is also applicable to the second tier of top executives, the SEVPs. Both the SEVPs and the third level of top executives, the EVPs and MDs, may defer a part of their bonus to the Share Investment & Matching Plan. Furthermore, there is a Restricted Share Plan for the EVPs /MDs with performance conditions linked to the average return on equity in line with the Performance Share Plan of the Managing Board. All these plans are equity-settled.

There is also a cash-settled Performance Share Plan for the EVPs/MDs for the performance cycle 2005-2008.

With effect from 2006 share options are no longer granted to key staff. The options are replaced by restricted shares in line with the changes for the top executives in 2005.

Share-based compensation expense totalled EUR 78 million in 2006 (EUR 61 million in 2005 and EUR 4 million in 2004). The total carrying amount of liabilities arising from cash-settled share-based payments transactions amounted to EUR 10 million at 31 December 2006 (2005: EUR 22 million).

Option plans

The fair value of options granted is determined using a Lattice option pricing model. The following table shows the assumptions on which the calculation of the fair value of these options was based. The expected volatility was based on historical volatility.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

44 Share-based payment plans (Continued)

For the calculation of the fair value of the options granted to the Top Executives in 2004, the same assumptions were used. The expense recorded in 2006 regarding all options plans amounted to EUR 28 million (2005: EUR 43 million).

	2005	2004
Grant date	16 February 2005	13 February 2004
Expiration date	16 February 2015	13 February 2014
Exercise price (in euros)	21.24	18.86
Share price on grant date (in euros)	21.24	18.86
Volatility	34%	35%
Expected dividend yield	5.2%	4.7%
Interest rate	3.7%	4.3%
Fair value at grant date (in euros)	4.24	3.98

The following table shows the movement of options outstanding.

	2006		2005		2004	
	Number of options	Average exercise price	Number of options	Average exercise price	Number of options	Average exercise price
	(in thousands)	(in euros)	(in thousands)	(in euros)	(in thousands)	(in euros)
Balance at 1 January	62,269	19.06	63,050	18.94	59,149	19.30
Movements:						
Options granted to Managing Board members	—	—	—	—	576	18.86
Options granted to other Top Executives	—	—	—	—	6,175	18.86
Other options granted	—	—	7,939	21.24	8,254	18.76
Options forfeited	(1,225)	19.04	(2,780)	18.29	(760)	18.03
Options exercised	(7,791)	17.11	(1,868)	18.05	(3,160)	18.10
Options expired	—	—	(4,072)	22.43	(7,184)	22.04
Balance at 31 December	53,253	19.35	62,269	19.06	63,050	18.94
Of which exercisable	32,757	19.15	26,873	20.96	19,599	21.96
Of which exercisable and in the money	32,601	19.14	17,413	20.01	1,551	17.95
Of which hedged	19,177	18.59	26,968	18.14	28,837	18.06

In 2006 and 2005, the price of options exercised ranged from EUR 23.14 to EUR 14.45, compared to an average share price of EUR 22.81 in 2006 and EUR 20.11 in 2005. If all exercisable rights were to be exercised, shareholders' equity would increase by an amount of EUR 627 million (2005: EUR 563 million). Deliveries on options exercised in 2006 were made from share repurchases on the date of grant (7,791,365 shares; 2005: 1,868,242 shares) and from new shares issued on the exercise date (no shares; 2005: no shares).

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

44 Share-based payment plans (Continued)

The following tables further detail the options outstanding at 31 December 2006:

	Outstanding (in thousands)	Average exercise price (in euros)	Low/high exercise price (in euros)
Year of expiration			
2007	3,776	21.30	21.30
2008	8,764	22.73	23.14-22.34
2009	3,827	20.42	20.42
2010	807	15.06	15.06
2011	495	17.12	17.12
2012	6,855	19.17	19.53-17.46
2013	8,727	14.45	14.65-14.45
2014	12,749	18.86	19.06-18.86
2015	7,253	21.24	21.24
Total	53,253	19.35	23.14-14.45

	Options outstanding			Options Exercisable	
	Outstanding (in thousands)	Weighted- average exercise price (in euros)	Weighted- average remaining contractual life (in years)	Exercisable (in thousands)	Weighted- average exercise price (in euros)
Range of exercise price (in euros)					
14.45-17.50	11,232	14.93	5.82	10,737	14.83
17.51-20.00	18,402	19.07	6.52	5,653	19.53
20.01-22.50	19,224	21.35	3.91	11,972	21.41
> 22.51	4,395	23.07	1.14	4,395	23.07
Total	53,253	19.35	4.99	32,757	19.15

Share plans

For the calculation of the expense for the share plans, various models were used. The total expense in 2006 amounted to EUR 50 million (2005: EUR 19 million). The following table presents a summary of all shares conditionally granted to the Top Executives of ABN AMRO. For the number of shares granted on the TRS-ranking under the Performance Share Plan, a ranking of fifth in the peer group has been assumed.

	2006	2005	2004
		(in thousands)	
Balance at 1 January	5,637	3,688	4,741
Granted	6,212	2,892	1,797
Forfeited	(1,633)	(283)	(2,850)
Vested	(1,037)	(660)	—
Balance at 31 December	9,179	5,637	3,688

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

45 Discontinued operations and assets and liabilities held for sale

On 1 December 2006, the Group disposed of the property development and management activities of its Bouwfonds subsidiary. The Bouwfonds Property Development, Bouwfonds Asset Management, Bouwfonds Fondsenbeheer, Rijnlandse Bank and Bouwfonds Holding were sold to Rabobank for a cash consideration of EUR 852 million and the Bouwfonds Property Finance activities were sold to SNS Bank for a cash consideration of EUR 825 million. The total net gain on the sale of Bouwfonds amounted to EUR 338 million.

During 2006, the Group actively began to market the assets of the national residential mortgage line of business (ABN AMRO Mortgage Group, Inc.), a subsidiary of ABN AMRO LaSalle Bank Midwest. The sale transaction closed on 28 February 2007.

The results of these transactions have been presented as discontinued operations with the comparative figures for 2005 and 2004 re-presented. In addition, the assets and liabilities of the ABN AMRO Mortgage Group, Inc. have been reported as assets of businesses held for sale and liabilities of businesses held for sale in the consolidated balance sheet.

Income statement of discontinued operations:

	2006	2005	2004
Operating income	934	881	844
Operating expenses	525	595	585
Operating profit before tax	409	286	259
Gain on disposal	327	—	—
Profit before tax	736	286	259
Tax on operating profit	138	99	55
Tax arising on disposal	(11)	—	—
Profit from discontinued operations			
classified in current period	609	187	204
classified in prior period	—	—	1,447
Profit from discontinued operations net of tax	609	187	1,651

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

45 Discontinued operations and assets and liabilities held for sale (Continued)

The table below provides a further breakdown of the operating result and gain on disposal of discontinued operations in 2006 by major lines of business. In our segment disclosure note the Bouwfonds results are included in the segment BU Netherlands and ABN AMRO Mortgage Group, Inc. in the BU North America.

	2006	2005	2004
<i>Bouwfonds non-mortgage business</i>			
Operating income	534	505	406
Operating expenses	273	287	208
Loan impairment and other credit risk provisions	19	13	9
Operating profit before tax	242	205	189
Gain recognised on disposal	327	—	—
Profit from discontinued operations before tax	569	205	189
Income tax expense on operating profit	75	69	43
Income tax expense on gain on disposal	(11)	—	—
Profit from discontinued operations net of tax	505	136	146
<i>ABN AMRO Mortgage Group Inc.</i>			
Operating income	400	376	438
Operating expenses	233	295	368
Operating profit before tax	167	81	70
Income tax expense on operating profit	63	30	12
Profit from discontinued operations net of tax	104	51	58

Earnings per share attributable to the shareholders of the parent company for discontinued operations

	2006	2005	2004
		(in euros)	
Basic, from discontinued operations	0.32	0.10	0.99
Diluted, from discontinued operations	0.32	0.10	0.99

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

45 Discontinued operations and assets and liabilities held for sale (Continued)

The major classes of assets and liabilities classified as held for sale as at 31 December are as follows:

	<u>2006</u>
Assets	
Cash and balances with central banks	14
Financial assets held for trading	104
Financial investments	132
Loans and receivables – banks	53
Loans and receivables – customers	4,532
Property and equipment	1,012
Goodwill and other intangible assets	2,449
Accrued income and prepaid expenses	62
Other assets	3,492
Assets of businesses held for sale	<u>11,850</u>
Liabilities	
Due to banks	973
Due to customers	2,397
Provisions	22
Accrued expenses and deferred income	71
Other liabilities	244
Liabilities of businesses held for sale	<u>3,707</u>
Net assets directly associated with disposal businesses	<u><u>8,143</u></u>

These balances mainly consist of ABN AMRO Mortgage Group, Inc.

46 Related parties

The Group has a related party relationship with associates (see notes 20 and 41), joint ventures (see note 42), pension funds (see note 28) and key management (see note 43).

The Group enters into a number of banking transactions with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates except for employees, which are offered preferential terms for certain banking products. No allowances for loan losses have been recognised in respect of loans to related parties in 2006 and 2005.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

47 First-time adoption of IFRS

The impact of transition from Dutch GAAP to IFRS can be summarised as follows:

Reconciliation of shareholders' equity under Dutch GAAP to IFRS

	Note	1 January 2004	31 December 2004
Shareholders' equity under Dutch GAAP		13,047	14,972
Release of fund for general banking risks	I	1,143	1,149
Reclassification of preference shares to subordinated liabilities	II	(813)	(767)
Reversal of property revaluation	III	(130)	(87)
Reclassification regarding ABN AMRO Banco Real to subordinated liabilities	IV	(231)	(231)
Transition impacts			
Release of interest equalisation reserve relating to the investment portfolio	V	1,563	
Derivatives and hedging	VI	(560)	
Fair value adjustments	VII	(160)	
Private equity (consolidation and fair valuation)	VIII	56	
Loan impairment provisioning	IX	(405)	
Property development	X	(108)	
Differences at LeasePlan Corporation	XI	(148)	
Equity accounted investments	XII	(100)	
Employee benefit obligations	XIII	(1,475)	
Other	XIV	(355)	
Total transition impact before taxation		(1,692)	
Taxation impact		(577)	
Total transition items (net of taxation)		(1,115)	(1,115)
Difference in 2004 profit		—	(244)
Impact of gains and losses not recognised in income statement			
Available-for-sale reserve	XV	489	818
Cash flow hedging reserve	XVI	(165)	(283)
Dutch GAAP pension booking to equity not applicable under IFRS	XVII	—	479
Difference in currency translation account movement	XVIII	—	(40)
Other differences affecting IFRS and Dutch GAAP equity			
Equity settled derivatives on own shares	XIX	(106)	16
Goodwill capitalisation under IFRS	XX	—	46
Other	XXI	—	102
Total impact		(928)	(157)
Total shareholders' equity under IFRS		12,119	14,815

I Release of fund for general banking risks

The fund for general banking risks is considered to be a general reserve and is not permitted under IFRS. The fund balance as at 1 January 2004 was transferred to shareholders' equity.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

47 First-time adoption of IFRS (Continued)

II Reclassification of preference shares to subordinated liabilities

IFRS requires the reclassification from equity to debt of preference shares (and other instruments, if applicable) if ABN AMRO, the issuer, does not have full discretion regarding payment of dividends and the repayment of the underlying notional.

III Reversal of property revaluation

Under Dutch GAAP, bank premises, including land, were stated at replacement cost and fully depreciated on a straight-line basis over their useful lives with a maximum of 50 years. Value adjustments, net of tax, were credited or charged to a separate component of shareholders' equity called the revaluation reserve. Under IFRS property is stated at historical cost, less any adjustments for impairment, and depreciated on a straight-line basis over their useful lives.

IV Reclassification regarding Banco ABN AMRO Real to subordinated liabilities

As part of the acquisition of Banco Sudameris Brasil S.A a contingent payable that qualified as minority interest under Dutch GAAP was determined to be a liability under IFRS and measured at fair value.

V Release of interest equalisation reserve relating to the investment portfolio

Under Dutch GAAP, bonds and similar debt securities included in the investment portfolios (other than securities on which a large part or all of the interest is settled on redemption) were stated at redemption value less any diminution in value deemed necessary. Net capital gains realised prior to maturity date in connection with replacement operations were recognised as deferred interest income in the interest equalisation reserve and amortised to income over the duration of the investment portfolio.

Under IFRS all bonds and similar debt securities included in the investment portfolio are either classified as held to maturity or available for sale. Unlike under Dutch GAAP realised gains and losses on available for sale securities are recognised directly in income on disposal.

VI Derivatives and hedging

Under Dutch GAAP, derivatives that were used to manage either the overall structural interest rate exposure of the Group or designated to manage the interest exposure within specific assets and liabilities were accounted for on an accrual basis. Therefore, changes in the fair value of the derivatives were not recorded. Under IFRS, all derivatives are recognised as either assets or liabilities and measured at fair value. If the derivative is a hedge and the hedge accounting requirements are met, changes in fair value of a designated derivative that is highly effective as a fair value hedge, together with the change in fair value of the corresponding asset, liability or firm commitment attributable to the hedged risk, are included directly in earnings. Changes in fair value of a designated derivative that is highly effective as a cash flow hedge are included in equity and reclassified into earnings in the same period during which the hedged forecasted cash flow affects earnings. Any ineffectiveness is reflected directly in earnings.

VII Fair value adjustments

Under Dutch GAAP, except for trading positions all financial instruments were carried at cost including nontrading derivatives (see above) and features embedded in non-derivative assets and liabilities that under IFRS are to be recognised as a derivative. Transition to IFRS included valuing a number of non-trading and embedded derivatives and assets and liabilities designated to be measured at fair value under IFRS to a fair value basis. This caption also includes the application of the IFRS fair value measurement guidance.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

47 First-time adoption of IFRS (Continued)

VIII Private equity (consolidation and fair valuation)

Under Dutch GAAP, private equity investments were held at cost (less impairment where required). Under IFRS, private equity investments that are not controlled are accounted for at fair value with changes reported through income. Private equity investments that are controlled are consolidated.

IX Loan impairment provisioning

Under Dutch GAAP, specific provisions against individually significant and not individually significant (portfolio basis) non-performing loans are determined by estimating the future cash flows on an undiscounted basis. Under IFRS, specific loan loss provisions are determined by reference to estimated future cash flows on a discounted basis. This constitutes the predominant part of the determined transition amount.

X Property development

This represented the impact of applying the percentage of completion method to our housing development business at our subsidiary Bouwfonds.

XI Differences at LeasePlan Corporation

Under Dutch GAAP, the majority of the Group's Leasing business was accounted for as a financing arrangement.

Under IFRS, a major part of the Group's leasing business was assessed to be conducted through operating leases. Operating lease accounting under IFRS requires the leased asset to be included within Property and Equipment and to be depreciated, with income booked as a form of rental.

XII Equity accounted investments

This adjustment of EUR 100 million represents the estimated amount resulting from the adoption of IFRS at the key associates (Antonveneta and Capitalia) who at 1 January 2004 had not completed their IFRS conversion project. The actual impact was EUR 130 million. This difference was recorded in 2005 income.

XIII Employee benefit obligations

Under Dutch GAAP, we applied SFAS 87: Employers Accounting for Pensions. Under IFRS, the Group implemented IAS 19 "Employee Benefits". As permitted under IFRS 1 "First-time Adoption of International Financial Reporting Standards", the Group have elected to recognise all cumulative actuarial gains and losses as at 1 January 2004 against shareholders' equity.

XIV Other

The main item included in other transition items relates to loan fees and amounts to EUR 150 million at 1 January 2004. Under IFRS additional non-reimbursable loan fees are deferred over the lifetime of the related facility.

XV Available-for-sale reserve

This represents the impact of fair valuing available for sale debt and equity securities.

XVI Cash flow hedging reserve

This represents the fair value at transition of all derivatives designated in cash flow hedging programmes.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

47 First-time adoption of IFRS (Continued)

XVII Dutch GAAP pension booking to equity not applicable under IFRS

Under Dutch GAAP, the Group recorded a minimum pension liability as required under SFAS 87, while under IFRS no such requirement exists.

XVIII Difference in currency translation account movement

The currency translation account was reset to zero at 1 January 2004 (the transition date). The difference in currency translation account movements during 2004 relates to differences in the carrying amount of our subsidiaries and associates under IFRS that do not have the euro as their functional currency.

XIX Equity settled derivatives on own shares

This difference is related to written options on own shares, that could be settled in own shares. Under IFRS the notional amounts of the shares are separately reported within equity with an offset reported in other liabilities.

XX Goodwill capitalisation under IFRS

During 2004, goodwill on new acquisitions was capitalised under IFRS but not under Dutch GAAP. The Group applied the business combination exemption as permitted under IFRS 1 thus there was no transition impact for this item.

XXI Other

This includes reversing the impact of dividends on preference shares that were charged through equity under Dutch GAAP in 2004 and through income under IFRS as well as costs incurred on issuances classified as debt under IFRS and equity under Dutch GAAP.

Reconciliation of 2004 net profit under Dutch GAAP to IFRS

	Note	2004
Net profit under Dutch GAAP		4,109
Dividends accrued on preference shares		(43)
Net profit available to shareholders under Dutch GAAP		4,066
Reconciling items:		
Interest equalisation reserve amortisation relating to investment portfolio		(454)
Available-for-sale realisations and other (including hedging)		(19)
Mortgage banking activities	XXII	(161)
Fair value adjustments		(230)
Derivatives		11
Private equity		129
Employee benefit obligations	XXIII	89
Employee stock options		(21)
Differences in gain on sale of LeasePlan Corporation and Bank of Asia		224
Redemption costs relating to preference shares classified as interest cost under IFRS	XXIV	(42)
Loan impairment provisioning		29
Other	(39)	
Total impact before taxation		(484)
Tax effect		283
Net profit impact		(201)
Profit attributable to equity holders of the parent company under IFRS . . .		3,865

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

47 First-time adoption of IFRS (Continued)

XXII Mortgage banking activities

Under Dutch GAAP, all mortgage servicing rights were carried at the lower of initial carrying value, adjusted for amortisation, or fair value. Mortgage servicing rights were amortised in proportion to, and over the period of, net estimated servicing income. The carrying amount or book basis of servicing rights includes the unamortised cost of servicing rights, deferred realised gains and losses on derivative hedges and valuation reserves.

Under IFRS the basis for determining the fair value of mortgage servicing rights is consistent with Dutch GAAP. However, under IFRS, the carrying amount of servicing rights does not include deferred gains and losses on derivative hedges realised subsequent to 1 January 2004. Under IFRS, the components of the carrying amount of servicing rights include their unamortised cost and the basis adjustment arising from fair value hedge relationships.

XXIII Employee benefit obligations

Under Dutch GAAP, equity settled share options schemes were recorded based on the intrinsic values at grant date, which in all cases was zero. Under IFRS, equity settled share options and other share schemes are initially assessed at fair value at grant date and charged to income over the vesting period.

XXIV Redemption costs relating to preference shares classified as interest cost under IFRS

The dividends paid on preference shares were recorded as distributions to equity holders under Dutch GAAP. These dividend payments are presented as interest expense under IFRS, consistent with the presentation of these preference shares as liabilities.

48 Subsequent events

ABN AMRO Mortgage Group, Inc.

On 22 January 2007 ABN AMRO announced that it has reached an agreement to sell ABN AMRO Mortgage Group, Inc., its U.S.-based residential mortgage broker origination platform and servicing business, which includes ABN AMRO Mortgage Group, InterFirst and Mortgage.com, to Citigroup. Citigroup will purchase approximately EUR 7.8 billion in net assets, of which approximately EUR 2.1 billion is ABN AMRO Mortgage Group's mortgage servicing rights associated with its EUR 170 billion mortgage servicing portfolio. The sale transaction closed on 28 February 2007.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

49 Major subsidiaries and participating interests

(Unless otherwise stated, the bank's interest is 100% or almost 100%, on 14 March 2007. Those major subsidiaries and participating interests that are not 100% consolidated but are accounted for under the equity method (a) or proportionally consolidated (b) are indicated separately).

ABN AMRO Bank N.V., Amsterdam

Netherlands

AAGUS Financial Services Group N.V., Amersfoort (67%)
AA Interfinance B.V., Amsterdam
ABN AMRO Arbo Services B.V., Amsterdam
ABN AMRO Asset Management (Netherlands) B.V., Amsterdam
ABN AMRO Effecten Compagnie B.V., Amsterdam
ABN AMRO Hypotheken Groep B.V., Amersfoort
ABN AMRO Mellon Global Securities Services B.V., Amsterdam (50%) (b)
ABN AMRO Participaties B.V., Amsterdam
ABN AMRO Projectontwikkeling B.V., Amersfoort
ABN AMRO Ventures B.V., Amsterdam
Altajo B.V., Amsterdam (50%) (b)
Amstel Lease Maatschappij N.V., Utrecht
Delta Lloyd ABN AMRO Verzekeringen Holding B.V., Zwolle (49%) (a)
Hollandsche Bank-Unie N.V., Rotterdam
IFN Group B.V., Rotterdam
Solveon Incasso B.V., Utrecht
Stater N.V., Hoevelaken

Outside the Netherlands

Europe

ABN AMRO Asset Management Holdings Ltd., London
ABN AMRO Asset Management Ltd., London
ABN AMRO Asset Management (Deutschland) GmbH, Frankfurt am Main
ABN AMRO Asset Management Fondsmæglerselskab AS, Copenhagen
ABN AMRO Asset Management (Schweiz) A.G., Zurich
ABN AMRO Bank (Deutschland) AG, Frankfurt am Main
ABN AMRO Bank (Luxembourg) S.A., Luxembourg
ABN AMRO Bank (Polska) S.A., Warsaw
ABN AMRO Bank (Romania) S.A., Bucharest
ABN AMRO Bank (Schweiz) A.G., Zurich
ABN AMRO Bank ZAO, Moscow
ABN AMRO Capital Ltd., London
ABN AMRO Corporate Finance Ltd., London
ABN AMRO Förvaltning ASA, Oslo
ABN AMRO France S.A., Paris
Banque Neufilize OBC, Paris
ABN AMRO Fund Managers (Ireland) Ltd., Dublin
ABN AMRO Infrastructure Capital Management Limited, London
ABN AMRO International Financial Services Company, Dublin
ABN AMRO Investment Funds S.A., Luxembourg
ABN AMRO Kapitalförvaltning AB, Helsinki
Alfred Berg Holding AB, Stockholm
Alfred Berg Asset Management AB, Stockholm
Antonveneta ABN AMRO Società di Gestione del Risparmio SpA, Milan
(45% ABN AMRO Bank N.V.; 55% Banca Antonveneta Group) (a)
Artemis Investment Management Ltd., Edinburgh (69%)

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

49 Major subsidiaries and participating interests (Continued)

Aspis International Mutual Funds Management S.A., Athens (45%) (a)

Banca Antonveneta SpA, Padova

Capitalia SpA, Roma (8.6%) (a)

CM Capital Markets Holding S.A., Madrid (45%) (a)

Delbrück Bethmann Maffei AG, Frankfurt am Main

Hoare Govett Ltd., London

North America

ABN AMRO Asset Management Canada Ltd, Toronto

ABN AMRO Capital Markets Canada Ltd., Toronto

ABN AMRO Bank (Mexico) S.A., Mexico City

ABN AMRO North America Holding Company, Chicago (holding company, voting right 100%, equity participation 92%)

LaSalle Bank Corporation, Chicago

LaSalle Bank N.A., Chicago

LaSalle Financial Services, Inc., Chicago

LaSalle National Leasing Corporation, Chicago

LaSalle Business Credit, LLC., Chicago

LaSalle Bank Midwest N.A., Troy

ABN AMRO Mortgage Group, Inc., Chicago

ABN AMRO Advisory, Inc., Chicago (81%)

ABN AMRO Capital (USA) Inc., Chicago

ABN AMRO Incorporated, Chicago

ABN AMRO Rothschild LLC, New York (50%) (b)

ABN AMRO Asset Management Holdings, Inc., Chicago

ABN AMRO Asset Management Inc., Chicago

ABN AMRO Investment Fund Services, Inc, Chicago

Montag & Caldwell, Inc., Atlanta

Middle East

Saudi Hollandi Bank, Riyadh (40%) (a)

Rest of Asia

ABN AMRO Asia Ltd., Hong Kong

ABN AMRO Asia Corporate Finance Ltd., Hong Kong

ABN AMRO Asset Management (Asia) Ltd., Hong Kong

ABN AMRO Asset Management (Japan) Ltd., Tokyo

ABN AMRO Asset Management (India) Ltd., Mumbai (75%)

ABN AMRO Asset Management (Singapore) Ltd., Singapore

ABN AMRO Bank Berhad, Kuala Lumpur

ABN AMRO Bank (Kazakhstan) Ltd., Almaty (80%)

ABN AMRO Bank N.B., Uzbekistan A.O., Tashkent (58%)

ABN AMRO Bank (Philippines) Inc., Manila

ABN AMRO Central Enterprise Services Private Ltd., Mumbai

ABN AMRO Securities (India) Private Ltd., Mumbai (75%)

ABN AMRO Securities Investment Consultant Co. Ltd., Taipei

ABN AMRO Securities (Japan) Ltd., Tokyo PT

ABN AMRO Finance Indonesia, Jakarta (70%) PT

ABN AMRO Manajemen Investasi Indonesia, Jakarta (96%)

Australia

ABN AMRO Asset Management (Australia) Ltd., Sydney

ABN AMRO Australia Ltd., Sydney

ABN AMRO Asset Securitisation Australia Pty Ltd., Sydney

ABN AMRO Corporate Finance Australia Ltd., Sydney

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

49 Major subsidiaries and participating interests (Continued)

ABN AMRO Equities Australia Ltd., Sydney
ABN AMRO Capital Management (Australia) Pty Limited, Sydney
ABN AMRO Equities Capital Markets Australia Ltd., Sydney
ABN AMRO Investments Australia Ltd., Sydney
ABNED Nominees Pty Ltd., Sydney

New Zealand

ABN AMRO Equity Derivatives New Zealand Limited, Auckland
ABN AMRO New Zealand Ltd., Auckland
ABN AMRO Securities NZ Ltd., Auckland

Latin America

ABN AMRO Asset Management DVTM S.A., Sao Paulo
ABN AMRO Bank (Chile) S.A., Santiago de Chile
ABN AMRO Bank (Colombia) S.A., Bogota
ABN AMRO Brasil Participações Financeiras S.A., Sao Paulo
ABN AMRO Brasil Dois Participações S.A., São Paulo
 Banco ABN AMRO Real S.A., Sao Paulo (96.65%)
 Banco de Pernambuco S.A., BANDERE, Recife
 Banco Sudameris Brasil S.A., Sao Paulo (94.58%)
 Real Tokio Marine Vida e Previdência S.A., (50%) (b)
ABN AMRO (Chile) Seguros Generales S.A., Santiago de Chile
ABN AMRO (Chile) Seguros de Vida S.A., Santiago de Chile
Real Paraguaya de Seguros S.A., Asuncion
Real Uruguay de Seguros S.A., Montevideo

The list of participating interests under which statements of liability have been issued has been filed at the Amsterdam Chamber of Commerce.

Section B: Audit Opinion included in ABN AMRO's Annual Report for the year ended 31 December 2006

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2006 of ABN AMRO Holding N.V., Amsterdam (as set out on pages 131 to 248). The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2006, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2006, the company income statement and statement of changes in equity for the year then ended and the notes.

Management's responsibility

Management of the company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, with International Financial Reporting Standards and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the other sections of the Annual Report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of ABN AMRO Holding N.V. as at 31 December 2006, 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, with International Financial Reporting Standards 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 Holding N.V. as at 31 December 2006, 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 requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 14 March 2007

for Ernst & Young Accountants

sgd C. B. Boogaart

Section C: Consolidated Financial Statements included in ABN AMRO's Annual Report for the year ended 31 December 2005

Accounting policies

ABN AMRO Holding N.V. is the parent company of the ABN AMRO consolidated group of companies (referred to as the "Group" or "ABN AMRO") and is domiciled in the Netherlands. The consolidated financial statements of the Group for the year ended 31 December 2005 incorporate figures of the parent, its controlled entities and interests in associates.

The Group provides a broad range of financial services on a worldwide basis, including consumer, commercial and investment banking.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and do not utilise the portfolio hedging "carve out" permitted by the EU. Accordingly, the accounting policies applied by the Group also comply fully with IFRS.

IFRS standards and interpretations are issued by the International Accounting Standards Board (IASB) and comprise International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

Since ordinary shares in ABN AMRO Holding N.V. are listed on the New York Stock Exchange (NYSE) in the form of American Depositary Receipts, ABN AMRO also publishes an annual report on Form 20-F that conforms to the rules of the Securities and Exchange Commission (SEC) applicable to foreign registrants. The Form 20-F includes a reconciliation of equity and profit attributable to shareholders of the parent company to the comparable amounts using accounting principles generally accepted in the United States (US GAAP).

Basis of preparation and first time application

The financial statements are presented in euros, which is the presentation currency of the Group, rounded to the nearest million.

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

The preparation of financial statements in conformity with IFRS requires the use of judgement and estimates that affect the recognition and valuation of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, the actual results may differ ultimately from these estimates. The key areas requiring an application of judgement and estimation include the assessment of risk and rewards and other relevant criteria when determining whether or not to derecognise a financial asset or when to consolidate a special purpose entity, the determination of the fair value of certain assets and liabilities, the amount and timing of future cash flows on impaired loans, the outcome of any litigation and the assumptions underlying the determination of long term employee benefit liabilities and other provisions.

The Group has applied the accounting policies set out herein from its transition to IFRS at 1 January 2004.

For all periods up to and including the year ended 31 December 2004, ABN AMRO prepared its consolidated financial statements in accordance with Generally Accepted Accounting Principles in the Netherlands (Dutch GAAP). From 1 January 2005, ABN AMRO is required to prepare its consolidated financial statements in accordance with IFRS as adopted by the EU and effective for ABN AMRO's reporting for the year ended 31 December 2005. Transition to IFRS incorporates the impact of applying all IFRS statements to our assets (such as loans and property), liabilities (such as pensions) and open

contracts (such as derivatives and leases) at 1 January 2004. In many respects the change to IFRS has been a gradual process for Dutch companies, due to the inclusion of many IFRS standards within Dutch GAAP. However, IAS 39 “Financial Instruments”, which is the main IFRS standard impacting banks, was not incorporated into Dutch GAAP. This standard, which extends the use of fair values and sets out specific rules of the application of hedge accounting, causes a number of the transition differences.

In preparing these consolidated financial statements, the Group has elected to utilise certain transitional provisions within IFRS 1 “First-time Adoption of International Financial Reporting Standards” which offer certain practical exemptions from the normal rule of applying IFRS retrospectively.

The following exemptions were used to establish the Group’s opening IFRS equity:

- no restatement of business combinations that took place prior to 1 January 2004
- the full cumulative actuarial loss on retirement benefit plans is recognised in equity at 1 January 2004
- the cumulative translation account in equity for foreign operations is set to zero at 1 January 2004
- IFRS 2 “Share-based Payment” is only applied to unvested awards that were issued after 7 November 2002
- the IAS 39 requirement to defer gains and losses on the initial recognition of a financial asset or liability, not determined by reference to observable market data, was applied to all transactions entered into after 25 October 2002 consistent with US GAAP requirements
- certain financial assets and liabilities were designated to be held at fair value through income on transition.

Items elected to fair value through income on transition include non-controlling investments of a Private Equity nature, mortgages originated and held for sale by our North America business, unit-linked investments held for the account of insurance policy holders and certain structured liabilities.

The Group has adopted the “Amendment to IAS 39 Financial Instruments: Recognition and Measurement: The Fair Value Option” with effect from 1 January 2004, ahead of its mandatory date. Additionally, the Group elected to apply IFRS 5 “Non-current assets held for sale and discontinued operations” at 1 January 2004 ahead of its mandatory effective date.

See note 47 for further details of the transition to IFRS.

Basis of consolidation

Subsidiaries and acquisitions

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

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

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

IFRS 3 “Business combinations” was adopted for all business combinations that took place after 1 January 2004. Goodwill on acquisitions prior to this date was charged against equity. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of

acquisition over the Group's share of the fair value of the identifiable net assets (including certain contingent liabilities) acquired is recorded as goodwill.

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

As a consequence of measuring all the acquired assets and liabilities at fair value, minority interests are calculated by reference to these fair values.

Investments held with significant influence

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

If significant influence is held in a venture capital investment the equity investment is designated to be held at fair value with changes through income.

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

Jointly controlled entities

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

Non-current assets held for sale and discontinued operations

Non-current assets and/or businesses are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction planned to occur within 12 months, rather than through continuing use. Held for sale assets are measured at the lower of their carrying amount and fair value less costs to sell and are classified separately from other assets in the balance sheet. Assets and liabilities of a business held for sale are separately presented.

The results of discontinued operations (if significant and representing 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 profit and/or net loss of the discontinued operation and the after tax gain or loss realised on disposal. Comparative income statement data is re-presented if in the current period an activity qualifies as discontinuing and qualifies for separate presentation.

Private equity

Investments of a private equity nature controlled by the Group are consolidated. All other investments of a private equity nature are designated at fair value through income.

Transactions eliminated on consolidation

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

Currency translation differences

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

Transactions in a currency that differs from the functional currency of the transacting entity are translated into the functional currency at the foreign exchange rate at transaction date. Accruals and deferrals are translated using the foreign exchange rate on the last day of the month to which the results relate. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities accounted for at cost, if denominated in foreign currency, are translated at the foreign exchange rate prevailing at the date of initial recognition.

Translation differences on monetary financial assets and liabilities, whether measured at amortised cost or fair value, are included in foreign exchange gains and losses in income. Translation differences on non-monetary items (such as equities) held at fair value through income are also reported through income and, for those classified as available-for-sale, directly in equity within "Net unrealised gains and losses on available-for-sale assets".

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

Fiduciary activities

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

Income statement

Interest income and expenses

Interest income and expense is recognised in the income statement using the effective interest rate method. The application of this method includes the amortisation of any discount or premium or other differences, including transaction costs and qualifying fees and commissions, between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. This item also includes interest income and expense in relation to trading balances.

Fee and commission income

Fees and commissions are recognised as follows:

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

Net trading income

Net trading income includes gains and losses arising from changes in the fair value and disposal of financial assets and liabilities held for trading and includes dividends received from trading instruments. Interest income or expenses on trading assets or liabilities are included within interest income or expense.

Results from financial transactions

Results from financial transactions include gains and losses on the sale of non-trading financial assets and liabilities, ineffectiveness of certain hedging programmes, fair value changes relating to assets and liabilities designated at fair value through income and changes in the value of any related derivatives. Dividend income from non-trading equity investments is recognised when entitlement is established.

Other operating income

Development property income is first recognised when the outcome of a construction contract can be estimated reliably; after which contract income and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to the phases of work performed. An expected loss on a contract is recognised immediately in the income statement.

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Income from insurance activities is presented net of direct costs and provisions required for the insured risk.

Earnings per share

Earnings per share is calculated by dividing the profit attributable to shareholders of the parent company from continuing and discontinuing operations by the average number of shares in issuance during the year. Fully diluted earnings per share is calculated taking into account all dilutive instruments, including options and employee share plans, in issuance at the balance sheet date.

Segment reporting

Business segments are the primary reporting segments and are grouped by the nature of risks and rewards assessed by reference to product and service characteristics. Geographical segments are grouped based on a combination of proximity, relationships between operations and economic and currency similarities. Geographical data is presented according to the location of the transacting Group entity.

Financial assets and liabilities

Measurement classifications

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

Financial instruments held for trading are those that the Group holds primarily for the purpose of short-term profit-taking. These include shares, interest earning securities, derivative contracts that are not designated as hedging instruments, and liabilities from short sales of financial instruments.

Derivatives are financial instruments that require little or no initial net investment, with future settlements dependent on a reference benchmark index, rate or price (such as interest rates or equity prices). Changes in expected future cash flows in response to changes in the underlying benchmark determine the fair value of derivatives. All derivatives are recorded in the balance sheet at fair value. Changes in the fair value of derivative instruments are taken to income, except where a designation as a cash flow hedge or net investment hedge is made (see hedging below).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They generally arise when the Group provides money or services

directly to a customer with no intention of trading or selling the loan. Loans originated with the intention to sell are classified within other assets and designated at fair value through income.

Held-to-maturity assets are non-derivative financial assets quoted on an active market with fixed or determinable payments (i.e. debt instruments) and a fixed maturity that the Group has the intention and ability to hold to maturity.

Designated at fair value through income are financial assets and financial liabilities that the Group upon initial recognition (or on transition to IFRS on 1 January 2004) designates to be measured at fair value with changes reported in income. Such a designation is done if:

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

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

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

Recognition and derecognition

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

Financial assets are generally derecognised when the Group loses control or the ability to obtain benefits over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are fully transferred. If a servicing function is retained, which is profitable, a servicing asset is recognised. A financial liability is derecognised when the obligations specified in the contract are discharged, cancelled or expire.

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

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

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

Measurement

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

All derivatives are recorded in the balance sheet at fair value with changes recorded through income unless the derivative qualifies for cash flow hedging accounting.

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

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

When available, fair values are obtained from quoted market prices in liquid markets. Where no active market exists, or quoted prices are unobtainable, the fair value is estimated using a variety of valuation techniques—including discounted cash flow and other pricing models. Inputs to pricing models are generally taken from reliable external data sources. The models used are validated prior to the use for financial reporting by qualified staff independent of the initial selection or creation of the model. Where inputs cannot be reliably sourced from external providers, the initial recognition value of a financial asset or liability is taken to be the settled value at trade inception. The initial change in fair value indicated by the valuation technique is then released 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 discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate applied is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Fair values include appropriate adjustments to reflect the credit quality of the instrument.

Professional securities transactions

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

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

Netting and collateral

The Group enters into master netting arrangements with counterparties wherever possible, and when appropriate, obtains collateral. If the Group has the right on the grounds of either legal or contractual provisions and the intention to settle financial assets and liabilities net or simultaneously, these are offset and the net amount is reported in the balance sheet. Due to differences in the timing of actual cash flows,

derivatives with positive and negative fair values are generally not netted, even if they are held with the same counterparty.

Hedge accounting

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

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

Both at the inception of the hedge and on an ongoing basis, the Group formally assesses whether the derivatives used in its hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of the hedged item, by assessing and measuring, whether changes in the fair value or cash flows of the hedged item are offset by the changes in the fair value or cash flows of the hedging instrument, within the range 80% to 125%.

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

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

Fair value hedges

Where a derivative financial instrument hedges the exposure to changes in the fair value of recognised or committed assets or liabilities, the hedged item is adjusted in relation to the risk being hedged. Gains or losses on remeasurement of both the hedging instrument and the hedged item are recognised in the income statement, typically within results from financial transactions. For hedges of mortgage service rights any hedging ineffectiveness is recorded in other income.

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

Cash flow hedges

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

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

Hedge of a net investment in a foreign operation

The Group uses foreign derivatives and currency borrowings to hedge various net investments in foreign operations. For such hedges, currency translation differences arising on translation of these instruments to euro are recognised directly in the currency translation account in equity, insofar as they are effective.

Impairment of financial assets

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

Loans and receivables

An indication that a loan may be impaired is obtained through the Group’s credit review processes, which include monitoring customer payments and other performance criteria.

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

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

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

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

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

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

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

Other financial assets

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

Held to maturity and available-for-sale debt investments are assessed and any impairment is measured on an individual basis, consistent with the methodology applied to loan and receivables.

Property and equipment

Own use assets

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

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

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

Software, presented as an intangible asset, is amortised over 3-7 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.

Development property

The majority of the Group's development and construction activities are undertaken for immediate sale or as part of a pre-agreed contractual arrangement. Property developed under a pre-agreed contractual arrangement is stated at cost plus profit recognisable to date less a provision for any foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. The specific components of development property are accounted for as follows.

Building and development sites are carried at cost including allocated interest and additional expenses for purchasing the site and making them ready for development. No interest is allocated to land which has not been zoned for a particular purpose, if there is no certainty that the land will be built on. Any provision deemed necessary for expected losses on sale is deducted from the carrying value of the site.

Work in progress relates to commercial property projects, as well as to unsold residential property under construction or preparation. Work in progress is carried at the costs incurred plus allocated interest and net of any provisions as required. Progress instalments invoiced to buyers and principals are deducted from work in progress. The profit and loss is recognised in accordance with the percentage of completion method. Until sold, commercial and residential developments are carried at cost of production net of any required provisions. If a decision is taken to retain an unsold property it is classified as investment property.

Investment property

Investment property is carried at fair value based on current market prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in profit and loss. Rental income from investment property is recognised on a straight-line basis over the term of the lease, with lease incentives granted recognised as an integral part of the rental income.

Leasing

As lessee: most of the leases that the Group has entered into are classified as operating leases (including property rental). The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised

in the income statement as an integral part of the total lease expense. When it is anticipated that an operating lease will be terminated or vacated before the lease period has expired, the lesser of any penalty payments required and the remaining payments due once vacated (less sub-leasing income) is recognised as an expense.

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

Intangible assets

Goodwill

Goodwill is capitalised and represents the excess of the cost of an acquisition over the fair value of the Group's share of the acquired entity's net identifiable assets at the date of acquisition. 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. Any change 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 translation differences recorded in equity.

Software

Costs that are directly associated with identifiable and unique software products that are controlled by the Group, and likely to generate future economic benefits exceeding these costs, are recognised as intangible assets. Direct costs include staff costs of the software development team. Expenditure that enhances or extends the performance of computer software programs beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Software is amortised over 3-7 years.

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

Mortgage servicing rights

Mortgage servicing rights (MSRs) represent the right to a stream of fee-based cash flows and an obligation to perform specified mortgage servicing activities. MSRs are initially recorded at fair value and amortised over the estimated future net servicing income stream of the underlying mortgages. The duration of the income stream relating to these servicing rights is dependent on the pre-payment behaviour of the customer, which is influenced by a number of factors including interest rate expectations. MSR assets are subject to hedging under a fair value hedge programme designed to limit the Group's exposure to changes in the fair value of the MSR. The change in the fair value of the hedged MSRs and the change in the fair value of the hedging derivatives are included as part of mortgage banking income within other income.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and any adjustment for impairment losses. Other intangible assets are comprised of separately identifiable items arising from acquisition of subsidiaries, such as customer relationships, and certain purchased trademarks and similar items. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible asset.

Impairment of property and equipment and intangible assets

Property and equipment and intangibles are assessed at each balance sheet date or more frequently, to determine whether there is any indication of impairment. If any such indication exists, the assets are subject to an impairment review. Regardless of any indications of potential impairment, the carrying amount of goodwill is subject to a detailed impairment review at least annually.

An impairment loss is recognised whenever the carrying amount of an asset that generates largely independent cash flows or the cash-generating unit to which it belongs exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and 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.

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

Pension and other post-retirement benefits

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

Defined contribution plans

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

Defined benefit plans

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

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

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

Other post-retirement benefits

The Group's net obligation with respect to long-term service benefits and post-retirement healthcare is the amount of future benefit that employees have earned in return for their service in current and prior

periods. The obligation is calculated using the projected unit credit method. It is then discounted to its present value and the fair value of any related assets is deducted.

Share-based payments to employees

The Group engages in equity and cash settled share-based payment transactions in respect of services received from certain of its employees. The cost of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost related to the shares or share options granted is recognised in the income statement over the period that the services of the employees are received, which is the vesting period, with a corresponding credit in equity for equity settled schemes and a credit in liabilities for cash settled schemes.

The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, the volatility of the ABN AMRO share price over the life of the option and the terms and conditions of the grant. Non-market vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services, so that ultimately the amount cumulatively recognised in the income statement shall reflect the number of shares or share options that eventually vest. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met, provided that the non-market vesting conditions are met.

Provisions

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

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

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

Other liabilities

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

Income taxes—current and deferred

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

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

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

Issued debt and equity securities

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

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

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

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

Share capital

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

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

Other equity components

Currency translation account

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

Cash flow hedging reserve

The cash flow hedging reserve is comprised of the effective portion of the cumulative change in the fair value of cash flow hedging derivatives, net of taxes, where the hedged transaction has not yet occurred.

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

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

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

Cash flow statement

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

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

Consolidated income statement for 2005

	Note	2005	2004
		<i>(in millions of euros)</i>	
Interest income		30,528	25,334
Interest expense		21,467	16,538
Net interest income	2	9,061	8,796
Fee and commission income		5,627	5,265
Fee and commission expense		881	700
Net fee and commission income	3	4,746	4,565
Net trading income	4	2,621	1,309
Results from financial transactions	5	1,282	908
Share of result in equity accounted investments	19	280	206
Other operating income	6	1,588	1,235
Income of consolidated private equity holdings	40	3,637	2,616
Operating income		23,215	19,635
Personnel expenses	7	7,531	7,818
General and administrative expenses	8	5,812	5,038
Depreciation and amortisation	9	1,021	1,235
Goods and materials of consolidated private equity holdings	40	2,519	1,665
Operating expenses		16,883	15,756
Loan impairment and other credit risk provisions	18	648	616
Total expenses		17,531	16,372
Operating profit before tax		5,684	3,263
Income tax expense	11	1,241	770
Profit from continuing operations		4,443	2,493
Profit from discontinued operations net of tax	45	—	1,447
Profit for the year		4,443	3,940
Attributable to:			
Shareholders of the parent company		4,382	3,865
Minority interests		61	75
Earnings per share attributable to the shareholders of the parent company (in euros)	12		
<i>From continuing operations</i>			
Basic		2.43	1.46
Diluted		2.42	1.46
<i>From continuing and discontinued operations</i>			
Basic		2.43	2.33
Diluted		2.42	2.33

Numbers stated against items refer to the notes.

Consolidated balance sheet at 31 December 2005

	<u>Note</u>	<u>2005</u>	<u>2004</u>
		<i>(in millions of euros)</i>	
Assets			
Cash and balances at central banks	13	16,657	17,896
Financial assets held for trading	14	202,055	167,035
Financial investments	15	123,774	102,948
Loans and receivables – banks	16	108,635	83,858
Loans and receivables – customers	17	380,248	320,022
Equity accounted investments	19	2,993	1,428
Property and equipment	20	8,110	7,173
Goodwill and other intangible assets	21	5,168	3,143
Accrued income and prepaid expenses		7,614	5,740
Other assets	22	25,550	18,211
Total assets		<u>880,804</u>	<u>727,454</u>
Liabilities			
Financial liabilities held for trading	14	148,588	129,506
Due to banks	23	167,821	133,529
Due to customers	24	317,083	281,379
Issued debt securities	25	170,619	121,232
Provisions	26	6,411	6,933
Accrued expenses and deferred income		8,335	8,074
Other liabilities	28	18,723	13,562
Total liabilities (excluding subordinated liabilities)		<u>837,580</u>	<u>694,215</u>
Subordinated liabilities	30	19,072	16,687
Total liabilities		<u>856,652</u>	<u>710,902</u>
Equity			
Share capital		1,069	954
Share premium		5,269	2,604
Retained earnings		15,237	11,580
Treasury shares		(600)	(632)
Net gains/(losses) not recognised in the income statement		1,246	309
Equity attributable to shareholders of the parent company		<u>22,221</u>	<u>14,815</u>
Equity attributable to minority interests		<u>1,931</u>	<u>1,737</u>
Total equity		<u>24,152</u>	<u>16,552</u>
Total equity and liabilities		<u>880,804</u>	<u>727,454</u>
Credit related contingent liabilities	33	46,021	46,465
Committed credit facilities	33	141,010	145,009

Numbers stated against items refer to the notes.

Consolidated statement of changes in equity in 2005

	2005	2004
	(in millions of euros)	
Share capital		
Balance at 1 January	954	919
Issuance of shares	82	—
Exercised options and warrants	—	2
Dividends paid in shares	33	33
Balance at 31 December	1,069	954
Share premium		
Balance at 1 January	2,604	2,549
Issuance of shares	2,611	—
Options and conversion rights exercised	—	48
Share-based payments	87	40
Dividends paid in shares	(33)	(33)
Balance at 31 December	5,269	2,604
Retained earnings		
Balance at 1 January	11,580	8,469
Profit attributable to shareholders of the parent company	4,382	3,865
Dividends paid to shareholders of the parent company	(659)	(694)
Other	(66)	(60)
Balance at 31 December	15,237	11,580
Treasury shares		
Balance at 1 January	(632)	(119)
Net purchase/sale of treasury shares	32	(513)
Balance at 31 December	(600)	(632)
Equity settled own share derivatives		
Balance at 1 January	—	(106)
Change in market value and settlements	—	106
Balance at 31 December	—	—
Net gains/(losses) not recognised in the income statement		
<i>Currency translation account</i>		
Balance at 1 January	(238)	—
Transfer to income statement relating to disposed subsidiaries	(20)	2
Currency translation differences	1,100	(240)
Subtotal – Balance at 31 December	842	(238)
<i>Net unrealised gains/(losses) on available-for-sale assets</i>		
Balance at 1 January	830	572
Net unrealised gains/(losses) on available-for-sale assets	717	509
Net losses/(gains) reclassified to the income statement	(348)	(251)
Subtotal – Balance at 31 December	1,199	830
<i>Cash flow hedging reserve</i>		
Balance at 1 January	(283)	(165)
Net unrealised gains/(losses) on cash flow hedges	(386)	106
Net losses/(gains) reclassified to the income statement	(126)	(224)
Subtotal – Balance at 31 December	(795)	(283)
Net gains/(losses) not recognised in the income statement at 31 December	1,246	309
Equity attributable to shareholders of the parent company at 31 December	22,221	14,815
Minority interest		
Balance at 1 January	1,737	1,301
Additions	202	367
Reductions	(49)	—
Acquisitions/disposals	(136)	(30)
Profit attributable to minority interests	61	75
Currency translation differences	133	33
Other movements	(17)	(9)
Equity attributable to minority interests at 31 December	1,931	1,737
Total equity at 31 December	24,152	16,552

Consolidated statement of comprehensive income for 2005

	2005	2004
	<i>(in millions of euros)</i>	
Profit attributable to shareholders of the parent company	4,382	3,865
<i>Gains/(losses) not recognised in income:</i>		
Currency translation differences	1,100	(240)
Available-for-sale assets	717	509
Cash flow hedges	(386)	106
	<u>1,431</u>	<u>375</u>
<i>Unrealised (gains)/losses from prior periods recognised in income:</i>		
Currency translation differences relating to disposed subsidiaries	(20)	2
Available-for-sale assets	(348)	(251)
From cash flow hedging reserve	(126)	(224)
	<u>(494)</u>	<u>(473)</u>
Comprehensive income for the year	<u>5,319</u>	<u>3,767</u>

The statement of comprehensive income for the year presents all movements in equity attributable to shareholders of the parent company other than changes in issued share capital and distributions to shareholders.

Consolidated cash flow statement for 2005

	Note	2005	2004
		<i>(in millions of euros)</i>	
Operating activities			
Profit from continuing operations		4,443	2,493
<i>Adjustments for significant non-cash items included in income</i>			
Depreciation, amortisation and impairment		1,021	1,235
Loan impairment losses		648	616
Share of result in equity accounted investments		(280)	(206)
<i>Movements in operating assets and liabilities</i>			
Movements in operating assets		(140,923)	(107,875)
Movements in operating liabilities		116,252	87,424
<i>Other adjustments</i>			
Dividends received from equity accounted investments		63	59
Cash flows from operating activities		<u>(18,776)</u>	<u>(16,254)</u>
Investing activities			
Acquisition of investments		(142,423)	(78,760)
Sales and redemption of investments		129,811	76,338
Acquisition of property and equipment		(2,037)	(1,973)
Sales of property and equipment		1,064	1,131
Acquisition of intangibles (excluding goodwill and MSRs)		(431)	(339)
Sales of intangibles (excluding goodwill and MSRs)		9	50
Acquisition of subsidiaries and equity accounted investments		(1,716)	(278)
Disposal of subsidiaries and equity accounted investments		538	153
Cash flows from investing activities		<u>(15,185)</u>	<u>(3,678)</u>
Financing activities			
Issuance of subordinated liabilities		2,975	2,203
Repayment of subordinated liabilities		(1,682)	(2,708)
Issuance of other long-term funding		36,782	25,894
Repayment of other long-term funding		(8,919)	(7,771)
Proceeds from the issue of shares		2,491	0
Net (decrease)/increase in treasury shares		32	(513)
Other		92	334
Dividends paid		(659)	(694)
Cash flows from financing activities		<u>31,112</u>	<u>16,745</u>
Cash flow from discontinued operations		<u>—</u>	<u>2,733</u>
Movement in cash and cash equivalents		<u>(2,849)</u>	<u>(454)</u>
Cash and cash equivalents at 1 January		8,603	9,016
Currency translation differences		289	41
Cash and cash equivalents at 31 December	35	<u>6,043</u>	<u>8,603</u>

Notes to the consolidated financial statements

(unless otherwise stated, all amounts are in millions of euros)

1 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is consistent with the Group's management and internal reporting structure applicable in the financial year.

Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies. Segment income, results, assets and liabilities 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. Capital expenditure represents expenditures during the period to acquire segment assets that are expected to be used for a period exceeding one year, such as own-use property and equipment and software.

Business segments

The business segments of the Group are:

Consumer & Commercial Clients (C&CC)

Consumer & Commercial Clients serves consumer clients and small to medium-sized enterprises. It has an especially strong position in the mass affluent consumer and mid-sized commercial segments and operates principally in the Netherlands, North America and Brazil where we have leading local franchises.

Consumer & Commercial Clients further includes our consumer and commercial banking activities in New Growth Markets and Bouwfonds, our property development and financing subsidiary. New Growth Markets include, among others, our consumer banking activities in India, the United Arab Emirates, Taiwan and Hong Kong.

Wholesale Clients (WCS)

Wholesale Clients is a corporate and investment bank operating worldwide. Wholesale Clients offers clients a wide-ranging product and services platform, including advisory, capital markets, financing and transaction banking in over 50 countries. Wholesale Clients is able to offer our clients local advisors with access to global market-leading expertise. Wholesale Clients' global capital markets operations are principally based in Amsterdam, Chicago, Hong Kong, London, New York, Singapore and Sydney.

Private Clients (PC)

Private Clients offers private banking services to wealthy individuals and families with investable assets of EUR 1 million or more. Private Clients uses an open architecture model, where clients are offered the best available products regardless of provider, an approach geared to delivering the highest possible returns to each of our clients. Private Clients is among the top ten private banks worldwide and is the fifth largest private bank in Europe in terms of assets under management.

Asset Management (AM)

Our asset management business operates in more than 20 countries across Europe, the Americas, Asia and Australia. Global portfolio management centres are located in six cities: Amsterdam, Atlanta, Chicago, Hong Kong, London and Singapore. Asset Management offers investment products in all major regions and asset classes, using an active investment style. Its investment philosophy is characterised by an internationally coordinated investment process and well-monitored risk management.

Asset Management's products for institutional clients such as central banks, pension funds, insurance companies and leading charities are distributed directly. Funds for private investors are distributed through our consumer and private banking arms, as well as via third party distributors. Asset Management's institutional client business represents slightly more than half of the assets managed.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

1 Segment reporting (Continued)

Retail and third party clients account for a further 30%, and the remainder of the assets managed are in discretionary portfolios managed for Private Clients.

Private Equity (PE)

Private Equity primarily invests in unlisted companies, both on ABN AMRO's own account and for third-party investors. During 2005, Private Equity's investment portfolio in European and Australian mid-sized buy-outs rose by around 25%, while its investments under management in early-stage Dutch companies decreased. Both changes reflected the current refocusing of strategic objectives.

The business model of Private Equity involves buying equity stakes in companies over which it can establish influence or control, and then managing these shareholdings for a number of years with a view to selling them at a profit.

Group Functions/Group Shared Services (GF/GSS)

Group Functions and Group Shared Services perform services for the Group that have been centralised and/or are shared across the Group. Group Functions includes Group Asset and Liability Management, which manages an investment and derivatives portfolio in order to manage the liquidity and interest rate risk of the Group. Group Functions also holds the Group's strategic investments and records any related profits or losses. Inter-segment eliminations are also included in this segment.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

1 Segment reporting (Continued)

Business segment information 2005

	C&CC	WCS	PC	AM	PE	GF/GSS	Total Group
Net interest income – external . .	8,636	669	(739)	(11)	(96)	602	9,061
Net interest income – other segments	(542)	320	1,219	17	(107)	(907)	—
Net commission income – external	1,813	1,765	565	590	9	4	4,746
Net commission income – other segments	53	(47)	29	6	(9)	(32)	—
Net trading income	225	2,363	42	14	9	(32)	2,621
Result from financial transactions	50	142	8	55	420	607	1,282
Result in equity accounted investments	145	2	1	18	—	114	280
Other operating income	1,340	101	100	23	1	23	1,588
Net sales revenue private equity holdings	—	128	—	—	3,509	—	3,637
Total operating income	11,720	5,443	1,225	712	3,736	379	23,215
Total operating expenses	7,391	4,803	891	501	3,392	(95)	16,883
Loan impairment and credit risk provisions	754	(241)	6	—	34	95	648
Total expenses	8,145	4,562	897	501	3,426	—	17,531
Operating profit before taxes	3,575	881	328	211	310	379	5,684
Income tax expense	1,023	176	73	40	(21)	(50)	1,241
Profit from continuing operations	2,552	705	255	171	331	429	4,443
Discontinued operations	—	—	—	—	—	—	—
Profit for the year	2,552	705	255	171	331	429	4,443
Other information at 31 December 2005							
Total assets	260,041	525,203	16,973	1,199	7,293	70,095	880,804
Total liabilities	222,567	529,876	50,261	1,136	4,530	48,282	856,652
Capital expenditure	594	331	26	41	190	84	1,266

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

1 Segment reporting (Continued)

	NL	NA	Brazil	NGM	Bouw- fonds	Total C&CC
Net interest income – external . . .	2,638	2,553	2,146	389	910	8,636
Net interest income – other segments	147	(284)	18	(26)	(397)	(542)
Net commission income – external	626	635	350	192	10	1,813
Net commission income – other segments	42	8	2	1	—	53
Net trading income	54	94	52	25	—	225
Result from financial transactions .	—	43	—	6	1	50
Results in equity accounted investments	14	4	37	73	17	145
Other operating income	163	430	370	47	330	1,340
Net sales private equity holdings .	—	—	—	—	—	—
Total operating income	3,684	3,483	2,975	707	871	11,720
Total operating expenses	2,675	2,236	1,730	369	381	7,391
Loan impairment and credit risk provisions	277	21	363	67	26	754
Total expenses	2,952	2,257	2,093	436	407	8,145
Operating profit before taxes . . .	732	1,226	882	271	464	3,575
Income tax expense	223	355	238	58	149	1,023
Profit from continuing operations	509	871	644	213	315	2,552
Discontinued operations	—	—	—	—	—	—
Profit for the year	509	871	644	213	315	2,552
Other information at 31 December 2005						
Total assets	95,272	90,021	23,663	7,753	43,332	260,041
Total liabilities	98,009	77,126	16,984	5,651	24,797	222,567
Capital expenditure	262	154	143	25	10	594

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

1 Segment reporting (Continued)

Business segment information 2004

	C&CC	WCS	PC	AM	PE	GF/GSS	Total Group
Net interest income – external	7,900	841	(472)	(13)	(82)	622	8,796
Net interest income – other segments . . .	(1,005)	758	888	17	(33)	(625)	—
Net commission income – external .	1,697	1,806	521	531	8	2	4,565
Net commission income – other segments	52	(78)	23	4	—	(1)	—
Net trading income . .	150	1,138	45	9	3	(36)	1,309
Result from financial transactions	(249)	41	1	10	633	472	908
Result in equity accounted investments	87	83	14	2	—	20	206
Other operating income	1,047	113	59	34	(24)	6	1,235
Net sales revenue private equity holdings	—	—	—	—	2,616	—	2,616
Total operating income	9,679	4,702	1,079	594	3,121	460	19,635
Total operating expenses	6,809	4,783	844	443	2,614	263	15,756
Loan impairment and credit risk provisions	585	(8)	—	—	16	23	616
Total expenses	7,394	4,775	844	443	2,630	286	16,372
Operating profit before taxes	2,285	(73)	235	151	491	174	3,263
Income tax expense .	677	(72)	66	46	28	25	770
Profit from continuing operations	1,608	(1)	169	105	463	149	2,493
Discontinued operations	239	1	—	—	—	1,207	1,447
Profit for the year	1,847	—	169	105	463	1,356	3,940
Other information at 31 December 2004							
Total assets	217,524	428,214	15,355	954	4,770	60,637	727,454
Total liabilities	194,531	431,966	45,307	1,113	2,843	35,142	710,902
Capital expenditure . .	710	290	48	6	83	15	1,152

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

1 Segment reporting (Continued)

	NL	NA	Brazil	NGM	Bouw- fonds	Total C&CC
Net interest income – external .	2,482	2,820	1,601	237	760	7,900
Net interest income – other segments	26	(593)	(94)	—	(344)	(1,005)
Net commission income – external	592	602	313	172	18	1,697
Net commission income – other segments	39	8	4	1	—	52
Net trading income	36	100	(1)	15	—	150
Result from financial transactions	1	(261)	2	6	3	(249)
Results in equity accounted investments	32	1	10	44	—	87
Other operating income	81	498	149	84	235	1,047
Net sales private equity holdings	—	—	—	—	—	—
Total operating income	3,289	3,175	1,984	559	672	9,679
Total operating expenses	2,790	2,086	1,297	346	290	6,809
Loan impairment and credit risk provisions	173	143	219	41	9	585
Total expenses	2,963	2,229	1,516	387	299	7,394
Operating profit before taxes	326	946	468	172	373	2,285
Income tax expense	96	274	167	33	107	677
Profit from continuing operations	230	672	301	139	266	1,608
Discontinued operations	—	—	—	239	—	239
Profit for the year	230	672	301	378	266	1,847

Other information at 31 December 2004

Total assets	86,602	73,340	13,987	5,344	38,251	217,524
Total liabilities	86,825	64,075	11,942	3,584	28,105	194,531
Capital expenditure	340	238	109	12	11	710

Geographical segments

The Group operates principally in the Netherlands, Europe, and North and Latin America. The geographical analysis presented below is based on the location of the Group entity in which the transactions are recorded.

	Operating income	2005 Total assets	Capital expenditure	Operating income	2004 Total assets	Capital expenditure
Netherlands	9,760	285,073	577	8,903	267,222	473
Europe	4,672	332,922	153	2,324	254,562	122
North America	4,287	167,128	314	4,905	133,592	391
Latin America	3,271	28,420	145	2,305	18,274	113
Asia Pacific	1,225	67,261	77	1,198	53,804	53
Total	23,215	880,804	1,266	19,635	727,454	1,152

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

2 Net interest income

	2005	2004
Interest income from:		
Cash and balances at central banks	348	218
Financial assets held for trading	1,559	1,389
Financial investments	5,198	4,190
Loans and receivables—banks	2,666	2,083
Loans and receivables—customers	20,757	17,454
Subtotal	<u>30,528</u>	<u>25,334</u>
Interest expense from:		
Financial liabilities held for trading	1,054	976
Due to banks	5,455	4,298
Due to customers	9,749	7,374
Issued debt securities	4,212	2,797
Subordinated liabilities	997	1,093
Subtotal	<u>21,467</u>	<u>16,538</u>
Total	<u><u>9,061</u></u>	<u><u>8,796</u></u>

3 Net fee and commission income

	2005	2004
Fee and commission income		
Securities brokerage fees	1,560	1,548
Payment and transaction services fees	1,576	1,449
Asset management and trust fees	1,153	1,041
Fees generated on financing arrangements	180	158
Advisory fees	336	311
Insurance related commissions	177	162
Guarantee fees	218	160
Other fees and commissions	427	436
Subtotal	<u>5,627</u>	<u>5,265</u>
Fee and commission expense		
Securities brokerage expense	321	281
Payment and transaction services expense	165	125
Asset management and trust expense	127	126
Other fee and commission expense	268	168
Subtotal	<u>881</u>	<u>700</u>
Total	<u><u>4,746</u></u>	<u><u>4,565</u></u>

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

4 Net trading income

	2005	2004
Securities	978	179
Foreign exchange transactions	662	687
Derivatives	933	380
Other	48	63
Total	2,621	1,309

Interest income and expense on trading positions are included in interest income and expense.

5 Results from financial transactions

	2005	2004
Net gain from the disposal of available-for-sale debt securities	431	179
Net gain from the sale of available-for-sale equity investments	55	154
Dividend on available-for-sale equity investments	54	48
Net gain on other equity investments	514	694
Hedging ineffectiveness	39	(112)
Other	189	(55)
Total	1,282	908

The net gain on other equity investments includes gains and losses arising on investments held at fair value and the result on the sale of consolidated holdings of a private equity nature.

6 Other operating income

	2005	2004
Mortgage banking activities (North America)	208	234
Property development	330	235
Insurance activities	198	226
Leasing activities	60	63
Result on the disposal of operating activities and equity accounted investments	347	187
Other	445	290
Total	1,588	1,235

Mortgage banking activity income can be analysed as follows:

	2005	2004
Net origination and sale income	30	83
Loan servicing income and related fees	485	484
Amortisation of mortgage servicing rights (net of derivative income)	(214)	(243)
Net servicing hedge gains/(losses)	(93)	(90)
Total	208	234

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

6 Other operating income (Continued)

The predominant business practice of our North America mortgage banking business is the origination and subsequent sale of fixed-rate consumer mortgage loans to US government-sponsored entities. In most cases a servicing role is retained.

Insurance income can be analysed as follows:

	2005	2004
Premium income	1,238	1,303
Investment income	406	300
Provision for insured risk	(1,446)	(1,377)
Total	198	226

7 Personnel expenses

	Note	2005	2004
Salaries (including bonuses and allowances)		5,915	5,602
Social security expenses		740	620
Pension and post-retirement healthcare costs		11	390
Share-based payment expenses		61	4
Temporary staff costs		247	222
Termination payments		175	191
Restructuring related costs	10	42	502
Other employee costs		340	287
Total		7,531	7,818
Average number of employees (fte):			
Banking activities Netherlands		27,995	28,671
Banking activities foreign countries		69,528	69,469
Consolidated private equity holdings	40	22,201	17,938
Total		119,724	116,078

Included in pension and post-retirement healthcare costs in 2005 is a release of the healthcare provision.

8 General and administrative expenses

	Note	2005	2004
Professional fees		1,111	809
Information technology expenses		930	829
Property costs		766	731
Staff related expenses (including training)		184	153
Travel and transport		312	268
Stationary and printing expense		121	117
Communication and information		477	470
Commercial expenses		571	424
Expenses of consolidated private equity holdings		352	284
Restructuring related costs	10	(9)	179
Sundry expenses		997	774
Total		5,812	5,038

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

9 Depreciation and amortisation

	Note	2005	2004
Property depreciation		148	156
Equipment depreciation		543	519
Software amortisation		279	280
Impairment losses on goodwill of private equity investments . .		19	124
Impairment losses on property and equipment		9	38
Impairment of property and equipment from restructuring	10	4	109
Other		19	9
Total		1,021	1,235

This item includes EUR 133 million (2004: EUR 151 million) of depreciation, amortisation and impairments charged by consolidated private equity holdings (see note 40).

10 Restructuring costs

The following table summarises the Group's restructuring costs as included in the relevant cost categories.

	2005	2004
Personnel related costs	42	502
Other administrative expenses	(9)	179
Impairment of property and equipment	4	109
Total	37	790

The 2005 charge mainly relates to operations in France. The charge of 2004 relates to Wholesale Clients initiatives and Group Shared Services initiatives for Information Technology and Human Resources.

11 Income tax expense

Recognised in the income statement

	2005	2004
Current tax expense		
Current year	1,106	1,186
Under/(over) provided in prior years	(87)	(30)
Subtotal	1,019	1,156
Deferred tax expense		
Origination and reversal of timing differences	257	(373)
Reduction in tax rate	(35)	(13)
Subtotal	222	(386)
Total	1,241	770

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

11 Income tax expense (Continued)

The effective tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Netherlands. The difference can be explained as follows:

	2005	2004
	<i>(in percentages points)</i>	
Dutch tax rate	31.5	34.5
Effect of tax rate in foreign countries	(5.0)	(4.2)
Effect of previously unrecognised tax losses utilised	(0.8)	(0.0)
Effect of tax-exempt income in the Netherlands	(1.2)	(3.7)
Other	(2.7)	(3.0)
Effective tax rate on operating profit	21.8	23.6

Recognised directly in equity

	2005	2004
	<i>(benefits)/charges</i>	
Relating to currency translation	(198)	51
Relating to cash flow hedges	(235)	(54)
Relating to available-for-sale assets	169	118
Total	(264)	115

12 Earnings per share

The calculations for basic and diluted earnings per share are presented in the following table.

	2005	2004
Profit for the year attributable to shareholders of the parent company . . .	4,382	3,865
Profit from continuing operations attributable to shareholders of the parent company	4,382	2,418
Profit from discontinued operations attributable to shareholders of the parent company	—	1,447
Weighted average number of ordinary shares outstanding (in millions) . . .	1,804.1	1,657.6
Dilutive effect of staff options (in millions)	5.2	3.1
Performance share plan (in millions)	2.9	1.0
Diluted number of ordinary shares (in millions)	1,812.2	1,661.7
Basic earnings per ordinary share (in euros)	2.43	2.33
Fully diluted earnings per ordinary share (in euros)	2.42	2.33
Basic earnings per ordinary share from continuing operations (in euros) .	2.43	1.46
Fully diluted earnings per ordinary share from continuing operations (in euros)	2.42	1.46
Basic earnings per ordinary share from discontinued operations (in euros)	—	0.87
Fully diluted earnings per ordinary share from discontinued operations (in euros)	—	0.87

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

13 Cash and balances at central banks

This item includes cash on hand and deposits with central banks in countries in which the bank has a presence.

	2005	2004
Cash on hand	1,590	1,204
Balances at central bank	15,067	16,692
Total	16,657	17,896

14 Financial assets and liabilities held for trading

	2005	2004
Financial assets held for trading		
Interest-earning securities:		
● Dutch government	2,520	552
● US treasury and US government agencies	7,843	5,759
● Other OECD governments	37,855	28,409
● Other interest-earning securities	13,789	17,114
Subtotal	62,007	51,834
Equity instruments	34,676	18,409
Derivative financial instruments	105,372	96,792
Total	202,055	167,035
Financial liabilities held for trading		
Short positions in financial assets	52,060	39,059
Derivative financial instruments	96,528	90,447
Total	148,588	129,506

Gains and losses on derivative financial instruments and changes in fair value of other trading instruments are recognised in net trading income. Interest income and expense from debt and other fixed-income instruments are recognised in net interest income.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

14 Financial assets and liabilities held for trading (Continued)

Trading portfolio derivative financial instruments

		2005			2004		
		Notional amounts	Fair values		Notional amounts	Fair values	
			Assets	Liabilities		Assets	Liabilities
Interest rate derivatives							
OTC	Swaps	4,846,112	70,644	64,527	3,048,969	56,491	52,373
	Forwards	220,612	80	73	204,118	110	89
	Options (purchased)	243,296	6,072	—	337,359	2,262	—
	Options (sold)	266,718	—	6,321	202,738	—	2,224
Exchange	Futures	209,197	1	2	227,114	20	—
	Options (purchased)	292	3	—	23,884	160	—
	Options (sold)	293	—	1	17,278	—	190
	Subtotal	5,786,520	76,800	70,924	4,061,460	59,043	54,876
Currency derivatives							
OTC	Swaps	518,012	12,356	10,431	428,564	21,933	20,659
	Forwards	507,385	5,004	5,661	438,635	10,702	10,144
	Options (purchased)	63,835	1,524	—	60,016	1,666	—
	Options (sold)	66,174	—	1,313	58,701	—	1,268
Exchange	Futures	2,855	5	8	4,765	4	15
	Options	7,243	71	70	3,554	113	86
	Subtotal	1,165,504	18,960	17,483	994,235	34,418	32,172
Other							
OTC	Equity, commodity and other	511,791	4,747	4,589	124,090	1,458	1,564
	Equity options (purchased)	24,116	3,507	—	10,655	891	—
	Equity options (sold)	26,987	—	2,472	9,665	—	817
Exchange	Equity, commodity and other	12,389	288	23	6,455	76	81
	Equity options (purchased)	14,848	1,070	—	10,833	906	—
	Equity options (sold)	15,794	—	1,037	11,077	—	937
	Subtotal	605,925	9,612	8,121	172,775	3,331	3,399
	Total	7,557,949	105,372	96,528	5,228,470	96,792	90,447

For an analysis of the market and liquidity risks involved, please refer to note 38.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

15 Financial investments

	2005	2004
Interest-earning securities: available-for-sale		
Dutch government	2,781	2,172
US treasury and US government	6,618	8,070
Other OECD governments	51,760	47,238
Mortgage-backed securities	12,100	14,758
Other interest-earning securities	39,918	19,930
Subtotal	113,177	92,168
Interest-earning securities: held-to-maturity		
Dutch government	2,136	2,176
US treasury and US government	22	45
Other OECD governments	3,660	4,421
Mortgage-backed securities	36	26
Other interest-earning securities	718	1,002
Subtotal	6,572	7,670
Total	119,749	99,838
Equity investments		
Available-for-sale	2,337	1,610
Designated at fair value through income	1,688	1,500
Subtotal	4,025	3,110
Total	123,774	102,948

Other interest-earning securities include investments in covered bonds. Interest income from debt and other fixed-income instruments is recognised using the effective interest method in interest income. Dividend income from other non-fixed-income instruments is recognised in results from financial transactions.

16 Loans and receivables – banks

This item is comprised of amounts due from or deposited with banking institutions.

	Note	2005	2004
Current accounts		5,479	3,958
Time deposits placed		11,613	11,672
Professional securities transactions	31	87,281	64,375
Loans to banks		4,279	3,856
Subtotal		108,652	83,861
Allowances for impairment	18	(17)	(3)
Total		108,635	83,858

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

17 Loans and receivables – customers

This item is comprised of amounts receivable, mainly regarding loans and mortgages balances with non-bank customers.

	Note	2005	2004
Public sector		7,461	6,059
Commercial		152,411	127,044
Consumer		122,708	107,124
Professional securities transactions	31	74,724	59,269
Multi-seller conduits		25,931	23,700
Subtotal		383,235	323,196
Allowances for impairment	18	(2,987)	(3,174)
Total		380,248	320,022

The amount receivable held by multi-seller conduits is typically collateralised by a pool of customer receivables in excess of the amount advanced, such that credit risk is very low (see note 38).

The risk management disclosures section on credit risk (see note 38) contains information about the concentration of credit risk by business sector and geographical location, as well as a breakdown of the amounts by type of collateral.

18 Loan impairment charges and allowances

	2005	2004
Balance at 1 January	3,177	4,307
Loan impairment charges:		
New impairment allowances	1,428	1,259
Reversal of impairment allowances no longer required	(550)	(464)
Recoveries of amounts previously written off	(236)	(170)
Other credit related charges	6	(9)
Total loan impairment and other credit risk provisions	648	616
Amount recorded in interest income from unwinding of discounting	(32)	(40)
Currency translation differences	208	(83)
Amounts written off	(1,070)	(1,236)
Disposals of businesses	—	(465)
Reserve for unearned interest accrued on impaired loans	73	78
Balance at 31 December	3,004	3,177

All loans are assessed for potential impairment either individually and/or on a portfolio basis. The allowance for impairment is apportioned as follows:

	2005	2004
Commercial loans	2,146	2,598
Consumer loans	841	576
Loans to banks	17	3
Total	3,004	3,177

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

18 Loan impairment charges and allowances (Continued)

Loan provisioning – commercial loans

The Group reviews the status of credit facilities issued to commercial clients at least once during the year. Additionally, credit officers continually monitor the quality of the credit, the client and the adherence to contractual conditions. Should the quality of a loan or the borrower's financial position deteriorate to the extent that doubts arise over the borrower's ability to meet their contractual obligations, management of the relationship is transferred to the Financial Restructuring and Recovery function. After making an assessment, Financial Restructuring and Recovery determines the amount, if any, of the specific allowance that should be made, after taking into account the value of collateral. We partly or fully release specific allowance when the debt is repaid or expected future cash flows improve due to positive changes in economic or financial circumstances. Commercial loans are not written off in whole or in part until it is clear that a further partial recovery can be ruled out.

Loan provisioning – consumer loan products

The bank offers a wide range of consumer loan products and programmes such as personal loans, home mortgages, credit cards and home improvement loans. Provisioning for these products is carried out on a portfolio basis, with a specific provision for each product being determined by the portfolio's size and loss experience.

Our consumer loan portfolio policy states that, in general, when interest or principal on a consumer loan is 90 days or more past due, such loans are classified as non-performing.

Provisions for a given portfolio may be released where there is improvement in the quality of the portfolio. For consumer loans, our write-off rules are time-based and vary by type of product. For example, unsecured facilities, such as credit cards and personal loans, are generally written off at 180 days past due and cash-backed and debt and/or equity-backed facilities are generally written off at 90 days past due.

Allowance for incurred but not identified losses

In addition to impairment allowances calculated on a specific or portfolio basis, the Group also maintains an allowance to cover undetected impairments expected to exist within loans due to changes in economic conditions and delays in obtaining information that indicate that losses exist at the balance sheet date.

19 Equity accounted investments

	2005	2004
Banking institutions	2,885	1,257
Other activities	108	171
Total	2,993	1,428
Balance at 1 January	1,428	1,443
Movements:		
• Purchases	1,554	6
• Sales/reclassifications	(265)	(108)
• Share in results of equity accounted investments	280	206
• Dividends received from equity accounted investments	(63)	(59)
• Currency translation differences	31	(13)
• Other	28	(47)
Balance at 31 December	2,993	1,428

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

19 Equity accounted investments (Continued)

Purchases in 2005 include our increased stake in Banca Antonveneta (see note 44). During 2005 our investment in Kereskedelmi és Hitelbank Rt. has been reclassified to available-for-sale assets upon the loss of significant influence.

Included in the Group's cash flow hedging and available-for-sale reserve is EUR 95 million of unrealised gains relating to equity accounted investments.

Investments with a book value of EUR 2,345 million (2004: EUR 738 million) that are traded on a recognised stock exchange had a combined market value of EUR 3,399 million (2004: EUR 1,379 million).

Amounts receivable from and payable to equity accounted investments included in the various balance sheet items totalled:

	2005	2004
Loans and receivables – banks	1,151	6
Loans and receivables – customers	495	134
Due to banks	138	171
Due to customers	246	279

The principal equity accounted investments of the Group on an aggregated basis (not adjusted for the Group's proportionate interest) have the following balance sheet and income statements totals:

	2005	2004
Total assets	192,927	196,001
Total liabilities	180,577	185,449
Total operating income	8,887	8,751
Profit before tax	1,524	834

20 Property and equipment

The book value of property and equipment in 2005 and 2004 changed as follows:

	Property			
	Used in operations	Other	Equipment	Total
Balance at 1 January 2005	2,994	2,677	1,502	7,173
Movements:				
• Business combinations	308	24	508	840
• Divestment of businesses	(36)	(190)	(186)	(412)
• Additions	381	1,196	460	2,037
• Disposals	(295)	(724)	(45)	(1,064)
• Impairment losses	(13)	(43)	(1)	(57)
• Depreciation	(148)	—	(543)	(691)
• Currency translation differences	149	39	96	284
Balance at 31 December 2005	3,340	2,979	1,791	8,110
Representing:				
Cost	4,802	3,091	3,801	11,694
Cumulative impairment	(48)	(103)	(2)	(153)
Cumulative depreciation	(1,414)	(9)	(2,008)	(3,431)

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

20 Property and equipment (Continued)

	Property			
	Used in operations	Other	Equipment	Total
Cost	4,291	2,695	11,378	18,364
Cumulative impairments	(25)	(46)	—	(71)
Cumulative depreciation	(1,191)	(6)	(1,520)	(2,717)
Balance at 1 January 2004	3,075	2,643	9,858	15,576
Movements:				
• Business combinations	184	112	128	424
• Divestment of businesses	(187)	(380)	(8,268)	(8,835)
• Additions	282	1,156	535	1,973
• Disposals	(98)	(827)	(206)	(1,131)
• Impairment losses	(38)	(25)	—	(63)
• Depreciation	(154)	(2)	(519)	(675)
• Currency translation differences	(70)	—	(26)	(96)
Balance at 31 December 2004	2,994	2,677	1,502	7,173
Representing:				
Cost	4,417	2,748	3,230	10,395
Cumulative impairment	(35)	(63)	—	(98)
Cumulative depreciation	(1,388)	(8)	(1,728)	(3,124)

The Group leases equipment under a number of finance lease agreements. At 31 December 2005 the net carrying amount of leased equipment included in property and equipment was EUR 23 million (2004: EUR 22 million).

The Group also leases out various assets under operating leases. Non-cancellable operating lease rentals are as follows:

	2005	2004
Less than one year	27	18
Between one and five years	100	137
More than five years	30	40
	157	195

During the year ended 31 December 2005, EUR 60 million (2004: EUR 64 million) was recognised as rental income in the income statement and EUR 51 million (2004: EUR 50 million) in respect of directly related expenses.

Development property

Included in other property is development property relating to Bouwfonds consisting of land and construction in progress for a total amount of EUR 2,113 million (2004: EUR 1,879 million).

Investment property

Other property includes investment property within Bouwfonds for an amount of EUR 463 million (2004: EUR 336 million). The gross rental income on investment property equals EUR 33 million (2004: EUR 23 million) and the direct operating expenses are EUR 4 million (2004: EUR 2 million).

Impairment losses in other property mainly relates to development property of Bouwfonds.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

21 Goodwill and other intangible assets

	2005	2004
Private equity goodwill	2,128	877
Other goodwill	198	67
Software	758	602
Other intangibles	99	93
Subtotal	3,183	1,639
Mortgage servicing rights	1,985	1,504
Total	5,168	3,143

The book value of goodwill and other intangibles, excluding mortgage servicing rights, changed as follows:

	Private equity goodwill	Other goodwill	Software	Other intangibles	Total
Balance at 1 January 2005	877	67	602	93	1,639
Movements:					
• Business combinations	1,281	35	5	51	1,372
• Divestments of businesses	(91)	(2)	(14)	(70)	(177)
• Other additions	80	97	425	42	644
• Disposals	—	—	(9)	—	(9)
• Impairments	(19)	—	(1)	—	(20)
• Amortisation	—	—	(279)	(18)	(297)
• Currency translation differences	—	1	29	1	31
Balance at 31 December 2005	2,128	198	758	99	3,183
Representing:					
Cost	2,271	200	1,572	120	4,163
Cumulative impairment	(143)	(2)	(15)	—	(160)
Cumulative amortisation	—	—	(799)	(21)	(820)

	Private equity goodwill	Other goodwill	Software	Other intangibles	Total
Balance at 1 January 2004	757	—	625	95	1,477
Movements:					
• Business combinations	394	67	16	19	496
• Divestments of businesses	(150)	—	(32)	(21)	(203)
• Other additions	—	—	335	4	339
• Disposals	—	—	(50)	—	(50)
• Impairment losses	(124)	—	(17)	—	(141)
• Amortisation	—	—	(282)	(4)	(286)
• Currency translation differences	—	—	7	—	7
Balance at 31 December 2004	877	67	602	93	1,639
Representing:					
Cost	1,001	69	1,409	96	2,575
Cumulative impairment	(124)	(2)	(17)	—	(143)
Cumulative amortisation	—	—	(790)	(3)	(793)

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

21 Goodwill and other intangible assets (Continued)

The net book amount of mortgage servicing rights changed as follows:

	2005	2004
Balance at 1 January	1,504	1,434
Additions	611	558
Amortisation	(291)	(413)
Hedge accounting adjustment	(86)	55
Currency translation differences	247	(130)
Balance at 31 December	1,985	1,504

At the end of December 2005 and 2004 the book value of MSRs was lower than fair value, so no impairment adjustments are required. The fair value of MSRs at 31 December 2005 amounted to EUR 2,258 million (2004: EUR 1,724 million). The valuation of MSRs, because of the inherent uncertainties involved, requires judgement. Economic factors considered in estimating the fair value of MSRs include interest rates, discount rates, prepayment speeds, geographic characteristics, servicing costs and ancillary income. Mortgage loan prepayment rates are revised monthly, and are derived from a third-party model. In addition, management uses valuations by various third-party brokers to compare its valuation assessments with market data.

22 Other assets

	Note	2005	2004
Deferred tax assets	29	2,682	2,956
Current tax assets		337	579
Derivatives assets used for hedging	36	3,213	2,292
Mortgages originated for-sale		4,311	3,124
Unit-linked investments held for policyholder accounts		3,624	2,964
Pension assets	27	119	74
Other assets of consolidated private equity holdings, including inventories		1,531	1,156
Sundry assets and other receivables		9,733	5,066
Total		25,550	18,211

Mortgages originated-for-sale and unit-linked investments held for policyholders are designated at fair value with changes through income. Mortgages originated for-sale are originated by our mortgage banking business in North America.

Sundry assets include insurance related deposits and other short-term receivables. The 2005 amount also includes EUR 2,100 million relating to unsettled purchases of Banca Antonveneta shares.

23 Due to banks

This item is comprised of amounts due to banking institutions, including central banks and multilateral development banks.

	Note	2005	2004
Professional securities transactions	31	71,231	56,351
Current accounts		23,573	18,378
Time deposits		63,836	50,944
Advances from Federal Home Loan banks		7,239	6,215
Other		1,942	1,641
Total		167,821	133,529

This balance includes EUR 19,932 million (2004: EUR 16,986 million) with central banks.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

24 Due to customers

This item comprises amounts due to non-banking customers.

	Note	2005	2004
Consumer current accounts		21,502	19,817
Commercial current accounts		67,133	61,637
Consumer savings accounts		84,166	74,256
Commercial deposit accounts		87,099	73,466
Professional securities transactions	31	48,982	44,782
Other		8,201	7,421
Total		317,083	281,379

25 Issued debt securities

	2005		2004	
	Effective rate %		Effective rate %	
Bonds and notes issued	3.2	90,050	3.0	61,485
Certificates of deposit and commercial paper . .	2.9	51,873	2.1	32,326
Cash notes, savings certificates and bank certificates	4.2	2,657	3.3	3,721
Subtotal		144,580		97,532
Commercial paper issued by multi-seller conduits	3.4	26,039	3.0	23,700
Total		170,619		121,232

Bonds are issued in the capital markets with a focus on the euro market and are denominated mostly in euro and US dollars. The commercial paper programmes are issued globally with the majority issued in the United States and Europe. The other debt securities are instruments used in markets in which ABN AMRO is active and are usually denominated in local currencies. Of the total amount, EUR 60 billion (2004: EUR 30 billion) are variable interest bearing securities. EUR 16.5 billion (2004: EUR 7.6 billion) of issued debt of a fixed rate nature has been designated in fair value hedge relationships.

Currency

	2005	2004
EUR	77,660	76,577
USD	75,243	33,476
Other	17,716	11,179
Total	170,619	121,232

Included in the balance above are various structured liabilities that have been designated at fair value through income due to the inclusion of embedded derivative features. These liabilities had a fair value at 31 December 2005 of EUR 2,815 million (2004: EUR 2,337 million) and an amortised cost value of EUR 2,882 million (2004: EUR 2,331 million).

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

25 Issued debt securities (Continued)

Maturity analysis

	2005	2004
Within one year	102,368	66,239
After one and within two years	11,770	9,016
After two and within three years	7,175	9,053
After three and within four years	7,521	5,334
After four and within five years	8,082	7,405
After five years	33,703	24,185
Total	170,619	121,232

26 Provisions

	Note	2005	2004
Provision for pension commitments	27	942	1,218
Provision for contributions to post-retirement healthcare	27	101	524
Other staff provision		459	448
Insurance fund liabilities		3,169	3,111
Restructuring provision		501	752
Other provisions		1,239	880
Total		6,411	6,933

The other staff provisions refer in particular to occupational disability and other benefits, except early retirement benefits, payable to non-active employees. Provisions created for staff benefit schemes due to restructuring are accounted for as restructuring provision. Insurance fund liabilities include the actuarial reserves and the premium and claims reserves of the Group's insurance companies.

	Other staff provisions	Restructuring	Other provisions
Balance at 1 January 2005	448	752	880
Movements:			
• Additions from income statement	316	33	513
• Expenses charged to provisions	(320)	(298)	(289)
• Acquisitions/disposals	—	—	28
• Currency translation differences	15	14	107
Balance at 31 December 2005	459	501	1,239

	Other staff provisions	Restructuring	Other provisions
Balance at 1 January 2004	357	181	814
Movements:			
• Additions from income statement	332	681	265
• Expenses charged to provisions	(256)	(109)	(219)
• Acquisitions/disposals	(6)	—	(45)
• Currency translation differences	(9)	(1)	3
• Other	30	—	62
Balance at 31 December 2004	448	752	880

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

26 Provisions (Continued)

The change in 2004 relates to Wholesale Clients initiatives and Group Shared Services initiatives for Information Technology and Human Resources. The majority of savings are expected to materialise in 2007.

Insurance Fund Liabilities movement are as follows:

	2005	2004
Balance at 1 January	3,111	2,640
• Premium carried from income statement	294	603
• Claims paid	(14)	(255)
• Interest	34	33
• Acquisitions/disposals	(637)	—
• Changes in estimates and other movements	97	93
• Currency translation differences	284	(3)
Balance at 31 December	<u>3,169</u>	<u>3,111</u>

27 Pension and other post-retirement employee benefits

Pension costs and contributions for post-retirement healthcare borne by the Group are included in personnel expenses and are shown in the following table:

	Pension		Healthcare	
	2005	2004	2005	2004
Service cost	320	306	24	18
Interest cost	510	506	39	32
Expected return on plan assets	(585)	(566)	(5)	(3)
Net amortisation of net actuarial (gain)/loss . . .	1	—	9	—
Net amortisation of prior-service cost	1	—	—	—
(Gain)/loss on curtailment or settlements	(11)	19	(453)	(1)
Defined benefit plans	<u>236</u>	<u>265</u>	<u>(386)</u>	<u>46</u>
Defined contribution plans	<u>161</u>	<u>79</u>	<u>—</u>	<u>—</u>
Total costs	<u>397</u>	<u>344</u>	<u>(386)</u>	<u>46</u>

Liability for defined benefit obligations

The Group makes contributions to 58 defined benefit plans that provide pension benefits for employees upon retirement. The amounts recognised in the balance sheet are as follows:

	Pension		Healthcare	
	2005	2004	2005	2004
Present value of funded obligations	12,316	10,644	88	106
Present value of unfunded obligations	87	71	51	654
Less fair value of plan assets	<u>10,212</u>	<u>8,754</u>	<u>63</u>	<u>46</u>
Present value of net obligations	<u>2,191</u>	<u>1,961</u>	<u>76</u>	<u>714</u>
Unrecognised prior year service cost	(10)	—	—	—
Unrecognised actuarial (losses)/gains	(1,400)	(861)	25	(190)
Unrecognised assets	<u>42</u>	<u>44</u>	<u>—</u>	<u>—</u>
Net recognised liability for defined benefit obligations	<u>823</u>	<u>1,144</u>	<u>101</u>	<u>524</u>

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

27 Pension and other post-retirement employee benefits (Continued)

Included in the net recognised liability for pension is a pension asset of EUR 119 million (2004: EUR 74 million).

Movements in the net liability/asset recognised in the balance sheet are as follows:

	Pension		Healthcare	
	2005	2004	2005	2004
Net liability at 1 January	1,144	1,399	524	503
Acquisition/disposals	(1)	48	—	18
Contributions paid	(572)	(573)	(56)	(17)
Expense recognised in the income statement . .	236	265	(386)	46
Currency translation differences	16	5	19	(26)
Net liability at 31 December	823	1,144	101	524

Explanation of the asset and liability

The following tables summarise the changes in benefit obligations and plan assets of the main pension plans and other employee benefit plans.

Movements in projected benefit obligations:

	Pension		Healthcare	
	2005	2004	2005	2004
Balance at 1 January	10,715	9,307	760	561
• Service cost	320	306	24	18
• Interest cost	510	506	39	32
• Employee contributions/refunds	15	14	—	—
• Actuarial (gain)/loss	925	962	45	192
• Benefits paid	(312)	(300)	(50)	(17)
• Acquisitions/disposals	(1)	(85)	—	—
• Plan amendments	2	7	—	—
• Settlement/curtailment	(25)	(4)	(707)	—
• Currency translation differences	212	(14)	28	(26)
• Other	42	16	—	—
Balance at 31 December	12,403	10,715	139	760

Movements in fair value of plan assets:

	Pension		Healthcare	
	2005	2004	2005	2004
Balance at 1 January	8,754	7,988	46	44
• Actual return on plan assets	984	629	2	5
• Employee contributions/refunds	15	14	—	—
• Employer's contribution	572	573	9	17
• Benefits paid	(298)	(285)	(3)	(2)
• Acquisitions/disposals	—	(133)	—	(18)
• Currency translation differences	195	(19)	9	—
• Recognised settlement/curtailment	(10)	—	—	—
• Other	—	(13)	—	—
Balance at 31 December	10,212	8,754	63	46

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

27 Pension and other post-retirement employee benefits (Continued)

The weighted averages of the main actuarial assumptions used to determine the value of the provisions for pension obligations and contributions to health insurance as at 31 December were as follows:

	2005	2004
Pensions		
• Discount rate	4.3%	4.7%
• Expected increment in salaries	2.4%	2.6%
• Expected return on investments	6.2%	7.0%
Healthcare		
• Discount rate	7.8%	5.2%
• Average rise in the costs of healthcare	9.5%	6.8%

The expected return on investments regarding pension obligations is weighted on the basis of the fair value of these investments. The average rise in cost of healthcare is weighted on the basis of the healthcare cost of 2005. All other assumptions are weighted on the basis of the defined benefit plan obligations.

For the pension plans the target and actual allocation of the plan assets are as follows:

Allocation of plan assets

	Target allocation 2005	Actual allocation 2005	Actual allocation 2004
Plan asset category			
• Equity securities	49.1%	52.8%	47.7%
• Issued debt securities	50.7%	45.3%	50.2%
• Real estate	0.0%	0.1%	0.2%
• Other	0.2%	1.8%	1.9%
Total	100.0%	100.0%	100.0%

Plan assets for 2005 and 2004 do not include investments in ordinary shares, debt issued or property occupied by the Group.

Forecast of pension benefits payments

2006	318
2007	330
2008	340
2009	355
2010	363
Years after 2010	2,185

The Group's expected contribution to be paid to defined pension schemes in 2006 is EUR 598 million.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

28 Other liabilities

	Note	2005	2004
Deferred tax liabilities	29	2,471	2,457
Current tax liabilities		1,032	1,612
Derivatives liabilities used for hedging	36	4,712	3,311
Liability to unit-linked policyholders		3,624	2,964
Other liabilities of consolidated private equity holdings		768	575
Sundry liabilities and other payables		6,116	2,643
Total		18,723	13,562

29 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	2005	2004	2005	2004	2005	2004
Property and equipment	44	104	155	169	(111)	(65)
Intangible assets including goodwill	341	333	—	—	341	333
Derivatives	52	140	330	543	(278)	(403)
Investment securities	127	205	146	356	(19)	(151)
Employee benefits	471	311	12	2	459	309
Servicing rights	—	—	613	460	(613)	(460)
Allowances for loan losses	762	642	42	35	720	607
Leasing	—	—	469	399	(469)	(399)
Tax credits	77	89	—	—	77	89
Other	317	783	193	161	124	622
Tax value of carry-forward losses recognised	637	550	511	332	126	218
Subtotal	2,828	3,157	2,471	2,457	357	700
Valuation allowance	(146)	(201)	—	—	(146)	(201)
Total	2,682	2,956	2,471	2,457	211	499

Unrecognised deferred tax assets

Deferred tax assets that have not been recognised in respect of carry forward losses amount to EUR 252 million (2004: EUR 202 million). Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits from them.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

29 Deferred tax assets and liabilities (Continued)

Expiration of carry-forward losses

At 31 December 2005 carry-forward losses expire as follows:

2006	448
2007	435
2008	645
2009	101
2010	181
Years after 2010	1,158
Total	2,968

Tax exposure to distributable reserves

ABN AMRO considers approximately EUR 2.1 billion in distributable invested equity of foreign operations to be permanently invested. If retained earnings were to be distributed, no foreign income taxes would have to be paid. The estimated impact of foreign withholding tax is EUR 9 million (2004: EUR 223 million).

30 Subordinated liabilities

Issued liabilities qualify as subordinated debt if claims by the holders are subordinated to all other current and future liabilities of, respectively, ABN AMRO Holding N.V, ABN AMRO Bank N.V. and other Group companies. These liabilities qualify as capital, taking into account remaining maturities, for the purpose of determining the consolidated capital adequacy ratio for the Dutch central bank.

The maturity profile of subordinated liabilities is as follows:

	2005	2004
Within one year	1,156	1,086
After one and within two years	1,452	1,115
After two and within three years	704	1,364
After three and within four years	1,550	668
After four and within five years	1,395	1,546
After five years	12,815	10,908
Total	19,072	16,687

The average interest rate on subordinated liabilities was 5.4% (2004: 5.6%). Subordinated liabilities as at 31 December 2005 denominated in euros amounted to EUR 9,240 million (2004: EUR 8,866 million) and in US dollars an amount of EUR 9,745 million (2004: EUR 7,731 million). EUR 5,703 million (2004: EUR 2,952 million) is of a variable interest rate nature.

The following table analyses the subordinated liabilities by issuer:

Breakdown of debt raised by entity

	2005	2004
ABN AMRO Holding N.V. financing preference shares	768	768
ABN AMRO Bank N.V.	13,051	10,598
Other Group companies	5,253	5,321
Total	19,072	16,687

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

30 Subordinated liabilities (Continued)

Total subordinated liabilities include EUR 5,261 million (2004: EUR 4,657 million) which qualify as tier 1 capital for capital adequacy purposes.

31 Professional securities transactions

Professional security transactions include balances relating to reverse repurchase activities, cash collateral on securities borrowed and security settlement accounts. The Group minimises credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group when deemed necessary.

	2005		2004	
	Banks	Customers	Banks	Customers
Assets				
Cash advanced under securities borrowing . . .	662	29,811	2,348	28,990
Reverse repurchase agreements	83,260	29,548	59,045	24,663
Unsettled securities transactions	3,359	15,365	2,982	5,616
Total	<u>87,281</u>	<u>74,724</u>	<u>64,375</u>	<u>59,269</u>
Liabilities				
Cash received under securities lending	1,715	7,616	1,225	5,115
Repurchase agreements	65,891	26,982	51,833	30,681
Unsettled securities transactions	3,625	14,384	3,293	8,986
Total	<u>71,231</u>	<u>48,982</u>	<u>56,351</u>	<u>44,782</u>

Under reverse repurchase, securities borrowing, and other collateralised arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others.

	2005	2004
Securities received under reverse repurchase and/or securities borrowing arrangements which can be repledged or resold	66,676	63,618
Of the above amount, the amount that has either been repledged or otherwise transferred to others in connection with the Group's financing activities or to satisfy its commitments under short sale transactions . . .	27,329	42,169

32 Securitisations and assets pledged as security

Details of the carrying amounts of assets pledged as collateral are as follows:

	2005	2004
Cash and balances at central banks	10,737	7,367
Financial investments	12,074	15,945
Loans and receivables – customers	32,656	32,326
Total	<u>55,467</u>	<u>55,638</u>

These assets have been pledged in respect of the following liabilities and contingent liabilities:

	2005	2004
Due to banks	17,782	15,889
Due to customers	4,266	3,940
Issued debt securities	21,440	15,550
Total	<u>43,488</u>	<u>35,379</u>

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

32 Securitisations and assets pledged as security (Continued)

Securitisation

Sale transactions

Included in the above pledged assets is an amount of EUR 6,290 million (2004: EUR 7,786 million) sold to SPEs in which the Group has the majority of the risks and rewards. Thus the assets continue to be recognised on consolidation.

Synthetic transactions

In addition the Group has synthetic securitisations for an amount of EUR 59,255 million (2004: EUR 17,826 million). Through a synthetic securitisation the Group is able to buy protection without actual transference of any assets to a SPE. In general, the Group as the owner of the assets, buys protection to transfer the credit risk of a portfolio of assets to another entity that sells the protection. Although the credit risk of the portfolio is transferred, actual ownership of the portfolio of assets remains with the Group.

Credit default swaps

In addition to the transactions mentioned above, the Group also uses credit default swaps to reduce credit risk for parts of the loan portfolio by selling these risks directly to the capital markets. At 31 December 2005 the Group has bought credit protection for an amount of EUR 30,352 million (2004: EUR 13,661 million).

Derecognition

Though the Group has sold a part of its loan portfolio in North America, it still holds legal title to some of these loans. In most cases these loans are also serviced by the Group. The bank also services loans originated by other institutions. The following table states the total outstandings at 31 December 2005.

Transaction type

	2005	2004
Legal title to loans sold	136	954
Loans serviced for third parties	160,654	139,763

33 Commitments and contingent liabilities

Loan and banking commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans, overdraft facilities and credit card limits. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one to three months.

The Group 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 a period of up to five years. Expirations are not concentrated in any particular period. The Group also provides guarantees by acting as a settlement agent in securities borrowing and lending 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

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

33 Commitments and contingent liabilities (Continued)

accounting loss that would be recognised at the balance sheet date if the relevant contract parties completely failed to perform as contracted.

	2005	2004
Committed credit facilities	141,010	145,009
Contingent liabilities with respect to guarantees granted	41,536	42,399
Contingent liabilities with respect to irrevocable letters of credit	4,485	4,066

Many of the contingent liabilities and commitments will 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 stated above, non-quantified guarantees have been given for the bank's securities custody operations, for interbank bodies and institutions and for participating interests. Collective guarantee schemes are applicable to Group companies in various countries. Furthermore, statements of liability have been issued for a number of Group companies.

Capital expenditure and commitments

For 2006, capital expenditure is forecast at EUR 1.3 billion, of which the Group is already committed to an amount of EUR 243 million. These commitments are expected to be settled in the following financial year.

Leases as lessee

Operating lease rentals are payable as follows:

Less than one year	255
Between one and five years	614
More than five years	912
	<u>1,781</u>

During 2005, EUR 303 million (2004: EUR 339 million) of operating lease expense and EUR 48 million (2004: EUR 12 million) of sublease income was recognised in income.

Other contingencies

Legal proceedings have been initiated against the Group in a number of jurisdictions, but on the basis of information currently available, and having taken legal counsel, the Group is of the opinion that the outcome of these proceedings net of any related insurance claims is unlikely to have a material adverse effect on the consolidated financial position and the consolidated profit of the Group.

34 Asset management

The Group provides asset management services to individuals, trusts, retirement benefit plans and other institutions. These services involve holding and managing assets or investing received funds in various financial investments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated balance sheet. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2005 the total assets managed by the Group on behalf of customers were EUR 176.2 billion (2004: EUR 160.7 billion).

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

35 Cash flow statement

	2005	2004
Determination of cash and cash equivalents:		
Cash and balances at central banks	16,657	17,896
Loans and receivables – banks	5,455	3,954
Due to banks	(16,069)	(13,247)
Cash and cash equivalents	6,043	8,603

The following table analyses movements resulting from acquisitions and disposals:

	2005	2004
Amounts paid/received in cash and cash equivalents on acquisitions/ disposals of subsidiaries	366	(173)
Net movement in assets and liabilities:		
Financial assets held for trading	(131)	—
Financial investments	(112)	—
Loans and receivables – banks	(866)	—
Loans and receivables – customers	186	(4)
Property and equipment	396	108
Other assets	1,109	366
Total assets	582	470
Due to banks	1,514	281
Due to customers	(812)	108
Issued debt securities	—	21
Accruals and deferred income	57	56
Subordinated liabilities	45	56
Other liabilities	(192)	(96)
Total liabilities	612	426
Cash flows from operating activities include:		
Interest received	29,388	25,154
Interest paid	21,456	16,659
Dividends received	158	170
Income taxes paid	(1,056)	(511)

The cash flows from discontinued operations represents operating cash flows of EUR 207 million and investing cash flows of EUR 2,526.

36 Hedge accounting

The Group enters into various derivative instrument transactions to hedge risks on assets, liabilities, net investments and forecasted cash flows. The accounting treatment of the hedged item and the hedging derivative is dependent on whether the hedge relationship qualifies for hedge accounting. Qualifying hedges may be designated as either fair value or cash flow hedges. During 2005 and 2004 there were no transactions that failed the hedge accounting criteria due to ineffectiveness exceeding the relevant limits.

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.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

36 Hedge accounting (Continued)

Derivatives designated and accounted for as hedging instruments

Fair value hedges

The Group's fair value hedges 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, notably available-for-sale securities and MSRs, and liabilities due to changes in market interest rates.

For qualifying fair value hedges, 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.

Cash flow hedges of variable rate assets and liabilities

The Group is exposed to variability in future interest cash flows for assets and liabilities with variable interest rates or which are expected to be refunded or reinvested in the future. The amounts and timing of cash flows are projected for each portfolio of financial assets and liabilities, taking the contractual terms, estimated prepayments and potential defaults into consideration. For qualifying cash flow hedges, the effective portion of the change in the fair value of the hedge instrument is recorded in the cash flow hedge reserve and recognised in the income when the hedged item occurs. The ineffective portions of designated cash flow hedges are recorded in income immediately. If the hedge relationship is terminated, then the change in fair value of the derivative recorded in the hedge reserve is recognised when the cash flows that were hedged occur, consistent with the original hedge strategy. Gains and losses on derivatives reclassified from the cash flow hedge reserve to income are included in net interest income.

The Group's main cash flow hedge programmes are operated by Group Asset and Liability management and our business in North America.

Hedges of net investments in foreign operations

As explained in note 38, the Group limits its exposure to investments in foreign operations by hedging its net investment in its foreign operations with forward foreign exchange contracts in the currency of the foreign operations or a closely correlated currency to mitigate foreign exchange risk.

For qualifying net investment hedges, changes in the fair value of the derivative are recorded in the currency translation differences reserve within equity.

Hedges not qualifying for hedge accounting

Derivatives that are entered into for risk management purposes but are not designated for hedge accounting are fair valued through income. Due to difficulties in satisfying the IFRS hedging criteria, this includes a number of credit derivatives used to hedge credit risk.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

36 Hedge accounting (Continued)

Overview of the fair value of hedging derivatives

	2005		2004	
	Positive	Negative	Positive	Negative
Qualifying for hedge accounting				
Fair value hedges				
<i>Interest</i>				
Swaps	2,142	2,133	1,423	1,406
Options and futures	—	940	—	547
<i>Foreign currency</i>				
Swaps	464	289	95	330
Forwards	2	2	—	—
Cash flow hedges				
<i>Interest</i>				
Swaps	452	1,283	197	832
<i>Foreign currency</i>				
Swaps	63	—	2	—
Forwards	4	—	511	—
Subtotal hedge accounting	3,127	4,647	2,228	3,115
Not designated for hedge accounting	86	65	64	196
Total	3,213	4,712	2,292	3,311

Notional amounts

	2005	2004
Interest rate risk	224,871	117,286
Foreign currency risk	142,222	114,270
Credit risk	30,352	13,661

Cash flow hedges

Details of gains and losses during the year on cash flow hedges that have been recognised directly in equity or transferred from equity to income are set out in the statement of changes in equity.

The amount recognised in the cash flow hedging reserve at 31 December 2005, relates to cash flows expected to occur within three months to approximately ten years of the balance sheet date, with the main portion expected to occur within five years. Accordingly this amount, unless impacted by rate changes, will be recognised in income through fixed coupon payments of the derivative or by amortisation over a period of approximately five years.

37 Fair value information

Determination of fair values

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. Market prices or market rates are used to determine fair value where an active market exists (such as a recognised stock exchange), as it is the best evidence of the fair value of a financial instrument.

Market prices are not, however, available for all financial assets and liabilities held and issued by the Group. Where no active market price or rate is available, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet dates.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

37 Fair value information (Continued)

Valuation techniques are generally applied to OTC derivatives, unlisted trading portfolio assets and liabilities, and unlisted financial investments (including private equity investments). The most frequently applied pricing models and valuation techniques include forward pricing and swap models using present value calculations, option models such as the Black and Scholes model, and credit models such as default rate models or credit spread models.

The values derived from applying these techniques can be significantly affected by the choice of valuation model used and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility, and credit risk.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments carried at fair value:

- (a) assets and liabilities held for trading are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or other recognised valuation techniques
- (b) financial investments classified as available for sale (interest-earning securities and equities) are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment, are recorded in Shareholders' equity until an asset is sold, collected or otherwise disposed of
- (c) in general private equity investments fair values cannot be obtained directly from quoted market prices, or by using valuation techniques supported by observable market prices or rates. The fair value is estimated indirectly using valuation techniques or models for which the inputs are reasonable assumptions, based on market conditions. Valuation techniques applied are in accordance with EVCA (European Private Equity and Venture Capitalist Association) guidelines.

The following table presents the valuation methods used to determine fair values of financial instruments carried at fair value:

	Valuation techniques			Total
	Quoted market price	Market observable	Non-market observable	
Financial assets				
Financial assets held for trading	97,026	103,683	1,346	202,055
Available-for-sale interest earning securities . . .	113,177	—	—	113,177
Available-for-sale equities	1,016	391	930	2,337
Equities designated at fair value through income	445	—	1,243	1,688
Other assets – derivatives held for hedging . . .	—	3,213	—	3,213
Other assets – unit-linked investments	3,624	—	—	3,624
Other assets – mortgages originated-for-sale . .	—	4,311	—	4,311
Total assets at fair value	215,288	111,598	3,519	330,405
Financial liabilities				
Financial liabilities held for trading	52,410	95,570	608	148,588
Issued debt	—	2,815	—	2,815
Other liabilities – unit-linked liability	3,624	—	—	3,624
Other liabilities – derivatives held for hedging . .	—	4,712	—	4,712
Total liabilities at fair value	56,034	103,097	608	159,739

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

37 Fair value information (Continued)

Sensitivity of fair values

Included in the fair value of financial instruments carried at fair value on the balance sheet are those estimated in full or in part using valuation techniques based on assumptions that are not supported by observable market prices or rates. The models used in these situations undergo an internal validation process before they are certified for use. Any related model valuation uncertainty is quantified, and deducted from the fair values produced by the models. Management believes the resulting estimated fair values recorded in the balance sheet and the changes in fair values recorded in the income statement are reasonable, and are the most appropriate values at the balance sheet date.

The potential effect of using reasonably possible alternative assumptions as inputs to valuation models, relying on non market-observable inputs, has been estimated as a reduction of approximately EUR 150 million using less favourable assumptions, and an increase of approximately EUR 175 million using more favourable assumptions.

The total amount of the change in fair value estimated using a valuation technique that was recognised in the profit and loss account for the year 2005 amounts to EUR 1,354 million (2004: EUR 1,111 million).

Assets and Liabilities elected at fair value

The Group has elected to fair value non-controlling private equity investments, mortgages originated-for-sale and certain structured notes. The changes in fair value recognised in income on these assets and liabilities was a gain of EUR 401 million. Changes in the fair value of liabilities do not include any amount arising from changes in the Group's own credit risk.

Financial assets and liabilities not carried at fair value

The following methods and significant assumptions have been applied in determining the fair values of financial instrument carried at cost:

- (a) the carrying amount of assets maturing within 12 months is assumed to approximate their fair value
- (b) the fair value of demand deposits and savings accounts (included in due to customers) with no specific maturity is assumed to be the amount payable on demand at the balance sheet date
- (c) the fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the allowances for credit losses from both carrying amounts and fair values
- (d) 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. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amounts of the allowances for credit losses from both carrying amounts and fair values.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

37 Fair value information (Continued)

The following table compares the carrying amount of financial assets and liabilities measured at cost to estimated fair values:

	2005		Difference	2004		Difference
	Carrying amount	Fair value		Carrying amount	Fair value	
Financial assets						
Interest earning securities – held-to-maturity	6,572	6,717	145	7,670	7,905	235
Loans and receivables – banks	108,635	109,248	613	83,858	84,378	520
Loans and receivables – customers	380,248	383,547	3,299	320,022	325,590	5,568
Total	<u>495,455</u>	<u>499,512</u>	<u>4,057</u>	<u>411,550</u>	<u>417,873</u>	<u>6,323</u>
Financial liabilities						
Due to banks	167,821	168,469	(648)	133,529	133,940	(411)
Due to customers	317,083	317,714	(631)	281,379	282,266	(887)
Issued debt securities	170,619	173,086	(2,467)	121,232	122,583	(1,351)
Subordinated liabilities	19,072	19,551	(479)	16,687	17,333	(646)
Total	<u>674,595</u>	<u>678,820</u>	<u>(4,225)</u>	<u>552,827</u>	<u>556,122</u>	<u>(3,295)</u>

38 Financial risk management and use of derivatives

This section provides details of the Group's financial risk management objectives and policies and describes the methods used by management to control risk. In addition this note includes a discussion of the extent to which financial instruments are used, the associated risks and the business purpose served.

Financial risk management and control

Risks of financial instruments

The most important types of risk associated with financial instruments to which the Group is exposed are:

- credit risk
- market risk (including currency risk, interest rate risk, equity price risk and commodity risk of the trading book)
- interest rate risk (non-trading)
- currency risk (non-trading)
- liquidity risk.

Below is a discussion of the various risks the Group is exposed to as a result of its activities and the approach taken to manage those risks.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

38 Financial risk management and use of derivatives

Credit risk

Measurement and control

The Group is subject to credit risk through its lending, trading, hedging and investing activities as well as in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.

The Group's senior management is responsible for establishing the credit policies and the mechanisms, organisation and procedures required to analyse, manage and control credit risk. In this respect, counterparty limits are set and an internal system of credit ratings is applied.

The Group's primary exposure to credit risk arises through its loans, credit facilities and guarantees issued. The Group is also exposed to credit risk on various other financial assets, including financial investments (interest earning securities), loans and receivables from banks, financial assets held for trading (interest earning securities and derivatives) and derivatives used for hedging.

The risk that counterparties might default on their obligations is monitored on an ongoing basis. For each transaction the Group evaluates whether collateral or a master netting agreement is required to mitigate the credit risk.

Maximum credit exposure

In the table below we have detailed the maximum credit exposure:

	2005	2004
Derivative assets held for trading	105,372	96,792
Financial investments – interest-earning securities	119,749	99,838
Loans and receivables – banks	21,371	19,486
Loans and receivables – customers	282,580	240,227
Professional securities transactions	162,005	123,644
Multi-seller conduits	25,931	23,700
Committed credit facilities	141,010	145,009
Credit related contingent liabilities	46,021	46,465
Total	904,039	795,161

The credit risk exposure on derivative assets held for trading is measured as the current positive replacement value plus the potential future changes in replacement value, taking into account master netting agreements with individual counterparties where they are enforceable in insolvency. For interest-earning securities the amortised cost is included to reflect to credit risk exposure. The credit risk on professional security transactions is limited as a result of the nature of these transactions. The loans and receivables due from multi-seller conduits bear limited credit risk as these are fully collateralised.

Credit risk concentrations

Concentrations of credit risk (whether on- or off-balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be affected in a similar way by changes in economic or other conditions. As part of managing risk concentrations, country risk in emerging markets and sector risk are managed on a portfolio basis. Refer to the following tables for details of the credit risk concentrations on the customer portfolio.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

38 Financial risk management and use of derivatives (Continued)

Credit risk concentrations from loans and receivables – customers:

	2005		2004	
		% ⁽¹⁾		% ⁽¹⁾
Netherlands				
Public sector	2,300	31	1,055	17
Commercial	56,182	37	53,788	42
Consumer	94,603	77	88,585	83
Total	<u>153,085</u>		<u>143,428</u>	
Europe (excluding Netherlands)				
Public sector	1,454	19	1,826	30
Commercial	30,882	20	23,102	19
Consumer	1,539	1	1,365	1
Total	<u>33,875</u>		<u>26,293</u>	
North America				
Public sector	735	10	792	13
Commercial	44,693	29	35,460	28
Consumer	15,218	13	9,716	9
Total	<u>60,646</u>		<u>45,968</u>	
Latin America				
Public sector	596	8	82	1
Commercial	8,024	5	4,714	3
Consumer	7,270	6	4,246	4
Total	<u>15,890</u>		<u>9,042</u>	
Asia Pacific				
Public sector	2,376	32	2,304	39
Commercial	12,630	9	9,980	8
Consumer	4,078	3	3,212	3
Total	<u>19,084</u>		<u>15,496</u>	
Group				
Public sector	7,461		6,059	
Commercial	152,411		127,044	
Consumer	122,708		107,124	
Total	<u>282,580</u>		<u>240,227</u>	
Professional securities transactions	74,724		59,269	
Multi-seller conduits	25,931		23,700	
Total loans and receivables – customers	<u>383,235</u>		<u>323,196</u>	

(1) Calculated as a percentage of Group totals for public, commercial and consumer sectors respectively.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

38 Financial risk management and use of derivatives (Continued)

Credit risk concentrations from credit facilities and guarantees issued:

	2005		2004	
		% ⁽¹⁾		% ⁽¹⁾
Netherlands				
Credit related contingent liabilities	4,194	9	4,933	11
Committed credit facilities	17,881	13	37,373	26
Total	22,075		42,306	
Europe (excluding Netherlands)				
Credit related contingent liabilities	20,222	44	21,637	46
Committed credit facilities	28,400	20	25,877	18
Total	48,622		47,514	
North America				
Credit related contingent liabilities	15,830	34	15,049	32
Committed credit facilities	78,660	55	68,215	47
Total	94,490		83,264	
Latin America				
Credit related contingent liabilities	1,364	3	751	2
Committed credit facilities	5,214	4	3,197	2
Total	6,578		3,948	
Asia Pacific				
Credit related contingent liabilities	4,411	10	4,095	9
Committed credit facilities	10,855	8	10,347	7
Total	15,266		14,442	
Group				
Credit related contingent liabilities	46,021		46,465	
Committed credit facilities	141,010		145,009	
Total	187,031		191,474	

(1) Calculated as a percentage of Group totals for credit related contingent liabilities and committed credit facilities respectively.

Total commercial loans and receivables by industry are presented in the table below:

	2005		2004	
		% ⁽¹⁾		% ⁽¹⁾
Agriculture, mining and energy	12,377	8	11,439	9
Manufacturing	27,758	18	24,060	19
Construction and real estate	30,860	20	22,516	18
Wholesale and retail trade	19,439	13	16,412	13
Transportation and communications	18,012	12	12,314	10
Financial services	15,873	10	19,800	15
Business services	10,233	7	10,284	8
Education, healthcare and other services	17,859	12	10,219	8
Total	152,411		127,044	

Notes to the consolidated financial statements (Continued)

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38 Financial risk management and use of derivatives (Continued)

The amounts stated in the tables represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. So the amounts greatly exceed expected losses.

For a breakdown of counterparties for interest-earning securities in the available-for-sale and held-to-maturity portfolio, please refer to note 15. The Group has no significant exposure in loans and receivables – customers to any individual customer or counterparty.

Collateral

The Group's policy is to obtain collateral if and when required prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The transactions specify monetary limits to the Group's obligations. The extent of collateral held for guarantees and letters of credit is on average 20%.

The following table details loans and receivables from commercial and consumer clients by type of collateral obtained.

	2005	2004
Commercial customers		
Public authority guarantees	4,404	8,135
Mortgages	28,441	23,956
Securities	3,487	764
Bank guarantees	3,121	3,029
Other types of collateral	50,439	31,781
Unsecured	62,519	59,379
Total	152,411	127,044
Consumer customers		
Public authority guarantees	3	151
Mortgages	93,826	79,639
Securities	2,074	2,647
Bank guarantees	856	2,414
Other types of collateral	7,077	7,354
Unsecured	18,872	14,919
Total	122,708	107,124

Market risk of the trading book

Exposures

All trading instruments are subject to market risk. Market risk arises from open positions in interest rate, currency, equity and commodity products, all of which are exposed to general and specific market movements. The instruments are recognised at fair value, and all changes in market conditions directly affect net trading income.

Measurement and control

The Group applies a Value-at-Risk (VaR) methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Group uses VaR as its primary tool for the day-to-day monitoring of market risks. Group Asset and Liability Management (GALM) sets limits on the VaR that may be accepted.

Other control measures used in the market risk management process include limits on net open positions, interest rate sensitivity per basis point, spread sensitivities, option parameters, position

Notes to the consolidated financial statements (Continued)

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38 Financial risk management and use of derivatives (Continued)

concentrations and position ageing. These non-statistical measures help us to monitor and control trading risks.

Value-at-Risk

VaR is a methodology for assessing market risk exposure in a single number. VaR is a statistical measure that estimates potential losses, and is defined as the predicted worst-case loss that might be caused by changes in risk factors under normal circumstances, over a specified period of time and at a specific level of statistical confidence. The Group uses a proprietary VaR model that has been approved by the Dutch Central Bank.

The VaR methodology adopted by the bank for its VaR calculation is Historical Simulation, using four years of equally weighted historical data. The VaR is calculated at a 99% confidence level for a one-day holding period, using relative changes in historical rates and prices. The positions captured by our VaR calculations include derivative and cash positions that are reported as assets and liabilities held for trading. The VaR is reported on a daily basis per trading portfolio, per product line and for the Group as a whole. It is reported daily to the senior management of the Business Units, Group Risk Management and the responsible members of the Managing Board.

VaR per Risk Category (99% confidence level, one-day holding period)

	For the year ended 31 December 2005				For the year ended 31 December 2004			
	Minimum	Maximum	Average	Year-end	Minimum	Maximum	Average	Year-end
	<i>(in millions of euros)</i>							
Interest rate risk	17.7	68.3	30.4	23.3	10.4	49.5	21.6	18.7
Equity price risk	13.0	70.6	36.8	36.2	8.8	25.9	14.9	15.6
Foreign exchange risk . . .	1.2	15.7	4.2	3.0	1.0	7.7	3.0	3.7
Commodity price risk . . .	0.7	5.9	2.0	2.1	0.1	2.5	0.4	0.8
Diversification effect	—	—	—	(20.9)	—	—	—	(8.3)
Aggregate VaR ⁽¹⁾	25.3	80.2	50.0	43.7	17.1	42.2	26.4	30.5

(1) The maximum (and minimum) for each risk category occurred on different days and therefore have no direct relation to the maximum (and minimum) of the aggregate VaR. The aggregate VaR includes the diversification effect of imperfect or negative correlations between certain risk types. Therefore the aggregate VaR can be lower than the sum of the individual risk types on the same day (e.g. year-end).

Stress testing

Although the VaR represents a good estimate of potential losses under normal market circumstances, it fails to capture “one-off” events. The limitations of the VaR model mean that we must supplement it with other statistical tests. These include a series of stress tests scenarios and sensitivity stress tests that shed light on the hypothetical behaviour of our portfolio and the impact on our financial results under extreme market movements. Sensitivity stress tests and stress test scenarios have been developed internally to reflect specific characteristics of the bank’s portfolios and are performed on a daily basis for each trading portfolio and at several aggregation levels. They may be based upon parallel movements in a number of risk elements or in one risk element, upon actual historical scenarios or upon plausible future shocks.

Interest rate risk (non-trading)

Measurement and control

Several measures are used to monitor and limit non-trading interest rate risk. The methods employed include earnings simulation, duration and interest rate gap analysis. Limits are set on the earnings and market value sensitivity. Model-based scenario analysis is used to monitor the interest rate risk positions denominated in euros, Brazilian reals and US dollars to the extent that these positions are held in Europe, Brazil and the US, which relates to some 85% to 90% of the total exposure of the Group. Interest

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

38 Financial risk management and use of derivatives (Continued)

rate risk positions in other currencies and other countries are controlled by gap analysis and/or market value limits, as these positions are typically less complex.

Net interest income is the sum of interest received less interest paid on large volumes of contracts and transactions, and numerous different products. Simulation models and estimation techniques are used to forecast the net interest income and to assess its sensitivity to movements in the shape and level of the yield curve. Assumptions about client behaviour play an important role in these calculations. This is particularly relevant for loans such as mortgages where the client has the option to repay before the scheduled maturity. On the liability side, the repricing characteristics of savings and deposits are based on estimates using historical data, since the rates attached to these products are not coupled to a specified market rate or maturity date.

The bank uses a statistical approach for forecasting and sensitivity analyses because it is the method best suited to these products.

Interest rate risk associated with our North America residential mortgage business in relation to mortgage servicing rights

We sell or securitise most of the mortgage loans we originate in North America, and typically retain the rights to service residential mortgage loans sold. The bank recognises a mortgage servicing right (MSR) upon sale of the loan. MSRs represent the present value of the estimated future net servicing cash flows realised over the estimated life of the mortgage. Origination income and MSR values are sensitive to changes in interest rates.

High or rising interest rates may lead to lower mortgage prepayments and a corresponding reduction in servicing amortisation costs and, therefore, an increase in servicing income. However, if interest rates are high or rising as in 2005 and 2004, residential mortgage loan demand may decline, leading to a fall in origination income.

The Group employs various strategies to manage the risk to net mortgage revenue from all sources over time and to manage the risk to an immediate reduction in the fair value of its mortgage servicing rights within the risk parameters established by GALM. The main hedge instruments used for this risk are interest rate swaps and forward sales contracts. From time to time we employ other derivative instruments such as interest rate futures, caps, floors or purchased options. Occasionally cash instruments such as mortgage-backed securities are utilised as hedges for MSR assets.

Interest rate sensitivity disclosure non-trading book

For assessing interest rate risk in the banking books, GALM provides a set of measures the Earnings at Risk and Market Value Risk for the EUR, USD and BRL currencies and reports this to the Group Asset Liability Committee (Group ALCO). This set covers 85% to 90% of our net interest revenue in the non-trading book. The interest rate sensitivity of our trading books is measured under market risk.

The Earnings-at-Risk table shows the cumulative sensitivity of net interest income over a time horizon of 6, 12, and 24 months, and under a number of predefined scenarios. Sensitivity is defined as the percentage change in the interest income relative to a base case scenario. The base case scenario assumes continuation of the present yield curve environment. The "Rates Rise" and "Rates Fall" scenarios assume a gradual parallel shift of the yield curve during 12 months, after which the curve remains unchanged. In order to reflect the differences in yield curve across markets, the scenarios are currency-dependent.

Due to the low interest environment the EUR rates fall scenario is 100 bp, whereas the rates rise scenario is 200 bp for both years presented. For USD, the 2005 scenarios reflect a gradual change of 200 bp upwards (2004: 200 bp) and 200 bp downwards (2004: 150 bp). The change in scenario is due to the low USD interest rates in 2004. For BRL, the rates rise scenario is 1,100 bp and the rates fall is 800 bp for both years presented.

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38 Financial risk management and use of derivatives (Continued)

In all cases, the volume scenario assumes new business volume in line with the business forecast during the first year, and a constant balance sheet thereafter. For USD, other interest sensitive items such as mortgage servicing rights are included in this measure.

The following table shows the cumulative % change in income over the relevant time horizon:

Earnings-at-Risk

	Horizon	December 2005			December 2004		
		EUR	USD	BRL	EUR	USD	BRL
Rates Rise	6 months	(2.4%)	(2.1%)	(4.2%)	(4.2%)	(8.4%)	(5.5%)
	1 year	(2.9%)	(1.6%)	(2.8%)	(4.1%)	(6.8%)	(5.7%)
	2 years	0.7%	0.3%	3.1%	(1.0%)	(2.8%)	(2.2%)
Rates Fall	6 months	1.1%	(2.2%)	2.6%	1.8%	(2.6%)	3.7%
	1 year	1.3%	(1.1%)	1.3%	1.7%	1.0%	3.4%
	2 years	(1.1%)	(8.8%)	(3.1%)	(0.4%)	(6.4%)	0.5%

The December 2004 data above covered a smaller portion of the balance sheet than December 2005. Therefore the absolute numbers for 2004 would not be comparable. Since relative numbers are scaled, the relative data for 2004 and 2005 can be compared.

The Earnings-at-Risk table below gives the 2005 cumulative change in income over the relevant time horizon as absolute numbers using exchange rates at 31 December 2005.

Earnings-at-Risk

	Horizon	EUR	December 2005	BRL
			USD (in millions of euros)	
Rates Rise	6 months	(30)	(19)	(55)
	1 year	(75)	(30)	(77)
	2 years	35	12	179
Rates Fall	6 months	15	(20)	35
	1 year	33	(21)	36
	2 years	(58)	(343)	(180)

The Market Value Risk table shows the sensitivity of the market value of equity to changes in interest rates for the EUR, USD and BRL currencies. Market Value of Equity is defined as the calculated discounted value of assets in the banking book, minus calculated discounted value of liabilities, plus market value of derivatives and other interest sensitive items such as mortgage servicing rights for the US. Sensitivity is measured as the percentage value change due to an overnight shock. The magnitude of the shocks is equal to the changes used for earnings risk.

Market Value Risk

	December 2005			December 2004		
	EUR	USD	BRL	EUR	USD	BRL
Rates Rise	(2.7%)	(4.1%)	(11.3%)	(2.8%)	(9.8%)	(22.0%)
Rates Fall	0.7%	(13.4%)	4.7%	0.9%	(0.6%)	18.5%

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

38 Financial risk management and use of derivatives (Continued)

Currency risk (non-trading)

The Group's operating entities are required to manage any currency exposure arising on local transactions with funding in the same currency or to transfer the currency risk to the Group. Accordingly the Group is able to manage currency risk through its net investments in its non-euro operations.

We apply various hedging strategies to our net investments in our non-euro operations, in order to manage and minimise any adverse effects from translating the relevant foreign currency into euro.

Capital ratio hedge

To protect our capital ratios (core tier 1, tier 1 and total capital as a portion of RWA) against adverse effects of the US dollar, our main foreign currency, the USD-sensitive part of our capital base has to be equal to the USD-sensitive part of our risk-weighted assets. On this basis there will be no material impact on our capital ratios, as the ratios are hedged against changes in the EUR/USD exchange rate.

Capital hedge

The capital ratio hedge strategy implies that a part of our capital has to be USD-sensitive to neutralise the USD sensitivity of our RWA. Hence a part of our equity is also exposed to EUR/USD fluctuations.

Our investments in foreign operations in currencies other than the USD are hedged on a selective basis. We consider the use of hedging in cases where the expected currency loss is larger than the interest rate differential between the two currencies that represents the cost of the hedge.

At December 2005 56% of our net investment in foreign operations was hedged leaving approximately EUR 5 billion unhedged including USD 1 billion and BRL 2 billion (USD and BRL stated in EUR amounts). The table shows the sensitivity of our capital to, respectively, a 10% appreciation and 10% depreciation in the euro against all foreign currencies.

	2005	2004
	(in millions of euros)	
Euro appreciates 10%	(559)	(340)
Euro depreciates 10%	+559	+340

Liquidity risk

Measurement and control

Liquidity risk arises in any bank's general funding of its activities. For example, a bank may be unable to fund its portfolio of assets at appropriate maturities and rates, or may find itself unable to liquidate a position in a timely manner at a reasonable price. The Group holds capital to absorb unexpected losses, and manages liquidity to ensure that sufficient funds are available to meet not only the known cash funding requirements, but also any unanticipated ones that may arise. At all times, the Group maintains what we believe to be adequate levels of liquidity on a Group-wide basis to meet deposit withdrawals, repay borrowings and fund new loans, even under stressed conditions.

We manage liquidity on a daily basis in all the countries in which we operate. Each national market is unique in terms of the scope and depth of its financial markets, competitive environment, products and customer profile. Therefore local line management is responsible for managing our local liquidity requirements under the supervision of GALM on behalf of the Group ALCO.

Notes to the consolidated financial statements (Continued)

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38 Financial risk management and use of derivatives (Continued)

On a day-to-day basis our liquidity management depends on, among other things, the effective functioning of local and international financial markets. As this is not always the case, we have Group-wide contingency funding plans. These plans are put into effect in the event of a dramatic change in our normal business activities or in the stability of the local or international financial markets. The Group Strategic Funding Committee has full authority to manage such a crisis. As part of this liquidity management contingency planning, we continually assess potential trends, demands, commitments, events and uncertainties that could reasonably result in increases or decreases in our liquidity. More specifically, we consider the impact of these potential changes on our sources of short-term funding and long-term liquidity planning.

As we have entered into committed credit facilities, our liquidity management process also involves assessing the potential effect of the contingencies inherent in these types of transactions on our normal sources of liquidity and finance.

Liquidity gap

The following table provides an analysis that categorises the balance sheet of the Group into relevant maturity groupings based on the remaining contractual periods to repayment.

Maturity for the year ended 31 December 2005:

	On demand	< 1 year	1 year – < 5 years	5 years	Total
Assets					
Cash and balances at central banks	16,657	—	—	—	16,657
Financial assets held for trading ⁽¹⁾	202,055	—	—	—	202,055
Financial Investments	12,366	12,047	35,425	63,936	123,774
Loans and receivables – banks	7,251	80,091	5,922	15,371	108,635
Loans and receivables – customers	24,101	171,824	84,497	99,826	380,248
Other assets ⁽¹⁾	3,213	21,268	4,341	20,613	49,435
Total	<u>265,643</u>	<u>285,230</u>	<u>130,185</u>	<u>199,746</u>	<u>880,804</u>
Liabilities					
Financial liabilities held for trading ⁽¹⁾	148,588	—	—	—	148,588
Due to banks	30,905	117,150	8,349	11,417	167,821
Due to customers	147,846	138,630	14,481	16,126	317,083
Issued debt securities	1,495	100,873	34,548	33,703	170,619
Subordinated liabilities	—	1,156	5,101	12,815	19,072
Other liabilities ⁽¹⁾	4,712	15,335	2,771	10,651	33,469
Total	<u>333,546</u>	<u>373,144</u>	<u>65,250</u>	<u>84,712</u>	<u>856,652</u>
Net liquidity gap	<u>(67,903)</u>	<u>(87,914)</u>	<u>64,935</u>	<u>115,034</u>	<u>24,152</u>

(1) [•]

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

38 Financial risk management and use of derivatives (Continued)

Maturity for the year ended 31 December 2004:

	On demand	< 1 year	1 year – < 5 years	5 years	Total
Assets					
Cash and balances at central banks	17,896	—	—	—	17,896
Financial assets held for trading ⁽¹⁾	167,035	—	—	—	167,035
Financial investments	—	18,722	33,132	51,094	102,948
Loans and receivables – banks	5,575	64,695	4,075	9,513	83,858
Loans and receivables – customers	19,821	150,960	66,404	82,837	320,022
Other assets ⁽¹⁾	2,292	14,083	4,478	14,842	35,695
Total	212,619	248,460	108,089	158,286	727,454
Liabilities					
Financial liabilities held for trading ⁽¹⁾	129,506	—	—	—	129,506
Due to banks	28,846	85,396	10,122	9,165	133,529
Due to customers	137,742	124,282	9,893	9,462	281,379
Issued debt securities	1,956	64,283	30,808	24,185	121,232
Subordinated liabilities	—	1,086	4,693	10,908	16,687
Other liabilities ⁽¹⁾	3,311	11,887	2,729	10,642	28,569
Total	301,361	286,934	58,245	64,362	710,902
Net liquidity gap	(88,742)	(38,474)	49,844	93,924	16,552

(1) Financial assets and liabilities held for trading and hedging derivatives are shown as on demand which management believes most accurately reflects the short term nature of the trading and derivative activities.

Use of derivatives

Derivative instruments

The Group uses derivative instruments (a) to provide risk management solutions to its clients, (b) to manage the Group's own exposure to various risks (including interest, currency and credit risks) and (c) for proprietary trading purposes.

A derivative is a financial instrument that is settled at a future date and requires little or no initial net investment, and whose value varies in response to changes in the price of another financial instrument, an index or some other variable.

The majority of derivative contracts are arranged as to amount ("notional"), tenor and price directly with the counterparty (over-the-counter). The remainder are standardised in terms of their amounts and settlement dates and are bought and sold in organised markets (exchange traded).

The notional, or contractual, amount of a derivative represents the reference quantity of the underlying financial instrument on which the derivative contract is based. The value of the derivative contract is typically determined by applying a calculated price to this notional amount, and is the basis upon which changes in the value of the contract are measured. The notional amount provides an indication of the underlying volume of business transacted by the Group but does not provide any measure of risk, and is not included on the balance sheet.

Derivative instruments are carried at fair value (or mark-to-market), shown in the balance sheet as separate totals of positive fair values (assets) and negative fair values (liabilities). Positive fair values represent the cost to the Group of replacing all transactions with a favourable fair value if all the

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

38 Financial risk management and use of derivatives (Continued)

counterparties of the Group were to fail to perform according to the terms of the contract, assuming transactions could be replaced instantaneously. Negative fair values represent the cost to the Group's counterparties of replacing all their transactions if the Group failed to meet its obligations. Changes in fair value of derivative instruments are recognised in trading income unless they qualify as hedges for accounting purposes.

Positive and negative fair values on different transactions are only netted if the transactions are with the same counterparty and the cash flows will be settled on a net basis, and the Group has the legal right to offset separate transactions with that counterparty.

Types of derivative instruments

The most common types of derivatives used are as follows:

Forwards are binding contracts to buy or sell financial instruments, most typically currency, on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter (OTC) market

Futures are exchange traded agreements to buy or sell a standard quantity of specified grade or type of financial instrument, currency or commodity at a specified future date

Commodity derivatives are contracts to buy or sell a non-financial item. They can be either exchange traded or OTC

Swaps are agreements between two parties to exchange cash flows on a specified notional amount for a predetermined period. Most swaps are traded OTC. The major types of swap transactions undertaken by the Group are as follows:

- Interest rate swap contracts – typically the contractual exchange of fixed and floating rate interest payments in a single currency, based on a notional amount and a reference interest rate, most commonly LIBOR
- Cross currency swaps – the exchange of interest payments based on two different currency principal balances and reference interest rates, and usually the exchange of principal amounts at the start and end of the contract
- Credit default swaps (CDSs) – bilateral agreements under which one party (protection buyer) makes one or more payments to the other party (protection seller) in exchange for an undertaking by the seller to make a payment to the buyer following a specified credit event. CDSs may be on a single name (counterparty) or on a multiple (or basket) of names (counterparties). Settlement following a credit event may be a net cash amount, or cash in return for physical delivery of one or more obligations of the credit entity and is made regardless of whether the protection buyer has actually suffered a loss. After a credit event and settlement, the contract is terminated
- Total rate of return swaps give the total return receiver exposure to all of the cash flows and economic benefits and risks of an underlying asset, without having to own the asset, in exchange for a series of payments, often based on a reference interest rate, such as LIBOR. The total return payer has an equal and opposite position. A specific type of total return swap is an equity swap.

Options are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right. Options may be traded OTC or on a regulated exchange, and may be traded in the form of a security (warrant).

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

38 Financial risk management and use of derivatives (Continued)

Derivatives transacted for trading purposes

Most of the Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks.

Trading activities are entered into principally for the purpose of generating profits from short term fluctuations in price or margin, and include market- making, positioning and arbitrage activities:

- Market making involves quoting bid and offer prices to other market participants with the intention of generating income based on spread and volume
- Positioning means managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices
- Arbitrage activities involve identifying and profiting from price differentials between markets and products.

Derivatives transacted for hedging purposes

The Group enters into derivative transactions for the purposes of hedging assets, liabilities, forecast transactions, cash flows and credit exposures. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies for accounting purposes (see accounting policies).

The Group also enters into derivative transactions which provide economic hedges for credit risk exposures but do not meet the requirements for hedge accounting treatment; for example, the Group uses CDSs as economic hedges for credit risk exposures in the loan and traded product portfolios, but cannot always apply hedge accounting to such positions.

Risks of derivative instruments

Derivative instruments are transacted in many trading portfolios, which generally include several types of instruments, not just derivatives. The market risk of derivatives is managed and controlled as an integral part of the market risk of these portfolios. The Group's approach to market risk is described in the market risk section of this footnote.

Derivative instruments are transacted with many different counterparties, most of whom are also counterparties for other types of business. The credit risk of derivatives is managed and controlled in the context of the Group's overall credit exposure to each counterparty. The Group's approach to credit risk is described in the financial risk management part of this footnote. It should be noted that although the values shown on the balance sheet can be an important component of the Group's credit exposure, the positive replacement values for any one counterparty are rarely an adequate reflection of the Group's credit exposure on its derivatives business with that counterparty. This is because, on the one hand, replacement values can increase over time ("potential future exposure"), while on the other hand, exposure may be mitigated by entering into master netting agreements and bilateral collateral arrangements with counterparties.

39 Capital adequacy

To monitor the adequacy of capital the Group uses ratios established by the Bank for International Settlements (BIS). These ratios measure capital adequacy (minimum 8% as required by BIS) by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

39 Capital adequacy (Continued)

have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount. Off-balance-sheet credit related commitments and derivative instruments are taken into account by applying different categories of conversion factors, which are designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for non-derivative assets.

Tier 1 capital consists of shareholders' equity and qualifying subordinated liabilities less goodwill and some intangible assets. Tier 2 capital represents additional qualifying subordinated liabilities, taking into account the remaining maturities.

Core tier 1 capital is tier 1 capital excluding preference shares.

The Group's capital adequacy level was as follows:

	Balance sheet/ unweighted amount		Risk weighted amount, including effect of contractual netting	
	2005	2004	2005	2004
Balance sheet assets (net of provisions):				
Cash and balances at central banks	16,657	17,896	432	263
Financial assets held for trading	202,055	167,035	548	375
Financial investments	123,774	102,948	11,620	9,124
Loans and receivables – banks	108,635	83,858	4,992	4,525
Loans and receivables – customers	380,248	320,022	151,496	142,665
Equity accounted investments	2,993	1,428	727	681
Property and equipment	8,110	7,173	6,638	6,515
Goodwill and other intangibles	5,168	3,143	4,437	2,191
Prepayment and accrued income	7,614	5,740	2,952	2,330
Other assets	25,550	18,211	8,893	5,587
Subtotal	880,804	727,454	192,735	174,256
Off-balance sheet positions and derivatives:				
Credit-related commitments and contingencies .	187,031	191,474	48,017	39,172
Credit equivalents of derivatives			10,751	12,226
Insurance companies and other			339	1,095
Subtotal			59,107	52,493
Total credit risks			251,842	226,749
Market risk requirements			6,012	4,873
Total risk-weighted assets			257,854	231,622

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

39 Capital adequacy (Continued)

The following table analyses actual capital and the minimum standard needed in order to comply with supervisory requirements.

	2005		2004	
	Required	Actual	Required	Actual
Total capital	20,628	33,874	18,530	25,618
Total capital ratio	8.0%	13.14%	8.0%	11.06%
Tier 1 capital	10,314	27,382	9,265	19,592
Tier 1 capital ratio	4.0%	10.62%	4.0%	8.46%
Core tier 1	—	21,828	—	14,641
Core tier 1 ratio	—	8.47%	—	6.32%

In determining the capital adequacy requirement, both existing and future credit risk is taken into account. To this end the current potential loss on derivatives, which is the fair value based on market conditions at balance sheet date, is increased by a percentage of the relevant notional amounts, depending on the nature and remaining term of the contract. This method takes into account the possible adverse development of the fair value during the remaining term of the contract. The following analysis shows the resulting credit equivalent, both unweighted and weighted for counterparty risk (mainly banks). The figures allow for the impact of netting transactions and other collateral.

Credit equivalent

	2005	2004
Interest rate contracts	84.8	75.0
Currency contracts	28.2	50.5
Other contracts	32.2	18.9
	145.2	144.4
Effect of contractual netting	97.4	88.9
Unweighted credit equivalent	47.8	55.5
Weighted credit equivalent	10.8	12.2

40 Private equity investments

Private equity investments are either consolidated or held at fair value.

Consolidated private equity holdings

Investments of a private equity nature that are controlled by the Group are consolidated. Such holdings represent a wide range of non-banking activities. Personnel and other costs relating to production and

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

40 Private equity investments (Continued)

manufacturing activities are presented within material expenses. The impact of consolidating on the income statement these investments is set out in the following table.

	2005	2004
Income of consolidated private equity holdings	3,637	2,616
Other income included in operating income	(242)	(96)
Total operating income of consolidated private equity holdings	3,395	2,520
Goods and material expenses of consolidated private equity holdings . . .	2,519	1,665
Included in personnel expenses	362	399
Included in administrative costs	352	284
Included in depreciation and amortisation	133	151
Operating profit before tax of consolidated private equity holdings . . .	29	21

Goods and material expense includes personnel costs relating to manufacturing and production activities.

The assets and liabilities of these consolidated holdings are included in the Group balance sheet. Given the non-banking nature of the underlying activities the main lines impacted are goodwill, property and equipment, other assets and issued debt securities. The total assets of these consolidated entities at 31 December 2005 were EUR 3,477 million (2004: EUR 2,393 million) excluding goodwill.

Unconsolidated private equity investments

The private equity investments in which the Group does not have control are accounted for at fair value with change through income. Although control is not with the Group, in many cases the Group does hold significant influence, usually evidenced by an equity stake of between 20% and 50%. Significant influence is held in approximately 100 investments with a fair value of EUR 603 million at 31 December 2005, operating in various sectors including information technology, life sciences, media and telecommunications.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

41 Joint ventures

The Group's activities conducted through joint ventures include insurance, trust and property development activities. See note 49 for further details. The consolidated financial statements of the joint ventures include the following assets and liabilities, income and expenses of joint ventures, which represent the Group's proportionate share:

	2005	2004
Assets		
Cash and balances at central banks	11	6
Financial investments	2,748	1,875
Loans and receivables—banks and customers	925	965
Equity accounted investments	6	6
Property and equipment	1,011	827
Accrued income and prepaid expenses	58	54
Other assets	2,161	2,001
Total	6,920	5,734
Liabilities		
Financial liabilities held for trading	871	843
Due to customers	896	822
Issued debt securities	7	1
Accrued expenses and deferred income	23	15
Other liabilities	4,994	3,964
Total	6,791	5,645
	2005	2004
Total operating income	150	118
Operating expenses	71	79
Operating profit	79	39
Income tax expense	21	8
Net profit	58	31

42 Remuneration of Managing Board and Supervisory Board

Remuneration policy

The current compensation policy for the Managing Board was introduced in 2001. The main objective is to ensure that ABN AMRO is able to attract, retain and motivate its Top Executive Group. To achieve this, Managing Board remuneration has several elements which, as a package, make it comparable with the remuneration offered by relevant peers in the market. Peers are defined as other major Dutch companies and other European-parented banks.

The compensation package for the Managing Board has the following elements:

- base salary
- performance bonus
- long-term incentives—Performance Share Plan and Share Investment and Matching Plan.

In addition there are a number of other benefits.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Remuneration of Managing Board and Supervisory Board (Continued)

Base salary

A common base salary applies to all Managing Board members except the Chairman, to whom a 40% differential applies. In addition to the base salary, the non-Dutch Board member receives a market competitive allowance. Salaries are reviewed annually with adjustments taking effect from 1 January. Managing Board base salaries were adjusted in 2005 for the first time since 2001. The gross annual base salary for the Managing Board Members was adjusted from EUR 635,292 to EUR 650,000 and from EUR 889,410 to EUR 910,000 for the Chairman.

Performance bonus

The annual performance bonus for Managing Board members is based upon ABN AMRO's quantitative and qualitative performance objectives at both the corporate and BU level. The objectives are set annually by the Nomination & Compensation Committee and endorsed by the Supervisory Board. Bonuses for the Chairman, the CFO and—as of 2004—the COO are based on delivery against these corporate performance objectives. With effect from 2004, the bonus for board members responsible for a BU is based 75% on Group performance and 25% on BU performance.

In 2005 objectives such as economic profit, cost / income ratio and tier 1 ratio were used to measure quantitative corporate and BU performance. In addition qualitative objectives are set such as increasing customer satisfaction and reaching strategic milestones. Bonus criteria are aligned with the bank's long term objectives. Specific annual performance targets are not disclosed as they are considered competitively sensitive.

If the quantitative performance objectives are fully met, the 2005 bonus will be 100% of base salary with an upper limit of 125%. The Nomination & Compensation Committee may, on the basis of their assessment of a Managing Board member's individual performance against qualitative performance objectives, adjust the bonus outcome upwards or downwards within a range of plus or minus 20% of base salary. In 2004 the bonus percentage linked to on-target performance was between 60% and 75%.

The 2005 performance bonuses for Managing Board members have been set at the newly-agreed 2005 bonus levels. The Committee assessed the 2005 performance against the set and realised quantitative objectives on the basis of the numbers provided by Group Finance.

The bonuses with respect to the 2005 performance year for all Managing Board members, including the Chairman of the Managing Board, are set at 115% of the 2005 annual base salary. The individual bonus awards are shown in the table on page 190.

The 2004 bonuses as paid in 2005 and published in the 2004 Annual Report have been adjusted as the Managing Board members have agreed to pay a part of that bonus back to the bank.

ABN AMRO Share Investment and Matching Plan

In 2004 Shareholders' approval was obtained to encourage executive share ownership. Under this plan, the Board members may defer a maximum of 25% of their annual salary into ABN AMRO Holding N.V. shares (Investment Shares). This amount must be funded from the net bonus outcome of the relevant performance year. If the net bonus outcome is insufficient to fund the full investment amount the participation will be withdrawn.

At the end of a three-year vesting period the Investment Shares will be matched by the bank on the basis of one ABN AMRO share (Matching Share) for each Investment Share, provided that the Managing Board member remains employed within the ABN AMRO Group during the vesting period. The Investment Shares, together with the built-up dividends, will be released three years after deferral. The Matching Shares must be held for at least five years from vesting, with the possibility of selling some of the shares to settle the tax obligation.

In 2005—with respect to the 2004 bonus—all Managing Board members have participated in this plan, five of them for the maximum amount of 25% of base salary and one Managing Board Member for 12.5%

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Remuneration of Managing Board and Supervisory Board (Continued)

of base salary. The total amount that was used to purchase Investment Shares was EUR 936,954 for all six Managing Board Members. With respect to the 2005 performance year, five members again participated for 25% of annual salary and one member for half of this amount.

Share options

Share options have been an integral part of ABN AMRO top executives' compensation for several years.

As of 2005 share options no longer form part of the long-term reward package for the Managing Board or for the Top Executive Group as a whole. The options granted in the years up to and including 2004 will remain in place. In 2005 no options expired. The options granted in 2002 vested on 25 February 2005 and will remain exercisable during the remainder of the ten-year option period, which runs until 25 February 2012. In 2006 no options will expire. The options granted in 2003 have vested on 24 February 2006, because the two performance conditions that were set for this award were met by the end of the three-year performance period in 2005.

The Managing Board announced to the N&C Committee on 30 January 2006 their collective decision to limit the exercise of their options going forward exclusively to the first day of the first open period after vesting and/or expiration periods, or to earlier equivalent contractual dates in line with the plan rules, such as the date of retirement. Although this limits the theoretical value of the options, the Board believes the increase in transparency to the market outweighs this theoretical disadvantage.

Performance Share Plan

The Performance Share Plan (PSP) was introduced in 2001 and forms an important though stretching part of the Managing Board's reward package. SEVPs are also eligible for a yearly grant under this plan.

In 2005 Managing Board members received a conditional award of 60,000 shares and the Chairman 84,000 shares. The PSP grant in 2005 was based half on the relative TRS (total return to shareholders) performance and half on the average return on equity (ROE) achieved by the bank over the four-year performance period, defined as the year of grant and three subsequent years.

The vesting schedule for the TRS-linked award is the same as in previous years. The full award will be paid if the TRS generated by the bank in the fourth year of the performance period is fifth out of 21 relative to the peer group. There will be a sliding scale ranging from no award if the bank is lower than tenth to 150% of the conditional award if the bank has progressed to the very top of the TRS rankings.

The ROE linked part of the award was introduced in 2005. The pay-out of this part of the award will be linked to the average ROE target for the performance period using a sliding scale, with a threshold at 25% and a maximum award of 100%.

Another condition is that the recipient must still be in service with the Group at the end of the performance period. The four-year performance cycle for the conditional shares as awarded in 2002 came to a close at the end of 2005, and ABN AMRO's position in the peer group was seventh. This means that the conditional share award made in 2002 will result in an award representing 70% of the original awards of 70,000 shares for members and 98,000 shares for the Chairman. As a result, the members of the Managing Board received 49,000 ABN AMRO shares with a vesting date, 31 January 2006, and the Chairman 68,600 shares. This award is subject to taxation which was calculated on the basis of the number of shares times the share price. The Managing Board members collectively decided to sell, on the day of the grant of the award, a number of shares sufficient to settle the tax obligation with respect to the award.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Remuneration of Managing Board and Supervisory Board (Continued)

Pension

The Managing Board's pensionable salary is 100% of annual base salary. Until 31 December 2005 the normal retirement age of the Managing Board members was 62. Since 1 January 2006 the plan has been changed in such a way that the normal retirement age is 65, based on average income (2.15% per year). It is possible to retire earlier. The ABN AMRO Pension Fund manages the pension plan.

Specific benefits

The Managing Board's compensation package also includes:

- the use of a company lease car with driver
- reimbursement of the cost of adequate security measures for their main private residence
- a 24-hour personal accident insurance policy with a fixed covered amount of EUR 1.8 million for members and EUR 2.5 million for the Chairman
- contributions towards private health insurance, according to the policies applicable to all other ABN AMRO employees in the Netherlands
- preferential rates on bank products such as mortgages and loans, according to the same policies which apply to all other ABN AMRO staff in the Netherlands.

The following table summarises total reward, ABN AMRO options and shares, and outstanding loans of the members of the Managing Board and Supervisory Board.

	Managing Board		Supervisory Board	
	2005	2004	2005	2004
	<i>(in thousands of euros)</i>			
Periodic payments	4,639	4,556	787	767
Profit-sharing and bonus payments	4,787	2,680		
Share-based payments	6,063	4,672		
Pension benefits	1,324	1,148		
ABN AMRO staff options ⁽¹⁾ (conditional, granted options)		576,000		
ABN AMRO shares ⁽¹⁾ (conditional, granted) . . .	429,058	320,000		
ABN AMRO staff options ⁽¹⁾ (outstanding)	2,380,835	2,382,251		
ABN AMRO shares ⁽¹⁾ (exercisable)	1,196,835	686,251		
ABN AMRO shares ⁽¹⁾ (owned)	124,004	72,668	34,847	27,173
Loans (outstanding)	11,518	9,362	2,100	2,100

(1) Number of shares / options.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Remuneration of Managing Board and Supervisory Board (Continued)

The following table summarises the salaries, other periodic rewards and bonuses of individual Managing Board members.

	2005					2004				
	Base salary	Other periodic payments ⁽¹⁾	Bonus	Share-based payments ⁽²⁾	Pension costs ⁽³⁾	Base salary	Other periodic payments ⁽¹⁾	Bonus ⁽⁴⁾	Shared based payments ⁽²⁾	Pension costs ⁽³⁾
	(in thousands of euros)									
R.W.J. Groenink	910	4	1,047	1,331	263	889	4	805	1,022	225
W.G. Jiskoot	650	2	748	951	185	635	3	575	730	158
T. de Swaan	650	2	748	951	206	635	13	575	730	181
J.Ch.L. Kuiper	650	4	748	951	264	635	15	575	730	228
C.H.A. Collee	650	3	748	951	168	635	3	575	730	140
H.Y. Scott-Barrett	650	464	748	928	238	635	454	575	730	216

(1) Other periodic payments are comprised of contributions towards private health insurance and foreigner allowance. Mr Scott-Barrett received a foreigner allowance of EUR 464 in 2005 and 454 in 2004.

(2) Share-based payments are calculated in accordance with IFRS 2 by recognising the fair value of the shares/options at grant date over the vesting period.

(3) Pension costs exclusively comprise pension service cost and post-retirement service cost computed on the basis of IAS 19.

(4) Part of the bonus amounts were paid back by all Managing Board members, resulting in a final bonus of EUR 480 for Mr Groenink, EUR 400 for the CFO Mr de Swaan, and EUR 450 for the four remaining members.

The following tables reflect movements in the option holdings of the Managing Board as a whole and of individual Board members. The conditions governing the granting of options are included in note 43.

	2005		2004	
	Options held by Managing Board	Average exercise price (in euros)	Options held by Managing Board	Average exercise price (in euros)
Movements:				
Balance at 1 January	2,382,251	18.84	2,003,675	18.76
Options granted	—	—	576,000	18.86
Options exercised / cancelled	1,416	22.23	197,424	18.13
Balance at 31 December	2,380,835	18.83	2,382,251	18.84

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Remuneration of Managing Board and Supervisory Board (Continued)

	Balance at 1 January	Exercise price (in euros)	Exercised/ cancelled	Balance at 31 December	Stock price on exercise	Year of expiration date
R.W.J. Groenink						
Executive 2000	60,000	21.30		60,000		2007
Executive 2001	55,000	23.14		55,000		2008
Executive 2002 ⁽¹⁾⁽²⁾	112,000	19.53		112,000		2012
Executive 2003 ⁽¹⁾⁽³⁾	133,000	14.45		133,000		2013
Executive 2004 ⁽¹⁾	126,000	18.86		126,000		2014
AOR 2000	354	22.23	354	0		
AOR 2001	271	22.34		271		2008
AOR 2002	296	20.42		296		2009
	<u>486,921</u>		<u>354</u>	<u>486,567</u>		
W.G. Jiskoot						
Executive 2000	60,000	21.30		60,000		2007
Executive 2001	55,000	23.14		55,000		2008
Executive 2002 ⁽¹⁾⁽²⁾	80,000	19.53		80,000		2012
Executive 2003 ⁽¹⁾⁽³⁾	95,000	14.45		95,000		2013
Executive 2004 ⁽¹⁾	90,000	18.86		90,000		2014
AOR 2000	354	22.23	354	0		
AOR 2001	271	22.34		271		2008
AOR 2002	296	20.42		296		2009
	<u>380,921</u>		<u>354</u>	<u>380,567</u>		
T. de Swaan						
Executive 2000	60,000	21.30		60,000		2007
Executive 2001	55,000	23.14		55,000		2008
Executive 2002 ⁽¹⁾⁽²⁾	80,000	19.53		80,000		2012
Executive 2003 ⁽¹⁾⁽³⁾	95,000	14.45		95,000		2013
Executive 2004 ⁽¹⁾	90,000	18.86		90,000		2014
AOR 2000	354	22.23	354	0		
AOR 2001	271	22.34		271		2008
AOR 2002	296	20.42		296		2009
	<u>380,921</u>		<u>354</u>	<u>380,567</u>		
J.Ch.L. Kuiper						
Executive 2000	60,000	21.30		60,000		2007
Executive 2001	55,000	23.14		55,000		2008
Executive 2002 ⁽¹⁾⁽²⁾	80,000	19.53		80,000		2012
Executive 2003 ⁽¹⁾⁽³⁾	95,000	14.45		95,000		2013
Executive 2004 ⁽¹⁾	90,000	18.86		90,000		2014
AOR 2001	271	22.34		271		2008
AOR 2002	296	20.42		296		2009
	<u>380,567</u>			<u>380,567</u>		

(1) Conditionally granted.

(2) Vested on 25 February 2005.

(3) Vested on 24 February 2006.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Remuneration of Managing Board and Supervisory Board (Continued)

	Balance at 1 January	Exercise price (in euros)	Exercised/ cancelled	Balance at 31 December	Stock price on exercise	Year of expiration date
C.H.A. Collee						
Executive 2000	56,000	21.30		56,000		2007
Executive 2001	55,000	23.14		55,000		2008
Executive 2002 ⁽¹⁾⁽²⁾	80,000	19.53		80,000		2012
Executive 2003 ⁽¹⁾⁽³⁾	95,000	14.45		95,000		2013
Executive 2004 ⁽¹⁾	90,000	18.86		90,000		2014
AOR 2000	354	22.23	354	0		
AOR 2001	271	22.34		271		2008
AOR 2002	296	20.42		296		2009
	<u>376,921</u>		<u>354</u>	<u>376,567</u>		
H.Y. Scott-Barrett						
Executive 2000	56,000	21.30		56,000		2007
Executive 2001	55,000	23.14		55,000		2008
Executive 2002 ⁽¹⁾⁽²⁾	80,000	19.53		80,000		2012
Executive 2003 ⁽¹⁾⁽³⁾	95,000	14.45		95,000		2013
Executive 2004 ⁽¹⁾	90,000	18.86		90,000		2014
	<u>376,000</u>			<u>376,000</u>		

(1) Conditionally granted.

(2) Vested on 25 February 2005.

(3) Vested on 24 February 2006.

The following table shows movements in shares conditionally awarded under the Performance Share Plan. For the years 2002 through 2004 the conditional award was based 100% on the bank's ranking in the peer group (TRS ranking). For the year 2005, 50% of the award is on the TRS ranking and 50% on the average ROE target for the reference period. The number of shares conditionally awarded on the TRS ranking in the table below assumes a ranking of fifth in the peer group, in line with our ambition. The number of shares conditionally awarded on the ROE target assumes that we will achieve an average ROE above 20% per annum, our target for the performance cycle 2005-2008.

As a consequence of ABN AMRO ranking seventh in the peer group at the close of the performance cycle from 2002 to 2005, all members of the Managing Board received 70% of the conditionally awarded shares for that performance cycle at 31 January 2006. The average stock price at that date was EUR 22.78.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Remuneration of Managing Board and Supervisory Board (Continued)

	Type of condition	Balance at 1 January	Granted	Vested	Expired/ forfeited	Balance at 31 December	Reference period
R.W.J. Groenink . . .	TRS	98,000		68,600	29,400	0	
	TRS	98,000				98,000	2003-2006
	TRS	70,000				70,000	2004-2007
	TRS		42,000			42,000	2005-2008
	ROE		42,000			42,000	2005-2008
W.G. Jiskoot	TRS	70,000		49,000	21,000	0	
	TRS	70,000				70,000	2003-2006
	TRS	50,000				50,000	2004-2007
	TRS		30,000			30,000	2005-2008
	ROE		30,000			30,000	2005-2008
T. de Swaan	TRS	70,000		49,000	21,000	0	
	TRS	70,000				70,000	2003-2006
	TRS	50,000				50,000	2004-2007
	TRS		30,000			30,000	2005-2008
	ROE		30,000			30,000	2005-2008
J.Ch.L. Kuiper	TRS	70,000		49,000	21,000	0	
	TRS	70,000				70,000	2003-2006
	TRS	50,000				50,000	2004-2007
	TRS		30,000			30,000	2005-2008
	ROE		30,000			30,000	2005-2008
C.H.A. Collee	TRS	70,000		49,000	21,000	0	
	TRS	70,000				70,000	2003-2006
	TRS	50,000				50,000	2004-2007
	TRS		30,000			30,000	2005-2008
	ROE		30,000			30,000	2005-2008
H.Y. Scott-Barrett . . .	TRS	70,000		49,000	21,000	0	
	TRS	70,000				70,000	2003-2006
	TRS	50,000				50,000	2004-2007
	TRS		30,000			30,000	2005-2008
	ROE		30,000			30,000	2005-2008

The following table reflects the number of matched shares the Managing Board will receive under the ABN AMRO Share Investment and Matching Plan at the end of the vesting period, provided the member of the Managing Board remains employed within ABN AMRO during the vesting period.

	Balance at 1 January	Granted	Unconditional	Expired/ cancelled	Balance at 31 December	Vesting period
R.W.J. Groenink . . .		10,692			10,692	2005-2007
W.G. Jiskoot		7,637			7,637	2005-2007
T. de Swaan		7,637			7,637	2005-2007
J.Ch.L. Kuiper		7,637			7,637	2005-2007
C.H.A. Collee		7,637			7,637	2005-2007
H.Y. Scott-Barrett . .		3,818			3,818	2005-2007

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Remuneration of Managing Board and Supervisory Board (Continued)

ABN AMRO ordinary shares held by Managing Board members⁽¹⁾

	2005	2004
R.W.J. Groenink	30,574	18,334
W.G. Jiskoot	28,827	19,730
T. de Swaan	15,259	6,850
J.Ch.L. Kuiper	16,442	7,973
C.H.A. Collee	8,778	697
H.Y. Scott-Barrett	24,124	19,084
Total	124,004	72,668

(1) No financing preference shares were held by any Managing Board member.

Loans from ABN AMRO to Managing Board members

	2005		2004	
	Outstanding on 31 Dec.	Interest rate	Outstanding on 31 Dec.	Interest rate
	(in thousands of euros)			
R.W.J. Groenink	5,136	3.58	2,985	3.63
W.G. Jiskoot	1,674	3.94	1,674	3.94
T. de Swaan	1,407	2.75	1,407	2.25 ⁽¹⁾
J.Ch.L. Kuiper	681	3.72	655	3.87
C.H.A. Collee	2,620	3.27	2,641	3.29

(1) Variable rate.

The decrease in outstandings between 31 December 2004 and 31 December 2005 is caused by repayments.

The following table provides information on the remuneration of individual members of the Supervisory Board. The members of the Supervisory Board receive an equal remuneration of EUR 40,000 per annum. For the Vice Chairman this remuneration is EUR 45,000 and for the Chairman EUR 55,000 per annum. For the membership of the Audit Committee and the Nomination & Compensation Committee an additional allowance of EUR 7,500 per membership is applied on an annual basis. In addition to this remuneration every member also receives a general expenses allowance of EUR 1,500. This allowance is EUR 2,000 for the Vice Chairman and the Chairman. For members of the Committees mentioned above an additional expenses allowance of EUR 500 is applicable. Furthermore, for the Supervisory Board members who do not live in the Netherlands, there is a general allowance of EUR 5,000 per Supervisory Board meeting that such a member attends.

All amounts are based on a full year, but the actual payment depends on the period of membership during the year. Members of the Supervisory Board are not entitled to emoluments in the form of ABN AMRO shares or options on ABN AMRO shares.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Remuneration of Managing Board and Supervisory Board (Continued)

Remuneration of the Supervisory Board

	2005	2004
	(in thousands of euros)	
A.A. Loudon	63	63
A.C. Martinez ⁽¹⁾	56	48
A. Burgmans	48	48
Mrs L.S. Groenman	40	40
D.R.J. Baron de Rothschild ⁽¹⁾	40	40
Mrs T.A. Maas-de Brouwer	48	48
M.V. Pratini de Moraes ⁽¹⁾	45	40
P. Scaroni ⁽¹⁾	40	40
Lord Sharman of Redlynch ⁽¹⁾	48	48
A.A. Olijslager	45	27
R. van den Bergh ⁽¹⁾	27	—
A. Ruys	27	—
W. Dik ⁽²⁾	16	48
M.C. van Veen ⁽²⁾	20	60

(1) Excluding an attendance fee.

(2) Messrs Dik and Van Veen resigned on 29 April 2005.

ABN AMRO ordinary shares held by Supervisory Board members⁽¹⁾

	2005	2004
A.A. Loudon	5,421	5,147
A. Burgmans	9,654	9,165
A.C. Martinez ⁽²⁾	3,000	3,000
M.V. Pratini de Moraes ⁽²⁾	5,384	5,384
A.A. Olijslager	3,221	3,221
R.F. van den Bergh	8,167	—
M.C. van Veen ⁽³⁾	—	1,256
Total	34,847	27,173

(1) No financing preference shares were held by any Supervisory Board member.

(2) ADRs.

(3) Mr Van Veen resigned on 29 April 2005.

Loans from ABN AMRO to Supervisory Board members

The outstanding loans at 31 December 2005 amounts to EUR 2.1 million with an interest rate of 3.00% (2004: EUR 2.1 million—3.60%) and relates to Mr A. Burgmans.

Senior Executive Vice Presidents (SEVPs) Compensation 2005

The reward package for ABN AMRO's SEVPs, the second level of Top Executives, was also introduced in 2001 and—as with the Managing Board—was primarily aimed at maximising total returns to our shareholders.

The compensation for ABN AMRO SEVPs consists of the following core elements:

- Base salary. The base salaries are benchmarked against the relevant local markets. The current median base salary is EUR 396,000

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Remuneration of Managing Board and Supervisory Board (Continued)

- Performance bonus. The annual performance bonus is linked to the respective markets within the various countries where we operate. The median bonus amount paid with respect to the 2005 performance year was EUR 1 million. Bonuses for individual SEVPs vary widely, again reflecting market and location. No absolute maximum level of bonus has been defined for SEVPs
- Long-term incentives such as the Performance Share Plan and the Share Investment and Matching Plan. Long-term incentives are set at a lower level than the applicable yearly grants to Managing Board members. SEVPs received an award under the Top Executive Performance Share Plan and are eligible to participate on a voluntary basis in the Share Investment & Matching Plan. All SEVPs receive identical grants.

In addition, a number of benefits apply in relation to the respective markets and countries of residence. The total compensation for SEVP's in 2005 amounts to EUR 51 million (2004: EUR 42 million).

43 Share-based payments plans

ABN AMRO grants long-term share-based incentive awards to members of the Managing Board, other top executives and key staff under a number of plans.

With effect from 2005 share options no longer form part of the reward package of the top executives.

The current plans for the Managing Board (Performance Share Plan and Share Investment and Matching Plan) are described in note 42. At a lower level, the Performance Share Plan is also applicable to the second tier of top executives, the SEVPs. Both the SEVPs and the third level of top executives, the EVPs and MDs, may defer a part of their bonus to the Share Investment and Matching Plan. Furthermore, there is a Restricted Share Plan for the EVPs/MDs with performance conditions linked to the average return on equity in line with the Performance Share Plan of the Managing Board. All these plans are equity-settled.

There is also a cash-settled Performance Share Plan for the EVPs/MDs for the performance cycle 2002-2005.

Share-based compensation expense related to plans granted after 7 November 2002 totalled EUR 63 million in 2005 and EUR 58 million in 2004. Including the plans granted prior to 7 November 2002, for which the expense is calculated under our previous GAAP, total expense amounted to EUR 61 million (2004: EUR 4 million net of a release of EUR 58 million due to our final TRS-ranking in the performance cycle 2001-2004). The total carrying amount of liabilities arising from cash-settled share-based payments transactions amounted to EUR 22 million at 31 December 2005 (2004: EUR 18 million).

Option plans

Key staff are granted options conditionally on ABN AMRO shares with an exercise price equal to the average share price at the date of grant. Options generally vest three years after grant if both the service conditions and the performance conditions (a minimum ROE target) have been achieved.

The fair value of options granted is determined using a Lattice option pricing model. The following table shows the assumptions on which the calculation of the fair value of these options was based. The expected volatility was based on historical volatility.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Share-based payments plans (Continued)

For the calculation of the fair value of the options granted to the Top Executives in 2004, the same assumptions were used. The expense recorded in 2005 regarding all options plans amounted to EUR 43 million (2004: EUR 36 million).

	2005	2004
Grant date	16 February 2005	13 February 2004
Expiration date	16 February 2015	13 February 2014
Exercise price (in euros)	21.24	18.86
Share price on grant date (in euros)	21.24	18.86
Volatility	34%	35%
Expected dividend yield	5.2%	4.7%
Interest rate	3.7%	4.3%
Fair value at grant date (in euros)	4.24	3.98

The following table shows an overview of options granted during the past two years:

	2005		2004	
	Number of options (in thousands)	Average exercise price (in euros)	Number of options (in thousands)	Average exercise price (in euros)
Balance at 1 January	63,050	18.94	59,149	19.30
Movements:				
Options granted to Managing Board members	—	—	576	18.86
Options granted to other Top Executives	—	—	6,175	18.86
Other options granted	7,939	21.24	8,254	18.76
Options forfeited	(2,780)	18.29	(760)	18.03
Options exercised	(1,868)	18.05	(3,160)	18.10
Options expired	(4,072)	22.43	(7,184)	22.04
Balance at 31 December	62,269	19.06	63,050	18.94
Of which exercisable	26,873	20.96	19,599	21.96
Of which exercisable and in the money	17,413	20.01	1,551	17.95
Of which hedged	26,968	18.14	28,837	18.06

In 2005 and 2004, the price of options exercised ranged from EUR 17.46 to EUR 20.42, compared to an average share price of EUR 20.11 in 2005 and EUR 18.18 in 2004. If all exercisable rights were to be exercised, shareholders' equity would increase by an amount of EUR 563 million (2004: EUR 430 million). Deliveries on options exercised in 2005 were made from share repurchases on the date of grant (1,868,242 shares; 2004: 497,512 shares) and from new shares issued on the exercise date (no shares; 2004: 2,662,183 shares).

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Share-based payments plans (Continued)

The following tables further detail the options outstanding at 31 December 2005:

	Outstanding (in thousands)	Average exercise price (in euros)	Low/high exercise price (in euros)
Year of expiration			
2007	4,411	21.30	21.30
2008	9,459	22.72	22.34-23.14
2009	4,391	20.42	20.42
2010	898	15.06	15.06
2011	495	17.12	17.12
2012	8,612	19.14	17.46-19.53
2013	13,105	14.45	14.45-14.65
2014	13,265	18.86	18.86
2015	7,633	21.24	21.24
Total	62,269	19.06	14.45-23.14

	Options outstanding			Options exercisable	
	Outstanding (in thousands)	Weighted- average exercise price (in euros)	Weighted- average remaining contractual life (in years)	Exercisable (in thousands)	Weighted average exercise price (in euros)
Range of exercise prices (in euros)					
14.45-17.50	16,139	14.87	6.9	1,641	17.46
17.51-20.00	20,236	19.09	7.4	6,971	19.53
20.01-22.50	21,369	21.34	4.8	13,736	21.39
> 22.51	4,525	23.14	2.2	4,525	23.14
Total	62,269	19.06	6.0	26,873	20.96

Share plans

For the calculation of the expense for the share plans, various models were used. The total expense in 2005 for plans granted after 7 November 2002 amounted to EUR 19 million (2004: EUR 22 million). The following table presents a summary of all shares conditionally granted to the Top Executives of ABN AMRO. For the number of shares granted on the TRS-ranking under the Performance Share Plan, a ranking of fifth in the peer group has been assumed.

	2005 (in thousands)	2004
Balance at 1 January	3,688	4,741
Granted	2,892	1,797
Forfeited	(283)	(2,850)
Vested	(660)	—
Balance at 31 December	5,637	3,688

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

44 Acquisitions and disposals of subsidiaries

Acquisitions in 2005 and 2004

The following acquisitions were made in 2005 and 2004 and were accounted for using the purchase method:

	<u>% acquired</u>	<u>Consideration</u>	<u>Total assets</u>	<u>Acquisition Date</u>
Acquired companies				
2005:				
Bank Corluy	100	50	121	27 April 2005
Private equity acquisitions	51-100	43	2,174	various
2004:				
Bethmann Maffei	100	110	812	30 January 2004
Private equity acquisitions	51-100	112	963	various

The acquisitions in 2005 contributed a net loss of EUR 7 million to the consolidated net profit for the year.

Disposal in 2005 and 2004

During 2005 the Group disposed of the following activities:

- Real Seguros in Brazil which was transferred to a joint venture
- Nachenius, Tjeenk & Co.

These operations contributed EUR 22 million to the consolidated net profit for the year ended 31 December 2004 and EUR 12 million in 2005.

During 2004 the Group disposed of the following activities:

- LeasePlan Corporation
- Bank of Asia.

Business combinations in 2006

On 2 January 2006 the Group entered into the business combination with Banca Antoniana Popolare Veneta (Banca Antonveneta) to increase its mid-market footprint, and to continue and accelerate the successful partnership that gives access to the large and attractive Italian banking market and to the high-quality customer base of Banca Antonveneta.

During 2005 the Group increased its interest in Banca Antonveneta from 12.7% to 29.9%. On 2 January 2006 the Group further increased its interest in Banca Antonveneta from 29.9% to 55.8% following the purchase of 79.9 million shares in Banca Antonveneta from Banca Popolare Italiana (BPI). This increase has effectively given the Group a controlling interest in Banca Antonveneta as from 2 January 2006, the acquisition date of the business combination. The acquisition of the shares was performed in accordance with the agreement with BPI announced on 26 September 2005. The Group paid EUR 26.50 per share, representing a cash consideration of EUR 2.1 billion.

As a result of this increased interest in Banca Antonveneta, in accordance with the Italian law, the Group has launched a mandatory public offer for the remaining shares it does not already hold in Banca Antonveneta.

On 26 February 2006 the Group published the offering document for the cash offer for all ordinary shares in Banca Antonveneta. The offering period started on 27 February 2006 and will end on 31 March 2006, as agreed with the Italian stock exchange Borsa Italiana.

ABN AMRO will pay Banca Antonveneta shareholders a consideration of EUR 26.50 a share for each Banca Antonveneta ordinary share purchased through the offer, as already announced on 26 September 2005.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

44 Acquisitions and disposals of subsidiaries (Continued)

Following further purchases of shares in the open market, as at 16 March 2006 ABN AMRO's interest in Banca Antonveneta amounts to 76.0% of its outstanding share capital.

Business combination achieved in stages

The acquisition of Banca Antonveneta by the Group is being achieved in stages through successive share purchases. The Group has identified two stages in achieving this business combination.

The first stage has ended with the announcement by the Group on 30 March 2005 of its intention to launch the cash offer for all ordinary shares of Banca Antonveneta. At that date the 12.7% holding of the Group in Banca Antonveneta was accounted for as an associate in accordance with the equity method. The adjustment to fair value of the 12.7% holding of the Group in Banca Antonveneta amounting to EUR 101 million—following the fair valuation of assets and liabilities of Banca Antonveneta as per the acquisition date in accordance with the purchase method—will be accounted for as a revaluation through shareholders' equity.

The second stage has started as of 1 April 2005 and will be completed by 31 March 2006, the end of the offering period. The Group has presumed that the fair values of assets and liabilities of Banca Antonveneta as at 2 January 2006 represent the fair values of assets and liabilities of Banca Antonveneta during the second stage of the acquisition between 1 April 2005 and 31 March 2006. The stable economic environment and specific business circumstances of Banca Antonveneta during the second stage of the acquisition have not had a material impact on the fair values of assets and liabilities of Banca Antonveneta during that period.

The acquisition of Banca Antonveneta will be accounted for in accordance with the purchase method as described in IFRS 3—Business Combinations. The total purchase price to acquire 100% of the outstanding shares of Banca Antonveneta amounts to EUR 7.5 billion, including costs directly attributable to the combination of EUR 32 million.

The preliminary allocation of the purchase price to the assets acquired—including newly identifiable intangible assets resulting from the acquisition—and (contingent) liabilities assumed, using their fair values at the acquisition date and the resulting goodwill, is presented in the following table.

This allocation is based on provisional fair values of assets acquired and liabilities assumed, and may be adjusted during the period up to 31 December 2006 as more information is obtained about these fair values.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

44 Acquisitions and disposals of subsidiaries (Continued)

The fair values of the identifiable assets and liabilities of Banca Antonveneta as at 2 January 2006 are:

	Recognised on acquisition by the group	Carrying value Banca Antonveneta
Intangible assets	1,238	848
Property and equipment	772	751
Financial assets	43,112	41,936
Deferred tax assets	958	736
All other assets	3,359	3,461
Total identifiable assets	49,439	47,732
Deferred tax liabilities	684	147
All other liabilities	45,463	44,487
Total identifiable liabilities	46,147	44,634
Total net assets	3,292	3,098
Purchase price (100%)	7,464	
Net assets	(3,292)	
Fair value adjustment of 12.7% investment included in shareholders' equity	101	
Goodwill arising on acquisition of 100% outstanding shares . .	4,273	

Newly identifiable intangible assets recognised upon acquisition

As a result of the acquisition, the Group—on a pre-tax basis—will recognise newly identifiable intangible assets as follows:

Core deposit intangible assets	400
Core overdraft intangible assets	224
Other customer relationship intangible assets	325
Other intangible assets	245
Total	1,194

The amortisation period for all newly identifiable intangible assets is on average approximately 8 years. The Group estimates that the total amortisation expense (pre-tax) related to the newly identifiable intangible assets will amount to EUR 174 million in each of the next three years up to and including 2008 and to EUR 142 million for each of the five years thereafter up to and including 2013.

Goodwill

Goodwill represents expected revenue and cost synergies from the business combination and the value of the workforce of Banca Antonveneta which cannot be recognised separately from goodwill.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

45 Discontinued Operations

The Group had no discontinued operations in 2005. During 2004 the Group disposed of LeasePlan Corporation and the Bank of Asia. The aggregated operating performance and disposal gain for these discontinued operations was as follows.

	2004
Total operating income	736
Total expenses	519
Operating profit before tax	217
Gain recognised on disposal	1,275
Profit before tax from discontinued operations	1,492
Tax on operating profit	51
Tax on disposal gain	(6)
Profit from discontinued operations net of tax	1,447

46 Related parties

The Group has a related party relationship with associates (see notes 19 and 40), joint ventures (see note 41), pension funds (see note 27) and key management (see note 42).

The Group enters into a number of banking transactions with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates except for employees. No allowances for loan losses have been recognised in respect of loans to related parties in 2005 and 2004.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

47 First-time adoption of IFRS

The impact of transition from Dutch GAAP to IFRS can be summarised as follows:

Reconciliation of shareholders' equity under Dutch GAAP to IFRS

	1 January 2004	31 December 2004
Shareholders' equity under Dutch GAAP	13,047	14,972
Release of fund for general banking risks	1,143	1,149
Reclassification of preference shares to subordinated liabilities	(813)	(767)
Reversal of property revaluation	(130)	(87)
Reclassification regarding Banco Real to subordinated liabilities	(231)	(231)
Transition impacts		
Release of interest equalisation reserve relating to the investment portfolio	1,563	
Derivatives and hedging	(560)	
Fair value adjustments	(160)	
Private Equity (consolidation and fair valuation)	56	
Loan impairment provisioning	(405)	
Property development	(108)	
Differences at LeasePlan Corporation	(148)	
Equity accounted investments	(100)	
Employee benefit obligations	(1,475)	
Other	(355)	
Total transition impact before taxation	(1,692)	
Taxation impact	(577)	
Total transition items (net of taxation)	(1,115)	(1,115)
Difference in 2004 profit	—	(244)
Impact of gains and losses not recognised in income statement		
Available-for-sale reserve	489	818
Cash flow hedging reserve	(165)	(283)
Dutch GAAP pension booking to equity not applicable under IFRS	—	479
Difference in currency translation account movement	—	(40)
Other differences affecting IFRS and Dutch GAAP equity		
Equity settled derivatives on own shares	(106)	16
Goodwill capitalisation under IFRS	—	46
Other	—	102
Total impact	(928)	(157)
Total shareholders' equity under IFRS	12,119	14,815

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

47 First-time adoption of IFRS (Continued)

Reconciliation of 2004 net profit under Dutch GAAP to IFRS

	2004
Net profit under Dutch GAAP	4,109
Dividends accrued on preference shares	(43)
Net profit available to shareholders under Dutch GAAP	4,066
Reconciling items:	
Interest equalisation reserve amortisation relating to investment portfolio	(454)
Available-for-sale realisations and other (including hedging)	(19)
Mortgage banking activities	(161)
Fair value adjustments	(230)
Derivatives	11
Private Equity	129
Employee benefit obligations	89
Employee stock options	(21)
Differences in gain on sale of LeasePlan Corporation and Bank of Asia	224
Redemption costs relating to preference shares classified as interest cost under IFRS	(42)
Loan impairment provisioning	29
Other	(39)
Total impact before taxation	(484)
Tax effect	283
Net profit impact	(201)
Profit attributable to equity holders of the parent company under IFRS	3,865

Under Dutch GAAP, total assets and total liabilities at 31 December 2004 were EUR 608,623 million and EUR 589,372 million respectively, compared to EUR 727,454 million and EUR 710,902 million under IFRS. In addition to differences in valuation and income recognition ("transition difference") and equity/liability classification, the following changes impact the presentation of assets and liabilities:

- IFRS requires the consolidation of multi-seller conduits which impacted both total asset (loans and receivables customers) and total liabilities (due to customers) by EUR 23,700 million
- Under IFRS derivative netting can only be applied if, in addition to holding the right of set-off, we also have the intention to settle net. This "intention" criteria is seldom met due to small differences in the timing of cash flows between derivatives with the same counterparty and the use of gross settlement accounts with derivative exchanges. This increased total assets (financial assets held for trading) and total liabilities (financial liabilities held for trading) by approximately EUR 97 billion
- Consolidating controlled private equity investments had the impact of increasing total assets and total liabilities by EUR 2,393 million
- Under IFRS funding instruments totalling EUR 3,714 million that previously qualified as equity, reported in minority interest and preference shares, are now presented as subordinated liabilities.

Upon transition at 1 January 2004 the following assets and liabilities were designated to be held at fair value with changes through income:

- Non-controlling interests in private equity investments. These investments were previously valued at cost less any required provision for impairment and presented within shares with a book value of EUR 1,079 million at 1 January 2004. The adjustment required to bring these investments to fair

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

47 First-time adoption of IFRS (Continued)

value at 1 January 2004 was EUR 9 million. These interests are now reported within “financial investments”.

- Mortgages held-for-sale as part of our mortgage banking activities in North America. These mortgages were previously recorded at cost within “loans to customer”. Under IFRS these loans are now reported within “other assets” and had a fair value of EUR 4,209 million. This exceeded the cost amount by EUR 27 million, a sum which was largely offset by the requirement to fair value related hedging derivatives.

48 Subsequent events

On 2 January 2006 the Group obtained a controlling stake in Banca Antonveneta. See note 44 for further details.

49 Major subsidiaries and participating interests

(Unless otherwise stated, the bank's interest is 100% or almost 100%, on 15 March 2006. Those major subsidiaries and participating interests that are not 100% consolidated but are accounted for under the equity method (a) or proportionally consolidated (b) are indicated separately).

ABN AMRO Bank N.V., Amsterdam

Netherlands

AAGUS Financial Services Group N.V., Amersfoort (67%)
AA Interfinance B.V., Amsterdam
ABN AMRO Arbo Services B.V., Amsterdam
ABN AMRO Asset Management Holding N.V., Amsterdam
ABN AMRO Asset Management (Netherlands) B.V., Amsterdam
ABN AMRO Assurantie Holding B.V., Zwolle
ABN AMRO Bouwfonds Nederlandse Gemeenten N.V., Hoevelaken
ABN AMRO Effecten Compagnie B.V., Amsterdam
ABN AMRO Mellon Global Securities B.V., Amsterdam (50%) (b)
ABN AMRO Participaties B.V., Amsterdam
ABN AMRO Projectontwikkeling B.V., Amersfoort
ABN AMRO Ventures B.V., Amsterdam
Amstel Lease Maatschappij N.V., Utrecht
Delta Lloyd ABN AMRO Verzekeringen Holding B.V., Zwolle (49%)(a)
Dishcovery Horeca Expl. Mij B.V., Amsterdam
Hollandsche Bank-Unie N.V., Rotterdam
IFN Group B.V., Rotterdam
Solveon Incasso B.V., Utrecht
Stater N.V., Hoevelaken

Outside the Netherlands

Europe

ABN AMRO Asset Management Holdings Ltd., London
ABN AMRO Asset Management Ltd., London
Artemis Investment Management Ltd., Edinburgh (71%)
ABN AMRO Asset Management (Deutschland) GmbH, Frankfurt am Main
ABN AMRO Bank A.O., Moscow
ABN AMRO Bank (Deutschland) AG, Frankfurt am Main
ABN AMRO Bank (Luxembourg) S.A., Luxembourg
ABN AMRO Bank (Polska) S.A., Warsaw

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

49 Major subsidiaries and participating interests (Continued)

ABN AMRO Bank (Romania) S.A., Bucharest
ABN AMRO Bank (Schweiz) A.G., Zurich
ABN AMRO Capital Ltd., London
ABN AMRO Corporate Finance Ltd., London
ABN AMRO France S.A., Paris
 Banque de Neuflyze, Paris
 Banque Odier Bungere Courvoisier, Paris
ABN AMRO Fund Managers (Ireland) Ltd., Dublin
ABN AMRO Futures Ltd., London
ABN AMRO Infrastructure Capital Management Limited, London
ABN AMRO International Financial Services Company, Dublin
ABN AMRO Investment Funds S.A., Luxembourg
ABN AMRO Stockbrokers (Ireland) Ltd., Dublin
Alfred Berg Holding A/B, Stockholm
Alfred Berg Asset Management Sweden A/B, Stockholm
Antonveneta ABN AMRO Societa di Gestione del Risparmio SpA, Milan
 (45% ABN AMRO Bank N.V.; 55% Banca Antonveneta Group)(a)
Aspis Internationaal MFMC, Athens (45%) (a)
Banca Antonveneta SpA, Padova (76%) (a), 16 March 2006
Capitalia SpA, Roma (8%) (a)
CM Capital Markets Holding S.A., Madrid (45%) (a)
Delbrück Bethmann Maffei AG, Frankfurt am Main
Hoare Govett Ltd., London
Kereskedelmi és Hitelbank Rt., Budapest (40%) (a)

North America

ABN AMRO Asset Management Canada Ltd, Toronto
ABN AMRO Capital Markets Canada Ltd., Toronto
ABN AMRO Bank (Mexico) S.A., Mexico City
ABN AMRO North America Holding Company, Chicago
 (holding company, voting right 100%, equity participation 92%)
 LaSalle Bank Corporation, Chicago
 LaSalle Bank N.A., Chicago
 LaSalle Financial Services, Inc., Chicago
 LaSalle National Leasing Corporation, Chicago
 LaSalle Business Credit, LLC., Chicago
 LaSalle Bank Midwest N.A., Troy
 ABN AMRO Mortgage Group, Inc., Chicago
ABN AMRO Advisory, Inc., Chicago (81%)
ABN AMRO Capital (USA) Inc., Chicago
ABN AMRO Incorporated, Chicago
 ABN AMRO Sage Corporation, Chicago
 ABN AMRO Rothschild LLC, New York (50%) (b)
ABN AMRO Asset Management Holdings, Inc., Chicago
 ABN AMRO Asset Management (USA) LLC., Chicago
 ABN AMRO Asset Management Inc., Chicago
 ABN AMRO Investment Fund Services, Inc, Chicago
 Montag & Caldwell, Inc., Atlanta

Middle East

Saudi Hollandi Bank, Riyadh (40%) (a)

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

49 Major subsidiaries and participating interests (Continued)

Rest of Asia

ABN AMRO Asia Ltd., Hong Kong
ABN AMRO Asia Corporate Finance Ltd., Hong Kong
ABN AMRO Asia Futures Ltd., Hong Kong
ABN AMRO Asset Management (Asia) Ltd., Hong Kong
ABN AMRO Asset Management (Japan) Ltd., Tokyo
ABN AMRO Asset Management (India) Ltd., Mumbai (75%)
ABN AMRO Bank Berhad, Kuala Lumpur
ABN AMRO Bank (Kazakhstan) Ltd., Almaty (80%)
ABN AMRO Bank N.B., Uzbekistan A.O., Tashkent (58%)
ABN AMRO Bank (Philippines) Inc., Manila
ABN AMRO Central Enterprise Services Private Ltd., Mumbai
ABN AMRO Securities (India) Private Ltd., Mumbai (75%)
ABN AMRO Securities (Japan) Ltd., Tokyo
PT ABN AMRO Finance Indonesia, Jakarta (70%)
PT ABN AMRO Manajemen Investasi Indonesia, Jakarta (96%)

Australia

ABN AMRO Asset Management (Australia) Ltd., Sydney
ABN AMRO Australia Ltd., Sydney
 ABN AMRO Asset Securitisation Australia Pty Ltd., Sydney
 ABN AMRO Corporate Finance Australia Ltd., Sydney
 ABN AMRO Equities Australia Ltd., Sydney
 ABN AMRO Securities Australia Ltd., Sydney
ABN AMRO Equities Capital Markets Australia Ltd., Sydney
ABN AMRO Capital Management (Australia) Pty Limited, Sydney

New Zealand

ABN AMRO New Zealand Ltd., Auckland
ABN AMRO Equity Derivatives New Zealand Limited, Auckland

Latin America and the Caribbean

ABN AMRO Asset Management Argentina Sociedad Gerente de FCI S.A., Buenos Aires
ABN AMRO Bank (Chile) S.A., Santiago de Chile
ABN AMRO Bank (Colombia) S.A., Bogotá
ABN AMRO (Chile) Seguros Generales S.A., Santiago de Chile
ABN AMRO (Chile) Seguros de Vida S.A., Santiago de Chile
ABN AMRO Brasil Participações Financeiras S.A., São Paulo
ABN AMRO Brasil Dois Participações S.A., São Paulo
 Banco ABN AMRO Real S.A., São Paulo (89%)
 Banco de Pernambuco S.A., Recife
Banco Sudameris Brasil S.A., São Paulo (85%)
 Sudameris Vida e Previdência S.A., São Paulo
ABN AMRO Asset Management DVTM S.A., São Paulo
ABN AMRO Asset Management S.A., São Paulo
Real Paraguaya de Seguros S.A., Asunción
Real Uruguay de Seguros S.A., Montevideo

For information on the investments of ABN AMRO Bouwfonds Nederlandse Gemeenten N.V., the reader is referred to the separate annual report published by this company.

Notes to the consolidated financial statements (Continued)

(unless otherwise stated, all amounts are in millions of euros)

49 Major subsidiaries and participating interests (Continued)

The list of participating interests under which statements of liability have been issued has been filed at the Amsterdam Chamber of Commerce.

Amsterdam, 23 March 2006

Supervisory Board

A.A. Loudon
A.C. Martinez
A. Burgmans
D.R.J. Baron de Rothschild
Mrs L.S. Groenman
Mrs T.A. Maas-de Brouwer
M.V. Pratini de Moraes
P. Scaroni
Lord Sharman of Redlynch
A.A. Olijslager
R.F. van den Bergh
A. Ruys

Managing Board

R.W.J. Groenink
W.G. Jiskoot
T. de Swaan
J.Ch.L. Kuiper
C.H.A. Collee
H.Y. Scott-Barrett
H.G. Boumeester
P.S. Overmars
R. Teerlink

**Section D: Audit Opinion included in ABN AMRO's Annual Report for the year ended
31 December 2005**

Auditors' report

Introduction

We have audited the financial statements of ABN AMRO Holding N.V., Amsterdam, for the year 2005 (as set out on pages 110 to 216). These financial statements consist of the consolidated financial statements and the company financial statements. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our 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 the company as at 31 December 2005 and of the result and the cash flows for the year then ended in accordance with International Financial Reporting Standards and with International Financial Reporting Standards as adopted by the EU and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code as far as applicable.

Furthermore we have established to the extent of our competence that the annual report is consistent with the consolidated financial statements.

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 the company as at 31 December 2005 and of the result for the year then ended in accordance with the accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Furthermore we have established to the extent of our competence that the annual report is consistent with the company financial statements.

Amsterdam, 23 March 2006

for Ernst & Young Accountants

V.C. Veger

C.B. Boogaart

Section E: Consolidated Financial Statements included in ABN AMRO's Annual Report for the year ended 31 December 2004

Accounting policies

General

The financial statements have been prepared in conformity with generally accepted accounting principles in the Netherlands. Where necessary, the amounts reported in the financial statements are based on estimates and assumptions.

Since ABN AMRO Holding N.V. ordinary shares are listed on the New York Stock Exchange (NYSE) in the form of American Depositary Receipts, ABN AMRO also publishes an annual report (Form 20-F) that conforms to the US Securities and Exchange Commission (SEC) rules, including those relating to the format and content of the notes to the financial statements. In addition, it includes an analysis of equity and results according to accounting principles generally accepted in the United States (US GAAP).

Basis for inclusion of financial instruments

A financial instrument is accounted for as an asset or liability from the time the respective contractual rights or obligations accrue to the company. Whenever this ceases to be the case, a financial instrument is no longer recognised in the balance sheet. If ABN AMRO has the right on the grounds of legal or contractual provisions and the intention to settle financial assets and liabilities net or simultaneously, they are netted-off in the balance sheet.

Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities, revenues and expenses of ABN AMRO Holding N.V., its subsidiaries and other group companies that form an organisational and economic entity with it. A group company is an entity for which ABN AMRO has the power to govern its financial and operational policy and to obtain the majority of its benefits unless the investment is intended not to be permanent. Special purpose entities which meet these criteria, such as entities established to securitise assets bought from ABN AMRO, are treated as group company as well. Entities are consolidated from the date on which control is transferred to ABN AMRO and no longer consolidated from the date that control ceases. Minority interests in both equity and results of subsidiaries and other group companies are stated separately. Jointly-controlled entities are proportionally consolidated based on ABN AMRO's interest in such an entity.

Goodwill

Goodwill may arise on the acquisition of group companies, joint ventures and participating interests with significant influence. It represents the excess of the cost of an acquisition over the fair value of ABN AMRO's share of the net assets acquired measured at the date of acquisition. Goodwill is not capitalised but is charged to shareholders' equity according to one of the options, permitted under Dutch law.

Currency translation

Assets and liabilities denominated in foreign currencies and financial instruments hedging these assets and liabilities are translated into euros at the spot rates of exchange prevailing at balance sheet date. Translation differences are taken to the income statement. With the exception of capital investments in hyper-inflationary countries, translation differences on capital investments in foreign branches, subsidiaries and participating interests, including retained profit, are accounted for in shareholders' equity together with the results from related hedging instruments, after allowing for taxation.

Results on transactions denominated in foreign currencies are translated at the rates prevailing at transaction date or, insofar as accruals and deferrals are involved, on the last day of the month to which the results relate. Results of foreign branches, subsidiaries and participating interests, apart from those in hyper-inflationary countries, are translated at the rates prevailing at the end of the month in which the results are recognised. The results from branches, subsidiaries and participating interests in hyper-inflationary countries are translated at the rates prevailing at balance sheet date, after restating the local currency results for the effects of inflation.

Valuation and determination of results

General

Except where otherwise stated, assets and liabilities are recorded at cost, less any allowance deemed necessary. The effects of transactions and other events are recognised when they occur; revenues and expenses are recognised in the year to which they relate. Premiums and discounts are accounted for in prepayments and accrued income or accruals and deferred income respectively, and are attributed to the accounting periods throughout the remaining terms of the underlying items.

Except for items forming part of the trading portfolio, interest-earning and interest-bearing securities on which a large part or all of the interest receivable or payable is settled on redemption are included at either purchase price or discounted value on issue plus accrued interest.

If financial instruments are used to hedge risks associated with designated assets or liabilities, the valuation and determination of results on these instruments are effected in accordance with the policies applied to the hedged items. Transactions qualify as hedges if they are identified as such and there is a substantial correlation between the hedging results and the results of the positions being hedged. Gains or losses on the early termination of a hedge are recognised as assets or liabilities and amortised over the remaining terms of the hedged positions. Where financial instruments are used to hedge risks associated with designated assets or liabilities and the hedged assets or liabilities are sold or terminated, such financial instruments no longer qualify as hedges. Results on the settlement of the hedge are accounted for in the same period as gains or losses on the settlement of the hedged position. Accounting policies relating to other financial instruments are explained in the section on trading activities.

Where loan-related fees exceed initial expenses, the excess is accounted for as interest in the period concerned. Acquisition commission paid by the life insurance business to third parties and the banking operation are capitalised as initial expenses and amortised. Expenses involved in the issuance of ordinary and preference shares are charged to shareholders' equity.

Loans

Loans are generally shown at the principal amount. Loans are classified as doubtful as soon as there is any doubt about the borrower's capacity to meet its payment obligations to the bank. Where deemed necessary, an allowance for loan losses is determined on a per item basis, taking into account the value of collateral. The allowances for consumer loans are determined on a portfolio basis, with a specific provision for each product being determined by the size of the portfolio and historical loss experience. New allowances and changes in existing allowances are recognised in the provision for loan losses in the income statement.

"Non-performing" loans are doubtful loans that are placed on a non-accrual basis, which means that the contractual interest is no longer recognised in the income statement. Such unrecognised interest is then either (i) booked into a suspense account, or (ii) if for administrative reasons it cannot be booked as a specific unpaid interest claim, it is booked directly into the specific allowance for loan losses. When actually received, interest on non-performing loans is only recognised as interest revenue if the principal is expected to be fully collected. Doubtful loans are not written off until it is clear that repayment of principal can be ruled out.

The fund for general banking risks aims to cover general risks related to credits. The related deferred tax assets are deducted from the fund.

Trading activities

Securities held in the trading portfolios are stated at market value. Debentures of ABN AMRO group companies, acquired as part of trading activities, are stated at the lower of market value and purchase price. Foreign exchange contracts, stock, bond, currency and other options, as well as interest rate contracts such as interest rate swaps and forward rate agreements, are stated at market value. The aggregate market value of these contracts is included in other assets or other liabilities. Gains or losses resulting from the method of valuation described are recognised in the income statement in results from financial transactions.

Financial and other fixed assets

Investments

Interest-earning securities (other than securities on which a large part or all of the interest is settled on redemption) held in the investment portfolios are stated at redemption value. Shares held in these portfolios are included at market value, with changes in value, net of tax, reflected in shareholders' equity. If the revaluation reserve formed in this manner on a portfolio basis is insufficient to absorb diminutions in value, they will be charged to the income statement in value adjustments to financial fixed assets. Results on sales are credited to the income statement in the year the investments are sold. Net capital gains on interest-bearing securities realised prior to redemption date in connection with replacement operations are recognised as interest over the remaining average portfolio duration. Investments which are held under insurance contracts for the account and risk of policyholders are carried at market value; changes in the value of these investments are accounted for as other revenue (profits or losses of insurance companies).

Shares as part of venture capital activities

Equity investments, i.e. shares acquired as part of venture capital activities, are stated at purchase price or sustained lower market value. Changes in value are reflected in the income statement.

Participating interests

Participating interests in which ABN AMRO or one of its subsidiaries has a significant influence on commercial and financial policy are stated at net asset value determined in conformity with the policies applied in these financial statements. Significant influence is assumed when ABN AMRO is represented on the board of directors or an equivalent governing body of the investee, even when ABN AMRO holds less than 20% of the voting power of the investee. In accordance with these policies, movements in net asset value are recorded in shareholders' equity, such as revaluations and goodwill, or in the income statement. Tax payable on distributions is taken into account at the moment of the decision to make a distribution.

Other participating interests, consisting principally of equity investments in companies in related lines of business, are shown either at market value at balance sheet date (listed participating interest) or at estimated realisable value (unlisted participating interest). Movements in the value of participating interests on which the bank does not exercise an influence are recorded, net of tax, in shareholders' equity. If the revaluation reserve formed in this manner for each participating interest is insufficient to absorb diminutions in value, such diminutions will be charged to the income statement in value adjustments to financial fixed assets.

Property and equipment

Premises used in operations, including land, are stated at current value based on replacement cost. These current values are estimated on a rolling basis by external appraisers, whereby each year at least 10% of the bank's buildings is appraised. The value of larger fittings is estimated once every five years. In the years in between, a building index is used for the properties concerned. Buildings, fixtures and fittings are fully depreciated by the straight-line method over their estimated useful life with a maximum of 50 years. Movements in value, net of tax, are credited or charged to shareholders' equity on a permanent basis. Capital expenditures on rented premises are capitalised and also depreciated on a straight-line basis, taking into account the term of the lease.

Building sites, commercial property projects and residential property under construction are stated at cost incurred, including interest and net of provisions as required. However, on large-scale, long-term development projects on which the result can be reliably measured, the result is recognised in accordance with the percentage-of-completion method.

Unsold property held for sale is stated at the lower of cost, including interest during the construction phase, and the estimated proceeds from sale.

Investment property is stated at fair value whereby all changes in the fair value are taken into the income statement.

Equipment, computer installations, software bought from third parties and the costs of internally-developed software which relates to the development stage are stated at cost less straight-line depreciation over the estimated useful life, namely:

- Equipment 5 to 12 years
- Computer installations 2 to 5 years
- Software 3 years.

Mortgage servicing rights

Mortgage servicing rights are capitalised at the lower of initial carrying value, adjusted for amortisation or fair value. The amortisation is in proportion to, and over the period of, net estimated servicing income.

The carrying value includes deferred gains and losses on early terminated derivative hedges. The fair value of servicing rights is determined by estimating the present value of future net cash flows, taking into consideration prepayments speeds, discount rates, servicing costs and other economic factors. The fair value of hedges is included in evaluating possible impairment. Mortgage servicing rights are classified as other assets.

Provisions

Pension or other retirement plans have been established for the employees in the Netherlands and the majority of staff employed outside the Netherlands in accordance with the regulations and practices of the countries in question. Most of these plans are administered by separate pension funds or third parties. The obligations are regarded as own obligations of ABN AMRO, irrespective of whether these are administered by a pension fund or in some other manner. Viewed against this background, the nature and substance of the plans are decisive for their treatment in the financial statements. In this respect, a distinction is made between defined contribution plans and defined benefit plans.

Defined benefit plan pension obligations are calculated in accordance with the projected unit credit method of actuarial cost allocation. Under this method, the present value of pension and other employee benefit obligations is determined on the basis of the number of active years of service up to balance sheet date, the estimated salary scale at the time of the expected retirement date and the market rate of interest on high-quality corporate bonds.

To determine the pension costs, the expected return on the plan assets is included in the calculation. Differences between the expected and actual return on the plan assets, as well as actuarial changes, are only recorded in the income statement if the total of these accumulated differences and changes exceeds a corridor of 10% of the largest of obligations under the plan or the fair value of the related plan assets. The part that exceeds the corridor is taken to the income statement over the members' remaining years of service. Additions in defined benefit obligations resulting from revised plans regarding prior-service periods (prior-service cost) are also not recognised immediately in the period these benefits are vested but taken to the income statement over the members' remaining years of service. Any differences thus calculated between the pension costs and the contributions payable are accounted for as provision or prepayments. If the accumulated benefit obligation (the defined benefit obligation without considering future salary increases) exceeds the fair value of the plan assets of the pension fund, an additional liability (provision for pension obligations) may be required. This will be the case if this excess is greater than the provision for pension obligations already accounted for, taking into account the method described above.

If an additional provision for pension obligations is recognised, an equal amount, but not an amount which exceeds the amount of unrecognised prior-service cost, is recognised as an intangible asset. Any amount not recognised as an intangible asset will be charged to shareholders' equity. Obligations relating to the early retirement of employees are treated in this context as pension obligations.

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

Provisions for other post-retirement benefits, chiefly consisting of contributions to health insurance, and for payments to non-active employees are also computed on the basis of actuarial assumptions.

Insurance fund liabilities relate chiefly to provisions for life insurance. These are determined using actuarial methods and on the basis of the same principles as those used to calculate the premium.

These provisions are periodically tested against changes in mortality statistics, interest rates and costs, and increased whenever deemed inadequate.

Technical provisions for plan assets exposure borne by policyholders are determined using the same principles as are applied for the valuation of the underlying plan assets.

Except for deferred tax liabilities, other provisions for commitments and risks are included at face value.

Taxes

In determining the effective tax rate, all timing differences between pretax profit determined on the basis of ABN AMRO accounting policies and the taxable amount in accordance with tax legislation, are taken into account. Deferred tax assets and liabilities are discounted to their present value on the basis of the net interest. Deferred tax assets are accounted for only if there is sufficient assurance about their collectibility. The addition to or withdrawal from the fund for general banking risks is taken into account when determining the effective tax rate. Taxes related to movements in the value of assets and liabilities which are directly debited or credited to shareholders' equity are directly booked to shareholders' equity as well.

Consolidated balance sheet at December 2004

	Note	2004	2003
		(in millions of euros)	
Assets			
Cash	1	17,794	12,734
Short-dated government paper	2,5	16,578	9,240
Banks	3	83,710	58,800
Loans to public sector		5,967	5,489
Loans to private sector		233,815	234,776
Professional securities transactions		59,269	56,578
Loans	4	299,051	296,843
Interest-earning securities	5	133,869	132,041
Shares	5	25,852	16,245
Participating interests	6	2,309	2,629
Property and equipment	7	6,798	7,204
Other assets	8	15,338	16,548
Prepayments and accrued income	9	7,324	8,153
		<u>608,623</u>	<u>560,437</u>
Liabilities			
Banks	10	132,732	110,887
Savings accounts		74,256	73,238
Deposits and other client accounts		178,640	168,111
Professional securities transactions		40,661	48,517
Total client accounts	11	293,557	289,866
Debt securities	12	82,926	71,688
Other liabilities	8	43,040	33,207
Accruals and deferred income	9	9,776	11,840
Provisions	13	13,553	11,146
		<u>575,584</u>	<u>528,634</u>
Fund for general banking risks	14	1,149	1,143
Subordinated debt	15	12,639	13,900
Shareholders' equity	16	14,972	13,047
Minority interests	17	4,279	3,713
Group equity		19,251	16,760
Group capital		33,039	31,803
		<u>608,623</u>	<u>560,437</u>
Contingent liabilities	23	46,464	42,838
Committed facilities		145,092	119,675

Numbers stated against items refer to the notes

Consolidated income statement for 2004

	Note	2004	2003	2002
		<i>(in millions of euros)</i>		
Revenue				
Interest revenue		23,196	23,529	27,370
Interest expense		13,530	13,806	17,525
Net interest revenue	26	9,666	9,723	9,845
Revenue from securities and participating interests	27	1,620	269	369
Commission revenue		5,452	5,160	5,421
Commission expense		702	696	782
Net commissions	28	4,750	4,464	4,639
Results from financial transactions	29	2,288	1,993	1,477
Other revenue	30	1,469	2,344	1,950
Total non-interest revenue		10,127	9,070	8,435
Total revenue		19,793	18,793	18,280
Expenses				
Staff costs	31	7,764	7,080	7,407
Other administrative expenses	32	4,962	4,575	4,647
Administrative expenses		12,726	11,655	12,054
Depreciation	33	961	930	1,094
Operating expenses		13,687	12,585	13,148
Provision for loan losses	34	653	1,274	1,695
Value adjustments to financial fixed assets	36	2	16	49
Total expenses		14,342	13,875	14,892
Operating profit before taxes		5,451	4,918	3,388
Taxes	37	1,071	1,503	973
Group profit after taxes		4,380	3,415	2,415
Minority interests	38	271	254	208
Net profit		4,109	3,161	2,207
Earnings per ordinary share	40	2.45	1.94	1.39
Fully diluted earnings per ordinary share	40	2.45	1.93	1.38
Dividend per ordinary share		1.00	0.95	0.90

Numbers stated against items refer to the notes.

Consolidated cash flow statement in 2004

	2004	2003	2002
	<i>(in millions of euros)</i>		
Group profit	4,380	3,415	2,415
Depreciation	961	930	1,006
Provision for loan losses	653	1,274	1,695
Movement in provisions	953	287	(723)
Movement in interest receivable	513	(1,236)	2,277
Movement in interest payable	(1,065)	2,092	(1,387)
Movement in current tax	401	226	331
Other accruals and deferrals	350	908	91
Government paper and securities, trading	(20,876)	(6,546)	(2,311)
Other securities	(2,149)	(1,500)	3,865
Banks, other than demand deposits	355	839	1,238
Loans	(19,724)	(4,638)	1,888
Professional securities transactions (included in loans)	(3,498)	(4,158)	5,890
Total client accounts	19,735	14,741	(3,451)
Professional securities transactions (included in total client accounts)	(5,644)	6,661	4,658
Debt securities, excluding debentures and notes	(2,744)	(4,616)	1,324
Other assets and liabilities	7,996	(10,673)	(14)
Net cash flow from operations / banking activities	(19,403)	(1,994)	18,792
<i>Purchase of securities for investment portfolios</i>	<i>(73,810)</i>	<i>(151,771)</i>	<i>(144,584)</i>
<i>Sale and redemption of securities from investment portfolios</i>	<i>75,224</i>	<i>148,015</i>	<i>122,697</i>
Net inflow / (outflow)	1,414	(3,756)	(21,887)
<i>Investments in participating interests</i>	<i>(322)</i>	<i>(1,010)</i>	<i>(479)</i>
<i>Sale of investments in participating interests</i>	<i>2,680</i>	<i>364</i>	<i>280</i>
Net inflow / (outflow)	2,358	(646)	(199)
<i>Capital expenditure on property and equipment</i>	<i>(1,046)</i>	<i>(1,563)</i>	<i>(1,292)</i>
<i>Sale of property and equipment</i>	<i>186</i>	<i>491</i>	<i>497</i>
Net (outflow)	(860)	(1,072)	(795)
Net cash flow from investment activities	2,912	(5,474)	(22,881)
Movement in group equity	2,049	1,281	106
Repayment of preference shares	(1,911)	(1,258)	0
Issue of subordinated debt	50	1,025	114
Repayment of subordinated debt	(797)	(164)	(964)
Issue of debentures and notes	25,525	19,426	8,815
Repayment of debentures and notes	(8,462)	(10,236)	(7,349)
Cash dividends paid	(964)	(915)	(999)
Net cash flow from financing activities	15,490	9,159	(277)
Cash flow	(1,001)	1,691	(4,366)

For details refer to note 43.

Changes in shareholders' equity in 2004

	2004	2003	2002
	(in millions of euros)		
Ordinary shares			
Opening balance	919	890	862
Exercised options and warrants	2	—	2
Conversion of convertible preference shares	—	1	1
Stock dividends	33	28	25
Closing balance	954	919	890
(Convertible) Preference shares			
Opening balance	813	814	815
Conversion	—	(1)	(1)
Redemption and issuance	(46)	—	—
Closing balance	767	813	814
Share premium account			
Opening balance	2,549	2,543	2,504
Exercised options and conversion	48	1	63
Conversion of (convertible) preference shares	—	1	1
Release from general reserve due to staff options	1	32	—
Stock dividends	(33)	(28)	(25)
Closing balance	2,565	2,549	2,543
General reserve and reserves prescribed by law			
Opening balance	11,166	8,933	8,161
Net profit	4,109	3,161	2,207
Preferred dividends	(43)	(45)	(46)
Cash dividends paid	(694)	(655)	(599)
Goodwill and dilution of minority participating interest	30	(425)	(201)
Impact of change in accounting policy for pension costs	—	—	(430)
Addition to share premium account due to staff options	(1)	(32)	—
Addition to / release from provision for pension obligations	(479)	14	(374)
Realised revaluations from revaluation reserve	—	—	186
Other	(212)	215	29
Closing balance	13,876	11,166	8,933
Revaluation reserves			
Opening balance	283	124	355
Realised revaluations to general reserve	—	—	(186)
Revaluations	(79)	159	(45)
Closing balance	204	283	124
Exchange differences reserve			
Opening balance	(2,564)	(2,098)	(476)
Currency translation differences	(198)	(466)	(1,622)
Closing balance	(2,762)	(2,564)	(2,098)
Treasury stock			
Opening balance	(119)	(125)	(123)
Increase (decrease)	(513)	6	(2)
Closing balance	(632)	(119)	(125)
Total shareholders' equity	14,972	13,047	11,081

Notes to the consolidated balance sheet and income statement

(unless otherwise stated, all amounts are in millions of euros)

1 Cash

This item includes legal tender and demand deposits with central banks in countries in which the bank has a presence.

2 Short-dated government paper

This item includes securities issued by public authorities, such as treasury paper, with original terms of two years or less, provided they can be refinanced with a central bank.

3 Banks (assets)

This item includes receivables, including reverse repos and sell-back transactions, from credit institutions, central banks and multilateral development banks not already recognised in cash. Securitised receivables are included in interest-earning securities or shares.

	2004	2003
Reverse repos and sell-back transactions	64,372	40,922
Demand deposits	3,954	4,299
Time deposits	11,484	9,831
Loans to banks	3,900	3,748
Total banks (assets)	83,710	58,800

4 Loans and credit risk

This item includes amounts receivable in connection with loans, including professional securities transactions, insofar as these are not recognised in the banks item. Securitised receivables are included in interest-earning securities or shares.

In granting facilities and loans, the bank incurs a credit risk, i.e. the risk that the receivable will not be repaid. This primarily concerns the balance sheet items banks, loans and interest-earning securities and off-balance sheet items. Concentration of credit risk could result in a material loss for the bank if a change in economic circumstances were to affect a whole industry or country.

Sector analysis of loans

	2004	2003
Public sector	5,972	5,494
Commercial	127,381	130,983
Retail	109,345	107,706
Professional securities transactions	59,269	56,578
Allowances for loan losses and sovereign risks	(2,916)	(3,918)
Loans	299,051	296,843

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

4 Loans and credit risk (Continued)

Collateral for private sector loans

Collateral is frequently demanded in connection with lending operations. The following tables analyse private sector loans by type of collateral. Unsecured loans also include loans for which the bank has the right to require collateral.

	2004	2003
Commercial		
Public authority guarantees	8,103	11,382
Mortgages	23,994	28,074
Securities	791	1,006
Bank guarantees	3,305	3,113
Other types of collateral and unsecured	91,188	87,408
Total commercial loans	127,381	130,983
Retail		
Public authority guarantees	151	50
Mortgages	82,700	80,794
Other types of collateral and unsecured	26,494	26,862
Total retail loans	109,345	107,706

Commercial loans by industry

	2004	2003
Agriculture, mining and energy	11,700	11,202
Manufacturing	23,925	27,980
Construction and real estate	22,539	19,025
Wholesale and retail trade	16,443	18,329
Transportation and communications	12,387	12,966
Financial services	19,967	21,188
Business services	10,310	10,565
Education, health care and other services	10,110	9,728
Total commercial loans	127,381	130,983

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

4 Loans and credit risk (Continued)

Loans by region

	2004	2003
Netherlands		
Public sector	1,025	1,128
Commercial	54,053	52,990
Retail	87,701	84,382
Professional securities transactions	1,370	1,268
Total Netherlands	<u>144,149</u>	<u>139,768</u>
North America		
Public sector	792	898
Commercial	35,474	38,185
Retail	12,817	14,668
Professional securities transactions	34,668	38,372
Total North America	<u>83,751</u>	<u>92,123</u>
Rest of the world		
Public sector	4,155	3,468
Commercial	37,854	39,808
Retail	8,827	8,656
Professional securities transactions	23,231	16,938
Total Rest of the world	<u>74,067</u>	<u>68,870</u>
Total	<u><u>301,967</u></u>	<u><u>300,761</u></u>

Movements in allowances for loan losses

	2004	2003	2002
Opening balance	4,012	4,129	4,500
Currency translation differences and other movements	(816)	(331)	(590)
Write-offs	(1,157)	(1,343)	(1,711)
Recoveries	170	246	142
	<u>2,209</u>	<u>2,701</u>	<u>2,341</u>
Unrecognised interest	78	71	107
New and increased specific allowances for loan losses	1,288	1,856	2,447
Releases of specific allowances for loan losses	(478)	(370)	(624)
Recoveries	(170)	(246)	(142)
Net increase	<u>640</u>	<u>1,240</u>	<u>1,681</u>
Closing balance	<u><u>2,927</u></u>	<u><u>4,012</u></u>	<u><u>4,129</u></u>

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

4 Loans and credit risk (Continued)

Allowances for loan losses and sovereign risk

	2004	2003	2002
Allowances for loan losses	2,927	4,012	4,129
Allowances for sovereign risk	219	215	181
Total	3,146	4,227	4,310

Allowances can be analysed by balance sheet item as follows:

Loans	2,916	3,918	4,038
Banks	3	8	8
Interest-earning securities	201	243	217
Other	26	58	47
Total	3,146	4,227	4,310

Sovereign risk

Loans and other exposures are often not restricted to the country of the lending branch, but also involve banks, public authorities and other clients in foreign countries, and are mostly denominated in foreign currencies. The total cross-border exposure is very substantial but relates mainly to OECD countries. An increased risk on these outstandings would arise if and insofar as government measures or extreme economic conditions in specific countries were to restrict debt servicing. Up until 2002, provisions were formed in such circumstances for debts of specific governments that were denominated in foreign currencies. With effect from 2002, a provision is formed only for payments that are overdue or are expected to become past due. In this way, loans to governments are not treated any differently from loans to other borrowers.

Analysis of sovereign risk exposure and allowances at 31 December 2004

	Exposure	Risk allowances
Latin America	300	195
Other countries	27	24
Total	327	219

Movements in sovereign risk allowances

	2004	2003	2002
Opening balance	215	181	345
Currency translation differences	(12)	(7)	(42)
Provision for loan losses	13	34	14
Other movements	3	7	(136)
Closing balance	219	215	181

Allowances for sovereign risks are charged to loans and interest-bearing securities.

Leasing

Loans include lease agreements in which ABN AMRO is the lessor.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

4 Loans and credit risk (Continued)

Future minimum finance lease instalments are scheduled to mature as follows:

	Lease instalments due
Within one year	775
After one year and within five years	1,970
After five years	1,534
Total	4,279
Total of unearned financing income	460
Residual value (not guaranteed) in favour of lessor	796

Other

The loans item includes subordinated debt amounting to EUR 41 million (2003: EUR 35 million), as well as loans securitised by the bank amounting to EUR 7.8 billion (2003: EUR 10.5 billion) in consideration of which debt paper issued is included in the balance sheet.

5 Securities

The balance sheet items short-dated government paper, interest-earning securities and shares include the investment portfolios, the trading portfolios, securitised receivables such as treasury paper and commercial paper, and equity participations.

Interest-earning securities forming part of an investment portfolio, which principally consist of central government bonds, serve as a liquidity buffer among others. The bank attempts to maximise the return on these instruments through a policy of active management. Equity investments held on a long-term basis are also included in the investment portfolios.

These balance sheet items can be analysed as follows:

	2004	2003
Investment portfolios	92,906	95,446
Trading portfolios	70,491	51,180
Short-dated government paper	369	790
Other bank paper	5,085	3,501
Other securities	4,969	4,040
Other shares	995	938
Equity participations	1,484	1,631
Total securities	176,299	157,526

of which:

	Listed		Unlisted	
	2004	2003	2004	2003
Public authority paper	70,354	71,014	21,477	14,743
Other interest-earning securities	28,005	23,086	30,611	32,438
Shares	22,405	13,983	3,447	2,262
Total securities	120,764	108,083	55,535	49,443

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

5 Securities (Continued)

Listed securities include all securities which are traded on any stock exchange. Third parties hold legal title to part of the securities included in the portfolios. This is related to securities sold with repurchase commitments totalling EUR 9,178 million (2003: EUR 17,080 million) and securities lending transactions totalling EUR 3,740 million (2003: EUR 3,004 million). In addition, ABN AMRO borrowed securities totalling EUR 15,984 million (2003: EUR 10,536 million). These securities are not recognised in the balance sheet. The item interest-earning securities includes securities of a subordinated nature totalling EUR 888 million (2003: EUR 554 million) and non-subordinated interest-earning securities issued by group companies totalling EUR 404 million (2003: EUR 197 million).

As part of its securities brokerage activities, the bank also trades in ABN AMRO shares. In addition, shares were repurchased on the stock exchange in connection with staff options granted, Performance Share Plan and to cover positions with clients. At balance sheet date, the treasury stock position of group companies included 33.7 million ABN AMRO Holding N.V. ordinary shares. The corresponding amount of EUR 632 million has been deducted from reserves.

An amount of EUR 57,170 million is scheduled for redemption in 2005.

Investment portfolios

The following analysis shows the book value and the fair value of ABN AMRO's investment portfolios. Fair value is based on quoted prices for traded securities and estimated market value for non-traded securities.

	2004			2003		
	Book value	Premiums or discounts	Fair value	Book value	Premiums or discounts	Fair value
Dutch government	4,243	57	4,446	4,749	77	4,895
US Treasury and US government agencies	7,975	38	8,083	9,859	51	10,074
Other OECD governments . .	41,174	632	43,418	38,121	822	39,802
Mortgage-backed securities .	14,441	118	14,626	21,707	348	22,276
Other interest-earning securities	20,280	10	20,643	15,998	24	16,424
Total interest-earning securities and short-dated government paper	88,113	855	91,216	90,434	1,322	93,471
Shares	4,793		4,793	5,012		5,012
Total investment portfolios .	92,906		96,009	95,446		98,483

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

5 Securities (Continued)

The book value of the investment portfolios developed during 2004 as follows:

	Interest-earning	Shares
Opening balance of investment portfolios	90,206	1,255
Movements:		
• Purchases	73,182	628
• Sales	(57,354)	(733)
• Redemptions	(17,137)	—
• Acquisitions/dispositions	(47)	(35)
• Revaluations	—	(3)
• Currency translation differences	(2,476)	1
• Other	760	(375)
Closing balance of investment portfolios	87,134	738
Closing balance of policyholder accounts	979	4,055
Total investment portfolios	88,113	4,793
Revaluations included in closing balance	—	2

Premiums and discounts on the investment portfolios are amortised. The purchase price of the investment portfolios, including unamortised amounts from replacement transactions, was EUR 129 million above the redemption value.

Trading portfolios

The following table analyses the composition of the trading portfolios.

	2004	2003
Dutch government	553	2,219
US Treasury and US government agencies	5,760	8,212
Other OECD governments	28,320	19,242
Other interest-earning securities	17,278	12,843
Total interest-earning securities	51,911	42,516
Shares	18,580	8,664
Total trading portfolios	70,491	51,180

Other securities

The following table analyses the book value and fair value of other securities.

	2004		2003	
	Book value	Fair value	Book value	Fair value
Short-dated government paper	369	370	790	788
Other bank paper	5,085	5,100	3,501	3,501
Other securities	4,969	5,024	4,040	4,075
Total interest-earning securities	10,423	10,494	8,331	8,364
Shares and equity participations	2,479	2,712	2,569	2,455
Total other securities	12,902	13,206	10,900	10,819

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

6 Participating interests

This item includes equity participations held on a long-term basis for the purpose of business operations.

	2004	2003
Credit institutions	1,359	1,661
Other participating interests	950	968
Total participating interests	2,309	2,629
Development:		
Opening balance	2,629	2,166
Movements:		
• Purchases/increases	133	887
• Sales/reductions	(465)	(127)
• Revaluations	8	83
• Share in results of significant participations interest	62	12
• Dividends received from significant participations interest	(59)	(7)
• Currency translation differences	(55)	(184)
• Other	56	(201)
Closing balance	2,309	2,629
Revaluations included in closing balance	10	84

Participating interests with official stock exchange listings represented a book value of EUR 869 million (2003: EUR 1,225 million).

7 Property and equipment

	2004	2003
Property used in operations	2,869	3,167
Other property	2,436	2,455
Equipment	1,493	1,582
Total property and equipment	6,798	7,204

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

7 Property and equipment (Continued)

At 31 December 2004 EUR 404 million (2003: EUR 385 million) of internally-generated software was capitalised under equipment.

	Property			
	Total	Used in in operations	Other	Equipment
Opening balance	7,204	3,167	2,455	1,582
Movements:				
• Purchases	1,046	233	55	758
• Sales	(186)	(93)	(26)	(67)
• Revaluations/devaluations	(32)	(32)	—	—
• Depreciation	(961)	(153)	(2)	(806)
• Acquisitions/dispositions	(481)	(99)	(280)	(102)
• Currency translation differences	(93)	(47)	(25)	(21)
• Other ⁽¹⁾	301	(107)	259	149
	(406)	(298)	(19)	(89)
Accumulated amounts:				
Replacement cost	11,279	4,248	2,441	4,590
Depreciation	(4,481)	(1,379)	(5)	(3,097)
Closing balance	6,798	2,869	2,436	1,493
Revaluations included in closing balance	101	101	—	—

(1) Other of Other property comprises the net increase from property development activities

Legal title to property and equipment totalling EUR 10 million (2003: EUR 27 million) is held by third parties.

Payables with respect to finance lease agreements are EUR 30 million, of which computers EUR 29 million and equipment EUR 1 million.

8 Other assets and other liabilities

These items include those amounts which are not of an accrued or deferred nature or which cannot be classified with any other balance sheet item. This concerns, for example, current tax assets EUR 582 million (2003: EUR 267 million) and current tax liabilities EUR 1,708 million (2003: EUR 992 million), deferred tax assets EUR 1,360 million (2003: EUR 1,201 million), an intangible asset on account of unrecognised prior-service pension costs EUR 316 million (2003: EUR 368 million), options, servicing rights EUR 1,662 million (2003: EUR 1,009 million), precious metals and other goods, balances of payment transactions still to be settled, short securities positions and market value of interest rate and currency contracts as part of trading activities. Options on behalf of customers are also included EUR 169 million (2003: EUR 267 million). In general, the amounts payable and receivable included in these balance sheet headings are due within one year. The aforementioned deferred tax liabilities, the servicing rights and the intangible asset related to prior-year service costs are an exception to this.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

9 Prepayments and accrued income and accruals and deferred income

These items include revenue and expenses recognised in the period under review but whose actual receipt or payment falls in a different period, as well as the total net difference between contract rates and spot rates on foreign exchange hedging operations.

10 Banks (liabilities)

This item comprises debts, including amounts on account of repos and buy-back transactions, to credit institutions, central banks and multilateral development banks.

	2004	2003
Repos and buy-back transactions	56,351	33,672
Demand deposits	17,521	13,954
Time deposits	50,976	52,015
Loans from banks	7,884	11,246
Total banks (liabilities)	132,732	110,887

11 Total client accounts

This item includes total client balances held in current accounts, savings accounts and deposits, as well as debts on account of professional securities transactions and non-subordinated private loans.

	2004	2003
Savings accounts	74,256	73,238
Corporate deposits	79,482	81,636
Professional securities transactions	40,661	48,517
Other client accounts	99,158	86,475
Total client accounts	293,557	289,866

12 Debt securities

This item includes non-subordinated debt and other negotiable interest-bearing debt securities.

	2004	2003
Debentures and notes	63,812	50,997
Cash notes, savings certificates and bank certificates	3,720	4,590
Certificates of deposit and commercial paper	15,394	16,101
Total debt securities	82,926	71,688

The debentures are issued principally in the Dutch capital market and the Euromarket and are denominated mostly in euros and US dollars. The commercial paper programme is conducted mainly in the United States and is denominated in US dollars. The other debt securities are instruments used in markets in which ABN AMRO is active and are usually denominated in local currencies.

At 31 December 2004, debt securities denominated in euros amounted to EUR 48,024 million and those denominated in US dollars to EUR 23,899 million.

At 31 December 2004, the debentures and notes, originally issued in the capital market, included EUR 20,877 million of variable rate obligations. In addition, EUR 10,660 million of the debentures and notes had been converted into variable rate obligations through the use of asset-liability management derivative contracts. The average interest rate on the debentures and notes, adjusted to reflect the effect of asset-liability management derivative contracts at year-end 2004, was 3.13%.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

12 Debt securities (Continued)

Maturity analysis

	2004	2003
Within one year	28,979	31,927
After one and within two years	7,983	9,000
After two and within three years	9,048	4,014
After three and within four years	5,329	4,224
After four and within five years	7,402	2,782
After five years	24,185	19,741
Total debt securities	82,926	71,688

13 Provisions

	2004	2003
Provision for deferred tax liabilities (see note 37)	1,229	1,061
Provision for pension obligations (including early retirement)	1,284	706
Provision for contributions to health insurance after retirement	362	329
Other staff provisions	448	357
Insurance fund liabilities	8,843	7,845
Restructuring provisions	752	181
Other provisions	635	667
Total provisions	13,553	11,146

The other staff provisions refer in particular to occupational disability and other benefits, except early retirement benefits, payable to non-active employees. Provisions formed for staff benefit schemes due to restructuring are accounted for as restructuring provisions. Insurance fund liabilities include the actuarial reserves and the premium and claims reserves of the Group's insurance companies.

Provisions are generally long-term in nature.

	Other staff provisions	Restructuring	Other provisions
Opening balance	357	181	667
Movements:			
• Acquisitions/dispositions	(6)	—	(125)
• Additions from income statement	332	681	265
• Expenses charged to provisions	(256)	(109)	(219)
• Currency translation differences	(9)	(1)	3
• Other	30	—	44
Closing balance	448	752	635

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

13 Provisions (Continued)

The following tables summarise the change in benefit obligations and plan assets of the main pension plans and other employee benefit plans based on FAS 87 and FAS 106 as well as the funded status of the plans.

	Pension	Health insurance combination
Opening balance	9,307	561
Movements in projected benefit obligations:		
• Service cost	306	18
• Interest cost	506	32
• Employee contributions / refunds	14	—
• Actuarial (gain) / loss	962	192
• Benefits paid	(300)	(17)
• Acquisitions / dispositions	(85)	—
• Plan amendments	7	—
• Settlement / curtailment	(4)	—
• Currency translation differences	(14)	(26)
• Other	16	—
Closing balance	10,715	760

	Pension	Health insurance combination
Opening balance	7,988	44
Movements in plan assets:		
• Actual return on plan assets	629	5
• Employee contributions / refunds	14	—
• Employer's contribution	623	17
• Benefits paid	(285)	(2)
• Acquisitions / dispositions	(133)	(18)
• Currency translation differences	(69)	—
• Other	(13)	—
Closing balance (fair value)	8,754	46

	Pension	Health insurance combination
Funded status / (deficits)	(1,961)	(714)
Unrecognised net actuarial (gain)/loss	2,233	309
Unrecognised prior-service cost	336	16
Unrecognised transition obligation	(2)	27
Prepaid/(accrued) benefit cost	606	(362)

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

13 Provisions (Continued)

The weighted averages of the main actuarial assumptions used to determine the value of the provisions for pension obligations and contributions to health insurance as at 31 December 2004 were as follows:

	2004	2003
Pensions		
• Discount rate	4.7%	5.5%
• Expected increment in salaries	2.6%	2.6%
• Expected return on investments	7.0%	7.2%
Health insurance:		
• Discount rate	5.2%	6.0%
• Average rise in the costs of health care	6.8%	6.2%

The expected return on investments regarding pension obligations is weighted on the basis of the fair value of these investments. All other assumptions are weighted on the basis of the defined benefit plan obligations.

For the pension plans the target and actual allocation of the plan assets in 2004 were as follows:

Allocation of Plan Assets

	Target allocation	Actual allocation
Plan asset category		
• Equity securities	48%	47.7%
• Debt securities	50%	50.2%
• Real estate	1%	0.2%
• Other	1%	1.9%
Total	100%	100.0%

The total plan assets held by the Pension Funds do not include direct investments in ABN AMRO.

Forecast of Benefits Payments

2005	289
2006	297
2007	315
2008	331
2009	351
Years after 2009	2,111

The employer's contribution expected to be paid in 2005 amounts to EUR 506 million.

Unrecognised service cost refers to the additional pension obligations resulting from the lowering of the retirement age to 62 years for the employees in the Netherlands with effect from 1 January 2000, and will be amortised over the average remaining years of service of the employees.

For the pension plans in the Netherlands and United Kingdom, accumulated pension obligations (excluding future salary increases) exceeded the value of pension plan assets by EUR 1,050 million as at 31 December 2004. Taking into account a receivable from the Pension Fund, an additional obligation of EUR 1,550 million has been provided for, of which EUR 1,234 million (net EUR 846 million) has been charged to shareholders' equity and EUR 316 million is recognised as an intangible asset under Other assets.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

13 Provisions

Assumptions relating to movements in health care significantly affect the amounts disclosed for contributions to post-retirement health care. An increase of 1% in the assumed movement in the costs of health care would result in the accumulated obligation for other post-retirement benefits increasing by approximately EUR 172 million as at 31 December 2004, and the net period costs of other post-retirement benefits for 2004 going up by EUR 21 million. Conversely, a decrease of 1% in the assumed movement of the costs of health care would result in the two latter amounts declining by approximately EUR 130 million and EUR 14 million, respectively.

14 Fund for general banking risks

The fund for general banking risks covers general risks associated with lending. The fund is net of tax and forms part of tier 1 capital.

	2004	2003
Opening balance	1,143	1,255
Movements:		
Currency translation differences	6	(112)
Closing balance	1,149	1,143

15 Subordinated debt

This item includes subordinated debentures and loans which, according to the standards applied by the Dutch central bank, qualify for the consolidated capital adequacy ratio. It comprises debt, subordinated to all other current and future liabilities of ABN AMRO Bank N.V., amounting to EUR 8,170 million (2003: EUR 8,840 million), as well as subordinated borrowings of its consolidated participating interests EUR 4,469 million (2003: EUR 5,060 million). In general, early repayment, in whole or in part, is not permitted. The average interest rate on subordinated debt was 5.6%.

Maturity analysis

	2004	2003
Within one year	1,086	442
After one and within two years	1,115	1,118
After two and within three years	1,364	1,136
After three and within four years	668	1,380
After four and within five years	1,546	695
After five years	6,860	9,129
Of which		
Preference shares qualifying as tier 1 capital	1,552	1,680
Other perpetual	2,000	2,136
Total subordinated debt	12,639	13,900

Subordinated debt as at 31 December 2004 was denominated in euros to an amount of EUR 7,227 million and in US dollars to an amount of EUR 5,322 million, and included EUR 2,952 million of variable rate obligations.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

16 Shareholders' equity

	2004	2003	2002
Share capital	1,721	1,732	1,704
Reserves	13,883	11,434	9,502
	15,604	13,166	11,206
Treasury stock	(632)	(119)	(125)
Total shareholders' equity	14,972	13,047	11,081

For further information, refer to the section on changes in shareholders' equity on page 113.

Share capital

The authorised share capital of ABN AMRO Holding N.V. amounts to EUR 4,704,000,224 face value and consists of four billion and four hundred ordinary shares, four billion convertible financing preference shares and one hundred million convertible preference shares.

The issued and paid-up share capital is made up of the following numbers of shares:

Ordinary shares (face value EUR 0.56)	1,702,888,861
Convertible financing preference shares (face value EUR 0.56)	1,369,815,864
(Formerly convertible) preference shares (face value EUR 2.24)	44,988

On 31 December 2004, 33,686,644 ordinary shares were repurchased in connection with the Performance Share Plan and future exercise of staff options.

Within the scope of the adaptation of our corporate governance the registered preference shares outstanding at the end of 2003 with a defence function were cancelled and new registered convertible preference financing shares were issued that perform no defence function; the dividend has been fixed with effect from 1 October 2004 at 4.65% of the face value. This percentage will be adjusted on 1 January 2011 in the manner stipulated in the articles of association.

The dividend on the preference shares, which were convertible until 31 October 2003, has been fixed at 1 January 2004 at EUR 0.95 per share per annum until the end of 2013.

Reserves

	2004	2003	2002
Share premium account	2,565	2,549	2,543
Revaluation reserves	204	283	124
Other reserves prescribed by law	280	280	297
<i>General reserve</i>	<i>13,255</i>	<i>10,550</i>	<i>8,336</i>
<i>Expected final cash dividend to be paid to holders of</i> <i>ordinary shares</i>	<i>341</i>	<i>336</i>	<i>300</i>
<i>Exchange differences reserve</i>	<i>(2,762)</i>	<i>(2,564)</i>	<i>(2,098)</i>
Other reserves	10,834	8,322	6,538
Total reserves	13,883	11,434	9,502

The share premium account is mainly regarded as paid-up capital for tax purposes. The share premium account relating to (formerly convertible) preference shares amounts to EUR 1 million (2003: EUR 1 million; 2002: EUR 14 million).

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

16 Shareholders' equity (Continued)

Due to dispositions and depreciation, EUR 105 million of the revaluation reserves is regarded as realised. The remaining part is regarded as a legal reserve.

The expected stock dividend percentage (59%) for the final dividend was taken into consideration.

Staff options

For the Managing Board members, other top executives and some 4,390 employees of ABN AMRO directly reporting to the banks' top executives (key employees), share options are an integral part of their compensation. Next to it, at a limited scale, staff in the Netherlands are offered the opportunity to acquire share options. In 2004, approximately 9,000 employees exercised the right to take share options. The exercise price of all staff options is equal to the average of the highest and lowest ordinary share price quoted on Euronext Amsterdam on the date of grant. With effect from 2002, options awarded to the Managing Board and other (top) executives are of a conditional nature. The options cannot be exercised for at least three years from the date of grant and then only if specific performance indicators have been achieved in the intervening period. If the criteria are not met, the test may be applied in up to three subsequent years. If they are not met at all within six years from the date of grant, the options will lapse. The total term of the options amounts to ten years. With effect from 2004 only one performance condition has to be met before the end of the three-year period.

The non-conditional options are not exercisable during the first three years from the date of grant. Open periods have been established for top executives and other designated persons. This category of staff is not permitted to exercise their options outside the open periods, except on the expiration date and the preceding five working days, subject to certain conditions.

In 2002, 2003 and 2004, the price of options exercised ranged from EUR 12.52 to EUR 24.32. If fully exercised, the options at year-end 2004 would have increased the number of ordinary shares by 63.1 million (see following analysis).

	Staff options	Average exercise price	Low/high exercise price
	<i>(in thousands)</i>	<i>(in euros)</i>	<i>(in euros)</i>
Year of expiration			
2005	5,624	21.19	17.95-24.11
2007	4,467	21.30	21.30
2008	9,508	22.72	22.34-23.14
2009	4,412	20.42	20.42
2010	898	15.06	15.06
2011	495	17.12	17.12
2012	9,500	19.12	17.46-19.53
2013	13,757	14.45	14.45-14.65
2014	14,389	18.86	18.86
Total	63,050	18.94	14.45-24.11

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

16 Shareholders' equity (Continued)

	2004		2003	
	Staff options	Average exercise price	Staff options	Average exercise price
	(in thousands)	(in euros)	(in thousands)	(in euros)
Opening balance	59,149	19.30	58,334	21.31
Movements:				
Options granted to Managing Board members	576	18.86	608	14.45
Options granted to other top executives . . .	6,175	18.86	8,039	14.45
Other options granted	8,254	18.76	6,249	14.54
Options exercised	(3,160)	18.10	(362)	17.34
Options expired and cancelled	(7,944)	21.66	(13,719)	22.68
Closing balance	63,050	18.94	59,149	19.30
Of which conditional	37,646	17.31	23,756	16.36
Of which vested and in the money	1,551	17.95	3,150	18.10
Of which hedged	28,837	18.06	488	17.00

If all vested rights would be exercised, shareholders' equity would increase by an amount of EUR 432 million.

Deliveries on options exercised in 2004 were made from share repurchases on the date of grant (497,512 shares) and from new shares issued on the exercise date (2,662,183).

If ABN AMRO had based the cost of staff options granted in 2004 at the fair value of the options at the date of grant instead of the intrinsic value of the options, net profit and earnings per ordinary shares would have been EUR 55 million and EUR 0.03 lower respectively.

17 Minority interests

This item comprises the share of third parties in the equity of subsidiaries and other group companies, as well as preferred stock issued to third parties by subsidiaries in the United States. The right to repayment of this preferred stock is in all cases vested in the issuing institution, but repayment is also subject to approval of the supervisory authorities. If this right is not exercised, preference shares without fixed dividend entitlement qualify for a dividend step-up. In terms of dividend and liquidation rights, Trust preferred shares are comparable to ABN AMRO Holding N.V. preference shares.

	2004	2003	2002
Non-cumulative preference shares			
• Trust preferred shares with fixed dividend	2,408	2,170	2,382
• Other shares with fixed dividend	259	319	384
• Other shares with dividend step-up	37	40	270
Other minority interests	1,575	1,184	774
Total	4,279	3,713	3,810

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

17 Minority interests (Continued)

	2004	2003	2002
Opening balance	3,713	3,810	4,556
Movements:			
Currency translation differences	(227)	(572)	(732)
Acquisitions / disposition	(30)	9	—
Extension	367	439	—
Issuance of preference shares	1,447	1,290	—
Redemption / repurchase of preference shares	(1,057)	(1,258)	—
Other	66	(5)	(14)
Closing balance	4,279	3,713	3,810

With respect to the minority interest in ABN AMRO Real held by the seller of Banco Sudameris Brasil, ABN AMRO has a call option and the holder of the minority interest has a put option to convert before June 2007 the minority interest into ABN AMRO Holding ordinary shares. The exercise price of this option is equal to 1.82 times the net asset value of ABN AMRO Real shares at time of exercise.

18 Capital adequacy

The standards applied by the Dutch central bank for the principal capital ratios are based on the capital adequacy guidelines of the European Union and the Basel Committee for Banking Supervision. These ratios compare the bank's total capital and tier 1 capital with the total of risk-weighted assets and off-balance sheet items and the market risk associated with the trading portfolios. The minimum requirement for the total capital ratio and tier 1 ratio is 8% and 4% respectively of risk-weighted assets.

The following table analyses actual capital and the minimum standard in accordance with supervisory requirements.

	2004		2003	
	Required	Actual	Required	Actual
Total capital	18,510	26,048	17,902	26,254
Total capital ratio	8.0%	11.26%	8.0%	11.73%
Tier 1 capital	9,255	19,818	8,951	18,236
Tier 1 capital ratio	4.0%	8.57%	4.0%	8.15%

19 Accounts with participating interests

Amounts receivable from and payable to participating interests included in the various balance sheet items totalled:

	2004	2003
Banks (assets)	6	6
Loans	134	584
Banks (liabilities)	171	143
Client accounts	279	257

20 Maturity

Short-dated liabilities and demand deposits are generally matched by cash, assets that can be realised at short notice or lending operations as part of the interest rate risk policy. The balance sheet is already presented in descending order of liquidity. A number of items containing assets or liabilities with varying maturities are analysed in the following table. This analysis does not include liquid assets such as cash and short-dated government paper and the bond investment portfolios, which by their nature can be

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

20 Maturity (Continued)

realised at short notice. In every country in which ABN AMRO is active, liquidity satisfies the standards imposed by the supervisory authorities.

Maturity analysis

	On demand	3m	>3m-1yr	>1yr-5yr	>5yr
		<i>(in billions of euros)</i>			
Banks (liabilities)	25	81	8	10	9
Savings accounts	27	41	3	3	0
Deposits and other client accounts (including professional securities transactions)	111	81	12	7	8
Debt securities	0	21	8	30	24
Subordinated debt	0	0	1	5	7
Banks (assets)	6	55	9	4	10
Loans (including professional securities transactions)	17	102	30	67	83

21 Currency position

Of total assets and total liabilities, amounts equivalent to EUR 420 billion and EUR 424 billion respectively are denominated in currencies other than the euro. Positions arising from balance sheet items are generally hedged by foreign exchange contracts not included in the balance sheet. The actual currency positions arising out of the bank's proprietary foreign exchange dealing activities are of limited size. Part of the currency positions, in respect of operations outside the Netherlands, is used to offset movements in required capital for foreign currency risk-bearing assets, which is also due to exchange rate fluctuations. Similar reasoning lies behind the policy of issuing preferred stock and subordinated debt in foreign currencies.

22 Collateral provided

In connection with collateral provided for specific liabilities and off-balance sheet commitments, as well as for transactions in financial markets, specific assets are not freely available. This relates to cash (EUR 7.3 billion), securities (EUR 15.9 billion) and loans (EUR 32.3 billion). Collateral has been provided for liabilities included in banks (EUR 15.9 billion), debt securities (EUR 15.5 billion) and client accounts (EUR 3.9 billion).

23 Contingent liabilities

	2004	2003
Commitments with respect to guarantees granted	42,398	39,434
Commitments with respect to irrevocable letters of credit	4,051	3,362
Commitments with respect to recourse risks arising from discounted bills	15	42
	<u>46,464</u>	<u>42,838</u>

24 Derivatives

Derivatives are financial instruments, the contracted or notional amounts of which are not included in the balance sheet either because rights and obligations arise out of one and the same contract, the performance of which is due after balance sheet date, or because the notional amounts serve merely as variables for calculation purposes. Examples of derivatives are forward exchange contracts, options, swaps, futures and forward rate agreements. The underlying value may involve interest rate, currency, commodity, bond or equity products or a combination of these. Derivatives transactions are conducted as a trading activity (also on behalf of clients) and as a hedge against ABN AMRO's own interest rate and currency exposure.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

24 Derivatives (Continued)

The degree to which ABN AMRO is active in the respective markets or market segments is shown in the following analysis by means of notional amounts (including maturity profile based on remaining term). The notional amounts, however, give no indication of the size of the cash flows and the market risk or credit risk attaching to derivatives transactions.

The market risk arises from movements in variables determining the value of derivatives, such as interest rates and quoted prices. The credit risk is the loss that would arise if a counterparty were to default. This is related, however, to the market risk since the extent of the credit risk is in part determined by actual and expected market fluctuations. In calculating the credit risk shown in the following table, netting agreements and other collateral have not been taken into consideration.

Derivatives transactions

		Notional amounts				Credit risk
		1 yr	> 1 yr - 5 yr	> 5 yr	Total	
(in billions of euros)						
Interest rate contracts						
OTC	Swaps	728	2,214	134	3,076	58
	Forwards	188	17	0	205	0
	Options	230	304	9	543	2
Exchange-traded . . .	Futures	207	23	0	230	—
	Options	41	—	—	41	—
Currency contracts						
OTC	Swaps	387	59	26	472	22
	Forwards	489	16	0	505	11
	Options	112	7	0	119	2
Exchange-traded . . .	Futures	4	1	—	5	—
	Options	4	—	—	4	—
Other contracts						
OTC	Forwards/Swaps	15	85	24	124	1
	Options	8	10	2	20	1
Exchange-traded . . .	Futures	6	0	—	6	—
	Options	16	6	0	22	—
Total derivatives		2,435	2,742	195	5,372	97

The following tables give an indication of the notional amounts and (average) market values of the principal types of trading portfolio contracts and hedging portfolio contracts (i.e. contracts entered into as part of the bank's interest rate and exchange rate policies). Intercompany transactions between hedging and trading portfolios have not been eliminated from the figures.

Trading portfolio derivatives transactions in 2004

	Notional amounts	Market value		Average market value	
		Positive	Negative	Positive	Negative
Interest rate contracts					
Swaps	3,175,631	59,547	56,521	54,350	52,494
Forwards	204,118	111	89	152	114
Options purchased	367,483	3,031	—	3,787	—
Options sold	221,267	—	2,434	—	3,241
Futures	227,114	—	—	—	—
Total interest rate contracts	4,195,613	62,689	59,044	58,289	55,849

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

24 Derivatives (Continued)

	Notional amounts	Market value		Average market value	
		Positive	Negative	Positive	Negative
Currency contracts					
Swaps	520,951	24,066	22,597	15,202	14,278
Forwards	510,416	10,814	10,369	6,539	6,394
Options purchased	60,180	1,790	—	1,270	—
Options sold	58,915	—	1,357	—	1,084
Futures	4,765	—	—	—	—
Total currency contracts	1,155,227	36,670	34,323	23,011	21,756
Other contracts					
Equity options purchased	20,499	1,797	—	1,422	—
Equity options sold	21,732	—	1,754	—	1,345
Other equity and commodity contracts	130,546	1,534	1,645	1,272	1,388
Total other contracts	172,777	3,331	3,399	2,694	2,733

Trading portfolio derivatives transactions in 2003

	Notional amounts	Market value		Average market value	
		Positive	Negative	Positive	Negative
Interest rate contracts	3,410,355	62,897	50,781	59,599	56,717
Currency contracts	812,819	28,580	25,185	17,943	19,166
Other contracts	105,490	2,297	1,056	2,102	1,366

Hedging portfolio derivatives transactions

	2004			2003		
	Notional amounts	Market value		Notional amounts	Average market value	
		Positive	Negative		Positive	Negative
Interest rate contracts						
Swaps	152,894	2,085	2,736	184,610	2,260	3,779
Forwards	1,567	1	3	1,239	1	1
Options purchased	2,698	21	—	2,718	17	—
Futures	4,080	—	—	14,172	—	3
Total interest rate contracts	161,239	2,107	2,739	202,739	2,278	3,783
Currency contracts						
Swaps	53,894	2,009	2,140	22,498	885	1,091
Forwards	9,839	234	203	11,757	362	345
Options purchased	1,252	13	—	1,440	24	—
Total currency contracts	64,985	2,256	2,343	35,695	1,271	1,436

Derivatives and capital adequacy requirements

In determining the capital adequacy requirement, both existing and future credit risk is taken into account. To this end the current potential loss, i.e. the positive replacement value based on market conditions at balance sheet date, is increased by a percentage of the relevant notional amounts,

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

24 Derivatives (Continued)

depending on the nature and remaining term of the contract. This method takes into account the possible adverse development of the positive replacement value during the remaining term of the contract. The following analysis shows the resulting credit equivalent, both unweighted and weighted for the counterparty risk (mainly banks). The figures allow for the downward impact of netting agreements and other collateral on risk exposure and capital adequacy.

Credit equivalent

	2004	2003
	<i>(in billions of euros)</i>	
Interest rate contracts	75.0	62.3
Currency contracts	50.5	41.7
Other contracts	18.9	7.7
	144.4	111.7
Effect of contractual netting	88.9	65.8
Unweighted credit equivalent	55.5	45.9
Weighted credit equivalent	12.2	9.1

25 Memorandum items

Apart from the memorandum items stated, non quantified guarantees have been given for the bank's securities custody operations, for interbank bodies and institutions and for participating interests. Collective guarantee schemes apply to Group companies in various countries. Furthermore, statements of liability have been issued for a number of Group companies.

Legal proceedings have been initiated against ABN AMRO in a number of jurisdictions, but on the basis of information currently available, and having taken counsel with legal advisers, the Managing Board 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 operations of ABN AMRO.

For 2005, investment in property and equipment is estimated at EUR 1.0 billion, of which ABN AMRO is already committed to an amount of EUR 183 million.

Though ABN AMRO has sold a part of its loan portfolio, partly through credit-enhanced or non credit-enhanced securitisation, it still holds legal title to some of these loans. In most cases these loans are also serviced by ABN AMRO. The bank also services loans granted by other institutions. The following table states the outstandings at 31 December 2004.

Legal title to loans sold	954
Loans serviced for third parties	139,763
Loans sold with credit enhancement	74

Future rental commitments at 31 December 2004 for long-term lease contracts were as follows:

Within one year	125
After one year and within five years	349
After five years	408

26 Net interest revenue

This item comprises interest revenue from loans, investments, other lending, interest expense on borrowings by ABN AMRO and client accounts, as well as the results from interest rate and foreign exchange contracts entered into for hedging purposes. Other revenue from loans is also included.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

26 Net interest revenue (Continued)

Interest revenue from interest-earning securities, including short-dated government paper, amounted to EUR 5,199 million (2003: EUR 5,061 million). Interest expense on subordinated debt totalled EUR 761 million (2003: EUR 861 million).

27 Revenue from securities and participating interests

This item includes the share in net profit or loss of participating interests on which ABN AMRO exercises a significant influence. Dividends received from shares and other participating interests are also included, as are the results from sales of shares from the investment portfolio and investments in participating interests insofar as these are not treated as value adjustments to financial fixed assets (see note 41 "Segment information" for more details).

	2004	2003	2002
Revenue from shares and equity participations	155	47	79
Revenue from participating interests	1,465	222	290
Total revenue from securities and participating interests	1,620	269	369

The 2004 figures include the profit on the sale of LeasePlan Corporation, amounting to EUR 838 million and on Bank of Asia amounting to EUR 213 million.

28 Net commissions

This item includes revenue from securities brokerage, domestic and international payments, asset management, insurance, guarantees, leasing and other services. Amounts paid to third parties are shown as commission expense.

	2004	2003	2002
Securities brokerage	1,268	1,108	1,269
Payment services	1,332	1,237	1,348
Asset management and trust	917	813	862
Insurance	105	121	165
Guarantees	215	199	170
Leasing	145	175	185
Other	768	811	640
Total commissions	4,750	4,464	4,639

29 Results from financial transactions

This includes results from securities trading, foreign exchange dealing and derivatives transactions. The category Other includes currency translation differences on investments—other than those included in tangible fixed assets—in operations in hyper-inflationary countries and results from transactions in connection with hedging of the foreign currency profit.

	2004	2003	2002
Securities trading	221	338	492
Foreign exchange dealing	632	671	679
Derivatives transactions	677	553	388
Private equity	351	142	(191)
Other	407	289	109
Total result from financial transactions	2,288	1,993	1,477

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

30 Other revenue

This includes revenue from mortgage banking activities, including both mortgage servicing rights and mortgage origination, property development, other revenue from leasing activities and results from the insurance companies forming part of the Group.

Other revenue can be broken down as follows:

	2004	2003	2002
Mortgage banking activities	372	1,243	978
Property development	243	184	165
Leasing activities	305	358	339
Insurance companies	255	318	314
Other	294	241	154
Total other revenue	1,469	2,344	1,950

Mortgage banking activities revenue can be broken down as follows:

	2004	2003	2002
Loan servicing income and related fees	484	499	489
Net origination and sale revenue	83	874	821
Net gain on sale of servicing rights	—	—	45
Amortisation of mortgage servicing rights	(195)	(130)	(318)
Valuation provision	—	—	(59)
Total mortgage banking activities	372	1,243	978

The insurance companies achieved the following results:

	Life	Non-life
Net premium income	1,130	451
Investment income	323	62
Insurance expenses	(1,312)	(399)
Total result of insurance companies	141	114

31 Staff costs

	2004	2003	2002
Salaries (including bonuses, etc.)	5,889	5,318	5,415
Pension costs (including early retirement)	433	481	384
Health insurance after retirement	62	68	71
Social insurance and other staff costs	1,380	1,213	1,537
Total staff costs	7,764	7,080	7,407
Average number of employees (fte):			
Netherlands	29,852	30,620	34,090
Foreign countries	76,066	74,819	73,326
Total average number of employees (fte)	105,918	105,439	107,416

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

31 Staff costs (Continued)

The 2004 figures include the Group Shared Services and Wholesale Clients restructuring charges (EUR 502 million) and the expected cost of buying off the profit sharing arrangements under the new collective labour agreement in the Netherlands (EUR 177 million).

Pension costs and contributions to health insurance for 2004 borne by the company consist of a number of items. These are shown in the following table.

	Pension	Health insurance combination
Service cost	306	18
Interest cost	506	32
Expected return on plan assets	(566)	(3)
Net amortisation of prior-service cost	55	3
Net amortisation of transition obligation	1	2
Net amortisation of net actuarial (gain)/loss	52	10
Defined benefit plans	354	62
Defined contribution plans	79	—
Total	433	62

32 Other administrative expenses

This item includes office overhead, automation costs, advertising costs and other general expenses.

The 2004 figures include the Group Shared Services and Wholesale Clients restructuring charges (EUR 179 million).

ABN AMRO also leases premises and space in other buildings for its principal activities. The leases generally are renewable and provide for payment of rent and certain other occupancy expenses. Total rent expense for all contracts amounted to EUR 339 million in 2004, EUR 355 million in 2003 and EUR 334 million in 2002.

33 Depreciation

This item is made up of depreciation of property and equipment.

The 2004 figures include the Group Shared Services and Wholesale Clients restructuring charges (EUR 109 million).

34 Provision for loan losses

This item includes provisions for uncollectable outstandings.

35 Addition to the fund for general banking risks

This item includes the addition to or release from the fund, management's intention being to maintain the fund at a level equal to approximately 0.5% of risk-weighted total assets.

36 Value adjustments to financial fixed assets

Financial fixed assets include the bond and equity investment portfolios and participating interests on which the bank does not exercise an influence. Diminutions in value of the bond investment portfolio may relate to a permanent deterioration of the debtor's quality. These diminutions in value and the diminutions in value below the purchase price of shares and participating interests on which no influence is exercised, together with amounts released in respect of earlier diminutions in value, are included in this item. Results from dispositions below purchase price are likewise treated as diminutions in value.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

37 Taxes

The overall effective tax rate decreased from 30.6% in 2003 to 19.6% in 2004.

	2004	2003	2002
Dutch tax rate	34.5%	34.5%	34.5%
Effect of deviating tax rate in foreign countries	(6.1%)	(1.8%)	(4.2%)
Effect of tax-exempt revenue in the Netherlands	(9.4%)	(1.6%)	0.4%
Other	0.6%	(0.5%)	(2.0%)
Effective tax rate on operating profit	19.6%	30.6%	28.7%

Taxes amounted to EUR 1,071 million (2003: EUR 1,503 million), including a deferred tax income of EUR 85 million (2003: including a deferred tax expense of EUR 329 million). The total amount of taxation credited directly to shareholders' equity during the year amounted to EUR 233 million.

The provision for deferred tax liabilities relates to tax liabilities that will arise in the future owing to the difference between the book value of specific assets and liabilities and their valuation for tax purposes. The following analysis shows deferred tax liabilities and assets.

	2004	2003
Deferred tax liabilities		
Buildings	331	335
Pensions and other post-retirement and post-employment arrangements	—	255
Derivatives	65	287
Leases and similar financial contracts	296	403
Servicing rights	496	484
Dutch tax liability re foreign branches	742	592
Other	229	260
Total	2,159	2,616
Deferred tax assets		
Allowances for loan losses	477	400
Investment portfolios	204	726
Goodwill	365	412
Property	95	102
Carry-forward losses	479	623
Derivatives	—	22
Restructuring charge	13	15
Tax credits	190	17
Pensions and other post-retirement and post-employment arrangements	99	—
Other	575	581
Deferred tax assets before valuation allowances	2,497	2,898
Less: valuation allowances	207	142
Deferred tax assets after valuation allowances	2,290	2,756

Deferred tax assets and liabilities are discounted to their net present value on the basis of net interest where the original term of the temporary difference is longer than five years. The nominal value of deferred tax assets amounts to EUR 2,301 million and of deferred tax liabilities to EUR 2,283 million. For discounted deferred tax assets the net interest rate applied as a discount factor is 8% and the average remaining life is five years. For discounted deferred tax liabilities, the net interest rate applied as a discount factor is 4% and the average remaining life is 20 years.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

37 Taxes (Continued)

The main component of the valuation allowance relates to tax carry-forward losses. The amount of deferred tax assets, likely to be recovered within one year, is EUR 241 million.

At 31 December 2004 carry-forward losses of foreign operations expire as follows:

2005	11
2006	20
2007	5
2008	78
2009	48
Years after 2009	1,480
Indefinitely	430
Total	2,072

ABN AMRO considers approximately EUR 7.4 billion in distributable invested equity of foreign operations to be permanently invested. If retained earnings were distributed no foreign income taxes would have to be paid. The estimated impact of foreign withholding tax is EUR 223 million.

38 Minority interests

This item comprises the share of third parties in results from subsidiaries and other Group companies, as well as dividends on preferred stock issued by subsidiaries in the United States.

	2004	2003	2002
Dividends on preference shares	190	215	173
Other minority interests	81	39	35
Total minority interests	271	254	208

39 Consolidated statement of comprehensive net profit

	2004	2003	2002
Net profit	4,109	3,161	2,207
Other components of comprehensive net profit:			
• Unrealised revaluations	3	159	(45)
• Currency translation differences	(198)	(466)	(1,622)
• Goodwill	30	(425)	(81)
• Addition to/release from provision pension obligation	(479)	14	(374)
• Dilution gain/(loss)	—	207	(120)
• Other movements	(8)	6	—
Net profit not recognised in the consolidated income statement	(652)	(505)	(2,242)
Realised revaluations released to the income statement	(82)	—	—
Impact of changes in accounting policies (pension costs) . .	(58)	—	(430)
Comprehensive net profit	3,317	2,656	(465)

Comprehensive net profit for the period includes all movements in shareholders' equity during the year other than an enlargement of share capital and distributions to shareholders. The dilution gain/loss relates to the increase and decrease respectively of ABN AMRO's share in consolidated participating interests resulting from increases in the capital of these companies. Insofar as realised revaluations are

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

39 Consolidated statement of comprehensive net profit (Continued)

recognised in the net profit, an adjustment needs to be made for the purpose of determining comprehensive net profit. This is done on the line realised revaluation in the income statement. Failing this adjustment, an unrealised gain from a prior financial year which formed part of the comprehensive net profit in that year, would be reported again as total net profit in the year of realisation, but then as part of the ordinary net profit.

40 Earnings per ordinary share

Basic earnings per share is computed by dividing net profit available to ordinary shareholders by the weighted average number of ordinary shares outstanding. Diluted earnings per ordinary share include the determinants of basic earnings per ordinary share and, in addition, the effect arising should all outstanding rights to ordinary shares be exercised. The computation of basic and diluted earnings per ordinary share are presented in the following table.

	2004	2003
Net profit	4,109	3,161
Dividends on preference shares	43	45
Net profit attributable to ordinary shareholders	4,066	3,116
Dividends on convertible preference shares	0	0
Fully diluted net profit	4,066	3,116
Weighted average number of ordinary shares outstanding (in millions) . . .	1,657.6	1,610.2
Dilutive effect of staff options (in millions)	0.0	0.0
Performance Share Plan (in millions)	3.0	4.9
Diluted average number of ordinary shares (in millions)	1,660.6	1,615.1
Basic earnings per share (in euros)	2.45	1.94
Fully diluted earnings per share (in euros)	2.45	1.93

41 Segment information

The following tables give an analysis by operating segment. For the purpose of this analysis, net turnover represents total revenue before interest expense and commission expense. Overheads have been allocated to the operating segments.

	Net turnover			Total revenue		
	2004	2003	2002	2004	2003	2002
Consumer & Commercial Clients	16,008	16,585	18,614	10,275	10,586	10,299
Of which:						
• Netherlands	5,406	5,804	6,445	3,201	3,344	3,108
• North America	4,605	5,593	6,417	3,575	4,505	4,518
• Brazil	3,183	2,784	3,625	1,999	1,694	1,736
• New Growth Markets	904	600	640	826	496	527
• Bouwfonds	1,910	1,804	1,487	674	547	410
Wholesale Clients	11,418	11,411	12,647	5,374	5,293	5,296
Private Clients	1,952	1,654	1,717	1,092	937	894
Asset Management	733	592	630	595	496	529
Group Functions	3,130	2,079	2,124	1,766	668	469
	33,241	32,321	35,732	19,102	17,980	17,487
LeasePlan Corporation	784	974	855	691	813	793
Total	34,025	33,295	36,587	19,793	18,793	18,280

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

41 Segment information (Continued)

	Operating profit before taxes			Risk-weighted total assets		
	2004	2003	2002	2004	2003	2002
Consumer & Commercial Clients	2,927	3,308	2,754	145,729	141,360	142,550
<i>Of which:</i>						
• <i>Netherlands</i>	301	577	409	55,692	52,634	54,223
• <i>North America</i>	1,378	1,941	1,734	53,734	55,263	61,669
• <i>Brazil</i>	475	365	344	9,300	7,819	5,955
• <i>New Growth Markets</i>	400	131	70	4,404	5,940	6,006
• <i>Bouwfonds</i>	373	294	197	22,599	19,704	14,697
Wholesale Clients	507	503	(324)	73,638	61,554	67,236
Private Clients	239	176	207	7,168	6,027	6,104
Asset Management	153	101	108	1,190	695	647
Group Functions	1,419	583	411	3,656	3,950	2,885
	5,245	4,671	3,156	231,381	213,586	219,422
LeasePlan Corporation	206	247	232	—	10,190	10,150
Total	5,451	4,918	3,388	231,381	223,776	229,572
	Total liabilities			Total depreciation		
	2004	2003	2002	2004	2003	2002
Consumer & Commercial Clients	192,448	196,540	200,906	516	546	659
<i>Of which:</i>						
• <i>Netherlands</i>	85,715	86,303	85,496	297	301	396
• <i>North America</i>	63,920	68,792	81,507	128	135	140
• <i>Brazil</i>	11,339	10,347	6,701	60	67	81
• <i>New Growth Markets</i>	3,579	5,816	5,974	16	33	31
• <i>Bouwfonds</i>	27,895	25,282	21,228	15	10	11
Wholesale Clients	301,839	253,644	243,354	291	264	249
Private Clients	47,808	42,970	40,528	58	43	31
Asset Management	1,133	1,364	1,015	24	23	14
Group Functions	46,144	44,214	51,098	41	16	17
	589,372	538,732	536,901	930	892	970
LeasePlan Corporation	—	4,945	4,526	31	38	36
Total	589,372	543,677	541,427	961	930	1,006

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

41 Segment information (Continued)

	Total property investment			Revenue from securities and participating interests		
	2004	2003	2002	2004	2003	2002
Consumer & Commercial Clients	684	1,290	868	407	192	117
Of which:						
• Netherlands	243	224	445	16	108	15
• North America	282	882	269	111	36	42
• Brazil	118	99	66	11	2	11
• New Growth Markets	31	74	76	266	40	45
• Bouwfonds	10	11	12	3	6	4
Wholesale Clients	262	166	320	163	66	139
Private Clients	50	53	49	16	2	4
Asset Management	8	6	0	39	4	1
Group Functions	13	11	5	991	(4)	103
	<u>1,017</u>	<u>1,526</u>	<u>1,242</u>	<u>1,616</u>	<u>260</u>	<u>364</u>
LeasePlan Corporation	29	37	50	4	9	5
Total	<u>1,046</u>	<u>1,563</u>	<u>1,292</u>	<u>1,620</u>	<u>269</u>	<u>369</u>

42 Managing Board and Supervisory Board

Remuneration policy

The current compensation policy for the Managing Board was introduced in 2001. The main objective is to ensure that ABN AMRO is able to attract, retain and motivate its Top Executive Group. To achieve this, Managing Board remuneration has several elements which, as a package, make it comparable with the remuneration offered by relevant peers in the market. The compensation package for the Managing Board has the following elements:

- Base salary
- Performance bonus
- Long-term incentives—Share Option Plan and Performance Share Plan.

In addition there are a number of defined benefits.

Base salary

A common base salary applies to all Managing Board members except the Chairman, to whom a 40% differential applies. In addition to the base salary, the non-Dutch Board member receives a market competitive allowance. Salaries are reviewed annually with adjustments taking effect from 1 January. Managing Board base salaries were not adjusted in 2004 and have remained at the same level since 2001. The gross annual base salary in 2004 was EUR 635,292 for the Managing Board Members and EUR 889,410 for the Chairman.

Performance bonus

The annual performance bonus for Managing Board members is based upon ABN AMRO's quantitative and qualitative performance objectives at both the corporate and SBU level. The objectives are set annually by the Nomination & Compensation Committee and endorsed by the Supervisory Board. Bonuses for the Chairman, the CFO and—as of 2004—the COO are based on delivery against these corporate performance objectives. With effect from 2004, the bonus for board members responsible for an SBU is based for 75% on Group performance and 25% on SBU performance.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Managing Board and Supervisory Board (Continued)

In 2004 objectives such as Economic Profit, cost income ratio and tier 1 ratio were used to measure quantitative corporate and SBU performance. In addition qualitative objectives are set such as increasing customer satisfaction and reaching strategic milestones. Specific annual performance targets are not disclosed as they are considered competitively sensitive.

If the quantitative performance objectives are fully met, bonuses will range between 60% and 75% of base salary, with upper limits of 100% for outstanding performance and an absolute maximum of 125%. The Nomination & Compensation Committee may, on the basis of their assessment of a Managing Board member's individual performance against qualitative performance objectives, adjust the bonus outcome upwards or downwards within a range of plus or minus 20% of base salary. The 2004 performance bonuses for Managing Board members have been set on this basis. The individual bonus awards are shown in the table on page 152. The average actual bonus with respect to 2004 was just under 91% of base salary (2003: just under 90%).

ABN AMRO Share Investments and Matching Plan

In 2004 Shareholders' approval was obtained to encourage executive share ownership. Under this plan, the Board members may defer part of their bonus (up to 25% of base salary) into ABN AMRO Holding N.V. shares, on the understanding that when they remain in service for a further three years they will receive a matching award of one ABN AMRO share for each one they acquired via their bonus three years earlier. The deferred shares, together with the built-up dividends, will be released three years after deferral. The matching shares must be held for at least five years from vesting, with the possibility of selling some of the shares to settle the tax obligation.

Share options

Share options have been an integral part of ABN AMRO Top Executives' compensation for several years. In 2004 shareholders approved the Supervisory Board's proposal to adjust the performance criteria and retesting possibility for the options granted to the Managing Board. The 2002 and 2003 option grants were subject to meeting two Performance Conditions linked to Return on Equity (ROE) and Economic Profit growth. In addition there was the opportunity to re-apply the performance test over three future years after the three-year performance cycle.

For the 2004 options it was proposed to shareholders to link the Performance Condition to ROE only, and to abandon the opportunity to re-apply the test. The shareholders approved this proposal. Also, given the desire to maintain alignment between the Managing Board and other participants in the ABN AMRO Stock Option Plan, the Managing Board has decided to continue to apply its own performance conditions to the other participants—Top Executives and key employees—as well.

The single performance condition for the options granted in 2004 is that ROE in accordance with the International Financial Reporting Standards (IFRS) must be equal to, or greater than, 15% in the financial year 2006. This means that if this condition is not met over the initial three-year performance period, the options will lapse.

The five Managing Board members received 90,000 conditional options each and the Chairman of the Managing Board 126,000 options. The other 294 Top Executives received 6.2 million share options and 4,390 key employees received 7.7 million share options under the ABN AMRO Stock Option Plans.

The five-year options granted in 1999 with an exercise price of EUR 18.10 expired in 2004. In 2005 no options will expire, as the options as granted in 2000 were seven-year options expiring in 2007.

Performance Share Plan

The Performance Share Plan was introduced in 2001 and forms an important though stretching part of the Managing Board's reward package. SEVPs are also eligible for a yearly grant under this plan.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Managing Board and Supervisory Board (Continued)

In 2004 Managing Board members received a conditional award of 50,000 shares and the Chairman 70,000 shares. The number of shares awarded will be based on the bank's performance during the four-year performance period, defined as the year of grant and three subsequent years. For the purpose of this plan, the bank's performance is measured in terms of the TRS generated by the bank relative to the TRS generated by the peer group of 20 financial institutions. A second condition is that the recipient is still in service with the Group at the end of the performance period.

The 2004 conditional share award is subject to the same vesting schedule as in previous years. The full award will be paid if the TRS generated by the bank in the fourth year of the performance period is fifth out of 21 relative to the peer group. There will be a sliding scale ranging from no award if the bank is lower than tenth to 150% of the conditional award if the bank has progressed to the very top of the TRS rankings.

The four-year performance cycle for the conditional shares as awarded in 2001 came to a close at the end of the 2004, and ABN AMRO's position in the peer group was 11th. This means that the conditional share award made in 2001 will not result in any share grant, as the vesting scheme only starts paying out if the position reached is tenth or higher.

Pension

The Managing Board members participate in a pension scheme which combines defined contribution with certain guarantees. Contributions are made by the employer. The normal retirement age is 62. The ABN AMRO Pension Fund manages the pension plan.

From 1 November 2003, pension accrual is based on the 2000 pension scheme without any additional entitlements based on guarantees from earlier arrangements. The Managing Board's pensionable salary is 100% of annual base salary.

Specific benefits

The Managing Board's compensation package also includes:

- the use of a company lease car with driver
- reimbursement of the cost of adequate security measures for their main private residence
- a 24-hour personal accident insurance policy with a fixed covered amount of EUR 1.8 million for members and EUR 2.5 million for the Chairman
- contributions towards private health insurance, according to the policies applicable to all other ABN AMRO employees in the Netherlands
- preferential rates on bank products such as mortgages and loans, according to the same policies which apply to all other ABN AMRO staff in the Netherlands.

The existing representation allowance of EUR 4,084 net for Managing Board members and EUR 5,445 net for the Chairman to cover non-reimbursable expenses was abolished in 2004.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Managing Board and Supervisory Board (Continued)

The following table summarises total reward, ABN AMRO options and shares and outstanding loans of the members of the Managing Board and Supervisory Board.

	Managing Board		Supervisory Board	
	2004	2003	2004	2003
	(in thousands of euros)			
Periodic payments	4,558	4,581	767	717
Profit-sharing and bonus payments	3,680	3,625	0	0
Future benefits	1,148	1,201	0	0
ABN AMRO staff options (conditional, granted options) ⁽¹⁾ . .	576,000	608,000	0	0
ABN AMRO shares (conditional, granted) ⁽¹⁾	320,000	448,000	0	0
ABN AMRO staff options (outstanding) ⁽¹⁾	2,382,251	2,003,675	0	0
ABN AMRO shares (cumulative conditionally granted, outstanding) ⁽¹⁾	1,216,000	1,344,000	0	0
ABN AMRO shares (owned) ⁽¹⁾	72,668	61,189	27,173	18,209
Loans (outstanding)	9,362	9,206	2,285	2,285

(1) Number of shares / options

The following tables summarise salaries, other periodic rewards and bonuses of individual Managing Board members.

	2004				2003			
	Base salary	Other periodic payment ⁽¹⁾	Bonus	Pension costs ⁽²⁾	Base salary	Other periodic payment ⁽¹⁾	Bonus	Pension costs ⁽²⁾
	(in thousands of euros)							
R.W.J. Groenink . . .	889	4	805	225	889	9	845	224
W.G. Jiskoot	635	3	575	158	635	7	550	155
T. de Swaan	635	13	575	181	635	18	575	260
J.Ch.L. Kuiper	635	15	575	228	635	19	600	229
C.H.A. Collee	635	3	575	140	635	6	505	140
H.Y. Scott-Barrett . .	635	454	575	216	635	458	550	193

(1) Other periodic payments comprise contributions towards private health insurance and foreigner allowance. Mr Scott-Barrett received a foreigner allowance of EUR 454 in 2004 and 2003

(2) Pension costs exclusively comprise pension service cost and post-retirement service cost computed on the basis of the FAS 87 and FAS 106 standards

The following tables reflect movements in option holdings of the Managing Board as a whole and of individual Board members. The conditions governing the grant of options are included in note 16.

	2004		2003	
	Options held by Managing Board	Average exercise price	Options held by Managing Board	Average exercise price
		(in euros)		(in euros)
Movements:				
Opening balance	2,003,675	18.76	1,476,533	20.66
Options granted	576,000	18.86	608,000	14.45
Options exercised/cancelled	197,424	18.13	80,858	21.04
Closing balance	2,382,251	18.84	2,003,675	18.76

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Managing Board and Supervisory Board (Continued)

	Opening balance	Exercise price <i>(in euros)</i>	Granted ⁽¹⁾	Exercised/ cancelled	Closing balance	Stock price on exercise date	Year of expiration
R.W.J. Groenink							
Executive 1999	40,000	18.10		40,000		18.47	
Executive 2000	60,000	21.30			60,000		2007
Executive 2001	55,000	23.14			55,000		2008
Executive 2002 ⁽²⁾⁽³⁾ . .	112,000	19.53			112,000		2012
Executive 2003 ⁽²⁾ . . .	133,000	14.45			133,000		2013
Executive 2004 ⁽²⁾ . . .		18.86	126,000		126,000		2014
AOR 1999	356	21.68		356	0		
AOR 2000	354	22.23			354		2005
AOR 2001	271	22.34			271		2008
AOR 2002	296	20.42			296		2009
	<u>401,277</u>		<u>126,000</u>	<u>40,356</u>	<u>486,921</u>		
W.G. Jiskoot							
Executive 1999	40,000	18.10		40,000	0	18.59	
Executive 2000	60,000	21.30			60,000		2007
Executive 2001	55,000	23.14			55,000		2008
Executive 2002 ⁽²⁾⁽³⁾ . .	80,000	19.53			80,000		2012
Executive 2003 ⁽²⁾ . . .	95,000	14.45			95,000		2013
Executive 2004 ⁽²⁾ . . .		18.86	90,000		90,000		2014
AOR 1999	356	21.68		356	0		
AOR 2000	354	22.23			354		2005
AOR 2001	271	22.34			271		2008
AOR 2002	296	20.42			296		2009
	<u>331,277</u>		<u>90,000</u>	<u>40,356</u>	<u>380,921</u>		
T. de Swaan							
Executive 1999	40,000	18.10		40,000	0	18.59	
Executive 2000	60,000	21.30			60,000		2007
Executive 2001	55,000	23.14			55,000		2008
Executive 2002 ⁽²⁾⁽³⁾ . .	80,000	19.53			80,000		2012
Executive 2003 ⁽²⁾ . . .	95,000	14.45			95,000		2013
Executive 2004 ⁽²⁾ . . .		18.86	90,000		90,000		2014
AOR 1999	356	21.68		356	0		
AOR 2000	354	22.23			354		2005
AOR 2001	271	22.34			271		2008
AOR 2002	296	20.42			296		2009
	<u>331,277</u>		<u>90,000</u>	<u>40,356</u>	<u>380,921</u>		

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Managing Board and Supervisory Board (Continued)

	Opening balance	Exercise price <i>(in euros)</i>	Granted ⁽¹⁾	Exercised/ cancelled	Closing balance	Stock price on exercise date	Year of expiration
J.Ch.L. Kuiper							
Executive 1999	28,000	18.10		28,000	0	18.59	
Executive 2000	60,000	21.30			60,000		2007
Executive 2001	55,000	23.14			55,000		2008
Executive 2002 ⁽²⁾⁽³⁾ . .	80,000	19.53			80,000		2012
Executive 2003 ⁽²⁾ . . .	95,000	14.45			95,000		2013
Executive 2004 ⁽²⁾ . . .		18.86	90,000		90,000		2014
AOR 2001	271	22.34			271		2008
AOR 2002	296	20.42			296		2009
	<u>318,567</u>		<u>90,000</u>	<u>28,000</u>	<u>380,567</u>		
C.H.A. Collee							
Executive 1999	28,000	18.10		28,000	0	18.57	
Executive 2000	56,000	21.30			56,000		2007
Executive 2001	55,000	23.14			55,000		2008
Executive 2002 ⁽²⁾⁽³⁾ . .	80,000	19.53			80,000		2012
Executive 2003 ⁽²⁾ . . .	95,000	14.45			95,000		2013
Executive 2004 ⁽²⁾ . . .		18.86	90,000		90,000		2014
AOR 1999	356	21.68		356	0		
AOR 2000	354	22.23			354		2005
AOR 2001	271	22.34			271		2008
AOR 2002	296	20.42			296		2009
	<u>315,277</u>		<u>90,000</u>	<u>28,356</u>	<u>376,921</u>		
H.Y. Scott-Barrett							
Executive 1999	20,000	18.10		20,000	0	18.63	
Executive 2000	56,000	21.30			56,000		2007
Executive 2001	55,000	23.14			55,000		2008
Executive 2002 ⁽²⁾⁽³⁾ . .	80,000	19.53			80,000		2012
Executive 2003 ⁽²⁾ . . .	95,000	14.45			95,000		2013
Executive 2004 ⁽²⁾ . . .		18.86	90,000		90,000		2014
	<u>306,000</u>		<u>90,000</u>	<u>20,000</u>	<u>376,000</u>		

(1) The exercise price of the options granted is the average ABN AMRO share price on 13 February 2004

(2) Conditionally granted

(3) Vested on 25 February 2005

The following table shows movements in shares awarded conditionally in 2004 under the Performance Share Plan. The conditional award is based on the bank ranking fifth in the peer group. The number of shares awarded depends on the ranking of the ABN AMRO share in the peer group at the end of the four-year performance period and may range from 0% to 150% of these numbers.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Managing Board and Supervisory Board (Continued)

	Opening balance	Granted	Unconditional	Expired/ cancelled	Closing balance	Reference period
R.W.J. Groenink	98,000			98,000	0	2001-2004
	98,000				98,000	2002-2005
	98,000				98,000	2003-2006
		70,000			70,000	2004-2007
W.G. Jiskoot	70,000			70,000	0	2001-2004
	70,000				70,000	2002-2005
	70,000				70,000	2003-2006
		50,000			50,000	2004-2007
T. de Swaan	70,000			70,000	0	2001-2004
	70,000				70,000	2002-2005
	70,000				70,000	2003-2006
		50,000			50,000	2004-2007
J.Ch.L. Kuiper	70,000			70,000	0	2001-2004
	70,000				70,000	2002-2005
	70,000				70,000	2003-2006
		50,000			50,000	2004-2007
C.H.A. Collee	70,000			70,000	0	2001-2004
	70,000				70,000	2002-2005
	70,000				70,000	2003-2006
		50,000			50,000	2004-2007
H.Y. Scott-Barrett	70,000			70,000	0	2001-2004
	70,000				70,000	2002-2005
	70,000				70,000	2003-2006
		50,000			50,000	2004-2007

ABN AMRO ordinary shares held by Managing Board members⁽¹⁾

	2004	2003
R.W.J. Groenink	18,334	16,561
W.G. Jiskoot	19,730	18,602
T. de Swaan	6,850	6,458
J.Ch.L. Kuiper	7,973	2,803
C.H.A. Collee	697	657
H.Y. Scott-Barrett	19,084	16,108
Total	72,668	61,189

(1) No (formerly convertible) preference shares were held by any Managing Board member

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Managing Board and Supervisory Board (Continued)

Loans from ABN AMRO to Managing Board members

	2004		2003	
	Outstanding on 31 December	Interest rate	Outstanding on 31 December	Interest rate
	<i>(in thousands of euros)</i>			
R.W.J. Groenink	2,985	3.63	3,071	3.55
W.G. Jiskoot	1,674	3.94	1,681	4.14
T. de Swaan	1,407	2.25 ⁽¹⁾	1,407	2.35 ⁽¹⁾
J.Ch.L. Kuiper	655	3.87	655	3.87
C.H.A. Collee ⁽²⁾	2,641	3.29	2,392	3.03

(1) Variable rate

(2) Redemption 2004 EUR 12

The decrease in outstandings between 31 December 2003 and 31 December 2004 is caused by redemptions.

The table on the next page provides information on the remuneration of individual members of the Supervisory Board. The members of the Supervisory Board receive an equal remuneration of EUR 40,000 per annum. For the Vice Chairman this remuneration is EUR 45,000 and for the Chairman EUR 55,000 per annum. For the membership of the Audit Committee and the Nomination & Compensation Committee an additional allowance applies, which is EUR 7,500 per membership on an annual basis. In addition to this remuneration every member also receives a general expenses allowance of EUR 1,500. This allowance is EUR 2,000 for the Vice Chairman and the Chairman. For members of the Committees mentioned above an additional expenses allowance of EUR 500 is applicable. Furthermore there is a general allowance for the Supervisory Board members who do not live in The Netherlands which is EUR 5,000 per Supervisory Board meeting that such a member attends. All amounts are based on a full year, but the actual payment depends on the period of membership during the year. Members of the Supervisory Board are not entitled to emoluments in the form of ABN AMRO shares or options on ABN AMRO shares.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Managing Board and Supervisory Board (Continued)

Remuneration of the Supervisory Board

	2004	2003
	(in millions of euros)	
A.A. Loudon	63	70
M.C. van Veen	60	60
W. Dik	48	45
A. Burgmans	48	48
D.R.J. Baron de Rothschild ⁽¹⁾	40	40
Mrs L.S. Groenman	40	40
Mrs T.A. Maas-de Brouwer	48	48
A.C. Martinez ⁽¹⁾	48	45
M.V. Pratini de Moraes ⁽¹⁾	40	27
P. Scaroni ⁽¹⁾	40	27
Lord Sharman of Redlynch ⁽¹⁾	48	32
A.A. Olijslager	27	—
P.J. Kalff ⁽²⁾	—	40
W. Overmars ⁽³⁾	—	16
C.H. van der Hoeven ⁽³⁾	—	15

(1) Excluding an attendance fee

(2) Mr Kalff resigned on 30 October 2003

(3) Messrs Overmars and Van der Hoeven resigned on 29 April 2003

ABN AMRO ordinary shares held by Supervisory Board members⁽¹⁾

	2004	2003
A.A. Loudon	5,147	—
M.C. van Veen	1,256	1,184
A. Burgmans	9,165	8,641
A.C. Martinez ⁽²⁾	3,000	3,000
M.V. Pratini de Moraes ⁽²⁾	5,384	5,384
A.A. Olijslager	3,221	—
Total	27,173	18,209

(1) No (formerly convertible) preference shares were held by any Supervisory Board member

(2) ADRs

Loans from ABN AMRO to Supervisory Board members

	2004		2003	
	Outstanding on 31 December	Interest rate	Outstanding on 31 December	Interest rate
	(in thousands of euros)			
W. Dik	185	3.70	185	3.70
A. Burgmans	2,100	3.60	2,100	3.60

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

42 Managing Board and Supervisory Board (Continued)

Top Executive Compensation 2004

The reward package for ABN AMRO's SEVPs, the second level of Top Executives, was also introduced in 2001 and—as with the Managing Board—was primarily aimed at maximising total returns to our shareholders.

The compensation for ABN AMRO SEVPs consists of the following core elements:

- Base salary. The base salaries are benchmarked against the relevant local markets. The current median base salary is EUR 381,000
- Performance bonus. The annual performance bonus is linked to the respective markets within the various countries where we operate. The median bonus amount paid with respect to the 2004 performance year was EUR 625,000. Bonuses for individual SEVPs vary widely, again reflecting market and location. No absolute maximum level of bonus has been defined for SEVPs
- Long-term incentives such as stock options and the Performance Share Plan. Long-term incentives are set at a lower level than the applicable yearly grants to Managing Board members under the Top Executive Stock Option and Performance Share Plan. All SEVPs receive identical grants.

In addition, a number of benefits apply linked to the respective markets and countries of residence.

43 Cash flow statement

The cash flow statement, based on the indirect method, gives details of the source of liquid funds which became available during the year and the application of the liquid funds over the course of the year. The cash flows are analysed into cash flows from operations / banking activities, investment activities and financing activities. Liquid funds include cash in hand, net credit balances on current accounts with other banks and net demand deposits with central banks. Movements in loans, total client accounts and interbank deposits are included in the cash flow from banking activities. Investment activities comprise purchases, sales and redemptions in respect of investment portfolios, as well as investments in and sales of participating interests, property and equipment. The issue of shares and the borrowing and repayment of long-term funds are treated as financing activities. Movements due to currency translation differences as well as the effects of the consolidation of acquisitions, where of material significance, are eliminated from the cash flow figures.

	2004	2003	2002
Cash	17,794	12,734	9,455
Bank balances (debit)	3,949	4,293	3,843
Bank balances (credit)	(13,248)	(8,134)	(5,797)
Liquid funds	<u>8,495</u>	<u>8,893</u>	<u>7,501</u>
Movements:			
Opening balance	8,893	7,501	13,653
Cash flow	(1,001)	1,691	(4,366)
Currency translation differences	603	(299)	(1,786)
Closing balance	<u>8,495</u>	<u>8,893</u>	<u>7,501</u>

Interest paid amounted to EUR 14,595 million; tax payments amounted to EUR 511 million.

Dividends received from participating interests amounted to EUR 66 million in 2004, EUR 30 million in 2003 and EUR 42 million in 2002.

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

43 Cash flow statement (Continued)

The following table analyses movements resulting from acquisitions and dispositions.

	2004	2003	2002
Amounts paid/received in cash and cash equivalents on acquisitions/dispositions	(2,446)	913	205
Net movement in cash and cash equivalents	(88)	267	6
Net movement in assets and liabilities:			
Banks	(454)	130	105
Loans	(12,435)	1,905	420
Securities	(342)	781	70
Other assets	(1,201)	407	21
Total assets	(14,432)	3,223	616
Banks	(8,229)	1,050	81
Saving accounts	(2,005)	313	—
Total client accounts	(1,277)	1,581	469
Debt securities	(1,454)	10	—
Subordinated debt	(40)	—	—
Other liabilities	(1,484)	462	49
Total liabilities	(14,489)	3,416	599

44 Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in transactions between two parties, other than in a forced sale or liquidation, and is best reflected by a quoted market price, if available. Most of ABN AMRO's assets, liabilities and off-balance sheet items are financial instruments. Wherever possible, market rates have been used to determine fair values.

However, for the majority of financial instruments, principally loans, deposits and OTC derivatives, fair values are not readily available since there is no market where these instruments are traded. For these instruments estimation techniques have been used. These methods are subjective in nature and involve assumptions, such as the period the financial instruments will be held, the timing of future cash flows and the discount rate to be applied. As a result, the approximate fair values presented below may not be indicative of the net realisable value. In addition, the calculation of approximate fair values is based on market conditions at a specific time and may not reflect future fair values.

The approximate fair values as stated by financial institutions are not mutually comparable due to the wide range of different valuation techniques and the numerous estimates. The lack of an objective valuation method means that approximate fair values are highly subjective. Readers should therefore

Notes to the consolidated balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

44 Fair value of financial instruments (Continued)

exercise caution in using the information disclosed in this note for comparing the consolidated financial position of ABN AMRO with that of other financial institutions.

	31 December 2004		31 December 2003	
	Book value	Fair value	Book value	Fair value
Assets (incl. off-balance sheet items)				
• Cash	17,794	17,794	12,734	12,734
• Short-dated government paper ⁽¹⁾⁽²⁾	16,578	16,565	9,240	9,259
• Banks	83,710	83,696	58,800	59,050
• Loans to public sector	5,967	5,967	5,489	5,494
• Loans to private sector—commercial loans and professional securities transactions	184,272	185,011	184,214	184,659
• Loans to private sector—retail	108,812	113,783	107,140	110,635
• Interest-earning securities ⁽¹⁾⁽³⁾	134,724	137,056	133,363	135,092
• Shares ⁽⁴⁾	25,852	26,085	16,245	16,131
• Derivatives	97,512	98,054	88,702	89,504
Total	675,221	684,011	615,927	622,558
Liabilities (incl. off-balance sheet items)				
• Banks	132,732	132,819	110,887	111,078
• Savings accounts	74,256	75,144	73,238	73,630
• Corporate deposits	79,482	79,482	81,636	81,779
• Other client accounts	139,819	139,818	134,992	135,099
• Debt securities	82,926	84,642	71,688	71,797
• Subordinated debt	12,639	13,286	13,900	14,555
• Derivatives	92,959	93,460	74,277	74,619
Total	614,813	618,651	560,618	562,557

(1) Book values of short-dated government paper and interest-earning securities are equal to amortised cost

(2) Of which EUR 11,080 million was included in the trading portfolio at 31 December 2004

(3) Of which EUR 40,831 million was included in the trading portfolio at 31 December 2004

(4) Of which EUR 18,580 million was included in the trading portfolio at 31 December 2004

45 Acquisitions

In January 2004, the acquisition of Bethmann Maffei was successfully completed. The seller of the company was Hypovereinsbank. Total assets under management of Bethmann Maffei amounted to EUR 4.8 million at the date of acquisition. The private bank was subsequently merged with Delbrück & Co, which was acquired in December 2002. An amount of EUR 42 million of goodwill was paid on a total purchase of EUR 110 million. Goodwill paid has been charged directly to shareholders' equity.

Company balance sheet at 31 December 2004 after profit appropriation

	<u>Note</u>	<u>2004</u>	<u>2003</u>
		<i>(in millions of euros)</i>	
Assets			
Banks	a	—	437
Interest-earning securities	b	10	20
Participating interests in group companies	c	15,232	12,656
Prepayments and accrued income	e	0	8
		<u>15,242</u>	<u>13,121</u>
Liabilities			
Banks	a	240	0
Deposits and other client accounts		20	21
Other liabilities	d	10	53
Accruals and deferred income	e	0	0
		<u>270</u>	<u>74</u>
Share capital		1,721	1,732
Share premium account		2,565	2,549
Revaluation reserves		204	283
Reserves prescribed by law and articles of association		280	280
Other reserves		10,202	8,203
Shareholders' equity		<u>14,972</u>	<u>13,047</u>
Own capital		<u>14,972</u>	<u>13,047</u>
		<u>15,242</u>	<u>13,121</u>

Company income statement for 2004

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	<i>(in millions of euros)</i>		
Profits of participating interests after taxes	4,107	3,159	2,199
Other profit after taxes	<u>2</u>	<u>2</u>	<u>8</u>
Net profit	<u>4,109</u>	<u>3,161</u>	<u>2,207</u>

Drawn up in accordance with section 2:402 of the Netherlands Civil Code
Letters stated against items refer to the notes

a Banks

This item includes call loans to and other interbank relations with Group companies.

b Interest-earning securities

The amount included in this item represents securitised receivables, such as commercial paper.

c Participating interests in group companies

Dividends payable by ABN AMRO Bank N.V. to ABN AMRO Holding N.V. amounted to EUR 1,751 million (2003: EUR 677 million). Dividends received by ABN AMRO Bank N.V. from subsidiaries amounted to EUR 657 million (2003: EUR 335 million).

	2004	2003	2002
Development:			
Opening balance	12,656	10,665	11,817
Movements (net)	2,576	1,991	(1,152)
Closing balance	15,232	12,656	10,665

d Other liabilities

This item includes those amounts which are not of an accrued or deferred nature or which cannot be classified with any other balance sheet item. This concerns, for example, interest receivable.

e Prepayments and accrued income and accruals and deferred income

These items include revenue and expenses recognised in the period under review, the actual receipt or payment of which falls in a different period.

f Share capital and reserves

For details refer to note 16.

g Guarantees

ABN AMRO Holding N.V. guarantees all liabilities of ABN AMRO Bank N.V.

Amsterdam, 17 March 2005

Supervisory Board

A.A. Loudon
M.C. van Veen
W. Dik
A. Burgmans
D.R.J. Baron de Rothschild
Mrs L.S. Groenman
Mrs T.A. Maas-de Brouwer
A.C. Martinez
M.V. Pratini de Moraes
P. Scaroni
Lord Sharman of Redlynch
A.A. Olijslager

Managing Board

R.W.J. Groenink
W.G. Jiskoot
T. de Swaan
J.Ch.L. Kuiper
C.H.A. Collee
H.Y. Scott-Barrett

Notes to the company balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

Major subsidiaries and participating interests

(Unless otherwise stated, the bank's interest is 100% or almost 100%, on 17 March 2005. Those major subsidiaries and participating interests that are not 100% consolidated but are accounted for under the equity method (a) or proportionally consolidated (b) are indicated separately).

ABN AMRO Bank N.V., Amsterdam

Netherlands

AAGUS Financial Services Group N.V., Amersfoort (67%)
AA Interfinance B.V., Amsterdam
ABN AMRO Assurantie Holding B.V., Zwolle
ABN AMRO Bouwfonds Nederlandse Gemeenten N.V., Hoevelaken (per April 1, 2005 voting right 100%)
ABN AMRO Effecten Compagnie B.V., Amsterdam
ABN AMRO Mellon Global Securities B.V., Amsterdam (50%)(b)
ABN AMRO Participaties B.V., Amsterdam
ABN AMRO Projectontwikkeling B.V., Amsterdam
ABN AMRO Trustcompany (Nederland) B.V., Amsterdam
ABN AMRO Ventures B.V., Amsterdam
Amstel Lease Maatschappij N.V., Utrecht
Delta Lloyd ABN AMRO Verzekeringen Holding B.V., Zwolle (49%)(a)
Dishcovery Horeca Expl. Mij B.V., Amsterdam
Hollandsche Bank-Unie N.V., Rotterdam
IFN Group B.V., Rotterdam
Nachenius, Tjeenk & Co. N.V., Amsterdam
Solveon Incasso B.V., Utrecht
Stater N.V., Hoevelaken (60% ABN AMRO Bank N.V., 40% ABN AMRO Bouwfonds Nederlandse Gemeenten N.V.)

Outside the Netherlands

Europe

ABN AMRO Asset Management Ltd., London
ABN AMRO Asset Management (Czech) a.s., Brno
ABN AMRO Asset Management (Deutschland) A.G., Frankfurt am Main
ABN AMRO Bank A.O., Moscow
ABN AMRO Bank (Deutschland) A.G., Frankfurt am Main
ABN AMRO Bank (Luxembourg) S.A., Luxembourg
ABN AMRO Trust Company (Luxembourg) S.A., Luxembourg
ABN AMRO Bank (Polska) S.A., Warsaw
ABN AMRO Bank (Romania) S.A., Bucharest
ABN AMRO Bank (Schweiz) A.G., Zurich
ABN AMRO Capital Ltd., London
ABN AMRO Corporate Finance Ltd., London
ABN AMRO Equities (UK) Ltd., London
ABN AMRO France S.A., Paris Banque de Neufilze, Paris Banque Odier Bungeur Courvoisier, Paris
ABN AMRO Futures Ltd., London
ABN AMRO International Financial Services Company, Dublin
ABN AMRO Investment Funds S.A., Luxembourg
ABN AMRO Stockbrokers (Ireland) Ltd., Dublin
ABN AMRO Trust Company (Jersey) Ltd., St. Helier
ABN AMRO Trust Company (Suisse) S.A., Geneva
Alfred Berg Holding A/B, Stockholm
Alfred Berg Asset Management Holding AB, Stockholm

Notes to the company balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

Antonveneta ABN AMRO Societa di Gestione del Risparmio SpA, Milan (45%) (a)
Artemis Investment Management Ltd., Edinburgh (58%)
Aspis Internationaal MFMC, Athens
Banca Antonveneta SpA, Padova (13%) (a)
Capitalia SpA, Roma (9%)(a)
CM Capital Markets Holding S.A., Madrid (45%) (a)
Delbrück Bethmann Maffei A.G., Frankfurt am Main
Hoare Govett Ltd., London
Kereskedelmi és Hitelbank Rt., Budapest (40%) (a)

Middle East

Saudi Hollandi Bank, Riyadh (40%) (a)

Rest of Asia

ABN AMRO Asia Ltd., Hong Kong
ABN AMRO Asia Corporate Finance Ltd., Hong Kong
ABN AMRO Asia Futures Ltd., Hong Kong
ABN AMRO Asset Management (Asia) Ltd., Hong Kong
ABN AMRO Asset Management (Japan) Ltd., Tokyo
ABN AMRO Asset Management (India) Ltd., Mumbai (75%)
ABN AMRO Asset Management (Taiwan) Ltd., Taipei
ABN AMRO Bank Berhad, Kuala Lumpur
ABN AMRO Bank (Kazakhstan) Ltd, Almaty (80%)
ABN AMRO Bank N.B., Uzbekistan A.O., Tashkent (58%)
ABN AMRO Bank (Philippines) Inc., Manilla
ABN AMRO Central Enterprise Services Private Ltd., Mumbai
ABN AMRO Management Services (Hong Kong) Ltd., Hong Kong
ABN AMRO Securities (India) Private Ltd., Mumbai (75%)
ABN AMRO Securities (Japan) Ltd., Tokyo
PT ABN AMRO Finance Indonesia, Jakarta (70%)
PT ABN AMRO Manajemen Investasi Indonesia, Jakarta (85%)

Australia

ABN AMRO Asset Management (Australia) Ltd., Sydney
ABN AMRO Australia Ltd., Sydney
ABN AMRO Asset Securitisation Australia Pty Ltd., Sydney
ABN AMRO Corporate Finance Australia Ltd., Sydney
ABN AMRO Equities Australia Ltd., Sydney
ABN AMRO Securities Australia Ltd., Sydney
ABN AMRO Equities Capital Markets Australia Ltd., Sydney

New Zealand

ABN AMRO New Zealand Ltd., Auckland

North America

ABN AMRO Asset Management Canada Ltd, Toronto
ABN AMRO Bank (Mexico) S.A., Mexico City

Notes to the company balance sheet and income statement (Continued)

(unless otherwise stated, all amounts are in millions of euros)

ABN AMRO North America Holding Company, Chicago (holding company, voting right 100%, equity participation 91%)
LaSalle Bank Corporation, Chicago
LaSalle Bank N.A., Chicago
ABN AMRO Financial Services, Inc., Chicago
ABN AMRO Asset Management (USA) LLC, Chicago
LaSalle Business Credit, Inc., Chicago
Standard Federal Bank N.A., Troy
ABN AMRO Mortgage Group, Inc., Chicago
ABN AMRO WCS Holding Company, New York
ABN AMRO Advisory, Inc., Chicago (81%)
ABN AMRO Commodity Finance, Inc., Chicago
ABN AMRO Capital (USA) Inc., Chicago
ABN AMRO Incorporated, Chicago
ABN AMRO Sage Corporation, Chicago
ABN AMRO Rothschild LLC, New York (50%) (b)
ABN AMRO Leasing, Inc., Chicago
ABN AMRO Asset Management Holdings, Inc., Chicago
ABN AMRO Asset Management Inc., Chicago
Montag & Caldwell, Inc., Atlanta

Latin America and the Caribbean

ABN AMRO Asset Management Argentina Sociedad Gerente de FCI S.A., Buenos Aires
ABN AMRO Asset Management (Curaçao) N.V., Willemstad
ABN AMRO Bank (Chile) S.A., Santiago de Chile
ABN AMRO Bank (Colombia) S.A., Bogota
ABN AMRO (Chile) Seguros Generales S.A., Santiago de Chile
ABN AMRO (Chile) Seguros de Vida S.A., Santiago de Chile
ABN AMRO Trust Caribbean Holding N.V., Willemstad
ABN AMRO Securities Holding S.A. Sao Paulo
ABN AMRO Brasil Participações Financeiras S.A., Sao Paulo
ABN AMRO Brasil Dois Participações Sao Paulo
Banco ABN AMRO Real S.A., Sao Paulo (86%)
Banco Sudameris Brasil S.A., Sao Paulo (81%)
Banco de Pernambuco S.A., Recife
Sudameris Vida e Previdencia S.A., Sao Paulo
Real Seguros S.A., Sao Paulo
ABN AMRO Asset Management Ltda., Sao Paulo
Real Paraguaya de Seguros S.A., Asunción
Real Uruguay de Seguros S.A., Montevideo

For the investments of ABN AMRO Bouwfonds Nederlandse Gemeenten N.V., the reader is referred to the separate annual report published by this company.

The list of participating interests under which statements of liability have been issued has been filed at the Amsterdam Chamber of Commerce.

**Section F: Audit Opinion included in ABN AMRO's Annual Report for the year ended
31 December 2004**

Auditors' report

Introduction

We have audited the financial statements of ABN AMRO Holding N.V., Amsterdam for the year 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2004 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Amsterdam, 17 March 2005

Ernst & Young Accountants

